

Extractive Sector Transparency Measures Act Report

Reporting Year From: 2016-01-01 To: 2016-12-31
Reporting Entity Name Argonaut Gold Inc.

Reporting Entity ESTMA Identification Number E217052

Subsidiary Reporting Entities (if necessary) Castle Gold Corporation (E268348); Pediment Gold Corp. (E499979)

Attestation: Please check one of the the boxes below and provide the required information

Attestation (by Reporting Entity)

In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest I have reviewed the information contained in the ESTMA report for the entity(ies) listed above. Based on my knowledge, and having exercised reasonable diligence, the information in the ESTMA report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above.

Attestation (through independent audit)

In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest that I engaged an independent auditor to undertake an audit of the ESTMA report for the entity(ies) and reporting year listed above. Such an audit was conducted in accordance with the Technical Reporting Specifications issued by Natural Resources Canada for independent attestation of ESTMA reports.

The auditor expressed an unmodified opinion, dated 2017-05-10, on the ESTMA report for the entity(ies) and period listed above.

The independent auditor's report is on page 7 of the ESTMA report, which can be found at http://www.argonautgold.com/corporate_responsibility/estma/

Director or Officer of Reporting Entity Full Name: David Ponczoch Date: 2017-05-10
Position Title: Chief Financial Officer

Extractive Sector Transparency Measures Act - Annual Report

Reporting Year
 Reporting Entity Name
 Reporting Entity ESTMA
 Identification Number
 Subsidiary Reporting
 Entities (if necessary)

From: 2016-01-01 To: 2016-12-31
 Argonaut Gold Inc.
 E217052

Castle Gold Corporation (E268348); Pediment Gold Corp. (E499979)

Payments by Payee

Country	Payee Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid to Payee	Notes
Mexico	Federal Government of Mexico	2,450,000	2,150,000	1,880,000	-	-	-	-	6,480,000	The breakdown of amounts paid to the Payee represents the following: 1) Corporate income taxes paid to the Secretaria de Hacienda y Credito Publico. These payments were made in cash of CA\$820k and in-kind through the reduction of a refundable value added tax receivable of CA\$660k. 2) Income tax withheld by subsidiaries of the Company located in Mexico on certain payments to subsidiaries of the Company located outside of Mexico and paid in cash to the Secretaria de Hacienda y Credito Publico of CA\$590k. 3) Mining taxes paid in cash to the Secretaria de Hacienda y Credito Publico of CA\$380k. 4) Royalties on precious metals revenue paid to the Secretaria de Hacienda y Credito Publico of CA\$2,150k. 5) Various fees paid in cash totalling CA\$1,880 which included: - Permitting fees paid to the Comision Nacional Forestal of CA\$1,230k. - Concession fees paid to the Secretaria de Economia of CA\$590k. - Permitting fees paid to the Instituto de Administracion y Avaluos de Bienes Nacionales of CA\$40k. - Surcharges paid to the Secretaria de Hacienda y Credito Publico of CA\$20k. Balances translated to CA\$ using 2016 average MXN to CAD rate of .0711.
		2,450,000	2,150,000	1,880,000	-	-	-	-	6,480,000	

Extractive Sector Transparency Measures Act - Annual Report

Reporting Year
 Reporting Entity Name
 Reporting Entity ESTMA
 Identification Number
 Subsidiary Reporting
 Entities (if necessary)

From: 2016-01-01 To: 2016-12-31
 Argonaut Gold Inc.

E217052

Castle Gold Corporation (E268348); Pediment Gold Corp. (E499979)

Payments by Project

Country	Project Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid by Project	Notes
Mexico	El Castillo		510,000	1,320,000					1,830,000	Balances translated to CA\$ using 2016 average MXN to CAD rate of .0711.
Mexico	La Colorada	380,000	1,640,000	110,000					2,130,000	Balances translated to CA\$ using 2016 average MXN to CAD rate of .0711.
Mexico	San Anontio			420,000					420,000	Balances translated to CA\$ using 2016 average MXN to CAD rate of .0711.
Mexico	Ely			10,000					10,000	Balances translated to CA\$ using 2016 average MXN to CAD rate of .0711.
Mexico	Corporate	2,070,000		20,000					2,090,000	Balances translated to CA\$ using 2016 average MXN to CAD rate of .0711.
		2,450,000	2,150,000	1,880,000	-	-	-	-	6,480,000	

Introduction

Argonaut Gold Inc. and its subsidiaries (collectively the “Company” or “Argonaut”) has prepared the following audited consolidated report (the “Report”) of payments made to government entities for the year ended December 31, 2016 as required by the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s.376 (“ESTMA” or “the Act”).

Argonaut is a Canadian public company listed on the Toronto Stock Exchange and engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in North America. As at the date of the ESTMA Report, the Company owns the producing El Castillo mine and construction stage San Agustin project in the State of Durango, Mexico, the producing La Colorada mine in the State of Sonora, Mexico, the advanced exploration stage San Antonio project in the State of Baja California Sur, Mexico, the advanced exploration stage Magino property in the Province of Ontario, Canada, and several other exploration stage projects, all of which are located in North America.

Note 1: Basis of Preparation

The ESTMA Report is presented in Canadian Dollars (“CAS”) and has been prepared in accordance with the requirements of the Act and the Natural Resources Canada (“NRCan”) Technical Reporting Specifications.

The following is a summary of significant policies and judgments that the Company has made for the purpose of preparing the ESTMA Report.

Significant policies

Cash and in-kind payments

Payments are reported on a cash basis and have been reported in the period in which the payment was made. In-kind payments are converted to an equivalent cash value based on cost or, if cost is not determinable, the in-kind payment is reported at the fair market value. The valuation method for each payment has been disclosed in the notes section of the ESTMA Report.

Payments to the “same payee” that meet or exceed CAS100,000 in one category of payment are disclosed. Payments are rounded to the nearest CAS10,000.

Payee

For purposes of the Act, a payee is:

- a) Any government in Canada or in a foreign state.
- b) A body that is established by two or more governments.
- c) Any trust, board, commission, corporation or body or other authority that is established to exercise or perform, or that exercises or performs, a power, duty or function of a government for a government referred to in paragraph (a) above or a body referred to in paragraph (b) above.

Payees include governments at any level, including national, regional, state, provincial, local, or municipal levels. Payees may include non-governmental entities if the benefit bestowed would have otherwise been provided by the government. Payees also include any government-owned or government-controlled entities that exercise or perform a power, duty or function of government.

Aboriginal and indigenous groups and organizations may also be regarded as a government payee under the Act. The Act defers the requirement to report on payments made to Aboriginal governments in Canada, with reporting on these payments commencing on June 1, 2017. The Act does require that payments to foreign Aboriginal governments be reported as of January 1, 2016. Currently, the Company does not make payments to foreign Aboriginal governments.

The Constitution of Mexico and other Mexican legislation provide for a type of communal land holding by communities known as Ejidos. While payments made to Ejidos may fall within one of the categories of payments captured by ESTMA, such payments are not included in the Company's reportable payments under ESTMA as Ejidos are not governments and do not appear to exercise or perform powers, duties or functions of government.

The individual department, agency or other body of the payee that received the payment is disclosed, where practical, in the notes section of this Report.

Reportable Payments

A reportable payment for ESTMA purposes is one that:

- a) Is made to the same payee;
- b) Is made in relation to the commercial development of oil, gas or minerals; and
- c) Totals, as a single or multiple payments, CA\$100,000 or more in the year in one of the following prescribed seven payment categories.

Taxes

This category includes taxes paid by the Company on its income, profits or production in relation to the commercial development of mineral resources. Taxes reported include business taxes and income tax withheld by subsidiaries of the Company located in Mexico on certain payments to subsidiaries of the Company located outside of Mexico. Consumption taxes, personal income taxes and taxes withheld by others on behalf of the Company are excluded as per the Act.

Royalties

Royalties are payments for the rights to extract mineral resources, typically at a set percentage of revenue. Both cash royalties and royalties paid in-kind are reported in this category.

Fees

This category may include rental fees, entry fees and regulatory charges as well as fees or other consideration for licenses, permits or concessions. The fee category is substantially broad and includes payments to payees that in substance is a fee. Amounts paid in ordinary course commercial transactions in exchange for services provided by a payee are excluded.

Production entitlements

A payee's share of mineral production under a production sharing agreement or similar contractual or legislated arrangement is reported under this category. For the year ended December 31, 2016, there were no reportable production entitlement payments to a payee.

Bonuses

Signing, discovery, production and any other type of bonuses paid to a payee in relation to the commercial development of mineral resources are reported under this category. For the year ended December 31, 2016, there were no reportable production entitlement payments to a payee.

Dividends

Dividends are dividend payments, other than dividends paid to a payee as an ordinary shareholder of the Company on shares that were acquired by the payee on the same terms as were available at the time of acquisition to other shareholders, that are not in lieu of any other reportable payment. For the year ended December 31, 2016, there were no reportable dividend payments to a payee.

Infrastructure improvement payments

This payment category consists of payments for the construction of infrastructure that do not relate primarily to the operational purposes of the Company. For the year ended December 31, 2016, there were no reportable infrastructure improvement payments to a payee.

Significant Estimates and Judgements

The preparation of the Report in accordance with the Act requires the use of judgements, estimates and assumptions.

Payments by Project Level

Payments have been reported at the project level as required by the Act. A “project” means the operational activities are governed by a single contract, license, lease, concession or similar legal agreement that forms the basis for a payment liability with a payee. If multiple such agreements are substantially interconnected, they would be considered a single project.

“Substantially interconnected” means forming a set of operationally and geographically integrated contracts, licenses, leases or concessions or related agreements with substantially similar terms that are signed with a government and give rise to payment liabilities.

The Company has determined that the operational activities governed by surface or mineral lease contracts related to key operational areas are substantially interconnected and has reported payments related to each such area as a single project. The Company has considered geographical location and common infrastructure as two key indicators for making this determination.

Commercial Development

The Act defines ‘commercial development of oil, gas or minerals’ as:

- a) The exploration or extraction of oil, gas or minerals;
- b) The acquisition or holding of a permit, license, lease or any other authorization to carry out any of the activities referred to in paragraph (a); or
- c) Any other prescribed activities in relation to oil, gas or minerals.

Payments made by the Company to payees relating to the commercial development of minerals (“commercial development”) are disclosed in this Report. The Company’s initial processing activities which are integrated with its extraction operations are included in commercial development. The Report excludes payments that are not related to the Company’s commercial development activities.

Attribution of payments

Where a payment was made for the Company by another entity, such payment has been deemed to have been made by the Company and has been included in this Report. This may include payments not directly made to a payee, or was not received directly by the payee.

Corporate Social Responsibility (“CSR”) Payments

The ESTMA Report includes CSR payments that contractually obligates the Company to make to a payee, or to another party under the direction of a payee, as a result of the Company’s commercial development. Additionally, the Company has reported voluntary CSR payments which have been made to a payee, or to another party under the direction of a payee, and relates directly to the Company’s commercial development.



May 10, 2017

Independent Auditor's Report

To Those Charged with ESTMA Governance at Argonaut Gold Inc.

We have audited the accompanying Extractive Sector Transparency Measures Act – Annual Report of Argonaut Gold Inc. which comprise the schedules of payments by payee and payments by project for the year ended December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information (the "ESTMA Report"). The ESTMA Report has been prepared by management using the basis of accounting described in the note 1 "Basis of Preparation", which is in accordance with the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s 376 (the "Act").

Management's responsibility for the ESTMA Report

Management is responsible for the preparation of the ESTMA Report in accordance with the basis of accounting described in the note 1 "Basis of Preparation" and for such internal control as management determines is necessary to enable the preparation of an ESTMA Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the ESTMA Report based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the ESTMA Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the ESTMA Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the ESTMA Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the ESTMA Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the ESTMA Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Extractive Sector Transparency Measures Act – Annual Report of Argonaut Gold Inc. for the year ended December 31, 2016 is prepared, in all material respects, in accordance with the basis of accounting described in the note 1 "Basis of Preparation".

*PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca*



Basis of accounting

Without modifying our opinion, we draw attention to the note 1 "Basis of Preparation" to the ESTMA Report, which describes the basis of accounting. The ESTMA Report is prepared to assist Argonaut Gold Inc. to comply with the reporting requirements of the Act. As a result, the ESTMA Report may not be suitable for another purpose.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants