



ARGONAUT GOLD

Interim Condensed Consolidated Financial Statements

(Unaudited and expressed in thousands of United States dollars)

For the three and nine months ended September 30, 2018 and 2017

ARGONAUT GOLD INC.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****(Unaudited and expressed in thousands of United States dollars)**

	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 20,560	\$ 14,060
Receivables (Note 4)	19,148	19,449
Inventories (Note 5)	87,146	68,911
Prepaid income tax	718	768
Prepaid expenses and other	2,014	1,034
Foreign exchange derivative assets (Note 14)	23	-
	129,609	104,222
Mineral properties, plant and equipment (Note 6)	573,608	579,395
Deferred income taxes	2,657	5,911
Other assets	494	332
Total assets	\$ 706,368	\$ 689,860
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 31,059	\$ 22,881
Income taxes payable	2,749	758
Foreign exchange derivative liabilities (Note 14)	-	552
	33,808	24,191
Debt (Note 8)	8,000	8,000
Reclamation provision	9,573	9,434
Deferred income taxes	14,769	13,033
Other liabilities	2,582	2,756
Total liabilities	68,732	57,414
SHAREHOLDERS' EQUITY		
Share capital (Note 9(b))	786,197	784,447
Contributed surplus	16,608	16,100
Deficit	(81,420)	(91,344)
Accumulated other comprehensive loss	(83,749)	(76,757)
Total shareholders' equity	637,636	632,446
Total liabilities and shareholders' equity	\$ 706,368	\$ 689,860
Commitments and contingencies (Note 13)		
Events after the reporting period (Note 15)		

The accompanying notes are an integral part of these consolidated financial statements

ARGONAUT GOLD INC.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)****For the three and nine months ended September 30, 2018 and 2017
(Unaudited and expressed in thousands of United States dollars)**

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 41,310	\$ 28,678	\$ 144,427	\$ 115,635
Cost of sales				
Production costs	29,850	20,311	84,959	74,882
Depreciation, depletion and amortization	7,910	4,794	24,554	17,648
Inventory write down (Note 5)	6,868	-	6,868	-
Total cost of sales	44,628	25,105	116,381	92,530
Gross profit (loss)	(3,318)	3,573	28,046	23,105
Exploration expenses	138	118	391	337
General and administrative expenses	2,707	2,662	9,601	8,787
Profit (loss) from operations	(6,163)	793	18,054	13,981
Finance income	10	18	25	147
Finance expenses	(286)	(325)	(889)	(1,003)
Gains on foreign exchange derivatives (Note 14)	159	155	584	2,570
Other income	1,223	12	81	2,956
Income (loss) before income taxes	(5,057)	653	17,855	18,651
Current income tax expense (recovery)	(608)	74	2,941	1,805
Deferred income tax expense (recovery)	(1,763)	139	4,990	(1,819)
Net income (loss) for the period	\$ (2,686)	\$ 440	\$ 9,924	\$ 18,665
Earnings (loss) per share				
Basic and diluted	\$ (0.02)	\$ 0.00	\$ 0.06	\$ 0.11
Weighted average number of common shares outstanding (Note 10)				
Basic	177,795,549	176,980,554	177,692,126	171,821,210
Diluted	177,795,549	178,138,671	179,004,313	172,951,589

The accompanying notes are an integral part of these consolidated financial statements

ARGONAUT GOLD INC.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the three and nine months ended September 30, 2018 and 2017**
(Unaudited and expressed in thousands of United States dollars)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income (loss) for the period	\$ (2,686)	\$ 440	\$ 9,924	\$ 18,665
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to net income (loss)				
Foreign currency translation differences	3,912	9,942	(6,992)	18,496
Comprehensive income for the period	\$ 1,226	\$ 10,382	\$ 2,932	\$ 37,161

The accompanying notes are an integral part of these consolidated financial statements

ARGONAUT GOLD INC.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the three and nine months ended September 30, 2018 and 2017

(Unaudited and expressed in thousands of United States dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Operating activities				
Net income (loss) for the period	\$ (2,686)	\$ 440	\$ 9,924	\$ 18,665
Items not affecting cash:				
Depreciation, depletion and amortization	7,937	4,834	24,652	17,775
(Gain) loss on disposal of mineral properties, plant and equipment	-	29	(228)	(11)
Share-based compensation	633	500	2,076	1,872
Finance income and expense	276	307	864	856
Unrealized foreign exchange (gain) loss	(229)	(359)	377	(610)
Gains on foreign exchange derivatives	(159)	(155)	(584)	(2,570)
Deferred income taxes	(1,763)	139	4,990	(1,819)
Inventory write down (Note 5)	6,868	-	6,868	-
	10,877	5,735	48,939	34,158
Changes in non-cash operating working capital items				
Receivables	490	(1,887)	298	(5,674)
Inventories	(11,474)	474	(22,813)	8,031
Prepaid expenses and other	(315)	(1)	(957)	(715)
Accounts payable and accrued liabilities	8,487	1,935	8,462	1,977
Income taxes	(412)	(145)	3,392	1,862
Changes in other long-term assets	(3)	1	(1)	(7)
Changes in other long-term liabilities	123	364	203	549
Income taxes paid	(87)	(200)	(1,339)	(3,058)
Interest received	10	18	25	147
Net cash provided by operating activities	7,696	6,294	36,209	37,270
Investing activities				
Expenditures on mineral properties, plant and equipment	(9,542)	(26,229)	(29,662)	(64,635)
Proceeds on disposal of mineral properties, plant and equipment	22	10	256	55
Cash consideration paid on property acquisitions (Note 3)	-	-	(120)	(13,000)
Decrease in restricted cash	-	1,628	-	1,628
Net cash used in investing activities	(9,520)	(24,591)	(29,526)	(75,952)
Financing activities				
Proceeds from issuance of common shares, net of share issuance costs (Note 9(b))	-	334	-	32,041
Proceeds from debt	1,000	-	12,000	-
Repayment of debt	(1,000)	-	(12,000)	(916)
Debt financing and transaction costs	(77)	-	(372)	(200)
Proceeds from settlement of derivatives (Note 14)	-	1,141	9	2,165
Interest paid	(144)	(40)	(435)	(138)
Net cash provided by (used in) financing activities	(221)	1,435	(798)	32,952
Effects of exchange rate changes on cash and cash equivalents	(125)	481	615	1,088
Increase (decrease) in cash and cash equivalents	(2,170)	(16,381)	6,500	(4,642)
Cash and cash equivalents, beginning of period	22,730	53,837	14,060	42,098
Cash and cash equivalents, end of period	\$ 20,560	\$ 37,456	\$ 20,560	\$ 37,456

Supplemental cash flow information (Note 11)

The accompanying notes are an integral part of these consolidated financial statements

ARGONAUT GOLD INC.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****For the nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)**

	Nine months ended September 30,	
	2018	2017
Share capital (Note 9(b))		
Balance at the beginning of the period	\$ 784,447	\$ 750,472
Issuance of common shares by way of public offering	-	31,509
Issuance of common shares related to a community agreement	182	-
Stock options exercised	-	805
Restricted shares and restricted share units vested	1,568	1,643
Balance at the end of the period	786,197	784,429
Contributed surplus		
Balance at the beginning of the period	16,100	15,644
Stock options exercised	-	(273)
Restricted shares and restricted share units vested	(1,568)	(1,643)
Share-based compensation	2,076	1,872
Balance at the end of the period	16,608	15,600
Deficit		
Balance at the beginning of the period	(91,344)	(115,196)
Net income for the period	9,924	18,665
Balance at the end of the period	(81,420)	(96,531)
Accumulated other comprehensive loss		
Balance at the beginning of the period	(76,757)	(93,672)
Other comprehensive income (loss)	(6,992)	18,496
Balance at the end of the period	(83,749)	(75,176)
Total shareholders' equity	\$ 637,636	\$ 628,322

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the three and nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)**

1 NATURE OF OPERATIONS

Argonaut Gold Inc. (the “Company” or “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 September 30, 2018, 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.

The registered office of the Company is located at Suite 3400, One First Canadian Place, 100 King Street West, Toronto, Ontario, M5X 1A4, Canada. The head office and principal address of Argonaut Gold (U.S.) Corp., a subsidiary of the Company providing management services, is 9600 Prototype Ct., Reno, Nevada, 89521, USA.

2 BASIS OF PRESENTATION AND CONSOLIDATION

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as applicable to interim financial reports including International Accounting Standard (“IAS”) 34, Interim Financial Reporting. Therefore, these interim condensed consolidated financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”) and included in Part 1 of the Handbook of the Chartered Professional Accountants of Canada.

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those applied in the most recent annual consolidated financial statements unless otherwise noted.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company on November 8, 2018.

a) Amended accounting policies

Due to the modifications in the Company’s share-based payment arrangements in 2018, whereby the Company now grants performance share units (“PSUs” or “PSU”) in addition to stock options and restricted share units (“RSUs” or “RSU”) (see note 9(c)), the Company amended its accounting policies for share-based compensation and earnings per share to the following:

Share-based compensation

The Company grants share-based awards to employees, directors and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as compensation expense and contributed surplus. The fair value of options is determined using the Black-Scholes option pricing model using estimates at the date of the grant. RSUs are recorded at fair value based on the market value of the shares at the grant date. PSUs are subject to certain vesting requirements based on performance criteria over the vesting period established by the Company. PSUs are recorded at fair value as follows: the portion of the PSUs related to market conditions are recorded at fair value based on the application of a Monte Carlo pricing model at the date of grant and the portion related to non-market conditions is fair valued based

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the three and nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)**

on the market value of the shares at the date of grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the statement of income (loss) with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital. When RSUs and PSUs vest, the related share-based compensation expense included in contributed surplus is credited to share capital.

Earnings per share

Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only from the date when all necessary conditions are satisfied. Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty. PSUs are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

Diluted earnings per share is calculated using the weighted average number of common shares outstanding adjusted to include the effects of dilutive common share equivalents such as stock options, RSUs and PSUs. Diluted earnings per share is calculated using the treasury method, whereby proceeds from the exercise of stock options, RSUs and PSUs and the amount of compensation expense measured but not yet recognized in the statement of income (loss), which together form the assumed exercise prices, are assumed to be used to purchase common shares of the Company at the average market price during the period. The number of PSUs included in the diluted earnings per share calculation, if the conditions are not satisfied, is based on the number of shares that would be issuable if the end of the period were the end of the contingency period.

The diluted earnings per share calculation excludes any potential conversion of RSUs, PSUs or stock options that would increase earnings per share. In periods of loss, diluted loss per share is the same as basic loss per share as the effect would be anti-dilutive.

b) **New and amended standards adopted by the Company**

The Company has adopted the following new and amended standards effective January 1, 2018 and as a result changed its accounting policies for them. These changes were made in accordance with the applicable transitional provisions.

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss ("FVTPL"). There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI for liabilities designated as FVTPL.

The Company applied IFRS 9 retrospectively; however, the adoption of IFRS 9 did not require any adjustments to the classification or measurement of the Company's financial assets and financial liabilities. The adoption of the new expected credit loss model under IFRS 9 had a negligible impact on the carrying amounts of our financial assets on the transition

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the three and nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)**

date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

Under IFRS 9, the Company classifies its financial instruments into the following categories:

Financial assets at amortized cost - Assets that are held for the collection of contractual cash flows where those cash flows solely represent payments of principal and interest are measured at amortized cost. The Company classifies cash and cash equivalents and receivables as financial assets at amortized cost. The Company's intent is to hold these financial assets in order to collect contractual cash flows and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVTPL - Financial assets measured at FVTPL are assets that do not qualify as financial assets at amortized cost or fair value through OCI. The Company classifies foreign exchange derivative assets as financial assets at FVTPL. The Company initially recognizes these financial assets at their fair value with subsequent changes to fair values recognized in the statement of income (loss).

Financial liabilities at amortized cost - Financial liabilities are measured at amortized cost unless they are required to be measured at FVTPL. The Company classifies accounts payable and accrued liabilities, debt and other liabilities as financial liabilities at amortized cost.

Financial liabilities at FVTPL - Financial liabilities measured at FVTPL are specific liabilities, including derivatives, which cannot be classified as financial liabilities at amortized cost. The Company classifies foreign exchange derivative liabilities as financial liabilities at FVTPL. The Company initially recognizes these financial liabilities at their fair value with subsequent changes to fair values recognized in the statement of income (loss).

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. Under IFRS 15, revenue is recognized upon transfer of control over goods or services to the customer. The recognition of revenue upon transfer of control to the customer is consistent with the Company's revenue recognition policy as set out in note 2(1) of the annual consolidated financial statements for the year ended December 31, 2017, as the condition is generally satisfied when title transfers to the customer. The Company elected to apply IFRS 15 using a modified retrospective approach; however, the adoption of IFRS 15 resulted in no impact on the financial statements of the Company, as the timing of revenue recognition was unchanged.

c) Recent accounting pronouncements

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 16, Leases ("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 standard is effective for annual periods beginning on or after January 1, 2019. The Company currently expects to use the modified retrospective approach, with the cumulative impact of applying IFRS 16 recognized at January 1, 2019. The Company expects IFRS 16 will result in the recognition of additional assets and liabilities in the statement of financial position and

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the three and nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)**

a corresponding increase in depreciation, depletion and amortization and finance expenses and a decrease in production costs. The Company also expects cash flows from operating activities to increase under IFRS 16 as lease payments will be recorded as financing outflows in the statement of cash flows. The Company has identified and collected data relating to existing agreements and is reviewing this information to identify which agreements are in scope for IFRS 16. The magnitude of the impacts of adopting IFRS 16 have not yet been determined. The Company expects to report more detailed information, including estimated quantitative financial impacts, if material, in the annual consolidated financial statements for the year ended December 31, 2018.

There are no other 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.

d) Significant 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, 2017.

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, 2018, management of the Company determined the continued weakness in the Company's share price during 2018, 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, 2017. Management's impairment evaluation did not result in the identification or reversal of an impairment loss as at September 30, 2018.

Work-in-process inventory / Production costs

The Company's management makes estimates of the amount 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 tonne mined, rock density, grams of gold per tonne, expected recovery rate based on the type of ore placed on the leach pads, and assays of solutions and gold on carbon, among others.

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)**

3 PROPERTY ACQUISITIONS

- a) On November 24, 2017, the Company completed the acquisition of the Cerro del Gallo project through the purchase of all the issued and outstanding shares of San Anton Resource Corporation, a wholly-owned subsidiary of Primero Mining Corp. ("Primero") for total consideration of \$15,194. Cash of \$15,000 was paid to Primero on closing. The transaction was accounted for as an asset acquisition. The purchase consideration was as follows:

Cash consideration	\$	15,000
Transaction costs		194
Consideration given	\$	15,194

The allocation of the purchase price to the assets acquired and liabilities assumed was based upon estimated fair values at the date of acquisition as set out below:

Cash and cash equivalents	\$	131
Mexican value added tax receivable		1,540
Prepaid expenses and other		12
Mineral properties, plant and equipment		13,514
Accounts payable and accrued liabilities		(3)
Net assets acquired	\$	15,194

- b) On February 23, 2017, the Company acquired the San Juan mineral concession adjacent to the El Castillo mine from a wholly-owned subsidiary of Fresnillo plc ("El Aguila") pursuant to a purchase and sale agreement dated February 23, 2017 between El Aguila and Minera Real del Oro S.A. de C.V., a wholly-owned subsidiary of Argonaut, for total consideration of \$25,490. Cash of \$13,000, plus 16% value added tax ("VAT"), was paid at the execution of the agreement. Additionally, deferred cash consideration of \$13,000, plus 16% VAT, was paid on December 15, 2017. At the date of acquisition, an amount of \$12,490 was included in the purchase price, representing the estimated net present value of the deferred cash consideration. Accretion of the deferred cash consideration from date of acquisition to December 15, 2017 was included in finance expenses. The transaction has been accounted for as an asset acquisition. The purchase price has been allocated to mineral properties based upon the estimated fair value of the assets acquired at the date of acquisition.

4 RECEIVABLES

	September 30, 2018	December 31, 2017
Mexican value added tax receivable	\$ 18,893	\$ 19,179
Due from customer	-	196
Other receivables	255	74
	\$ 19,148	\$ 19,449

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)**

5 INVENTORIES

	September 30, 2018	December 31, 2017
Supplies	\$ 10,776	\$ 8,854
Work-in-process	76,226	59,720
Finished goods	144	337
	<u>\$ 87,146</u>	<u>\$ 68,911</u>

Cost of inventories recognized as expense in cost of sales for the three and nine months ended September 30, 2018 totalled \$44,628 and \$116,381, respectively (three and nine months ended September 30, 2017 - \$25,105 and \$92,530, respectively). During the three and nine months ended September 30, 2018, the Company recorded a non-cash impairment write down of \$4,346 at the El Castillo mine and \$2,522 at the La Colorada mine related to the net realizable value of the work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018. The write downs have been presented in a separate component of cost of sales in the statement of income (loss).

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)**

6 MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Mineral properties ⁽¹⁾	Exploration and evaluation assets	Plant and equipment ⁽¹⁾	Total ⁽²⁾
Cost				
Balance at January 1, 2018	\$ 474,033	\$ 384,166	\$ 139,202	\$ 997,401
Additions	18,846	5,100	5,417	29,363
Disposals	-	(62)	(742)	(804)
Adjustment on currency translation	-	(7,987)	(1)	(7,988)
Balance at September 30, 2018	492,879	381,217	143,876	1,017,972
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2018	319,012	-	98,994	418,006
Additions	21,775	-	5,297	27,072
Disposals	-	-	(714)	(714)
Balance at September 30, 2018	340,787	-	103,577	444,364
Net book value at September 30, 2018	\$ 152,092	\$ 381,217	\$ 40,299	\$ 573,608
Cost				
Balance at January 1, 2017	\$ 413,009	\$ 345,114	\$ 117,845	\$ 875,968
Acquisitions (Note 3)	25,490	13,431	83	39,004
Additions	35,534	8,980	24,050	68,564
Disposals	-	-	(2,834)	(2,834)
Adjustment on currency translation	-	16,641	58	16,699
Balance at December 31, 2017	474,033	384,166	139,202	997,401
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2017	297,408	-	94,466	391,874
Additions	21,604	-	6,764	28,368
Disposals	-	-	(2,236)	(2,236)
Balance at December 31, 2017	319,012	-	98,994	418,006
Net book value at December 31, 2017	\$ 155,021	\$ 384,166	\$ 40,208	\$ 579,395

⁽¹⁾As at September 30, 2018, plant and equipment includes \$534 and mineral properties includes \$4,588 of assets under construction primarily related to the El Castillo mining complex (December 31, 2017 - \$1,754 and \$1,575, respectively, primarily related to the El Castillo mining complex), which were not subject to depreciation and depletion at the statement of financial position date.

⁽²⁾Certain mineral properties, plant and equipment are held as security on the Company's revolving credit facility (see note 8).

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)**

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2018	December 31, 2017
Trade accounts payable	\$ 21,895	\$ 14,351
Accrued liabilities	9,164	8,530
	\$ 31,059	\$ 22,881

8 DEBT

In February 2018, the Company entered into an amended and restated credit agreement (the “Amended Revolving Facility” or “ARF”) with a syndicate of Canadian banks for an aggregate amount of \$50,000, representing a \$20,000 increase from the principal amount of \$30,000 under the original revolving credit facility. The ARF encompasses an extension of maturity through March 31, 2021 and a \$25,000 accordion feature, providing for total availability of up to \$75,000. The ARF is subject to eight commitment reductions of \$3,125 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. The ARF 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 Company incurred transaction costs and upfront fees on closing of the original and amended revolving credit facility, which are being amortized over the term of the revolving credit facility. The ARF 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, 2018, the Company was in compliance with these covenants.

As at September 30, 2018 and December 31, 2017, the Company had utilized \$8,000 of the revolving credit facility.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2018 and 2017

(Unaudited and expressed in thousands of United States dollars)

9 SHAREHOLDERS' EQUITY

- (a) Authorized share capital: Unlimited common shares without par value
- (b) Issued and outstanding share capital

	Number of shares	Amount
Balance at January 1, 2017	158,163,137	\$ 750,472
Issuance of common shares by way of public offering	18,750,000	31,509
Restricted share units issued to directors	87,915	164
Restricted shares issued to employees - vested ⁽¹⁾	-	1,448
Restricted share units issued to employees - vested	19,899	42
Stock options exercised (Note 9(c))	479,676	812
Forfeiture of restricted shares previously issued to employees (Note 9(c))	(272,854)	-
Balance at December 31, 2017	177,227,773	784,447
Issuance of common shares related to a community agreement	100,000	182
Restricted share units issued to directors	131,594	258
Restricted shares issued to employees - vested ⁽¹⁾	-	637
Restricted share units issued to employees - vested	340,391	673
Balance at September 30, 2018	177,799,758	\$ 786,197

⁽¹⁾ During the nine months ended September 30, 2018, 445,095 restricted shares granted to employees vested (year ended December 31, 2017 - 889,668). All of these restricted shares were issued in prior years.

Public offering

In February 2017, the Company entered into an agreement with a syndicate of underwriters, under which the underwriters agreed to buy on a bought deal basis 16,700,000 common shares of the Company at a price of CA\$2.40 (CA\$ represents Canadian dollars) per share for gross proceeds of \$29,771 (CA\$40,080). The Company granted the underwriters an option, exercisable at the offering price for a period of 30 days following the closing of the offering, to purchase up to an additional 15% of the offering to cover over-allotments, if any. The initial offering closed on March 15, 2017. On March 21, 2017, the syndicate of underwriters partially exercised the over-allotment option to acquire an additional 2,050,000 common shares of the Company at a price of CA\$2.40 per share for additional gross proceeds of \$3,686 (CA\$4,920). After general offering costs and a 5% underwriting fee, the net proceeds to the Company totaled \$31,509.

- (c) Share-based compensation

The Company has established the Share Incentive Plan, as amended, which was adopted by the Board of Directors on February 12, 2010, was approved by shareholders in 2010 and was re-approved by shareholders on May 1, 2018. The Share Incentive Plan provides that the maximum number of common shares available to be granted by the Board of Directors as stock options, restricted shares, RSUs, PSUs and any other share-based compensation arrangements is 7.25% of the total common shares issued and outstanding.

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Stock options

Stock options are granted to directors, selected employees and consultants. The options vest one-third per year for three years and have a contractual option term of ten years. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The following table summarizes information relating to stock options outstanding and exercisable at September 30, 2018:

Exercise price per share (CA\$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)	Options exercisable	Weighted average exercise price (CA\$)
\$ 1.10 - 1.31	1,424,432	7.36	\$ 1.10	949,617	\$ 1.10
1.32 - 2.48	897,009	8.29	2.42	320,666	2.38
2.49 - 4.00	892,085	6.51	2.67	693,989	2.70
4.01 - 7.00	395,967	4.50	4.72	395,967	4.72
7.01 - 10.35	454,307	4.11	8.74	454,307	8.74
\$ 1.10 - 10.35	4,063,800	6.74	\$ 2.94	2,814,546	\$ 3.38

The following table summarizes stock option activity for the Company:

	Options	Weighted average exercise price (CA\$)
Outstanding at January 1, 2017	4,612,579	\$ 3.13
Granted	904,799	2.45
Exercised	(479,676)	1.42
Forfeited	(1,120,717)	3.91
Outstanding at December 31, 2017	3,916,985	2.96
Granted	151,815	2.49
Forfeited	(5,000)	5.58
Outstanding at September 30, 2018	4,063,800	\$ 2.94

The weighted average share price at the time of exercise for the year ended December 31, 2017 was CA\$2.55 per share. The total share-based compensation expense related to stock options granted by the Company for the three and nine months ended September 30, 2018 was \$121 and \$395, respectively (three and nine months ended September 30, 2017 - \$218 and \$630, respectively). As at September 30, 2018, there was \$304 of unamortized stock-based compensation expense related to stock options granted (December 31, 2017 - \$494).

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The following weighted average assumptions were used in computing the fair value of stock options granted during the nine months ended September 30:

		2018		2017
Weighted average share price	CA\$	2.49	CA\$	2.45
Expected dividend yield		Nil		Nil
Expected volatility		68.3%		64.0%
Risk-free interest rate		2.1%		1.2%
Estimated forfeiture rate		8.0%		8.2%
Expected life		5 years		6 years
Weighted average fair value per stock option granted	CA\$	1.44	CA\$	1.43

The Company uses its historical volatility as the basis for the expected volatility assumption in the Black-Scholes option pricing model.

Restricted shares and restricted share units

The following table summarizes the restricted share and RSU activity for the Company:

	Restricted shares and RSUs	Weighted average fair value (CA\$)
Outstanding at January 1, 2017	1,933,533	\$ 1.62
Granted ⁽¹⁾	751,355	2.45
Vested ⁽²⁾	(997,482)	1.91
Forfeited ⁽³⁾	(299,584)	1.39
Outstanding at December 31, 2017	1,387,822	1.91
Granted ⁽¹⁾	1,143,511	2.50
Vested ⁽²⁾	(917,080)	2.07
Forfeited ⁽³⁾	(3,413)	2.48
Outstanding at September 30, 2018	1,610,840	\$ 2.24

⁽¹⁾ The RSUs granted during the nine months ended September 30, 2018 includes 1,011,917 RSUs granted to employees that will be issued once the shares vest according to the terms below (year ended December 31, 2017 - 663,440).

⁽²⁾ The restricted shares and RSUs vested during the nine months ended September 30, 2018 includes 445,095 restricted shares granted to employees (year ended December 31, 2017 - 889,668), 340,391 RSUs granted to employees (year ended December 31, 2017 - 19,899), and 131,594 RSUs granted to directors (year ended December 31, 2017 - 87,915).

⁽³⁾ The restricted shares and RSUs forfeited during the nine months ended September 30, 2018 includes 3,413 RSUs (year ended December 31, 2017 - 26,730).

RSUs granted to directors are immediately vested and are restricted for the shorter of two years after the grant date or six months after a director retires from the board. RSUs granted to employees vest one-third per year for three years. The references to outstanding restricted shares and RSUs in the above table refer to restricted shares and RSUs granted but not yet vested. The total share-based compensation expense related to restricted shares and RSUs for the three and nine months ended September 30, 2018 was \$378 and \$1,347, respectively (three and nine months ended September 30, 2017 - \$282 and \$1,242, respectively). As at September 30, 2018, there was \$1,183 of unamortized stock-based compensation expense

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related to restricted shares and RSUs (December 31, 2017 - \$633).

Performance share units

The following table summarizes the PSU activity for the Company:

	PSUs	Weighted average fair value (CA\$)
Outstanding at January 1, 2018	-	\$ -
Granted	776,668	3.07
Outstanding at September 30, 2018	776,668	\$ 3.07

The PSUs are subject to certain vesting requirements and vest at the end of three years. The vesting requirements are based on certain performance criteria over the vesting period established by the Company. The number of units that vest is determined by multiplying the number of units granted to the participant by an adjustment factor, which ranges from 0 to 2.0. The total share-based compensation expense related to PSUs for the three and nine months ended September 30, 2018 was \$134 and \$334, respectively (three and nine months ended September 30, 2017 - nil). As at September 30, 2018, there was \$1,213 of unamortized stock-based compensation expense related to PSUs (December 31, 2017 - nil).

10 SHARES OUTSTANDING

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Basic weighted average shares outstanding	177,795,549	176,980,554	177,692,126	171,821,210
Weighted average shares dilution adjustments: ⁽¹⁾⁽²⁾				
Stock options	-	844,296	732,354	885,836
Restricted share units	-	313,821	579,833	244,543
Diluted weighted average shares outstanding	177,795,549	178,138,671	179,004,313	172,951,589

⁽¹⁾ Impact of dilutive stock options and other share-based compensation arrangements was determined using the Company's average share price for the nine months ended September 30, 2018 of CA\$2.28 (three and nine months ended September 30, 2017 - CA\$2.45 and CA\$2.36, respectively). During the nine months ended September 30, 2018 and the three and nine months ended September 30, 2017, certain stock options and other share-based compensation arrangements were excluded from the calculation of diluted earnings per share due to the assumed exercise prices being greater than the average market price.

⁽²⁾ As a result of the net loss incurred during the three months ended September 30, 2018, stock options and other share-based compensation arrangements have been excluded from the calculation of diluted loss per share as they were anti-dilutive.

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11 SUPPLEMENTAL CASH FLOW INFORMATION

The significant non-cash investing and financing transactions during the period are as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Mineral property addition for change in estimate of reclamation provision	\$ -	\$ (413)	\$ -	\$ (1,237)
Increase (decrease) in expenditures on mineral properties, plant and equipment related to a decrease (increase) in accounts payable and accrued liabilities	\$ 599	\$ 437	\$ 670	\$ (53)
Mineral property acquired for deferred cash consideration	\$ -	\$ -	\$ -	\$ (12,486)
Fair value of common shares issued related to a community agreement capitalized as mineral property additions	\$ -	\$ -	\$ 182	\$ -
Fair value of restricted shares and restricted share units allocated from contributed surplus to share capital upon issuance	\$ 19	\$ 9	\$ 1,568	\$ 1,643

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2018 and 2017****(Unaudited and expressed in thousands of United States dollars)****12 SEGMENT INFORMATION**

Operating segments are those operations whose operating results are reviewed by the chief operating decision maker (the Chief Executive Officer) to make decisions about resources to be allocated to the segments and assess their performance, provided those operations pass certain quantitative thresholds. In order to determine if operating segments shall be aggregated, management reviews various factors, including economic characteristics, nature of their products, production process, regulatory environment, geographical location and managerial structure. After aggregation criteria have been considered, operations whose revenues, earnings or assets exceed 10% of the total consolidated revenues, earnings or assets are considered to be reportable segments. Early-stage exploration and other operations, including Cerro del Gallo, are reported in the Corporate and other segment. The producing El Castillo and San Agustin mines have been aggregated into the El Castillo mining complex reportable segment. The Company operates in the mining industry and its principal product is gold. During the nine months ended September 30, 2018 and 2017, sales were to three customers. The Company's revenue is generated on the sale of product originating from Mexico. The Company's mineral properties are located in Canada (Magino) and Mexico (El Castillo mining complex, La Colorada, and San Antonio). The following tables summarize segment information of the Company:

	El Castillo mining complex	La Colorada	San Antonio	Magino	Corporate and other	Total
Three months ended September 30, 2018						
Revenue	\$ 32,148	\$ 9,162	\$ -	\$ -	\$ -	\$ 41,310
Production costs	21,190	8,660	-	-	-	29,850
Depreciation, depletion and amortization	6,605	1,305	-	-	-	7,910
Inventory write down	4,346	2,522	-	-	-	6,868
Total cost of sales	32,141	12,487	-	-	-	44,628
Gross profit (loss)	7	(3,325)	-	-	-	(3,318)
Exploration expenses	-	138	-	-	-	138
General and administrative expenses	569	384	-	-	1,754	2,707
Loss from operations	\$ (562)	\$ (3,847)	\$ -	\$ -	\$ (1,754)	\$ (6,163)
Capital expenditures	\$ 6,090	\$ 546	\$ 540	\$ 758	\$ 1,352	\$ 9,286
Nine months ended September 30, 2018						
Revenue	\$ 97,141	\$ 47,286	\$ -	\$ -	\$ -	\$ 144,427
Production costs	53,179	31,780	-	-	-	84,959
Depreciation, depletion and amortization	17,946	6,608	-	-	-	24,554
Inventory write down	4,346	2,522	-	-	-	6,868
Total cost of sales	75,471	40,910	-	-	-	116,381
Gross profit	21,670	6,376	-	-	-	28,046
Exploration expenses	-	391	-	-	-	391
General and administrative expenses	1,679	1,254	-	-	6,668	9,601
Income (loss) from operations	\$ 19,991	\$ 4,731	\$ -	\$ -	\$ (6,668)	\$ 18,054
Capital expenditures	\$ 18,051	\$ 4,187	\$ 1,135	\$ 2,612	\$ 3,378	\$ 29,363
September 30, 2018						
Mineral properties, plant and equipment	\$ 142,403	\$ 38,888	\$ 113,559	\$ 252,692	\$ 26,066	\$ 573,608
Total assets	\$ 240,488	\$ 61,911	\$ 114,018	\$ 252,993	\$ 36,958	\$ 706,368

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	El Castillo mining complex	La Colorada	San Antonio	Magino	Corporate and other	Total
Three months ended September 30, 2017						
Revenue	\$ 15,656	\$ 13,022	\$ -	\$ -	\$ -	\$ 28,678
Production costs	11,714	8,597	-	-	-	20,311
Depreciation, depletion and amortization	1,484	3,310	-	-	-	4,794
Total cost of sales	13,198	11,907	-	-	-	25,105
Gross profit	2,458	1,115	-	-	-	3,573
Exploration expenses	-	115	-	-	3	118
General and administrative expenses	595	209	-	-	1,858	2,662
Income (loss) from operations	\$ 1,863	\$ 791	\$ -	\$ -	\$ (1,861)	\$ 793
Capital expenditures	\$ 18,651	\$ 4,386	\$ 302	\$ 2,927	\$ 893	\$ 27,159
Nine months ended September 30, 2017						
Revenue	\$ 67,340	\$ 48,295	\$ -	\$ -	\$ -	\$ 115,635
Production costs	48,733	26,149	-	-	-	74,882
Depreciation, depletion and amortization	6,251	11,397	-	-	-	17,648
Total cost of sales	54,984	37,546	-	-	-	92,530
Gross profit	12,356	10,749	-	-	-	23,105
Exploration expenses	-	311	-	17	9	337
General and administrative expenses	1,378	955	-	-	6,454	8,787
Income (loss) from operations	\$ 10,978	\$ 9,483	\$ -	\$ (17)	\$ (6,463)	\$ 13,981
Capital expenditures	\$ 66,234	\$ 15,306	\$ 1,215	\$ 6,385	\$ 2,259	\$ 91,399
December 31, 2017						
Mineral properties, plant and equipment	\$ 144,285	\$ 39,859	\$ 112,424	\$ 258,063	\$ 24,764	\$ 579,395
Total assets	\$ 213,143	\$ 68,911	\$ 112,759	\$ 258,665	\$ 36,382	\$ 689,860

13 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.

14 FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, receivables, foreign exchange derivative assets, accounts payable and accrued liabilities, debt, other liabilities and foreign exchange derivative liabilities.

The fair value hierarchy that reflects the significance of the inputs used in making the measurements has the following levels:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as

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prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The following table shows the carrying amounts of financial assets and financial liabilities by category:

	September 30, 2018	December 31, 2017
Financial assets at amortized cost ⁽¹⁾	\$ 20,782	\$ 14,263
Financial assets at FVTPL ⁽²⁾	\$ 23	\$ -
Financial liabilities at amortized cost ⁽³⁾	\$ (39,685)	\$ (31,944)
Financial liabilities at FVTPL ⁽⁴⁾	\$ -	\$ (552)

⁽¹⁾ Financial assets at amortized cost include cash and cash equivalents and receivables.

⁽²⁾ Financial assets at FVTPL include foreign exchange derivative assets.

⁽³⁾ Financial liabilities at amortized cost include accounts payable and accrued liabilities, debt and other liabilities.

⁽⁴⁾ Financial liabilities at FVTPL include foreign exchange derivative liabilities.

As at September 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, the carrying amounts of other liabilities and debt are considered to be reasonable approximations of their fair values as there have been no significant changes in market interest rates since inception.

Foreign exchange derivative contracts

On January 20, 2017 (referred to as the “2017 foreign exchange contracts”) and on September 25 and December 28, 2017 (together referred to as the “2018 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 were as follows:

2017 foreign exchange contracts at inception	Amount	Term	Average strike price
Foreign exchange call options - purchased	\$ 30,000	February 2017 - November 2017	20.00 Mexican pesos per US dollar
Foreign exchange put options - sold	\$ 30,000	February 2017 - November 2017	24.58 Mexican pesos per US dollar

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

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The resulting fair values of the outstanding contracts at September 30, 2018 have been recognized, on a net basis, in foreign exchange derivative assets on the statement of financial position. 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,	
	2018	2017	2018	2017
<u>2017 foreign exchange contracts</u>				
Unrealized gains	\$ -	\$ 14	\$ -	\$ 1,694
Reversal of unrealized gains from prior period	-	(857)	-	(1,146)
Realized gains	-	1,141	-	2,165
<u>2018 foreign exchange contracts</u>				
Unrealized gains (losses)	123	(143)	593	(143)
Reversal of unrealized (gains) losses from prior period	36	-	(18)	-
Realized gains	-	-	9	-
Net gains on foreign exchange derivatives	\$ 159	\$ 155	\$ 584	\$ 2,570

15 EVENTS AFTER THE REPORTING PERIOD

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 in the United States Bankruptcy Court for the Southern District of New York. Republic processes material from certain of the Company's properties, including currently approximately 4,600 ounces of gold delivered in late October to Republic. The Company has engaged counsel to protect its rights and materials in Republic's bankruptcy case.