ARGONAUT GOLD INC.

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

The following Management's Discussion and Analysis ("MD&A") of Argonaut Gold Inc. (the "Company" or "Argonaut") and its subsidiaries has been prepared as at November 7, 2019. All dollar amounts are expressed in United States ("US") dollars unless otherwise stated (CA$ represents Canadian dollars). This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2019. The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as applicable to interim financial statements. Additional information relating to the Company, including its Annual Information Form, is available under the Company's profile on the SEDAR website at www.sedar.com.

This MD&A contains forward looking information as further described in the "Cautionary Statement" at the end of this MD&A. Reference to the risk factors described in the "Cautionary Statement" and to the other cautionary language under the heading "Technical Information and Qualified Person" at the end of this MD&A is advised.

THIRD QUARTER FINANCIAL HIGHLIGHTS

- Revenue of $66.8 million in the third quarter of 2019 (third quarter of 2018 - $41.3 million). Revenue of $196.8 million in the first nine months of 2019 (first nine months of 2018 - $144.4 million).
- Sales of 44,303 ounces of gold in the third quarter of 2019 (third quarter of 2018 - 33,179 ounces of gold). Sales of 140,729 ounces of gold in the first nine months of 2019 (first nine months of 2018 - 108,665 ounces of gold).
- Net income of $4.9 million or $0.03 per basic share in the third quarter of 2019 (third quarter of 2018 - net loss of $2.7 million or $0.02 per basic share). Net income of $14.4 million or $0.08 per basic share in the first nine months of 2019 (first nine months of 2018 - $9.9 million or $0.06 per basic share).
- Adjusted net income of $6.5 million or $0.04 per basic share in the third quarter of 2019 (third quarter of 2018 - adjusted net loss of $1.0 million or $0.01 per basic share). See "Non-IFRS Measures" section. Adjusted net income of $10.3 million or $0.06 per basic share in the first nine months of 2019 (first nine months of 2018 - $13.9 million or $0.08 per basic share).
- Cash flows from operating activities before changes in non-cash operating working capital and other items were $17.2 million in the third quarter of 2019 (third quarter of 2018 - $10.9 million). Cash flows from operating activities before changes in non-cash operating working capital and other items were $46.6 million in the first nine months of 2019 (first nine months of 2018 - $48.9 million).
- Production of 44,712 gold equivalent ounces ("GEO" or "GEOs") (based on a silver to gold ratio of 75:1) in the third quarter of 2019 (third quarter of 2018 - 34,165 GEOs (based on a silver to gold ratio of 70:1)). Production of 139,094 GEOs (based on a silver to gold ratio of 75:1) in the first nine months of 2019 (first nine months of 2018 - 113,459 GEO's (based on a silver to gold ratio of 70:1)).
- Cash cost per gold ounce sold of $901 in the third quarter of 2019 (third quarter of 2018 - $867). See "Non-IFRS Measures" section. Cash cost per gold ounce sold of $906 in the first nine months of 2019 (first nine months of 2018 - $735).
- All-in sustaining cost per gold ounce sold of $1,134 in the third quarter of 2019 (third quarter of 2018 - $1,032). See "Non-IFRS Measures" section. All-in sustaining cost per gold ounce sold of $1,168 in the first nine months of 2019 (first nine months of 2018 - $930).
- Cash and cash equivalents was $35.6 million as at September 30, 2019 (June 30, 2019 - $23.9 million; December 31, 2018 - $15.4 million).
- Net cash was $21.6 million as at September 30, 2019 (June 30, 2019 - $9.9 million; December 31, 2018 - $2.4 million). See "Non-IFRS Measures" section.

THIRD QUARTER 2019 AND RECENT COMPANY HIGHLIGHTS

Corporate

- Increased net cash by $11.7 million (see "Non-IFRS Measures" section).
- Completed a private placement financing of flow-through common shares at a price of CA$3.40 per flow-through share for gross proceeds of CA$4.0 million.
- Initiated a zero-cost collar gold price protection program on 145,500 total ounces, which is a portion of El Castillo's estimated remaining life-of-mine production, to ensure profitability at an attractive price protection point. The monthly gold collars have a floor price of $1,450 per gold ounce and a weighted average ceiling price of $1,707 per gold ounce from the fourth quarter of 2019 to the second quarter of 2022.

El Castillo Complex

- Production of 30,294 GEOs during the third quarter.
  - El Castillo production of 14,592 GEOs.
  - San Agustin production of 15,702 GEOs.
- Completed a new water well at San Agustin, which allows for a crushing and stacking ramp up to 30,000 tonnes per day during the fourth quarter of 2019.

La Colorada

- Production of 14,418 GEOs during the third quarter.
- Achieved crushing and stacking rate above 14,000 tonnes per day.

Cerro del Gallo

- Advanced pre-feasibility study.
- Advanced the Unified Technical Document that includes an Environmental Impact Assessment, an Environmental Risk Assessment and the Justified Technical Study for a Change of Soil Use.

San Antonio

- Advanced environmental permitting.

Magino

- Commenced a 6,000 metre drill program and subsequently expanded the program to 20,000 metres based on the early success of identifying high-grade structures beneath and to the east of the planned pit and to the west of the adjacent Island Gold Mine.
- Advanced remaining federal and provincial authorizations.

DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Argonaut is a Canadian public company listed on the Toronto Stock Exchange ("TSX") and engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in North America. As at the date of this MD&A, the Company owned the producing El Castillo and San Agustin mines (which together form the El Castillo mining complex) 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 Cerro del Gallo project in the State of Guanajuato, Mexico, the advanced exploration stage Magino project in the Province of Ontario, Canada and several other exploration stage projects, all of which are located in North America.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected unaudited quarterly financial information for each of the eight most recent quarters:

	2019 Q3	2019 Q2	2019 Q1	2018 Q4[(1)]	2018 Q3[(1)]	2018 Q2[(1)]	2018 Q1[(1)]	2017 Q4[(1)(2)]
Revenue ($000s)	$ 66,845	$ 55,993	$ 73,917	$ 51,629	$ 41,310	$ 50,171	$ 52,946	$ 39,454
Inventory (write down) reversal ($000s)	$ 267	$ 3,904	$ 526	$ (14,614)	$ (6,868)	$ -	$ -	$ -
Impairment of mineral properties, plant and equipment ($000s)	$ -	$ -	$ -	$ (2,011)	$ -	$ -	$ -	$ -
Net income (loss) ($000s)	$ 4,864	$ 5,440	$ 4,063	$ (17,545)	$ (2,686)	$ 381	$ 12,229	$ 5,187
Earnings (loss) per share - basic and diluted	$ 0.03	$ 0.03	$ 0.02	$ (0.10)	$ (0.02)	$ 0.00	$ 0.07	$ 0.03
Gold ounces sold	44,303	41,647	54,779	41,030	33,179	37,414	38,072	29,912
Average realized gold price per ounce	$ 1,474	$ 1,303	$ 1,309	$ 1,226	$ 1,212	$ 1,295	$ 1,330	$ 1,276
Cash cost per gold ounce sold[(3)]	$ 901	$ 931	$ 892	$ 945	$ 867	$ 704	$ 650	$ 755

(1) The Company adopted IFRS 16, Leases in the annual period commencing January 1, 2019 (see "Recent Accounting Pronouncements-New and amended standards adopted by the Company" section). The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, comparative amounts were not restated.

(2) The Company adopted IFRS 15, Revenue from Contracts with Customers in the annual period commencing January 1, 2018. The Company elected to apply IFRS 15 using a modified retrospective approach; therefore, comparative amounts were not restated.

(3) See "Non-IFRS Measures" section.

Quarterly results are predominantly influenced by the number of gold ounces sold, the average realized price per ounce of gold sold, the cash cost per gold ounce sold (see "Non-IFRS Measures" section) and any unusual matters. The quarterly year-over-year increase in revenue for the third quarter of 2019 was due to an increase in gold ounces sold ($16.4 million), a higher average realized gold price ($8.7 million) and an increase in by-product silver sales ($0.4 million).

The increase in net income in the third quarter of 2019 compared to the third quarter of 2018 was principally due to an increase in gold ounces sold at a higher average realized gold price, combined with a non-cash impairment write down in the third quarter of 2018 of $4.4 million at the El Castillo mine and $2.5 million at the La Colorada mine related to the net realizable value of work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018. These increases in net income were partially offset by an increase in income tax expense primarily due to the foreign exchange effects of the strengthening Mexican peso on the calculation of deferred taxes, higher taxable income in the third quarter of 2019 and the deferred tax effect of the non-cash impairment write down of work-in-process inventory in the third quarter of 2018.

The increase in net income in the second quarter of 2019 compared to the second quarter of 2018 was principally due to an increase in gold ounces sold, a non-cash impairment reversal at the El Castillo mine related to the net realizable value of the work-in-process inventory, foreign exchange gains and a decrease in income tax expense due primarily to the foreign exchange effects of the strengthening Mexican peso on the calculation of deferred taxes, partially offset by a higher cash cost per gold ounce sold. Cash cost per gold ounce sold increased in the second quarter of 2019 compared to previous quarters, primarily due to an increase in cash cost per gold ounce sold at the San Agustin and La Colorada mines.

The decrease in net income in the first quarter of 2019 compared to the first quarter of 2018 was principally due to a higher cash cost per gold ounce sold, higher income tax expense and a lower average realized gold price, partially offset by an increase in gold ounces sold. Cash cost per gold ounce sold increased in the first quarter of 2019 compared to previous quarters, primarily due to a higher proportion of gold ounces sold from the El Castillo mine, which generally has had a higher cash cost per gold ounce sold, and an increase in cash cost per gold ounce sold at the San Agustin and La Colorada mines. The change in income tax expense was primarily due to a greater foreign exchange effect of the strengthening Mexican peso on the calculation of deferred taxes in the first quarter of 2018 and lower taxable income in the first quarter of 2019.

In the fourth quarter of 2018, a non-cash impairment write down of $12.8 million was recorded related to the net realizable value of non-current work-in-process inventory at the El Castillo mine, as a result of the increase in management's estimate of future production costs to convert the inventory into saleable form and expected timing of recoveries of the inventory. Additionally, in the fourth quarter of 2018, a negative inventory adjustment of $4.0 million at the El Castillo mining complex and $1.3 million at the La Colorada mine was recorded related to finished goods inventory currently part of an ongoing bankruptcy filing and related legal process (see "Commitments and Contingencies" section). The adjustments and non-cash impairments of inventory referenced above were partially offset by a non-cash impairment reversal of $2.6 million at the El Castillo mine and $0.9 million at the La Colorada mine related to the net realizable value of current work-in-process inventory, as a result of an increase in the price of gold as at December 31, 2018 compared to September 30, 2018. The net loss in the fourth quarter of 2018 was primarily due to the adjustment and non-cash impairment of inventory referenced above and the net non-cash impairment of mineral properties, plant and equipment of $2.0 million, along with an increase in cash cost per gold ounce sold and other operating expenses. Cash cost per gold ounce sold increased in the fourth quarter of 2018, due to a lower proportion of gold ounces sold from the San Agustin mine, which generally has had a lower cash cost per gold ounce sold and an increase in cash cost due to an increase in cost of consumables.

The decrease in net income in the second quarter of 2018 compared to previous quarters was primarily due to an increase in income tax expense, due primarily to the foreign exchange effects of the weakening Mexican peso on the calculation of deferred taxes and foreign exchange losses, partially offset by an increase in ounces sold. The increase in net income in the first quarter of 2018 compared to previous quarters was principally due to the increase in gold ounces sold, foreign exchange gains and a decrease in income tax expense due primarily to the foreign exchange effects of the strengthening Mexican peso on the calculation of deferred taxes.

DISCUSSION OF OPERATIONS

Unaudited and expressed in $000s	Three months ended September 30, 2019	Three months ended September 30, 2018(1)	Nine months ended September 30, 2019	Nine months ended September 30, 2018(1)
Revenue	$ 66,845	$ 41,310	$ 196,755	$ 144,427
Cost of sales				
Production costs	41,471	29,850	133,008	84,959
Depreciation, depletion and amortization	11,178	7,910	33,255	24,554
Inventory write down (reversal)	(267)	6,868	(4,697)	6,868
Total cost of sales	52,382	44,628	161,566	116,381
Gross profit (loss)	14,463	(3,318)	35,189	28,046
Exploration expenses	138	138	444	391
General and administrative expenses	3,371	2,707	10,522	9,601
Profit (loss) from operations	10,954	(6,163)	24,223	18,054
Finance income	10	10	23	25
Finance expenses	(423)	(286)	(1,327)	(889)
Gains on derivatives	544	159	1,003	584
Other income (expense)	(1,092)	1,223	816	81
Income (loss) before income taxes	9,993	(5,057)	24,738	17,855
Current income tax expense (recovery)	4,633	(608)	8,777	2,941
Deferred income tax expense (recovery)	496	(1,763)	1,594	4,990
Net income (loss) for the period	$ 4,864	$ (2,686)	$ 14,367	$ 9,924

(1) The Company adopted IFRS 16, Leases in the annual period commencing January 1, 2019 (see “Recent Accounting Pronouncements-New and amended standards adopted by the Company” section). The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, comparative amounts were not restated.

For the three months ended September 30, 2019, as compared to the three months ended September 30, 2018

Revenue for the three months ended September 30, 2019 was $66.8 million, an increase from $41.3 million for the three months ended September 30, 2018. During the third quarter of 2019, gold ounces sold totaled 44,303 at an average realized price per ounce of $1,474, compared to 33,179 gold ounces sold at an average realized price per ounce of $1,212 during the same period of 2018. Gold ounces sold for the three months ended September 30, 2019 increased compared to the same period in 2018 primarily due to an increase in gold ounces sold at the El Castillo and La Colorada mines as a result of increases in grade, ore tonnes to leach pads and recovery.

Production costs for the third quarter of 2019 were $41.5 million, an increase from $29.9 million in the third quarter of 2018, primarily due to an increase in gold ounces sold. Cash cost per gold ounce sold (see “Non-IFRS Measures” section) was $901 in the third quarter of 2019, a slight increase from $867 in the same period of 2018. Depreciation, depletion and amortization (“DD&A”) expense included in cost of sales for the third quarter of 2019 totaled $11.2 million, an increase from $7.9 million in the third quarter of 2018, primarily due to an increase in gold ounces sold, as many of the mining assets are amortized on a unit-of-production basis. Additionally, included in cost of sales in the third quarter of 2018 is a non-cash impairment write down of $6.9 million at the El Castillo and La Colorada mines related to the net realizable value of work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018.

General and administrative expenses for the third quarter of 2019 were $3.4 million, an increase from $2.7 million for the same period of 2018, primarily due to employee related costs.

Gains on derivatives for the third quarter of 2019 were $0.5 million, an increase from $0.2 million in the third quarter of 2018, principally due to an increase in realized and net unrealized gains on the Company’s zero-cost collar foreign exchange and commodity contracts (see “Financial Instruments and Risks - Derivative contracts” section).

Other expense for the third quarter of 2019 was $1.1 million, a decrease from other income of $1.2 million in the third quarter of 2018, primarily due to differences in foreign currency translation effects, partially offset by proceeds of $0.6 million related to a bankruptcy filing (see “Commitments and Contingencies” section).

Income tax expense for the third quarter of 2019 was $5.1 million, compared to an income tax recovery of $2.4 million in the same period of 2018. The increase is primarily due to the foreign exchange effects of the strengthening Mexican peso on the calculation of deferred taxes, higher taxable income in the third quarter of 2019 and the deferred tax effect of the non-cash impairment write down of work-in-process inventory in the third quarter of 2018.

Net income for the third quarter of 2019 was $4.9 million or $0.03 per basic share, an increase from a net loss of $2.7 million or $0.02 per basic share for the third quarter of 2018.

For the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018

Revenue for the nine months ended September 30, 2019 was $196.8 million, an increase from $144.4 million for the nine months ended September 30, 2018. During the first nine months of 2019, gold ounces sold totaled 140,729 at an average realized price per ounce of $1,359, compared to 108,665 gold ounces sold at an average realized price per ounce of $1,282 during the same period of 2018. Gold ounces sold for the nine months ended September 30, 2019 increased compared to the same period in 2018 primarily due to an increase in gold ounces sold at the El Castillo and La Colorada mines as a result of increases in grade, ore tonnes to leach pads and recovery. The increase in ore tonnes to leach pads at the El Castillo mine is primarily due to the expansion of crusher throughput capacity at the West crusher from 5,000 tonnes per day to 14,000 tonnes per day during the first quarter of 2018.

Production costs for the nine months ended September 30, 2019 were $133.0 million, an increase from $85.0 million in the first nine months of 2018 primarily due to an increase in gold ounces sold and an increase in cash cost per gold ounce sold. Cash cost per gold ounce sold (see “Non-IFRS Measures” section) was $906 in the first nine months of 2019, an increase from $735 in the same period of 2018, primarily due to an increase in cash cost per gold ounce sold at the San Agustin mine, as disclosed further in the discussion of operations. DD&A expense included in cost of sales for the nine months ended September 30, 2019 totaled $33.3 million, an increase from $24.6 million in the nine months ended September 30, 2018, primarily due to the increase in gold ounces sold, as many of the mining assets are amortized on a unit-of-production basis. Additionally, included in cost of sales in the first nine months of 2019 is a non-cash impairment reversal of $4.7 million at the El Castillo mine related to the net realizable value of the work-in-process inventory, primarily due to a revision in management’s estimate of future production costs to convert the non-current work-in-process inventory into saleable form and the expected timing of recoveries of the inventory. Included in cost of sales during the first nine months of 2018 is a non-cash impairment write down of $6.9 million at the El Castillo and La Colorada mines related to the net realizable value of work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018.

General and administrative expenses for the nine months ended September 30, 2019 were $10.5 million, an increase from $9.6 million in the same period of 2018, primarily due to employee related costs.

Gains on derivatives during the first nine months of 2019 were $1.0 million, an increase from $0.6 million in the first nine months of 2018, due to an increase in realized gains on the Company’s zero-cost collar foreign exchange contracts, partially offset by a net decrease in unrealized gains on the Company’s zero-cost collar foreign exchange and commodity contracts (see “Financial Instruments and Risks - Derivative contracts” section).

Other income for the nine months ended September 30, 2019 was $0.8 million, an increase from $0.1 million in the same period of 2018, primarily due to proceeds of $0.6 million related to a bankruptcy filing (see “Commitments and Contingencies” section).

Income tax expense for the nine months ended September 30, 2019 was $10.4 million, compared to $7.9 million in the same period of 2018. The increase is primarily due to a greater foreign exchange effect of the strengthening Mexican peso on the calculation of deferred taxes in the first nine months of 2018 and higher taxable income in the first nine months of 2019.

Net income for the nine months ended September 30, 2019 was $14.4 million or $0.08 per basic share, an increase from $9.9 million or $0.06 per basic share for the nine months ended September 30, 2018.

El Castillo Mining Complex

Operating Statistics for the El Castillo Mine	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Tonnes ore (000s)	2,436	2,267	7,024	6,035
Tonnes waste (000s)	2,947	3,869	10,241	9,198
Tonnes mined (000s)	5,383	6,136	17,265	15,233
Waste/ore ratio	1.21	1.71	1.46	1.52
Tonnes ore direct to leach pads (000s)	374	0	374	0
Tonnes crushed (000s)	2,112	2,246	6,718	5,992
Gold grade to leach pads (grams per tonne)	0.39	0.33	0.39	0.38
Contained gold ounces to leach pads	30,939	24,125	88,508	72,321
Gold ounces produced	14,281	10,298	51,529	29,034
Gold ounces sold	15,955	9,937	54,839	27,292
Cash cost per gold ounce sold (see Non-IFRS Measures section)	$ 1,038	$ 1,050	$ 970	$ 1,021

During the third quarter of 2019, the Company mined 5.4 million tonnes including 2.4 million tonnes of ore from the El Castillo mine. The El Castillo mine loaded 2.5 million tonnes during the quarter, which resulted in an estimated 30,939 contained gold ounces to the leach pads. Water in the bottom of the pit, combined with unscheduled downtime of the East crusher for maintenance, led to lower than anticipated productivity during the third quarter of 2019. This lower productivity led to a decrease in total tonnes mined and crushed and stacked on the leach pads when compared to the third quarter of 2018. During the third quarter of 2019, the El Castillo mine produced 14,281 gold ounces, compared to 10,298 for the third quarter of 2018. El Castillo sold 15,955 gold ounces during the third quarter of 2019 at a cash cost per gold ounce sold of $1,038 (see "Non-IFRS Measures" section), compared to 9,937 gold ounces at a cash cost per gold ounce sold of $1,050 for the third quarter of 2018.

During the nine months ended September 30, 2019, the Company mined 17.3 million tonnes including 7.0 million tonnes of ore from the El Castillo mine. The El Castillo mine loaded 7.1 million tonnes during the first nine months of the year, which resulted in an estimated 88,508 contained gold ounces to the leach pads. During the nine months ended September 30, 2019, the El Castillo mine produced 51,529 gold ounces, compared to 29,034 for the nine months ended September 30, 2018. Higher ore tonnes and production were primarily driven by the investment during 2018 to increase crushing capacity at the West crusher from 5,000 tonnes per day to 14,000 tonnes per day. El Castillo sold 54,839 gold ounces during the nine months ended September 30, 2019 at a cash cost per gold ounce sold of $970 (see "Non-IFRS Measures" section), compared to 27,292 gold ounces at a cash cost per gold ounce sold of $1,021 for the nine months ended September 30, 2018. The decrease in cash cost per gold ounce sold in the first nine months of 2019 is primarily related to the increase in recoverable gold ounces placed in the fourth quarter of 2018 over to the comparable period of the prior year and the effect of spreading the site costs over the increased ounces produced and sold.

Capital expenditures associated with the El Castillo mine during the three and nine months ended September 30, 2019 were $2.7 million and $9.1 million, respectively, primarily related to deferred stripping and leach pad construction. In addition to the above capital expenditures, during the three and nine months ended September 30, 2019, there were $1.0 million and $1.8 million, respectively, in capital expenditures by another subsidiary of the Company that is primarily related to mining equipment currently being used at the El Castillo mine.

Operating Statistics for the San Agustin Mine	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Tonnes ore (000s)	2,371	1,747	5,993	5,324
Tonnes waste (000s)	1,633	808	4,358	1,782
Tonnes mined (000s)	4,004	2,555	10,351	7,106
Waste/ore ratio	0.69	0.46	0.73	0.33
Tonnes crushed (000s)	2,287	1,732	5,909	5,335
Gold grade to leach pads (grams per tonne)	0.32	0.34	0.39	0.40
Contained gold ounces to leach pads	23,385	18,832	73,548	68,523
Gold ounces produced	15,210	15,770	41,978	47,122
Gold ounces sold	14,478	15,912	44,565	46,222
Silver ounces produced	36,887	52,895	134,014	189,007
Silver ounces sold	37,410	54,747	144,830	185,416
GEOs produced (2019 - 75:1 ratio; 2018 - 70:1 ratio)	15,702	16,526	43,765	49,822
GEOs sold (2019 - 75:1 ratio; 2018 - 70:1 ratio)	14,977	16,694	46,496	48,871
Cash cost per gold ounce sold (see Non-IFRS Measures section)	$ 848	$ 622	$ 848	$ 476

During the third quarter of 2019, the Company mined 4.0 million tonnes including 2.4 million tonnes of ore from the San Agustin mine. During the same period, San Agustin loaded 2.3 million tonnes on the leach pads, which resulted in an estimated 23,385 contained gold ounces to the leach pads. Total tonnes mined, crushed and stacked increased during the third quarter of 2019 compared to the third quarter of 2018 due to the planned higher mining rate in connection with the 10,000 tonne per day expansion completed during the first half of 2019, along with a higher waste to ore ratio. During the three months ended September 30, 2019, San Agustin produced 15,210 gold ounces and 36,887 silver ounces or 15,702 GEOs. Production during the third quarter of 2019 was adversely affected by a shortage of water due to underperformance of the third water well. During the third quarter of 2019, the Company completed a fourth water well and the new well has demonstrated sufficient water capacity to meet the needs of the operation to run at 30,000 tonnes per day of ore. San Agustin sold 14,478 gold ounces during the third quarter of 2019 at a cash cost per gold ounce sold of $848 (see "Non-IFRS Measures" section), compared to 15,912 gold ounces at a cash cost per gold ounce sold of $622 for the third quarter of 2018. The increase in cash cost per gold ounce sold over the comparable period of 2018 is primarily due to the higher waste to ore ratio, which results in a higher cost per tonne of ore mined in the period.

During the nine months ended September 30, 2019, the Company mined 10.4 million tonnes including 6.0 million tonnes of ore from the San Agustin mine. During the same period, San Agustin loaded 5.9 million tonnes on the leach pads, which resulted in an estimated 73,548 contained gold ounces to the leach pads. Total tonnes mined, crushed and stacked increased during the first nine months of 2019 compared to the same period of the prior year due to the planned higher mining rate in connection with the 10,000 tonne per day expansion completed during the first half of 2019, along with a higher waste to ore ratio. During the first nine months of 2019, San Agustin produced 41,978 gold ounces and 134,014 silver ounces or 43,765 GEOs. Production during the first nine months of 2019 was adversely affected by a shortage of water due to underperformance of the third water well. During the third quarter of 2019, the Company completed a fourth water well and the new well has demonstrated sufficient water capacity to meet the needs of the operation to run at 30,000 tonnes per day of ore. The Company anticipates ramping up to 30,000 tonnes per day at the San Agustin mine during the fourth quarter of 2019. San Agustin sold 44,565 gold ounces during the first nine months of 2019 at a cash cost per gold ounce sold of $848 (see "Non-IFRS Measures" section), compared to 46,222 gold ounces at a cash cost per gold ounce sold of $476 for the first nine months of 2018. The increase in cash cost per gold ounce sold over the comparable period of 2018 is primarily due to the higher waste to ore ratio, which results in a higher cost per tonne of ore mined in the period, coupled with higher costs associated with key consumables.

Capital expenditures associated with the San Agustin mine during the three and nine months ended September 30, 2019 were $0.3 million and $12.0 million, respectively, primarily related to leach pad construction and crushing and conveying circuit improvements.

La Colorada Mine

Operating Statistics	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Tonnes ore (000s)	1,452	1,200	3,511	3,358
Tonnes waste (000s)	5,767	4,254	17,667	12,200
Tonnes mined (000s)	7,219	5,454	21,178	15,558
Waste/ore ratio	3.97	3.55	5.03	3.63
Tonnes rehandled (000s)	0	0	0	38
Tonnes ore direct to leach pads (000s)	145	0	234	0
Tonnes crushed (000s)	1,331	1,207	3,337	3,472
Gold grade to leach pads (grams per tonne)	0.60	0.33	0.51	0.37
Contained gold ounces to leach pads	28,586	12,957	59,097	41,766
Gold ounces produced	13,969	7,040	41,064	32,834
Gold ounces sold	13,870	7,330	41,325	35,151
Silver ounces produced	33,616	16,213	123,874	103,348
Silver ounces sold	34,041	15,205	126,131	108,163
GEOs produced (2019 - 75:1 ratio; 2018 - 70:1 ratio)	14,418	7,271	42,716	34,310
GEOs sold (2019 - 75:1 ratio; 2018 - 70:1 ratio)	14,324	7,547	43,007	36,696
Cash cost per gold ounce sold (see Non-IFRS Measures section)	$ 800	$ 1,152	$ 885	$ 854

During the third quarter of 2019, La Colorada mined 7.2 million tonnes containing 1.5 million tonnes of ore. La Colorada loaded 1.5 million tonnes on the leach pads during the quarter, which resulted in an estimated 28,586 contained gold ounces to the leach pads. La Colorada produced 13,969 gold ounces and 33,616 silver ounces during the third quarter of 2019 or 14,418 GEOs. Production increased during the third quarter of 2019 compared to the third quarter of 2018, as the Company saw the impact in the third quarter of 2018 of the lower grade ore placed by the Company during the second quarter of 2018 when the Company lacked the ability to blast material due to the temporary suspension of the explosives permit. La Colorada sold 13,870 gold ounces in the third quarter of 2019 at a cash cost per gold ounce sold of $800 (see "Non-IFRS Measures" section), compared to 7,330 gold ounces sold at a cash cost per gold ounce sold of $1,152 for the third quarter of 2018. The decrease in cash cost per gold ounce sold over the comparable period of 2018 is primarily due to higher gold grades and recoveries.

During the nine months ended September 30, 2019, La Colorada mined 21.2 million tonnes containing 3.5 million tonnes of ore. La Colorada loaded 3.6 million tonnes on the leach pads during the first nine months of the year, which resulted in an estimated 59,097 contained gold ounces to the leach pads. La Colorada produced 41,064 gold ounces and 123,874 silver ounces during the nine months ended September 30, 2019 or 42,716 GEOs. Production increased during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, as the Company saw the impact in the third quarter of 2018 of the lower grade ore placed by the Company during the second quarter of 2018 when the Company lacked the ability to blast material due to the temporary suspension of the explosives permit. La Colorada sold 41,325 gold ounces in the nine months ended September 30, 2019 at a cash cost per gold ounce sold of $885 (see "Non-IFRS Measures" section), compared to 35,151 gold ounces sold at a cash cost per gold ounce sold of $854 for the nine months ended September 30, 2018. The increase in cash cost per gold ounce sold over the comparable period of 2018 is primarily due to a higher average cost per ounce in work-in-process inventory at the beginning of 2019, partially offset by higher gold grades.

Capital expenditures at La Colorada during the three and nine months ended September 30, 2019 were $2.4 million and $10.7 million, respectively, primarily for deferred stripping and leach pad construction.

Advanced Exploration Projects

Capital expenditures for the San Antonio project were as follows:

	Three months ended September 30,		Nine months ended September 30,	
Expressed in $ millions	2019	2018	2019	2018
Camp costs, land costs and other	$ 0.3	$ 0.2	$ 0.7	$ 0.6
Technical services and personnel costs	0.1	0.3	0.7	0.5
	$ 0.4	$ 0.5	$ 1.4	$ 1.1

During the first quarter of 2019, the Company submitted a Unified Technical Document that includes a new Environmental Impact Assessment, an Environmental Risk Assessment and the Justified Technical Study for a Change of Soil Use for the San Antonio project. During the second quarter of 2019, the Company participated in a public information meeting as part of the Environmental Impact Assessment process. The Company continues to advance environmental permitting and consult with and inform nearby communities and local stakeholders about the project.

Capital expenditures for the Magino project were as follows:

	Three months ended September 30,		Nine months ended September 30,	
Expressed in $ millions	2019	2018	2019	2018
Camp costs, land costs and other	$ 0.2	$ 0.1	$ 0.8	$ 0.5
Technical services and personnel costs	0.8	0.6	2.5	2.1
Drilling and geology	0.4	-	0.4	-
	$ 1.4	$ 0.7	$ 3.7	$ 2.6

During the first quarter of 2019, the Company received federal and provincial Environmental Assessment approval and signed a Community Agreement with the Batchewana First Nation. The Company continues to advance the Schedule 2 permitting process, consult with and inform Indigenous communities and local stakeholders about the project. During the third quarter of 2019, the Company commenced an approximate 20,000 metre drill program that is targeting high-grade, deep mineralization and is expected to run through 2020.

Capital expenditures for the Cerro del Gallo project were as follows:

	Three months ended September 30,		Nine months ended September 30,	
Expressed in $ millions	2019	2018	2019	2018
Assays and geochemistry	$ -	$ 0.1	$ 0.1	$ 0.1
Camp costs, land costs and other	0.2	0.2	0.4	0.5
Technical services and personnel costs	0.4	0.3	1.0	0.5
Drilling and geology	-	0.1	-	0.2
	$ 0.6	$ 0.7	$ 1.5	$ 1.3

During the second quarter of 2019, the Company submitted a Unified Technical Document that includes an Environmental Impact Assessment, an Environmental Risk Assessment and the Justified Technical Study for a Change of Soil Use for the Cerro del Gallo project. During the first nine months of 2019, the Company continued metallurgical test work and geologic modeling at the Cerro del Gallo project. Additionally, the Company is advancing a pre-feasibility study, which it anticipates will be completed during the fourth quarter of 2019.

Argonaut continues to work towards permitting these projects and has engaged the community, regulators and various agencies toward defining projects within the jurisdictional guidelines that will be acceptable to all parties.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents balance as at September 30, 2019 was $35.6 million, as compared to $15.4 million as at December 31, 2018 and $23.9 million at June 30, 2019.

The Company has an amended and restated credit agreement (the "Revolving Credit Facility" or "RCF") with a syndicate of Canadian banks for an aggregate amount of $50.0 million upon execution of the RCF in February 2018. The RCF matures on March 31, 2021 and has a $25.0 million accordion feature, providing for total availability of up to $75.0 million upon execution of the RCF in February 2018. The RCF is subject to eight commitment reductions of $3.1 million per quarter, plus the ratable amount of any incremental commitment derived from the accordion, with reductions to commence on June 30, 2019 and extend through maturity. As at September 30, 2019, the aggregate amount available to draw on the RCF was $43.8 million and the available accordion feature was $18.8 million. The RCF bears interest at the London Inter-bank Offered Rate ("LIBOR") plus 2.25% to 3.25% on drawn amounts and 0.51% to 0.73% on undrawn amounts, based on the Company's consolidated leverage ratio, as defined in the agreement.

The RCF is secured by all of the Company's assets and is subject to various covenants including those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage. As at September 30, 2019, the Company was in compliance with these covenants.

As at September 30, 2019 and June 30, 2019, the Company had utilized $14.0 million of the RCF, as compared to $13.0 million as at December 31, 2018. Net cash was $21.6 million as at September 30, 2019, as compared to $2.4 million as at December 31, 2018 and $9.9 million as at June 30, 2019 (see "Non-IFRS Measures" section).

Cash Flows

Unaudited and expressed in $000s	Three months ended September 30, 2019	Three months ended September 30, 2018[(1)]	Nine months ended September 30, 2019	Nine months ended September 30, 2018[(1)]
Operating activities				
Cash flows from operating activities before changes in non-cash operating working capital and other items	$ 17,194	$ 10,877	$ 46,563	$ 48,939
Changes in non-cash operating working capital and other items	2,309	(3,181)	10,525	(12,730)
Net cash provided by operating activities	19,503	7,696	57,088	36,209
Investing activities				
Expenditures on mineral properties, plant and equipment	(10,689)	(9,542)	(40,552)	(29,662)
Other	2	22	244	136
Net cash used in investing activities	(10,687)	(9,520)	(40,308)	(29,526)
Financing activities				
Proceeds from debt	-	1,000	1,000	12,000
Repayment of debt	-	(1,000)	-	(12,000)
Proceeds from issuance of flow-through shares	2,834	-	2,834	-
Other	(91)	(221)	(28)	(798)
Net cash provided by (used in) financing activities	2,743	(221)	3,806	(798)
Effects of exchange rate changes on cash and cash equivalents	144	(125)	(409)	615
Increase (decrease) in cash and cash equivalents	11,703	(2,170)	20,177	6,500
Cash and cash equivalents, beginning of period	23,852	22,730	15,378	14,060
Cash and cash equivalents, end of period	$ 35,555	$ 20,560	$ 35,555	$ 20,560

(1) The Company adopted IFRS 16, Leases in the annual period commencing January 1, 2019 (see "Recent Accounting Pronouncements-New and amended standards adopted by the Company" section). The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, comparative amounts were not restated.

For the three months ended September 30, 2019, as compared to the three months ended September 30, 2018

During the third quarter of 2019, cash increased by $11.7 million due primarily to $19.5 million of cash flows from operations and $2.7 million of cash flows provided by financing activities, offset by $10.7 million of capital expenditures incurred, as compared to the third quarter of 2018 in which cash decreased by $2.2 million due primarily to $9.5 million of capital expenditures incurred, offset by $7.7 million of cash flows from operations.

Cash provided by operating activities totaled $19.5 million in the third quarter of 2019, as compared to $7.7 million in the third quarter of 2018. The increase in cash provided by operations is primarily related to an increase in gold ounces sold and a higher average realized gold price in the third quarter of 2019 as compared to the third quarter of 2018.

Cash used in investing activities totaled $10.7 million in the third quarter of 2019, versus $9.5 million in the third quarter of 2018. The cash used in investing activities in the third quarter of 2019 relates to capital expenditures including $2.6 million for exploration and development activities, $2.1 million for deferred stripping at the La Colorada and El Castillo mines, $1.8 million for land acquisitions, $1.7 million for crushing and conveying circuit improvements and mining equipment, $1.3 million for leach pad construction and $1.2 million for other capital at the Company's properties. The cash used in investing activities in the third quarter of 2018 relates to capital expenditures including $3.4 million for leach pad construction, $2.6 million for deferred stripping at the El Castillo mine, $2.3 million for exploration and development activities, $0.7 million for crushing and conveying circuit improvements and mining equipment and $0.5 million for other capital at the Company's properties.

Cash provided by financing activities totaled $2.7 million in the third quarter of 2019, as compared to cash used in financing activities of $0.2 million in the third quarter of 2018. During the third quarter of 2019, the Company received $2.8 million from the issuance of 1,176,500 flow-through common shares at a price of CA$3.40 per share by way of a private placement. Under the terms of the flow-through share agreement, the Company agreed to incur CA$4.0 million of qualified Canadian resource expenditures by December 31, 2020 and renounce those expenditures to the investors effective December 31, 2019.

For the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018

During the nine months ended September 30, 2019 cash increased by $20.2 million due primarily to $57.1 million of cash flows from operations and $3.8 million of cash flows provided by financing activities, offset by $40.6 million of capital expenditures incurred, as compared to the nine months ended September 30, 2018 in which cash increased by $6.5 million due primarily to $36.2 million of cash flows from operations, offset by $29.7 million of capital expenditures incurred.

Cash provided by operating activities totaled $57.1 million in the nine months ended September 30, 2019, as compared to $36.2 million in the nine months ended September 30, 2018. The increase in cash provided by operations is primarily related to a net decrease in non-cash operating working capital in the first nine months of 2019, compared to a net increase in the comparable period of the prior year primarily related to the favorable cash impact of the change in work-in-process inventories, income taxes payable and receivables, partially offset by the unfavorable impact of the change in accounts payable and accrued liabilities.

Cash used in investing activities totaled $40.3 million in the nine months ended September 30, 2019, versus $29.5 million in the nine months ended September 30, 2018. The cash used in investing activities in the nine months ended September 30, 2019 relates to capital expenditures including $11.9 million for deferred stripping at the La Colorada and El Castillo mines, $8.8 million for crushing and conveying circuit improvements and mining equipment, $8.7 million for leach pad construction, $7.3 million for exploration and development activities, $2.1 million for land acquisitions and $1.8 million for other capital at the Company's properties. The cash used in investing activities in the nine months ended September 30, 2018 relates to capital expenditures including $8.8 million for leach pad construction, $7.6 million for deferred stripping at the El Castillo and La Colorada mines, $6.3 million for exploration and development activities, $4.3 million for crushing and conveying circuit improvements and mining equipment and $2.7 million for other capital at the Company's properties.

Cash provided by financing activities totaled $3.8 million in the nine months ended September 30, 2019, as compared to cash used in financing activities of $0.8 million in the nine months ended September 30, 2018. During the nine months ended September 30, 2019, the Company received $2.8 million from the issuance of 1,176,500 flow-through common shares at a price of CA$3.40 per share by way of a private placement. Under the terms of the flow-through share agreement, the Company agreed to incur CA$4.0 million of qualified Canadian resource expenditures by December 31, 2020 and renounce those expenditures to the investors effective December 31, 2019. In addition, during the nine months ended September 30, 2019, the Company received proceeds from debt of $1.0 million related to the drawdown of the RCF.

Total assets increased to $730.3 million as at September 30, 2019, as compared to $694.5 million as at December 31, 2018, principally due to an increase in cash and cash equivalents and mineral properties, plant and equipment. Total liabilities increased to $96.5 million as at September 30, 2019, as compared to $85.5 million as at December 31, 2018, primarily due to an increase in income taxes payable. Total shareholders' equity increased to $633.8 million as at September 30, 2019, as compared to $609.0 million as at December 31, 2018, primarily due to net income of $14.4 million, foreign currency translation effects of $6.4 million and the issuance of flow-through shares of $2.0 million.

Liquidity Outlook

The Company is tracking toward the low end of its 2019 production guidance of between 200,000 and 215,000 GEOs and anticipates it will produce between 190,000 and 200,000 GEOs during 2019 (based on the three-year historical average silver to gold ratio of 75:1). Given the expectation that GEO production for the year will be near or slightly under the low end of previous guidance, the Company now expects 2019 cash cost of between $900 and $925 per gold ounce sold (previously $800 to $900 per gold ounce sold) (see "Non-IFRS Measures" section). In addition, the Company now anticipates all-in sustaining cost of between $1,125 and $1,150 per gold ounce sold (previously $1,025 to $1,125 per gold ounce sold) (see "Non-IFRS Measures" section) primarily due to the potential for fewer gold ounces sold.

The Company plans to invest between $50 million and $55 million in capital programs during 2019 (unchanged from prior quarter).

The Company's cash and cash equivalents balance, the cash expected to be generated from the operation of the El Castillo mining complex and the La Colorada mine during the next 12 months and undrawn amounts on the Company's RCF are anticipated to be sufficient to meet obligations and the planned investing and operating activities of the Company for the next 12 months. If required, the Company anticipates it can raise cash from proceeds from sale of shares or proceeds from sale of mineral properties or other assets to meet its cash requirements. The Company's results are highly dependent on the price of gold and future changes in the price of gold will therefore impact performance. Readers are encouraged to read the "Cautionary Statement" section and the "Risk Factors" contained in the Company's 2018 Annual Information Form, which is available on SEDAR at www.sedar.com.

The profitability and operating cash flow of Argonaut are affected by various factors, including the amount of gold produced at the mines, the market price of gold, operating costs, interest rates, regulatory and environmental compliance, the level of exploration activity and capital expenditures, general and administrative costs and other discretionary costs and activities. Argonaut is also exposed to fluctuations in currency exchange rates, interest rates, regulatory, licensing and political risks and varying levels of taxation that can impact profitability and cash flow. Argonaut seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control.

The Company's financial performance, including its profitability and cash flow from operations, is tied to the price of gold and cost of inputs to its gold production. The price of gold itself is the greatest factor in profitability and cash flow from operations and should be expected to continue to be impacted by market factors. The price of gold is volatile and subject to price movements which can take place over short periods of time and are affected by multiple macroeconomic and industry factors that are beyond the control of the Company. Some of the major recent factors influencing the price of gold include currency exchange rates, the relative value of the US dollar, supply and demand for gold and more general economic results and projections such as interest rate and inflation projections and assumptions.

Commodity prices in general continue to see volatility. Volatility in the price of gold may impact the Company's revenue, while volatility in the price of other commodities, such as oil, may have an impact on the Company's operating costs and capital expenditure deployment.

COMMITMENTS AND CONTINGENCIES

Various tax and legal matters are outstanding from time to time. Judgments and assumptions regarding these matters are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in the consolidated financial statements on the date such changes occur.

The Company understands that refiner Republic Metals Corporation ("Republic") filed for protection under chapter 11 of the United States Bankruptcy Code on November 2, 2018 (the "Petition Date") in the United States Bankruptcy Court for the Southern District of New York (the "Court"). Republic processed material from certain of the Company's properties in the past and, as of the Petition Date, had in its possession approximately 4,600 and 13,600 ounces of the Company's gold and silver, respectively. The Company engaged counsel to assert its legal right for the return of its material and otherwise protect its rights in Republic's bankruptcy case. In August 2019, the Company reached an agreement with Republic, which was approved by the Court in September 2019. Pursuant to that agreement, the Company received $0.6 million and allowed claims against Republic in the amount of $5.5 million (the "Allowed Claims") to proceed. It is not possible at this time to accurately assess the size of the recovery on the Company's Allowed Claims nor the length of time it will take to receive such recovery.

In September 2019, the Company issued 1,176,500 flow-through common shares at a price of CA$3.40 per share by way of a private placement for net proceeds of $2.8 million (CA$3.7 million). Under the terms of the flow-through share agreement, the Company agreed to incur CA$4.0 million of qualified Canadian resource expenditures by December 31, 2020 and renounce those expenditures to the investors effective December 31, 2019. Management intends to use the proceeds to fund exploration expenditures at the Magino project and expects to incur the required expenditures during the remainder of 2019 and in the first half of 2020.

FINANCIAL INSTRUMENTS AND RISKS

Overview

The Company's activities expose it to risks, including financial and operational risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks related to financial instruments to which the Company is exposed are credit risk, foreign exchange risk, liquidity risk, interest rate risk and commodity price risk. In 2019, the Company's exposure to financial risks related to financial instruments is consistent with as described in the MD&A for the year ended December 31, 2018, with the addition of commodity price risk, as discussed further below.

The Company is exposed to commodity price risk as its revenues are derived from the sale of metals, the prices for which have been historically volatile. The Company may manage this risk by entering into agreements with various counterparties to mitigate price risk when management believes it a prudent decision. In August 2019, the Company entered into zero-cost collar contracts whereby it purchased a series of call option contracts and sold a series of put option contracts with equal and offsetting values at inception for 145,500 ounces of gold production from October 2019 to June 2022 at a minimum of $1,450 and a maximum of $1,816 per ounce of gold (see "Financial Instruments and Risks - Derivative contracts" section). The Company's strategy is to remain unhedged on gold production; however, by initiating this price protection program for these ounces over this term and at these prices, the Company is able to ensure it can profitably extend operations at the El Castillo mine.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. Readers are encouraged to read and consider the "Cautionary Statement" section of this MD&A and the "Risk Factors" described in the Company's Annual Information Form for the year ended December 31, 2018. The risk factors could materially impact future operating results of the Company and cause events to differ materially from those described in forward-looking information of the Company.

Financial instruments

As at September 30, 2019 and December 31, 2018, the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at September 30, 2019 and December 31, 2018, the carrying amounts of other liabilities and debt are considered to be reasonable approximations of their fair values as either there have been no significant changes in market interest rates since inception or the liability bears interest at a floating rate.

Derivative contracts

On September 25 and December 28, 2017 (together referred to as the “2018 foreign exchange contracts”) and on November 13, 2018 (referred to as the “2019 foreign exchange contracts”), the Company entered into zero-cost collar contracts whereby it purchased a series of foreign exchange call option contracts and sold a series of foreign exchange put option contracts with equal and offsetting values at inception. These contracts were entered into to normalize operating expenses and capital expenditures to be incurred by the Company’s Mexican operations as expressed in US dollar terms. The foreign exchange derivative contracts are classified as Level 2 in the fair value hierarchy.

The details of the contracts are as follows:

2018 foreign exchange contracts at inception	Amount ($000s)	Term	Weighted average strike price Mexican pesos per US dollar
Foreign exchange call options - purchased	$ 30,000	January 2018 - December 2018	17.90
Foreign exchange put options - sold	$ 30,000	January 2018 - December 2018	22.46

2019 foreign exchange contracts at inception	Amount ($000s)	Term	Strike price Mexican pesos per US dollar
Foreign exchange call options - purchased	$ 24,000	January 2019 - December 2019	20.00
Foreign exchange put options - sold	$ 24,000	January 2019 - December 2019	23.56

On August 23, 2019, the Company entered into zero-cost collar contracts whereby it purchased a series of gold put option contracts and sold a series of gold call option contracts with equal and offsetting values at inception (referred to as the “commodity contracts”). These commodity contracts were entered into to extend operations at the El Castillo mine. The commodity contracts are classified as Level 2 in the fair value hierarchy.

The details of the commodity contracts are as follows:

Commodity contracts at inception	Quantity[2] (Ounces)	Term	Strike price per ounce[1][2]
Gold put options - purchased	17,100	October 2019 - December 2019	$1,450
Gold call options - sold	12,825	October 2019 - December 2019	$1,612
Gold call options - sold	4,275	October 2019 - December 2019	$1,685
Gold put options - purchased	58,800	January 2020 - December 2020	$1,450
Gold call options - sold	44,100	January 2020 - December 2020	$1,672
Gold call options - sold	14,700	January 2020 - December 2020	$1,755
Gold put options - purchased	51,600	January 2021 - December 2021	$1,450
Gold call options - sold	38,700	January 2021 - December 2021	$1,709
Gold call options - sold	12,900	January 2021 - December 2021	$1,785
Gold put options - purchased	18,000	January 2022 - June 2022	$1,450
Gold call options - sold	13,500	January 2022 - June 2022	$1,745
Gold call options - sold	4,500	January 2022 - June 2022	$1,816

(1) The contracts are exercisable based on the average price for the month being below the strike price of the put or above the strike price of the call.

(2) Quantities and strike prices do not fluctuate by month within each calendar year.

The resulting fair values of the outstanding derivative contracts at September 30, 2019 have been recognized, on a net basis, in derivative assets and derivative liabilities on the statement of financial position. As at September 30, 2019, foreign exchange contracts represent $0.1 million of current derivative assets and commodity contracts represent $0.9 million and $0.2 million of derivative assets and derivative liabilities, respectively. These derivative instruments were not designated as hedges by the Company and are marked-to-market at the end of each reporting period with the mark-to-market adjustment recorded in the statement of income (loss). Details are as follows:

	Three months ended September 30,		Nine months ended September 30,	
Unaudited and expressed in $000s	2019	2018	2019	2018
2018 foreign exchange contracts				
Unrealized gains	$ -	$ 123	$ -	$ 593
Reversal of unrealized (gains) losses from prior period	-	36	-	(18)
Realized gains	-	-	-	9
2019 foreign exchange contracts				
Unrealized gains (losses)	(119)	-	149	-
Reversal of unrealized gains from prior period	(235)	-	(560)	-
Realized gains	206	-	722	-
Commodity contracts				
Unrealized gains	692	-	692	-
Net gains on derivatives	$ 544	$ 159	$ 1,003	$ 584

OUTSTANDING SHARE DATA

As at September 30, 2019, the Company had 179,483,625 common shares issued and outstanding and 4,300,338 stock options, 2,086,776 restricted share units ("RSUs") and 1,670,388 performance share units ("PSUs") granted and outstanding.

Subsequent to September 30, 2019, 10,000 stock options were exercised and 10,519 RSUs and 9,057 stock options were forfeited.

As at November 7, 2019, the Company had 179,493,625 common shares issued and outstanding and 4,281,281 stock options, 2,076,257 RSUs and 1,670,388 PSUs granted and outstanding.

The Company's shares trade on the TSX under the symbol AR.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may vary from those estimates due to inherent uncertainty or other factors. The Company regularly reviews its estimates. Revisions to estimates and the resulting effects on the carrying amounts of the assets and liabilities are accounted for prospectively. Key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities applied in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those applied and disclosed in the annual consolidated financial statements for the year ended December 31, 2018.

Impairment of non-current assets

At each reporting date, the Company reviews its non-current assets to determine whether there are any indications of impairment. Non-current assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. As at September 30, 2019, management of the Company determined the continued weakness in the Company's share price during 2019, resulting in the Company's market capitalization being below the carrying value of net assets, constituted an impairment indicator. Therefore, the Company completed an impairment assessment for each of the Company's cash generating units ("CGUs" or "CGU") whereby the carrying value of the CGU, including acquisition cost, was compared to its recoverable amount using assumptions consistent with those used at December 31, 2018. Management's impairment evaluation did not result in the identification or reversal of an impairment loss as at September 30, 2019.

Work-in-process inventory / Production costs

The Company's management makes estimates of the amount and the expected timing of recovery of recoverable ounces in work-in-process inventory, which is used in the determination of the cost of sales during the period. Changes in these estimates can result in a change in the carrying amount of inventories and production costs of future periods. The Company monitors the recovery of gold ounces from the leach pads and may refine its estimate based on these results. Assumptions used in inventory valuation include type of ore tonnes mined, rock density, grams of gold per tonne, expected recovery rate based on the type of ore placed on the leach pads, timing of recovery, remaining costs of completion to bring inventory into its saleable form and assays of solutions and gold on carbon, among others.

During the three and nine months ended September 30, 2019, the Company recognized a non-cash impairment reversal on work-in-process inventory of $0.3 million and $4.7 million, respectively (three and nine months ended September 30, 2018 - write down of $6.9 million).

NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

The Company has adopted the following new standard in the annual period commencing January 1, 2019 and as a result, changed the relevant accounting policy for it. This change was made in accordance with the applicable transitional provisions.

IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016 by the IASB. According to the new standard, all leases will be on the statement of financial position of lessees, except those that meet the limited exception criteria. The Company elected to apply IFRS 16 using a modified retrospective approach, with the cumulative effect of initially applying the new standard recognized on January 1, 2019. Comparatives for the year ended December 31, 2018 have not been restated.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of International Accounting Standard 17, Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.77%. The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at December 31, 2018. Mineral properties, plant and equipment and lease liabilities each increased by $0.7 million on January 1, 2019 on transition to IFRS 16.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.

The operating lease obligations as at December 31, 2018 are reconciled as follows to the recognized lease liabilities as at January 1, 2019:

Expressed in $000s		
Operating lease obligation as at December 31, 2018	$	349
Current leases with a lease term of 12 months or less (short-term leases)		(55)
Effect from discounting at the incremental borrowing rate as at January 1, 2019		(16)
Leases identified as a result of IFRS 16 implementation		467
Lease liabilities due to initial adoption of IFRS 16 as at January 1, 2019	$	745

Under IFRS 16, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance expense. The finance expense is charged to the statement of income over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less.

Certain leases contain variable payment terms. Variable lease payments are recognized in the statement of income in the period in which the condition that triggers those payments occurs.

RECENT ACCOUNTING PRONOUNCEMENTS

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019, and have not been applied in preparing these consolidated financial statements. There are no IFRSs or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the consolidated financial statements of the Company.

DISCLOSURE CONTROLS AND PROCEDURES

The Canadian Securities Administrators have issued National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109") which requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the disclosure controls and procedures that are in use at the Company. The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, to enable this information to be reviewed and discussed so that appropriate decisions can be made regarding the timely public disclosure of the information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

NI 52-109 also requires public companies in Canada to submit interim and annual certificates relating to the design of internal control over financial reporting ("ICFR") and an annual certificate that includes evaluating the effectiveness of ICFR. The Company's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining ICFR. The Company used the 2013 Commission of Sponsoring Organizations of the Treadway Commission ("COSO") framework as the basis for designing its ICFR. Due to its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes to Internal Control over Financial Reporting

NI 52-109 also requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. There were no changes in ICFR during the quarter ended September 30, 2019 that materially affected or are reasonably likely to materially affect the Company's ICFR.

NON-IFRS MEASURES

The Company has included certain non-IFRS measures including "Cash cost per gold ounce sold", "All-in sustaining cost per gold ounce sold", "Adjusted net income (loss)", "Adjusted earnings (loss) per share - basic" and "Net cash" in this MD&A to supplement its financial statements which are presented in accordance with IFRS. The Company believes that these measures provide investors with an alternate view to evaluate the performance of the Company by providing information on control of production costs, trends in cash costs of the Company and the underlying operating performance of the core mining business. Management also uses these measures to monitor internal performance. Non-IFRS measures do not have any standardized meaning prescribed under IFRS. Therefore, they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company adopted IFRS 16 in the annual period commencing January 1, 2019 (see "Recent Accounting Pronouncements-New and amended standards adopted by the Company" section). The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, comparative amounts were not restated. Beginning in 2019, as a result of adopting IFRS 16, sustaining lease liability costs previously recorded in cash cost per gold ounce sold and general and administrative expenses are included in accretion and other expenses in all-in sustaining cost per gold ounce sold (the impact was less than $1 on cash cost per gold ounce sold and nil on all-in sustaining cost per gold ounce sold for 2019 compared to 2018).

The following table provides a reconciliation of cost of sales per the financial statements to cash cost per gold ounce sold:

El Castillo	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Production costs[1][2] ($000s)	$ 16,941	$ 10,501	$ 54,463	$ 28,209
Less silver sales ($000s)	382	70	1,272	333
Net cost of sales ($000s)	$ 16,559	$ 10,431	$ 53,191	$ 27,876
Gold ounces sold	15,955	9,937	54,839	27,292
Cash cost per gold ounce sold	$ 1,038	$ 1,050	$ 970	$ 1,021

San Agustin	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Production costs[1] ($000s)	$ 12,877	$ 10,689	$ 40,056	$ 24,970
Less silver sales ($000s)	604	794	2,250	2,991
Net cost of sales ($000s)	$ 12,273	$ 9,895	$ 37,806	$ 21,979
Gold ounces sold	14,478	15,912	44,565	46,222
Cash cost per gold ounce sold	$ 848	$ 622	$ 848	$ 476

La Colorada	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Production costs[1] ($000s)	$ 11,642	$ 8,660	$ 38,534	$ 31,780
Less silver sales ($000s)	549	219	1,962	1,776
Net cost of sales ($000s)	$ 11,093	$ 8,441	$ 36,572	$ 30,004
Gold ounces sold	13,870	7,330	41,325	35,151
Cash cost per gold ounce sold	$ 800	$ 1,152	$ 885	$ 854

All Mines	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Production costs[1][2] ($000s)	$ 41,460	$ 29,850	$ 133,053	$ 84,959
Less silver sales ($000s)	1,535	1,083	5,484	5,100
Net cost of sales ($000s)	$ 39,925	$ 28,767	$ 127,569	$ 79,859
Gold ounces sold	44,303	33,179	140,729	108,665
Cash cost per gold ounce sold	$ 901	$ 867	$ 906	$ 735

(1) Excludes depreciation, depletion and amortization.

(2) The production costs in the three and nine months ended September 30, 2019 include the impact of non-cash impairment write downs related to work-in-process inventory.

All-in sustaining costs include net cost of sales at the Company's mining operations, which forms the basis of the Company's cash cost per gold ounce sold. Additionally, the Company includes general and administrative, exploration, accretion and other expenses and sustaining capital expenditures. Sustaining capital expenditures exclude all expenditures at the Company's pre-production, development stage and advanced exploration stage projects and certain expenditures at the Company's operating sites that are deemed expansionary in nature. The Company noted the World Gold Council issued amended guidance on all-in sustaining costs during the fourth quarter of 2018. Following the amended guidance, the Company has reallocated certain capital expenditures from expansionary capital to sustaining capital, primarily related to capital stripping and leach pad expansion.

The following table provides a reconciliation of all-in sustaining costs per gold ounce sold to the consolidated financial statements:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018[1]	2019	2018[1]
Net cost of sales ($000s)	$ 39,925	$ 28,767	$ 127,569	$ 79,859
General and administrative expenses ($000s)	3,371	2,707	10,522	9,601
Exploration expenses ($000s)	138	138	444	391
Accretion and other expenses ($000s)	206	50	531	148
Sustaining capital expenditures ($000s)	6,592	2,566	25,317	11,078
All-in sustaining cost ($000s)	$ 50,232	$ 34,228	$ 164,383	$ 101,077
Gold ounces sold	44,303	33,179	140,729	108,665
All-in sustaining cost per gold ounce sold	$ 1,134	$ 1,032	$ 1,168	$ 930

(1) Comparative amounts were restated to follow the amended guidance on all-in sustaining costs issued by the World Gold Council during the fourth quarter of 2018.

Adjusted net income (loss) and adjusted earnings (loss) per share - basic excludes foreign exchange impacts on deferred income taxes, foreign exchange (gains) losses, non-cash impairment write down (reversal) of work-in-process inventory, proceeds from legal proceedings and unrealized (gains) losses on commodity derivatives. The following table provides a reconciliation of adjusted net income (loss) to the consolidated financial statements:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income (loss), as reported ($000s)	$ 4,864	$ (2,686)	$ 14,367	$ 9,924
Impact of foreign exchange on deferred income taxes ($000s)	1,439	(3,197)	(197)	(2,924)
Foreign exchange losses, net of tax ($000s)	1,491	302	329	2,303
Inventory write down (reversal), net of tax ($000s)	(175)	4,580	(3,063)	4,580
Proceeds from legal proceeding, net of tax ($000s)	(405)	-	(405)	-
Unrealized gains on commodity derivatives ($000s)	(692)	-	(692)	-
Adjusted net income (loss) ($000s)	$ 6,522	$ (1,001)	$ 10,339	$ 13,883
Weighted average number of common shares outstanding, as reported	178,561,364	177,795,549	178,279,297	177,692,126
Adjusted earnings (loss) per share - basic	$ 0.04	$ (0.01)	$ 0.06	$ 0.08

Net cash is calculated as the sum of the cash and cash equivalents balance net of debt as at the statement of financial position date. A reconciliation of net cash is provided below:

	September 30, 2019	June 30, 2019	December 31, 2018
Cash and cash equivalents ($000s)	$ 35,555	$ 23,852	$ 15,378
Debt ($000s)	(14,000)	(14,000)	(13,000)
Net cash ($000s)	$ 21,555	$ 9,852	$ 2,378

CAUTIONARY STATEMENT

Readers of this MD&A are encouraged to read the "Risk Factors" as more fully described in the Company's filings with the Canadian Securities Administrators, including its Annual Information Form for the year ended December 31, 2018, available on SEDAR at www.sedar.com. The following, while not exhaustive, are important Risk Factors to consider: Commodity Price Volatility; Uncertainty of Exploration and Development; Uncertainty in the Estimation of Mineral Reserves and Mineral Resources; Permitting Risk; Mineral and Surface Rights; Financing Requirements; The Revolving Credit Facility may present certain risks to the Corporation; Operational Risks; The Corporation may not achieve its Production Estimates; Increase in Production Costs; Uncertainty Relating to Mineral Resources; Environmental Risks and Hazards; Fluctuations in Operating Results can cause Common Share Price Decline; Local Legal, Political and Economic Factors; Changes in Climate Conditions; Unsettled First Nations Rights; Governmental Regulation of the Mining Industry; Foreign Subsidiaries; Operations in Mexico; Use of Ejido Owned Land; Competition for Explorations, Development and Operation Rights; Foreign Currency Exchange Rate Fluctuation; Title to Properties; Safety and Security; Infrastructure; Community Relations; Contractors; Labour and Employment Matters; Work Stoppages or Labour Disputes; Attracting and Retaining Talented Personnel; Contract Renegotiation; Construction and Start-up of New Mines; Volatility of Market for Common Shares; Foreign Private Issuer Status; Internal Control over Financial Reporting; Acquisitions and Integration; Risk Management; Insurance and Uninsured Risks; Dilution Risk; Asset Impairment Charges; Write-downs and Impairments; Exchange Controls; Possible Conflicts of Interest of Directors and Officers of the Corporation; Enforcement of Civil Liabilities in the United States; Cybersecurity Risks; Security and Privacy Breaches; Recent Global Financial Conditions; and Foreign Corrupt Practices and Anti-Bribery Legislation.

This MD&A includes certain "forward-looking information" within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical facts, included in this MD&A that address activities, events, or developments that the Company expects or anticipates will or may occur in the future, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Company's business, operations, plans and other such matters are forward-looking information.

When used in this MD&A, the words "estimate", "plan", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking information. This information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information.

Examples of such forward-looking information include statements pertaining to, without limitation, the future price of gold and silver, the estimation of the mineral reserves and resources, the realization of mineral reserve and resource estimates, the timing and amount of estimated future production at the El Castillo mining complex and La Colorada mine, costs of production (including cash cost per ounce of gold sold, see "Non-IFRS Measures" section), expected capital expenditures, costs and timing of development of new deposits, success of exploration activities, permitting requirements, currency fluctuations, the ability to take advantage of forward sales agreements profitably, the ability to recover property potentially impaired by third party insolvency proceedings, requirements for additional capital, government regulation of mining operations, environmental risks and hazards, title disputes or claims and limitations on insurance coverage.

Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated, or intended. There can be no assurance that such information will prove to be accurate as actual results may differ materially from those anticipated. Many factors are beyond the Company's ability to predict or control.

Readers of this MD&A are cautioned not to put undue reliance on forward-looking information due to its inherent uncertainty. Argonaut disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise, except as and when required by applicable securities laws. This forward-looking information should not be relied upon as representing management's views as of any date subsequent to the date of this MD&A.

TECHNICAL INFORMATION AND QUALIFIED PERSON

The technical information contained in this document has been prepared under the supervision of, and has been reviewed and approved by, Mr. Brian Arkell, Argonaut's Vice President of Exploration, a qualified person as defined by National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101").

For further information on the Company's properties please see the reports as listed below on the Company's website www.argonautgold.com or on www.sedar.com:

El Castillo Complex	NI 43-101 Technical Report on Resources and Reserves, El Castillo Complex, Durango, Mexico dated March 27, 2018 and with an effective date of March 7, 2018
La Colorada Mine	NI 43-101 Technical Report on Resources and Reserves, La Colorada Gold/Silver Mine, Hermosillo, Mexico dated March 27, 2018 and with an effective date of December 8, 2017
Magino Gold Project	Feasibility Study Technical Report on the Magino Project, Ontario, Canada dated December 21, 2017 and with an effective date of November 8, 2017
San Antonio Gold Project	NI 43-101 Technical Report on Resources, San Antonio Project, Baja California Sur, Mexico dated October 10, 2012 and with an effective date of September 1, 2012

Mineral Resources referenced herein are not Mineral Reserves and do not have demonstrated economic viability. Mineral Resource estimates do not account for mineability, selectivity, mining loss and dilution. The Mineral Resource estimates include Inferred Mineral Resources that are normally considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is also no certainty that these Inferred Mineral Resources will be converted to Measured and Indicated categories through further drilling, or into Mineral Reserves, once economic considerations are applied.