



ARGONAUT GOLD

**ARGONAUT GOLD INC.**

ANNUAL INFORMATION FORM

For the Financial Year Ended December 31, 2014

March 11, 2015

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## CAUTIONARY STATEMENT

This Annual Information Form ("AIF") includes certain "forward-looking information" within the meaning of applicable Canadian securities legislation. All information, other than statements of historical facts, included in this AIF that address activities, events or developments that the Corporation 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 Corporation's businesses, operations, plans and other such matters are forward-looking information.

When used in this AIF, 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 Corporation 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 information pertaining to, without limitation, the future price of gold, the market and global demand for gold, the estimation of the mineral reserves and resources, the realization of mineral reserve and resource estimates, the timing and amount of estimated future production (including production forecasts for the El Castillo Mine and La Colorada Mine), costs of production, expansion of production capabilities at the El Castillo Mine and La Colorada Mine, the possibility of expanding the El Castillo Mine pit further into known mineralization, expected capital expenditures, costs and timing of development of new deposits, success of exploration activities, permitting risk in development projects, the ability to obtain surface rights to support planned infrastructure at the Corporation's exploration and development projects, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks and hazards, title disputes or claims and limitations on insurance coverage.

Although the Corporation 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 developments or events could cause results to differ materially from those anticipated. These include, among others, the factors described or referred to elsewhere herein, and include unanticipated and/or unusual events. Many of such factors are beyond the Corporation's ability to predict or control.

Readers of this AIF are cautioned not to put undue reliance on forward-looking information due to its inherent uncertainty. Argonaut Gold Inc. disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. This forward-looking information should not be relied upon as representing management's views as of any date subsequent to the date of this AIF.

## TECHNICAL INFORMATION

The scientific and technical information contained in this AIF relating to Argonaut's mineral projects indicated herein is supported by the technical reports indicated below.

- "NI 43-101 Technical Report on Resources and Reserves, Argonaut Gold Inc., El Castillo Mine, Durango State, Mexico", dated February 24, 2011 (effective date of November 6, 2010), prepared by Bart Stryhas, C.P.G., Ph.D., Bret C. Swanson, BE Mining, MAusIMM, and Eric Olin, MAusIMM of SRK Consulting (U.S.) Inc. ("SRK") (the "El Castillo Technical Report").
- "NI 43-101 Preliminary Economic Assessment La Colorada Project Sonora Mexico", dated December 30, 2011 (effective date of October 15, 2011), prepared by Bart Stryhas, Ph.D., C.P.G., Bret Swanson, BE Mining, MMSA and Mark Allan Willow, M. Sc., C.E.M. of SRK Consulting (U.S.), Inc. and Richard J. Taylor, P.E. of Kappes, Cassidy & Associates (the "La Colorada Technical Report").
- "Preliminary Resource Estimation, Veta Madre Deposit, La Colorada Project, Sonora, Mexico" (Report date December 14, 2012). Report prepared by Bart Stryhas, Ph.D., C.P.G., Bret Swanson, BE Mining, MMSA, Alberto Orozco, Argonaut Gold Inc. and Richard J. Taylor, P.E., Kappes, Cassidy & Associates.
- "NI 43-101 Technical Report on Resources, San Antonio Project", dated October 10, 2012 (effective date of

September 1, 2012), prepared by Leah Mach, M.Sc. Geology, CPG, and Mark Willow, M.Sc., C.E.M. of SRK Consulting (U.S.) Inc., Richard Rhoades, P.E., of Argonaut Gold Inc., and Carl Defilippi, M.Sc. C.E.M., SME of Kappes, Cassidy & Associates.

- “Preliminary Feasibility Study Technical Report for the Magino Project, Wawa, Ontario, Canada” dated January 30, 2014 (effective date of December 17, 2013), prepared by Mr. Gord Doerksen, P.Eng. JDS Energy & Mining Inc., Mr. Dino Pilotto, P.Eng. JDS Energy & Mining Inc., Mr. Richard Boehnke, P.Eng. JDS Energy & Mining Inc., Mr. Matt Bender, PE JDS Energy & Mining Inc., Dr. Khosrow Aref, P.Eng. Rockland Ltd., Mr. Garth Kirkham, P.Geo. Kirkham Geosystems Inc., Dr. Ian Hutchison, PE SLR Consulting Ltd. and Mr. Larry Buter, MMSA QP LJB Mineral Services LLC.
- “Technical Report and Preliminary Economic Assessment San Agustin Heap Leach Project”, dated February 19, 2015 (effective date of Resources October 3, 2014) prepared by Carl E. Defilippi, SME Registered Member and Michael J. Lechner, P. Geo.

The technical reports referred to above are subject to certain assumptions, qualifications and procedures described therein. Reference should be made to the full text of the technical reports, which have been filed with Canadian securities regulatory authorities pursuant to National Instrument 43-101 – Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators (“NI 43-101”) and are available for review under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com). The technical reports are not and shall not be deemed to be incorporated by reference in this AIF.

Where appropriate, certain information contained in this AIF updates information derived from such technical reports. Any updates to the technical information derived from such technical reports and any other technical information contained in this AIF was prepared by or under the supervision of Thomas Burkhart, Vice President of Exploration of the Corporation. Thomas Burkhart is a “qualified person” for the purposes of NI 43-101.

#### EXCHANGE RATE INFORMATION

In this AIF, unless otherwise stated, all references to “\$” refer to U.S. dollars, all references to “CA\$” refer to Canadian dollars and all references to “MXN\$” refer to Mexican pesos.

The following table sets forth, for the periods indicated, certain information with respect to exchange rates for the Canadian dollar expressed in U.S. dollars such as the highest rate, lowest rate and the exchange rate at the end of each period and the average of such exchange rates based upon the noon buying rates as reported by the Bank of Canada:

	<b>Year ended December 31</b>		
	(\$)		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
High.....	0.9422	1.0164	1.0299
Low.....	0.8589	0.9348	0.9599
Period End.....	0.8620	0.9402	1.0051
Average.....	0.9054	0.9710	1.0004

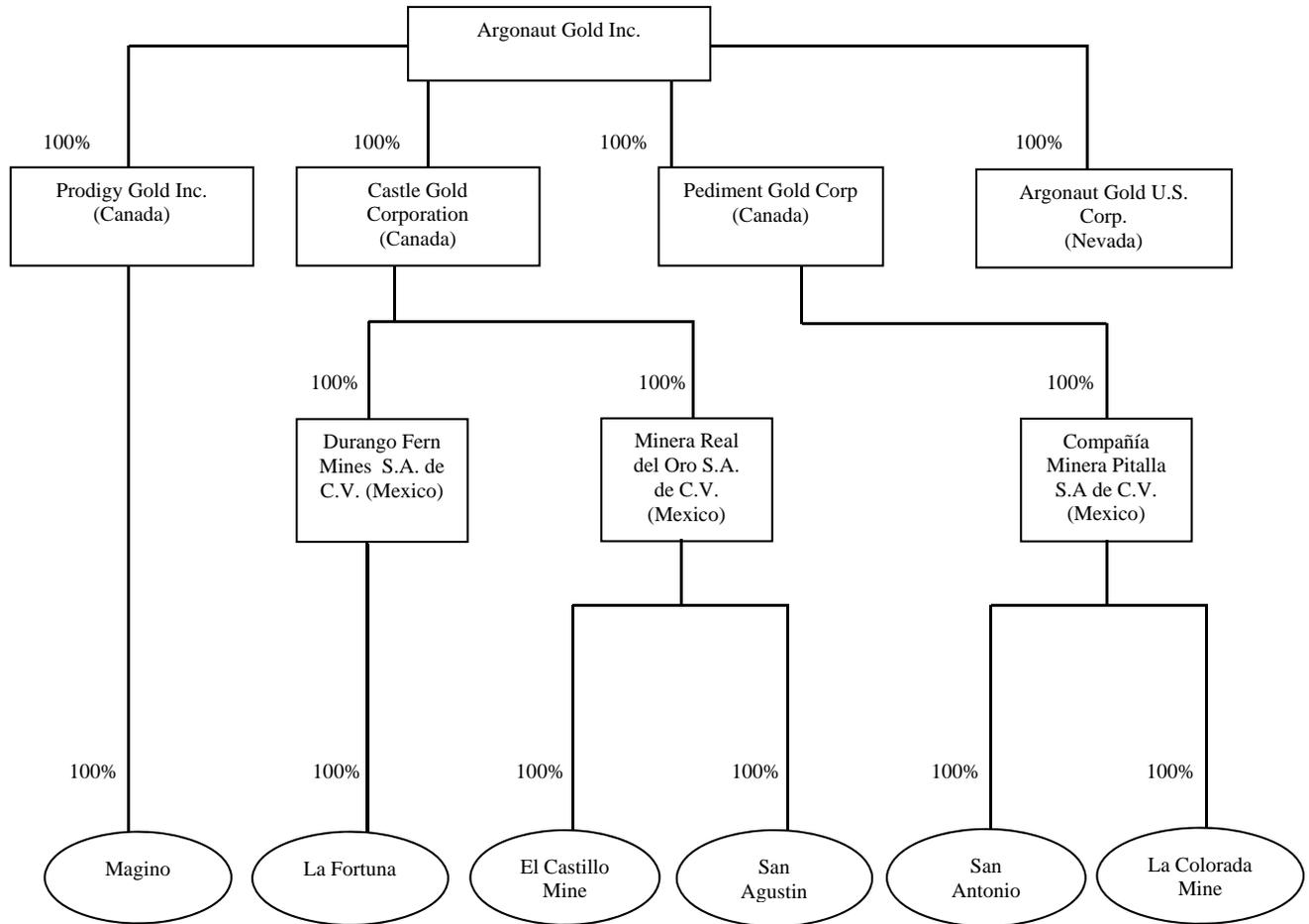
The following table sets forth, for the periods indicated, certain information with respect to exchange rates for the Mexican peso expressed in pesos per U.S. dollar such as the highest rate, lowest rate and the exchange rate at the end of each period and the average of such exchange rates based upon the 9:00am buying rates as reported by the Banco de Mexico:

	<b>Year ended December 31</b>		
	(\$)		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
High.....	14.8475	13.4330	14.4000
Low.....	12.8410	11.9780	12.6250
Period End.....	14.7315	13.0650	12.9963
Average.....	13.2986	12.7664	13.1664

## CORPORATION PROFILE AND CORPORATE STRUCTURE

Argonaut Gold Inc. ("Argonaut", "AGI" or the "Corporation") is a corporation existing under the *Business Corporations Act* (Ontario) (the "OBCA"). The registered office of the Corporation is 3400 One First Canadian Place, Toronto, ON, Canada, M5K 1A4. The corporate office of the Corporation is 9600 Prototype Court, Reno, NV, USA 89521. As at March 11, 2015, the corporate structure of Argonaut Gold Inc. was as follows:

**Figure 1:**



## GENERAL DEVELOPMENT OF THE BUSINESS

Argonaut is engaged in the business of gold production and related activities including the exploration, development and acquisition of gold-bearing properties. The Corporation's material properties are the production-stage El Castillo Mine (the "El Castillo Mine") located in the State of Durango, Mexico, and the production-stage La Colorada Mine (the "La Colorada Mine") in the State of Sonora, Mexico. Other material properties include the advanced exploration stage property San Antonio (the "San Antonio Project") in the State of Baja California Sur, Mexico, the advanced exploration stage San Agustín Project in the State of Durango, Mexico and advanced exploration stage Magino (the "Magino Gold Project") in the province of Ontario, Canada.

## **THREE YEAR HISTORY**

The following is a summary of the key developments over the past three years.

### **2012**

On December 11, 2012, the Corporation completed the acquisition of Prodigy Gold Inc. ("Prodigy" or "Prodigy Gold"). Pursuant to the Prodigy Gold arrangement ("Prodigy Arrangement"), Argonaut acquired all of the issued and outstanding common shares of Prodigy ("Prodigy Shares") on a basis of 0.1042 of a Common Share of Argonaut for each (1) Prodigy Share and \$0.0001 in cash per Prodigy Share. Argonaut also converted all outstanding Prodigy stock options and warrants to Argonaut stock options and warrants at the same ratio. Argonaut issued approximately 30.8 million Common Shares in exchange for the approximately 295.4 million Prodigy Shares issued and outstanding, and converted the outstanding Prodigy stock options and warrants into approximately 1.7 million Argonaut options and warrants. The aggregate equity consideration paid by Argonaut has an estimated fair value of approximately \$311 million under the assumptions used in the Black-Scholes option pricing model for the Argonaut options issued. The Prodigy Arrangement added the Magino Gold Project to the existing property portfolio of Argonaut. On January 14, 2013, the Corporation filed a Form 51-102F4 "Business Acquisition Report" in respect of the Prodigy Arrangement.

### **2013**

On October 16, 2013 the Corporation announced that it entered into a surface and mining rights exchange agreement with Richmond Mines Inc. ("Richmont"). Pursuant to this agreement, Argonaut will expand land access associated with its Magino Gold Project by obtaining both surface rights and mining rights up to 400 metres in depth on certain Richmont claims surrounding the project. Argonaut will transfer its interest in certain claims to Richmont, to enable it to expand its exploration potential at its Island Gold Deep project. The terms of this agreement provide a CA\$2 million payment from Argonaut to Richmont.

On April 15, 2013 W. Robert Rose was hired on as Vice President of Technical Services of the Corporation. On November 14, 2013 Barry Dahl resigned as Chief Financial Officer of the Corporation and was replaced by David Ponczoch, who accepted the position as Chief Financial Officer of the Corporation as of November 15, 2013. On December 30, 2013 the Corporation completed the acquisition of the San Agustin mineral rights and mining claims from Silver Standard Resources Inc ("Silver Standard"). Argonaut acquired the property for CA\$75 million in a combination of shares and cash payments. On closing, 5.1 million Common Shares at a deemed value of CA\$30 million were issued. In addition, the Corporation made a cash payment of \$15 million upon closing with subsequent payments due of \$10 million on May 15, 2014 and \$20 million on May 15, 2015.

### **2014**

Subsequent to acquiring the San Agustin project in December of 2013, the Corporation completed 31,069 metres of reverse circulation ("RC") drilling in 271 holes. In addition to the RC drilling, Argonaut completed 1,000 metres of core drilling in 13 holes. The core was utilized to test the heap leach characteristics of San Agustin mineralization. The updated oxide resource is summarized in the Resource Table. The updated resource information was incorporated in a Preliminary Economic Assessment ("PEA") for San Agustin. This PEA for San Agustin was completed in late 2014 and filed in early 2015.

## **DESCRIPTION OF THE BUSINESS OF THE CORPORATION**

Argonaut is a mining company engaged in exploration, development and production of gold. As of March 11, 2015 the Corporation's primary assets were the El Castillo Mine, the La Colorada Mine, the San Antonio, the San Agustin and the Magino Gold Projects as described below under the heading "Description of Mineral Properties". AGI plans to achieve growth through development of its mineral properties and through acquisitions of outside properties held by others. As at December 31, 2014, the Corporation had 638 employees.

The following table sets forth the gold and silver mineral reserves and resources for the El Castillo Mine, the La Colorada Mine, the San Antonio, the San Agustin, and the Magino Gold Projects as of the respective filing dates as denoted by each project. This table includes proven and probable reserves (“P&P”) and measured and indicated resources (“M&I”). This table does not include inferred resources. The resource numbers in the table were taken from the most current Technical Reports that were completed for each project. The table has not been adjusted to reflect resources removed by mining at the Corporation’s two operating mines, El Castillo and La Colorada. This production information is summarized in the footnotes immediately following the table.

Resource <sup>(1)</sup>	Category	Tonnes <sup>(2)</sup>	Au Grade (g/t) <sup>(2)</sup>	Au Ounces <sup>(2)</sup>	Ag Grade (g/t) <sup>(2)</sup>	Ag Ounces <sup>(2)</sup>
<b><u>El Castillo Mine</u></b>						
<b><i>Mineral Reserves</i></b>						
Castillo – Oxide	Proven	84,470,000	0.36	994,000		
Castillo – Transition	Proven	19,180,000	0.37	228,000		
Sub Total Proven Castillo – Oxide & Transition		<u>103,650,000</u>	<u>0.36</u>	<u>1,222,000</u>		
Castillo – Oxide	Probable	772,000	0.33	8,000		
Castillo – Transition	Probable	73,000	0.35	1,000		
Sub Total Probable Castillo – Oxide & Transition		<u>845,000</u>	<u>0.33</u>	<u>9,000</u>		
<b>Total Proven and Probable Reserves<sup>(3)</sup></b>	<b>P&amp;P</b>	<b>104,495,000</b>	<b>0.36</b>	<b>1,231,000</b>		
<b><i>Measured and Indicated Mineral Resources (Including P&amp;P Reserves)</i></b>						
Castillo – Oxide in Pit	Measured	114,300,000	0.33	1,220,100		
Castillo – Oxide in Pit	Indicated	4,900,000	0.29	45,700		
Castillo – Oxide in Pit	M&I	<u>119,200,000</u>	<u>0.33</u>	<u>1,265,800</u>		
Castillo – Transition in Pit	Measured	44,600,000	0.30	423,200		
Castillo – Transition in Pit	Indicated	1,900,000	0.28	17,100		
Castillo – Transition in Pit	M&I	<u>46,500,000</u>	<u>0.29</u>	<u>440,300</u>		
Total Castillo Oxide and Transition in Pit	Measured	158,900,000	0.32	1,643,300		
Total Castillo Oxide and Transition in Pit	Indicated	6,800,000	0.29	62,800		
<b>Total Castillo Oxide and Transition in Pit<sup>(3)</sup></b>	<b>M&amp;I</b>	<b>165,700,000</b>	<b>0.32</b>	<b>1,706,100</b>		
Castillo Sulphide (Global)	Measured	70,600,000	0.33	744,800		
Castillo Sulphide (Global)	Indicated	91,200,000	0.27	797,500		
<b>Total Castillo Sulphide (Global)</b>	<b>M&amp;I</b>	<b>161,800,000</b>	<b>0.29</b>	<b>1,542,300</b>		
<b><u>La Colorada Mine</u></b>						
<b><i>Indicated Mineral Resources</i></b>						
La Colorada, Gran Central – La Colorada	Indicated	29,915,053	0.72	696,336	5.1	4,905,135
La Colorada, El Creston Deposit	Indicated	14,438,662	0.62	286,658	12.1	5,635,385
La Colorada, Veta Madre	Indicated	6,718,000	0.51	110,000	3.25	702,000
Run of Mine (“ROM”) Pad	Indicated	2,700,000	0.43	38,000	36.5	3,200,000
<b>Total La Colorada Deposits<sup>(3)</sup></b>	<b>Indicated</b>	<b>53,771,715</b>	<b>0.65</b>	<b>1,130,994</b>	<b>8.28</b>	<b>14,442,520</b>
<b><u>San Antonio Project</u></b>						
<b><i>Measured and Indicated Mineral Resources</i></b>	Indicated	1,910,000	0.62	38,000		

San Antonio, Las Colinas – Oxide and Transition						
San Antonio, Las Colinas – Sulphide	Indicated	8,103,000	0.69	179,000		
San Antonio, Los Planes – Oxide and Transition	Measured	12,351,000	0.76	303,000		
San Antonio, Los Planes – Oxide and Transition	Indicated	8,408,000	0.67	181,000		
San Antonio, Los Planes – Sulphide	Measured	6,648,500	1.17	250,000		
San Antonio, Los Planes – Sulphide	Indicated	22,064,500	0.92	653,000		
San Antonio, Intermediate – Oxide / Transition / Sulphide	Measured	643,000	0.39	8,000		
San Antonio, Intermediate – Oxide / Transition / Sulphide	Indicated	4,961,000	0.77	123,000		
All San Antonio Deposits – Intermediate – Oxide / Transition / Sulphide	Measured	18,999,500	0.91	553,000		
All San Antonio Deposits – Intermediate – Oxide / Transition / Sulphide	Indicated	46,089,500	0.8	1,182,000		
<b>Total San Antonio Deposits – Oxide / Transition / Sulphide<sup>(4)</sup></b>	<b>M&amp;I</b>	<b>65,089,000</b>	<b>0.83</b>	<b>1,735,000</b>		
<b><u>Magino Gold Project</u></b>						
<b><i>Probable Reserves</i></b>						
Magino – Probable Reserves	Probable	60,200,000	0.9	1,749,000		
<b><i>Indicated Mineral Resources (Includes Probable Reserves)</i></b>						
Magino – Indicated Resources	Indicated	127,762,235	1.01	4,161,000		
<b>Total Magino Deposit<sup>(5)</sup></b>	<b>Indicated</b>	<b>127,762,235</b>	<b>1.01</b>	<b>4,161,000</b>		
<b>San Agustin Gold-Silver Deposit</b>						
Oxide Resources	Indicated	79,373,000	0.32	817,000	10.6	27,050,000
Transitions Resources	Indicated	2,837,000	0.31	28,000	13.3	1,213,000
<b>Total San Agustin Indicated Resources<sup>(6)</sup></b>	<b>Indicated</b>	<b>82,210,000</b>	<b>0.32</b>	<b>845,000</b>	<b>10.7</b>	<b>28,263,000</b>

All Mineral Resources have been calculated in accordance with Canadian Institute of Mining (“CIM”) Standards. Mineral Resources are not known with the same degree of certainty as Mineral Reserves and do not have demonstrated economic viability.

(1) Numbers may not add up due to rounding.

(2) The Mineral Resources for the El Castillo Mine set out in the table above were taken from the El Castillo Technical Report, dated February 24, 2011 (effective date of November 6, 2010). These amounts have been reviewed and confirmed by Thomas H. Burkhart, who is a qualified person under NI 43-101. Actual Production Results for the El Castillo Mine: Nov/Dec 2010 – 1,650,545 tonnes ore at 0.402 grams per tonne (“g/t”) gold (“Au”) with contained Au ounces of 21,322; 2011 – 11,145,289 tonnes ore at 0.329 g/t Au with contained Au ounces of 117,939; 2012 – 11,961,501 tonnes ore at 0.389 g/t Au with contained ounces of 151,462; 2013 – 13,620,861 tonnes ore at 0.353 g/t with contained ounces of 154,581. 2014 – 15,045,492 tonnes ore at 0.329 g/t with contained ounces of 159,294.

(3) The Mineral Resources for the La Colorada Project set out in the table above were taken from the La Colorada Technical Report, dated December 30, 2011 (effective date of October 15, 2011) and a December 14, 2012 Preliminary Resource Estimation Report for the Veta Madre deposit. These amounts have been reviewed and confirmed by Thomas Burkhart, who is a qualified person under NI 43-101. Actual production results for the La Colorada Mine: 2012 – 2,895,324 tonnes ore at 0.43 g/t with contained ounces of 40,180 (includes RoM Pad); 2013 – 1,725,747 tonnes ore at 0.33 g/t with contained ounces of 23,308. 2014 – 2,748,455 tonnes new mined ore at 0.670 g/t with contained ounces of 59,212 and 1,008,743 tonnes old leach pad material at 0.430 g/t with contained ounces of 13,957.

- (4) The Mineral Resources for the San Antonio Project set out in the table above were taken from the San Antonio Technical Report, dated October 10, 2012 (effective date of September 1, 2012). These amounts have been reviewed and confirmed by Thomas Burkhart, who is a qualified person under NI 43-101.
- (5) The Mineral Resources for the Magino Gold Project set out in the table above were taken from the Magino Pre-Feasibility Study Technical Report, dated January 30, 2014 (effective date of December 17, 2013). These amounts have been reviewed and confirmed by Thomas Burkhart, who is a qualified person under NI 43-101.
- (6) The Mineral Resources for the San Agustin Gold-Silver Project set out in the table above were taken from the San Agustin Oxide Resource Estimate, dated October 3, 2014 (effective date of July 8, 2014). These amounts have been reviewed and confirmed by Thomas Burkhart, who is a qualified person under NI 43-101.

## **Description of Mineral Properties**

### **El Castillo Mine**

#### ***Property Description and Location***

The El Castillo Mine is located in the State of Durango, Mexico approximately 100 kilometres (“km”) north of the city of Durango. The El Castillo Mine consists of five contiguous mining concessions totaling 227 hectares (“Ha”) including the La Victoria concession (11.3 Ha) purchased in 2014. Argonaut owns all five of these concessions outright. There is a 2.0% net smelter return royalty on one concession that covers an eastern portion of the known mineral system.

The El Castillo Mine is subject to Mexican environmental law, more specifically defined by the General Law of Ecological Balance and Protection to the Environment, effective March 1, 1988. Regulations and standards provide specific controls for environmental impact, air pollution, noise pollution, hazardous residues, and transportation of hazardous residues (April 1993). Exploration activities are currently regulated by Regulation NOM-120 establishing allowable activities, the size of areas to be affected, and specific exploration conditions to be observed.

The gold-bearing zones of the El Castillo Mine are mainly hosted by altered granodiorite, and older sedimentary rocks classified mainly as argillites and hornfels. All current economic mineralization is located within mineral concessions owned by Argonaut.

#### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

Access to the El Castillo Mine is excellent with total driving time from the city of Durango varying between 1.5 and 2.0 hours depending on traffic. Driving distance to the property is 117 km (measured from the center of Durango). The first 111 km are paved and the final 6 km consist of well-maintained gravel road.

The El Castillo Mine is situated in a zone that is classified as semi-dry and receives an annual rain-fall of 550.5 millimetres (“mm”). The climate is temperate with an average annual temperature of 18°C and maximum temperatures of 35°C and minimum temperatures of 2°C. The region averages 17 frost events per year beginning in October and extending to April.

Argonaut also controls 1,385 Ha of surface rights in the El Castillo Mine area. This is substantially larger than the area covered by Argonaut mineral rights and overlaps onto mineral rights controlled by Compañía Minera La Parreña S.A. de C.V., a subsidiary of Industrias Peñoles. At the present time, Argonaut is installing mine infrastructure (including leach pads) on land for which they control the surface rights but not the mineral rights.

All power requirements for process, crushing, laboratory, security and office facilities are provided by diesel powered generators.

Water supply is predominately for process and minor volumes for dust control, construction and potable uses and is provided by three wells with a combined capacity of 56 litres per second. Currently production is sourced from one of the three wells with an average consumption of 35 litres per second.

The village of Atotonilco, is located about 6km from the property and has a small supply of unskilled labor ( $\pm 73$

inhabitants). The town of San Juan del Rio is located approximately 25 km from the El Castillo Mine and has a slightly larger supply of unskilled labor ( $\pm 2,500$  inhabitants) as well as a limited supply of housing. Some basic supplies are available in San Juan del Rio while most supplies and some contractors for construction and mining are available in Durango. Durango is a major regional population center with approximately 500,000 inhabitants. There are daily flights to Durango from Mexico City. Mexico City has daily air connections to major cities in North America. The local resources and infrastructure are adequate to support the current mining operation.

The El Castillo Mine area is characterized by terraced topography with relatively flat mesas dissected by strongly incised drainages. Typical relief is in the range of 300 to 500 metres (“m”). Elevation at the project area averages 1,700 m above sea level. Vegetation consists of typical Mexican dessert species composed primarily of various cacti, shrubs and brush.

## ***History***

### ***Ownership***

Argonaut currently owns five mining concessions. Concession title 220073 (El Cairo I) was originally acquired from the Mexican government. Concession title 220075 (El Cairo II) was acquired from Explominerals S.A. de C.V. The El Oro (Title Number 220076) and Justicia (Title Number 220075) concessions were acquired from private individuals. Concession Title 211133 (La Victoria) was acquired in 2014, also from a private individual.

The El Castillo Mine was first optioned by Battle Mountain Gold Corporation (“Battle Mountain” or “BMG”) in 1995. Battle Mountain was acquired in 2000 by Newmont Mining Corporation which decided that the project did not meet its corporate size criteria and divested the property back to the Mexican government. Morgain Minerals Inc. (“Morgain”), a company then listed on the TSXV, took over ownership in 2002. In 2007, Morgain merged with Aurogin Resources to form Castle Gold Corporation (“Castle”). Argonaut acquired the project with the purchase of Castle in December 2009.

### ***Past Exploration and Development***

The El Castillo Mine, which was formerly called El Cairo, was a grass roots discovery that resulted from a regional exploration program initiated by BMG in 1995 while exploring for bulk tonnage, disseminated gold deposits.

Between 1995 and 1998 Battle Mountain completed 207 reverse circulation (“RC”) drill-holes and six diamond core holes (drilled as twins to six of the RC holes) within the El Castillo Mine area. Battle Mountain completed a resource estimate, scoping study, preliminary mine plan and reserve estimate that indicated the potential for a viable mining operation with operational similarities to Hecla’s La Choya deposit in the northern region of the state of Sonora, Mexico.

Morgain took over the project in 2002. Its exploration work included completion of six twin diamond drill holes, and 136 RC drill holes.

Castle, as successor to Morgain began its work in 2007 and changed the project name from El Cairo to El Castillo in reference to a nearby rock monument of the same name. Castle’s work included additional sampling and completion of 21 shallow, close-spaced air-track drill holes in the mining area to up-grade near surface gold resource. Castle’s work combined with previous work by Morgain and Battle Mountain were the basis for a preliminary reserve estimate by A.C.A. Howe International Limited dated January 31, 2008 and titled “Technical Report on the El Castillo Gold Project, Durango, Mexico”. This report incorporated the results of an updated NI43-101 mineral resource and reserve estimate based on the additional geoscience and pre-production development work completed to date.

### ***Historic Production***

The El Castillo Mine sold its first gold in September 2007 from heap leaching begun the previous July. The El Castillo Mine completed the commissioning of commercial production in July 2008 as an open pit/heap leaching operation and has produced an estimated 444,405 ounces of gold. Of this production Argonaut has produced 398,617 ounces of gold since taking ownership of the mine in December 2009.

## ***Geological Setting***

### ***Regional Geology***

The El Castillo Mine lies in the Altiplano Subprovince of the Sierra Madre Occidental (“SMO”) region of Central Mexico. The SMO represents an island arc assemblage of early Mesozoic age comprised of metamorphosed, deep-water sediments, and island arc volcanics. The Altiplano Subprovince lies on the east flank of the SMO and is comprised of Jurassic to Late

Tertiary sedimentary and volcanic rocks. The oldest rocks in the El Castillo Mine area are Cretaceous flysch-sequence sediments that correspond to the upper member of the Mezcalera Group.

Regionally, the SMO is characterized by a thick sequence of lower Tertiary volcanic rocks comprised of an older andesite series overlain by younger pyroclastic dominated rhyolite series. These two series of volcanic rocks are referred to as the Lower Volcanic Series (“LVS”) and Upper Volcanic Series (“UVS”) respectively. These rocks are not exposed in the El Castillo Mine area, but are well represented to the southwest, in the San Agustin and San Lucas mining districts, where they have been age dated at 38.8 Ma.

The El Castillo Mine is located within the Basin Range Province of Central Mexico which is characterized by northwest-trending basin and range extensional tectonics and related structures. Within the district, structure is dominated by a northwest striking range front fault along the west side of the mine and younger northeast striking dextral faulting throughout the district. A northeast to easterly-striking post-mineral fault system (North Fault) along the northern margin of the present pit forms the northern limit to mineralization. It appears that the North Fault has cut-off and down-dropped a northern portion of the ore zone as much as 135 metres (in drill hole CA-31) as drilling in the hanging wall of the north fault has encountered significant thicknesses of post mineral cover.

#### *Local Geology*

El Castillo is being studied as a telescoped porphyry copper-gold mineral system that is possibly related to Oligocene granodiorite porphyry and hosted in thin bedded Cretaceous sediments and the intruding granodiorite porphyry sills. Within the mine area, these rock form an alternating sequence of variably metamorphosed sediments with intrusive sills that predominately strike to the northwest and dip moderately to the northeast. Zoned auriferous pyrite and relatively minor chalcopyrite-sphalerite-galena-arsenopyrite-tetrahedrite mineralization generally associated with quartz veins is associated with prograde potassic alteration and contact metamorphisms. Probable late-stage collapse of the magmatic-hydrothermal system emplaced structurally controlled quartz-sericite-pyrite alteration and auriferous pyrite mineralization. Later supergene oxidation of pyrite dominated mineralization resulted in an 80 to 100 metre-thick oxide blanket with an underlying partially oxidized (“transition”) zone averaging approximately 25 metres thick. The combined oxide/transition mineralization is amenable to heap leach extraction and forms the current low-grade minable gold resource in the El Castillo Mine.

#### *Local Lithology*

The oldest rocks exposed on the El Castillo Mine property are thin bedded Cretaceous, flysch-sequence clastic and carbonates rocks assigned to the upper Mezcalera Formation. The rocks generally consist of intercalations of argillites, hornfels and thin bedded limestone. The limestone appears to be more common within the deeper portions of the drilled sequence and is not prevalent in the mine area. The Mezcalera sediments have undergone at least one pre-mineral compressive event with tight folding, probably related to Laramide deformation in the region. The sediments were metamorphosed by both the regional compressive event and the local intrusion of Oligocene granodiorite porphyry sills.

The El Castillo Mine occurs within an erosional window that exposes Cretaceous meta-sediments and Oligocene aged intrusives. These underlying rock units are locally covered by rhyolite flows thought to be the UVS of the Sierra Madre Occidental. Drilling has also identified a felsic post-mineral volcanic tuff unit that occurs locally below the rhyolite flows. This tuff unit, where exposed in the mining operation, lies unconformably over the mineralized zone and locally contains fragmental lenses of the eroded ore zone. This unit is not exposed on surface in the mine area but occurs extensively north of the mine where it forms distinct hills and mesas protruding above the valley floor. The most distinctive of these is called El Castillo that lies five kilometres northeast of the mine.

Overlying the rhyolite ignimbrite is a continental, polymictic conglomerate that is the major valley cover to the west and south of the Property. Regionally, the conglomerate is upwards of 200 metres thick.

#### *Geological Model*

The El Castillo Mine is thought to be a porphyry-style gold system related to Oligocene granodiorite-diorite porphyries that intrude Cretaceous clastic and carbonate sediments in an extensional tectonic setting. Gold mineralization occurs throughout the magmatic-hydrothermal system in space and time and is related to sulphide mineralization. The main gold event is believed to be associated with late, epithermal argillic-quartz alteration. At present only oxidized or partially oxidized material located relatively near surface is considered ore within the resource and reserve.

## ***Exploration***

### ***Sulphide Metallurgy***

Over a three year period starting in early 2010, Argonaut completed 32 HQ core holes totaling nearly 5,000 metres of drilling to obtain samples for metallurgical testing of sulphide mineralization which underlies oxide and transition material that is currently being mined. All tests were completed by Kappes, Cassiday and Associates (“KCA”) in Reno, Nevada where sulphide material underwent a series of column tests to determine its viability for the heap-leach recovery of gold. In January of 2013, the Corporation reviewed its sulphide resource potential. Based largely on these metallurgical studies, the Corporation concluded that approximately 360,000 sulphide gold ounces could be added to El Castillo’s in-pit resource. This sulphide mineralization is divided into two categories consisting of non-silicified sulphides and silicified sulphides. The sulphide resource consists of 22.6 million tonnes at a grade of 0.504 g/t. The majority of the mineralization falls in the non-silicified category which has an average grade of 0.47 g/t with recoveries ranging from 25% to over 50%. The smaller silicified zone of mineralization is mainly confined to a higher grade breccia pipe averaging 0.80 g/t and yields recoveries between 11% and 28%.

For resource determinations, the non-silicified sulphide zone is based upon a 30% recovery and the silicified zone is based upon a 17% recovery. A 2010 resource study by SRK at El Castillo defined a global M&I sulphide resource of 1.5 million ounces of gold at an average grade of 0.296 g/t. This mineralization lies beneath the oxide and transitional gold resource at El Castillo and is part of the same large gold system.

### ***Interpretation***

SRK was of the opinion that the drilling operations were conducted by professionals, the RC chips and core were handled, logged and sampled in an acceptable manner by professional geologists, and the results are suitable for support of an NI 43-101 resource estimation.

### ***Type, Character and Distribution of Mineralization***

At El Castillo, gold is mainly associated with pyrite occurring as fracture fillings or stockworks and also occurring within areas of hydrothermal brecciation. Pyrite with gold also occurs as disseminations especially within intrusive rocks. Within the mine the host environment for gold mineralization is dominated by an alternating pattern of sediments and parallel intrusive sills that strike to the northwest and dip steeply to the northeast. The sedimentary units generally vary from 20 to 40 metres wide as do the intrusive sills. Many of the sills appear to have intruded along bedding planes by splitting the tabular sedimentary blocks into their present positions. This geologic event resulted in the unique alternating pattern of sediments and intrusive sills/breccias that are observed throughout the mine area. Extensive fracturing of the sedimentary blocks created favorable secondary permeability for the deposition of gold mineralization predominately associated with pyrite. As a result of this ground preparation, the northwest striking sediments can be better mineralized than the surrounding intrusive rocks.

There is typically a transition zone of partially oxidized mineralization that lies between the fully oxidized material and lower non-oxidized, sulphide material. The transition zone varies from 5 to 50 metres thick and is generally influenced by degree of fracturing and level of erosion.

The sulphide zone is generally identified by the presence of pyrite mineralization. The presence of sulphides, either fracture-related or disseminated, is a good indicator of gold mineralization. The sulphide veinlets are most commonly 0.5 to 4.0 centimetres (“cm”) wide.

There are two main controls to mineralization. The more important of these is a close association between gold and sedimentary stratigraphy that generally strikes northwest and dips to the northeast. The favored permeability and chemistry of these rocks strongly influenced the distribution and geometry of mineralization. The second control to mineralization is related to a northeast structural fabric that provided the main conduits to the mineral system. The combination of these geologic controls resulted in a northeast elongated gold zone that measures approximately 1,600 metres by 1,300 metres.

## Drilling

### Type and Extent of Drilling

Between December 2009 and October 2010 Argonaut completed a 308-hole drilling program totaling 35,444 metres. The drilling was mainly targeted south and east of the current open pit to establish the resource potential within areas known to have mineral potential. The drilling program was divided into two phases. Phase I consisted of the completion of an approximate 100 metres drill-grid to define the approximate limits of the gold system. A second phase of drilling was designed to fill-in and step out from mineralization identified during Phase I. This Phase II program brought the drill spacing to an approximate 50 metres spacing.

Between March and April 2011, Argonaut completed a core drilling program totaling 1,816 metres in nine holes to obtain samples for metallurgical testing of the sulphide portion of the resource. Between March and April of 2012, Argonaut completed a further eight core holes totaling 1,472 metres to obtain further samples for metallurgical testing and also to test some of the higher grade extensions within the resource area. Between March and May 2013, Argonaut completed 32 RC drill holes, totaling 5,596.1 metres, within the main resource area to better define geologic controls to mineralization and aid in long term mine planning.

During June and July of 2014, the Corporation completed 35 RC holes totaling approximately 3,500 metres with this drilling designed to fill-in portions of the resource area to better facilitate deposit modeling and mine planning.

### Mineral Resource Estimate

The El Castillo Mine Mineral Resource statement is presented below in the table as inclusive of Mineral Reserves. A 0.15 g/t gold cut-off grade was chosen for resource reporting based on the current mine plans. The results reported in the resource statement have been rounded to reflect the approximation of grade and quantity, which can be achieved at this level of resource estimation. The resources are included within a pit design based on a \$1,300 gold price and the same design parameters as the reserve pit.

Table: Mineral Resource Statement (note: ppm in the following table is the same as g/t)

Cut-off Grade Au (ppm)	Material Type	Resource Category	Average Au Grade (ppm)	Tonnes (M)	Ounces (k)
0.15	Oxide (in pit)	Measured	0.293	114.3	1,220.1
		Indicated	0.293	4.9	45.7
		M & I	0.331	119.2	1,268.0
0.15	Transition (in pit)	Measured	0.295	44.6	423.2
		Indicated	0.278	1.9	17.1
		M & I	0.294	46.5	439.9
0.15	Oxide & Transition (in pit)	Measured	0.322	158.9	1,645.3
		Indicated	0.289	6.8	62.9
		M & I	0.320	165.7	1,704.7
0.15	Sulfide (global)	Measured	0.328	70.6	744.8
		Indicated	0.272	91.2	797.5
		M & I	0.296	161.8	1,540.0

The mineral resources described above constitute contained metal in the ground as of November 8, 2010. There are no known material issues related to environmental, permitting, legal, title, taxation, socio-economic, marketing, political or other relevant issues which may affect the mineral resources. Additionally, there are no known material issues related to mining, metallurgy, infrastructure and other relevant issues which may affect the mineral resources. Since November 8, 2010 the Corporation has extracted approximately 53.4 million tonnes at 0.35 g/t for 599,969 oz from the in-situ resources described above.

## *Mining Operations*

### *Mining Method*

The mining method employed at the El Castillo Mine consists of traditional open pit drill and blast operations followed by excavator loading of rigid body haul trucks for ore transport to heap leach pad or crusher with waste transported to designated dump locations.

The mine drills, which include one Atlas Copco DM45, two Atlas Copco DM30's, one Atlas Copco ECM 720 and four ECM 590's, produce a combination of 3.5-inch to 5.5-inch holes on 2 metres x 3 metres to 4.8 metres x 5.5 metres patterns that are loaded with sacked ammonium nitrate/fuel oil ("ANFO"). The amount of ANFO ranges from 21 to 52 kilogram ("kg") per drill hole. Drill chips are sampled and sent to the local assay laboratory for grade control map creation by the mine engineering staff.

Loading is done with two Caterpillar 993K and four Caterpillar 992 front end loaders to fill twenty-three 100-tonne class haulage trucks (five Caterpillar 777 haulage trucks, and 18 Terex TR100 haulage trucks). Two additional Caterpillar haulage trucks were sent to the La Colorada Mine to augment that fleet. Waste material is sent to either of three waste dumps, two located to the north and to the northeast of the mine respectively and one located to the south. No Acid Rock Drainage ("ARD") issues are currently evident with the mining of oxide material and testing to date shows the sulphide mineralization is non-ARD but as the pit deepens this will need to be further evaluated.

Ore is transported primarily to two crushing systems. Harder, high grade ore is sent to a semi mobile crusher located near the East Leach Pads and is crushed in two stages to -1". The ore is then transported to the leach pad using a series of 42" by 110' portable conveyors, a 42" by 80' indexing conveyor and a 42" by 150' stacker. The East Crusher has a capacity of approximately 6 million tonnes per year. The softer ore is hauled to an in-pit jaw crusher, crushed to -4" and transported to the West Leach Pads via two 48" conveyors totaling 1,240 metres in length. The ore is placed directly on the leach pads using twenty-one (21) 42" by 115' portable conveyors in conjunction with a 42" by 150' stacker. The West Crusher has a capacity of approximately 8.5 million tonnes per year.

### *Metallurgical Process*

The El Castillo Mine currently processes oxide gold ore through a conventional heap leaching operation that includes processing of both Run-of-Mine ore and crushed ore, truck and portable conveyor transport to multi-lift heap leach pads, irrigation with cyanide solution, and gold recovery through Carbon-in-Column ("CIC") gold recovery circuits. Loaded carbon is transported to the Corporation's La Colorada Mine facilities for further processing to a final doré.

The current cut-off grade is 0.15 g/t of gold. Softer ore with grades from 0.15 g/t of gold and higher grade and harder ore from 0.15 g/t of ore to 0.25 g/t of ore are classified as Run-of-Mine ore and are delivered to the West Crusher and crushed to -6 inches or directly to the leach pads. Hard ore with grades greater than 0.25 g/t is classified as higher grade ore and is crushed at the East Crusher to -1 inches before it is delivered to the leach pad by a portable conveyor system. Lime is added to all ore before delivery to the pad in order to maintain protective alkalinity with a target leach solution of 10.5 pH.

Heap leaching is presently conducted on the East and West Side heap leach pads. All of the leach pads are double lined with clay and one and a half mm high density polyethylene. The East Side leach pads, which were completed in early 2012, are divided into five cells with a total capacity of 30 million tonnes. An additional 10 million tonne expansion is planned for construction in 2015. On the West Side, a small incremental leach pad with capacity of two million tonnes was completed in May 2012. In addition to the above, the Corporation completed construction on the initial phase of an additional leach pad at the West Side of the property, having a capacity for 30 million tonnes.

The East Crushing Facility located near the East Leach Pads was commissioned in the fourth quarter 2011. This crushing plant consists of a 30-inch x 55-inch primary jaw crusher and two K400 cone crushers, each operated in closed-circuit with a triple-deck Combo screen to produce a -1 inch final product. During the last quarter of 2014, the East Side crushing plant averaged 16,600 tonnes per day (506,000 tonnes per month), exceeding the designed capacity of 500,000 tonnes per month.

Crushed ore at the East Side crushing facility is conveyed on a set of 42-inch portable conveyors and placed on the leach pad using an indexing conveyor and 150-foot stacker. Some Run-of-Mine ore is also hauled from the mine and placed

directly on the East Leach Pads. The ore is placed in both 5m and 10m high lifts. After a new lift has been completed the drip or wobbler sprinkler irrigation system is installed and ore is put under leach at an initial solution application rate of 10 l/m<sup>2</sup>/hr for the 90 day leach cycle.

Gold contained in the pregnant leach solution (“PLS”) from the East Side heap leach pads, is recovered from solution in a standard CIC circuit that consists of a train of five cascade-type carbon columns designed to handle a nominal PLS flow-rate of 1,000m<sup>3</sup>/hr. Each carbon column has capacity for six tonnes of carbon.

The original West Side crushing plant was dismantled in late 2011 and sent to the La Colorada Mine operations. A new In-Pit Crusher and overland conveying system to the West Leach Pads was commissioned during the third quarter 2013. The crushing plant consists of a 44-inch x 50-inch primary jaw crusher and 5’ by 20’ scalping screen operated in open-circuit to produce a -6 inch final product. The ore is transported over two 48 inch overland conveyors totaling 1,240 metres in length. During the last quarter of 2014, the West Crushing Plant/Overland Conveyor System averaged 17,300 tonnes per day (526,000 tonnes per month), and has the designed capacity to reach 700,000 tonnes per month.

Gold contained in the PLS from the West Side heap leach pads, is recovered from solution in a standard CIC circuit that consists of a train of five cascade-type carbon columns designed to handle a nominal PLS flow-rate of 1,000m<sup>3</sup>/hr. Each carbon column has capacity for six tonnes of carbon. The CIC circuit on the West Side was modified adding an additional five 3 tonne carbon columns with a capacity of 250m<sup>3</sup>/hour. The loaded carbon is sampled and sent to the Desorption Plant/Refinery located at the La Colorada Mine operations for offsite stripping and gold refining.

#### *Production Forecast*

As part of the work done by SRK in the November 8, 2010 NI 43-101 resource update, a life of mine plan was developed utilizing the existing plant infrastructure at that time. Outlined below is the expected production schedule prepared for that report.

Life-of-Mine production schedule using MineSite scheduling software

- Precedence. Benches in previous phases must be mined before block can be completely mined out; based on elevation;
- Sinking Rate. Controlled max number of benches per phase per year (12 or 1/month);
- Maximum upper limit for ore ounces scheduled at 115,000 oz/year with 16.8 million tonnes of ore;
- Total tonnage limit set at 30.1 million tonnes per year.

Since the time of the November 2010 technical report the El Castillo Mine operation has been expanding its production capabilities steadily. The processing capacity of the existing plants could yield approximately 1.5 million tonnes of ore per month (18 million tonnes per year). The current operating plans are to process 1.1 million tonnes of ore per month over the foreseeable future until the mine has exhausted its resources.

The final pit design based on reserves is approximately 1.5km wide (east-west) by 1.3km long (north-south) and up to 170m deep. This pit contains approximately 66 million tonnes of ore and 57 million tonnes of waste for an overall strip ratio of 0.86 (waste:ore). Production from this pit is expected to be 13 to 16 million tonnes for ore and 24 to 30 million tonnes in total over the course of the mine life. As a result, it is expected that an average of 159,000 oz will be placed on the heap leach pads per year from 2015 through mid-2019 for a mine life of 4 ½ years. There is the possibility to expand the pit further into the known mineralization which could extend the mine life.

Mining operations at the El Castillo Mine underwent a significant production ramp up from 2010 productions levels through 2013. With the infrastructure upgrades to the crushing plant and heap leach circuits, the proposed mining cost, process recovery and production rates have been achieved. As a result, on average, 159,000 oz of gold can be placed on the heap leach pads per year within the 24 million tonnes production limit.

#### *Markets*

Gold markets are mature, global markets with reputable smelters and refiners located throughout the world. Markets for doré are readily available. El Castillo ships loaded carbon to the La Colorada Mine operations for gold extraction and refining,

after which it is shipped to a bullion refiner in North America for final processing and sale.

#### *Environmental Conditions*

Minera Real del Oro has the following authorizations necessary to carry on its activities at its projects: “Unidad El Castillo”, “Ampliacion Unidad El Castillo”, “Informe Preventivo en Materia de Impacto de Ambiental” (“Informe Preventivo”) for the Cell 8 Leach Pad Project, and “Manifestación de Impacto Ambiental” (“MIA”) for increasing the capacity of the Waste Disposal Areas.

Reclamation and closure plans have been prepared for Unidad El Castillo, Ampliacion Unidad El Castillo, Informe Preventivo for Cell 8 and the MIA for increasing the capacity for the waste disposal areas along with cost estimates for each.

#### *Taxes and Royalties*

The El Castillo Mine is subject to government taxes including a 30% statutory income tax, a 7.5% special mining duty tax on mine operating profit before depreciation, depletion and amortization of mineral properties, plant and equipment and certain other deductions and a 0.5% mining royalty tax on net revenue from the sale of precious metals.

Argonaut owns all five of the mining concessions outright. The smaller of the two El Cairo concessions, (title number 220073) was originally acquired from the Mexican government in a lottery. The larger El Cairo II concession (title number 220075) was acquired on June 12, 2004 from Explominerals S.A. de C.V. for a one-time payment of \$20,000, a total of 500,000 shares in Castle Gold and a 2.0% Net Smelter Royalty. This concession covers the eastern portion of the mineral system. For the year 2014, 1.8 million tonnes ore were mined from the El Cairo II concession, resulting in contained royalty ounces of 16,567.

The El Oro and Justicia concessions were originally acquired on November 5, 2004 from a group of private individuals. The La Victoria concession was acquired from a private individual in 2014. Argonaut reports that all concessions are owned outright, subject to the 2% net smelter return (“NSR”) royalty on the El Cairo II concession (title number 220075).

### **La Colorada Gold-Silver Mine**

#### ***Property Description and Location***

The La Colorada Mine consists of an open pit, heap leach gold mine. The mine consists of two main pits, La Colorada/Gran Central and El Crestón, a partially reclaimed heap leach pad and several office and support buildings. The project is located in northwestern Mexico via paved highway, in the town of La Colorada, Sonora State, 53 km southeast of the city of Hermosillo, the State Capital. The mineralization is centered about UTM coordinates 541,665m E and 3,185,795m N.

The total La Colorada land position consists of 37 titled concessions and two concessions pending title, totaling 9,688 Ha. All mineral titles are held through Argonaut’s wholly-owned Mexican subsidiary, Compañía Minera Pitalla S.A. de C.V. (Minera Pitalla). All of the mining and processing facilities are located on titled claims.

#### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

The La Colorada Mine is located in the basin-and-range geological province which is dominated by alternating ranges and valleys bound by normal faults. This general geomorphology predominates in the district of La Colorada with the hills formed by Tertiary volcanic rocks that have been tilted about 15° to the west. Elevations at La Colorada range between 400 and 650 metres above sea level.

La Colorada Mine lies within the Sonora Desert climatic region. It is arid with summer temperatures sometimes exceeding 47°C. Winter temperatures vary from mild to cool in January and February. Rainfall is affected by the North American monsoon, with over two-thirds of the average, 19.3 cm of rain falling between the months of July and September. The weather at the project allows for operation during the entire year.

The village of La Colorada is located 40 km southeast of the city of Hermosillo, in the State of Sonora, Mexico. Access is via paved Highway 16, which continues east to the town of Yécora and the city of Chihuahua.

Due to the extensive mining history at the site and regional proximity to established cities and country infrastructure, the mine is unlikely to suffer any adverse logistical or consumable supply constraints based on mine location.

The La Colorada Mine has a dedicated 33 kilovolt (“kV”) power line and 10 mega volt ampere (“MVA”) substation which were built by Eldorado Gold Ltd. (“Eldorado”) in 1997. The main transmission line is 23 km from the community of Estacion Torres to the Mine site. The La Colorada Mine’s operations plan calls for a peak power load of 2.5 MVA for the Absorption, Desorption and Recovery (“ADR”) plant, 4.0 MVA for Crusher #1 and 1.5 MVA for Crusher #2 and the conveying system.

The water supply used during production by Eldorado (1994-2000) and Grupo Minero FG S.A. de C.V. (“FG”) (2000-2003) came from dewatering underground workings, the Wyman shaft, and open pits. Currently, production water is obtained from the dewatering of the El Creston open pit.

Ground water, surface run off, and water taken from open pit operations is used without a special permit. Water from underground workings requires a permit and is defined by the National Water Commission.

### *History*

The original La Colorada Mine concessions were staked by Jesuit missionaries in 1740 and saw fairly continuous underground production by various ownerships until 1916 when operations were discontinued during the Mexican Revolution. The district was mostly idle until 2001 when ownership was transferred to Explorations La Colorada, S.A. de C.V. (“EESA”) who mined gold and silver on the property from three separate open pits. In 2007, Pediment Gold Corp. (“Pediment”) optioned and eventually, purchased the key concessions, surface ownership and infrastructure mine from EESA. Further key concessions were also acquired in 2008 and 2010 by Pediment. In 2010, Argonaut acquired Pediment including the La Colorada Mine held under Pediment’s wholly owned Mexican subsidiary, Minera Pitalla.

In the early 1990’s, Compañía Minera Las Cuevas invested \$350,000 in exploration at La Colorada, including reverse-circulation drilling. Later, EESA carried out systematic exploration on the Project, focusing mostly in the El Crestón-Minas Prietas zone and in the La Colorada/Gran Central zones. During the 1990’s, EESA continued its exploration program and explored other zones such as Veta Madre, La Verde, Northeast Extension and Los Duendes. EESA operated an open-pit, heap-leach operation starting in the El Crestón pit and in later years in the La Colorada/Gran Central areas. Small-scale production also took place in the Los Duendes area, southeast of the El Crestón pit.

In 2007, Pediment optioned the project from EESA and began compiling the previous work accompanied by an exploration program that included surface sampling and mapping. A drill program commenced in 2008 focusing in the known mineralization zones of El Crestón, La Colorada/Gran Central, Veta Madre and La Verde. The results were followed up by a +10,000 metre drill program in 2009 which combined diamond and RC drilling and had a greater focus on the Veta Madre zone.

Various historical resource estimations have been completed on the project including; Nordin 1992, Giroux and Charbonneau 1992 and Giroux 1999. All of the "historical" estimations are superseded by the current NI 43-101 resource estimation completed by Argonaut and discussed under the heading "Mineral Resource Estimate" below.

Mining activity in the district dates as far back as the mid 1700’s when Jesuit missionaries discovered and later mined the Minas Prietas zone. In the mid 1800’s and English company installed pumps which allowed them to reach deeper levels and expanded the mining capacity at the La Colorada Mine. The Pan American Company of New York began the first cyanidation process at the La Colorada Mine by the late 1800’s. Several foregoing companies conducted underground mining from the Minas Prietas, La Verde, Gran Central and Amarillas zones from this time until the early 1900’s; however, political unrest related to the Mexican revolution caused mining to stop as the facilities had to be evacuated. Only small-scale activity by local independent miners continued after that until exploration activity resumed in 1991.

During commercial production between 1994 and 2000, EESA produced approximately 290,000 oz of gold and about one million oz of silver. EESA sold the mine and plant to a local Hermosillo mine contractor, FG, who continued limited production and decommissioning for a year or so after 2000, and is estimated to have produced approximately 70,000 additional oz of gold.

## ***Geological Setting***

Physiographically, the La Colorada Mine is located in the western foothills of the Sierra Madre Occidental mountain chain, 110 km east of the Gulf of California. Tectonically the property is located at the boundary between the Sonoran Basin and Range Province and the Sierra Madre Occidental Province. These intrusive rocks are contiguous with the broad batholithic belt extending along the western margin of North America. West-directed folding and thrust faulting occurred during the Late Cretaceous Laramide Orogeny. Basin and Range faulting, followed in the Tertiary, and constitutes the dominant structural event in the area.

Bedrock ranges in age from Proterozoic through Cenozoic and include high-grade metamorphic gneisses, shelf facies sedimentary strata, extensive andesitic to rhyolitic volcanic deposits and dioritic to granitic intrusive rocks. Basement rocks consisting of gneisses, schists and quartzites cut by plutons dated at 1,710 and 1,750 million years are some of the oldest rocks exposed in Mexico and reach their southernmost limit just north of the La Colorada Mine – these rocks are considered the cratonic basement of North America. Upper Triassic clastic sedimentary strata (conglomerate, sandstone and siltstone) of the Barranca Group unconformably overlie the metamorphic basement rocks in scattered locations throughout east-central and southern Sonora. Late-Cretaceous to Tertiary volcanic rocks and associated continental clastic rocks unconformably overlie the Triassic and older rocks. These units thicken considerably eastward, where they form extensive sequences underlying the high plateau of the Sierra Madre Occidental Mountains. There, two distinct divisions are apparent. A lower 100-45 million year old Lower Volcanic Complex composed mainly of andesite with interstratified rhyolitic ignimbrites and minor interstratified basalt. The overlying Upper Volcanic Complex has been dated at an age of 34-27 million years and is composed of extensive rhyolite and rhyodacite ignimbrites with minor interstratified basalt. It constitutes the largest ignimbrite field in the world. The upper sequence unconformably overlies on the older sequence and in-fills deeply incised paleotopography in the older rocks. Late Cretaceous to Early Tertiary plutonic rocks (diorite, granodiorite to granite) of the Sonoran Batholith outcrop throughout the region and have been dated from 90-40 million years old.

The area of the La Colorada Mine is covered by Mid-Cambrian to lower Ordovician quartzites and metalimestones; carboniferous limestones and sandstones; Triassic oligomictic conglomerate, limestones and shales; and Upper Cretaceous volcanic tuffs ranging in composition from andesite to rhyolite. The previous units are intruded by Paleocene to Oligocene age granite, granodiorite, diorite and andesitic porphyry. These intrusives are interpreted to be the result of the active continental margin stage of this region with the subduction of the Farallon Plate beneath the North American plate. This was followed by a continental extension and rifting of the Basin and Range province during the Tertiary which generated the youngest lithological units represented in the area. The base of this tectonic stage is represented in the area by continental conglomerates and sandstones interbedded with basaltic to andesitic volcanic rocks. This is overlain by bimodal volcanism of rhyolitic tuff and andesite. The youngest unit during the Tertiary is an extension-related olivine basalt unit.

Alteration can be seen in the older metamorphic and intrusive units mostly as silicification, hematization and argillic alteration. The Tertiary volcanic rocks in the district are clearly post-mineral and are unaltered.

On a regional scale, basin and range faults are characterized by north-northwest striking normal faults. Crustal blocks formed by the Basin and Range faults have moderate to steep regional dips. Steeply-dipping east-northeast trending regional faults transverse to the main trend are also common throughout Sonora.

## ***Exploration***

### ***Mineralization***

The significant mineralized zones discussed in the La Colorada Technical Report include El Crestón, La Colorada/Gran Central, and Veta Madre.

### ***El Crestón Deposit***

The El Crestón and Minas Prietas veins comprise the El Crestón deposit and combined, constitute the largest vein system on the La Colorada Mine and were originally mined as separate orebodies. The veins generally strike east to east-northeast, dipping an average of 75° N. The veins are all fault controlled, with the faulting preceding the veining, but small post-ore

fault offsets of a few metres are common. Underground mines selectively extracted individual veins over narrow widths, whereas open pit mining is focused on larger scale stockwork and multiple vein zones over cumulative thicknesses of up to 90 metres.

#### *Gran Central Deposit*

Gran Central is geologically similar to El Crestón-Minas Prietas, and again is composed of quartz veins and stockworks localized in the Gran Central Fault complex. It is hosted in a diorite stock which contains roof pendants of siltstone and lesser calc-silicate hornfels. Fine native gold is present in the deposit and visible gold is observed.

#### *La Colorada Deposit*

Gold-bearing quartz veins and stockworks at La Colorada are contained within an east-west striking fault with a north dip averaging 45°. The mineral system is mainly hosted by rhyolite porphyry and diorite and is within and adjacent to the same dioritic stock which hosts the Gran Central Deposit. Mineralization has been traced for 500 metres along strike and for 100 metres down dip with an average thickness of around 20 metres. Mineralogy and alteration are similar to the El Crestón-Minas Prietas area.

#### *Veta Madre Zone*

Veta Madre is located 1.5 km east of the El Crestón pit. Historical miners sunk three deep sub-vertical shafts, possibly for exploration but no records of extensive workings or stoping have been found for this area. Rock types include siltstone, diorite, monzonite, granite, rhyolite feldspar porphyry and dacite. The zone was originally drilled by Eldorado in the 1990s and was called Humberto Zone. Pediment began exploration of the zone in 2008 and between that year and 2009 drilled a total of 25 reverse circulation holes (2,099 metres).

From 2011 through 2012 Argonaut completed a total of 74 RC drill holes (13,183 metres) and 93 core holes (20,140 metres) in Veta Madre. Based on this drilling the Corporation contracted SRK to calculate an updated resource which was completed in December of 2012.

#### *Mineral Processing and Metallurgical Testing*

All information contained within this section was provided by KCA in Reno, Nevada.

Metallurgical test work was undertaken during 2011 on material drilled from the existing RoM Leach Pad at La Colorada as well as on new PQ and HQ core drilled from the La Colorada, La Colorada West, Gran Central and Gran Central West pit designations. The drill samples tested by KCA in 2011 are thought to be representative of the areas being examined.

#### *Testing and Procedures*

Review of historical reports and production records show that overall gold recovery during operations achieved a combined recovery of 67.3% between RoM and 25 mm crush size from all mining areas. It is believed that using a 9.5 mm crush size, a scoping-level tentative gold recovery of 60% may be assumed for El Creston and Veta Madre mining areas. Similarly, during historical operations the silver recovery achieved was 14%. The KCA test work showed considerably higher silver recoveries in La Colorada and Gran Central. Thus, a scoping-level silver recovery of 28% was assumed for El Creston and Veta Madre mining areas.

#### ***Drilling***

The majority of the drilling supporting the current resource estimation was conducted by the three most recent owners of the project; EESA, Pediment and Argonaut.

EESA completed 874 drill-holes on the property during their ownership.

Pediment completed 134 drill-holes (14,098 metres) on the project during their ownership.

Argonaut has completed a total of 572 holes at La Colorada totaling 88,537 meters. The majority of drilling occurred in 2011 and 2012 and consisted mainly of resource definition within previously mined areas and at the Veta Madre Exploration target. In 2013 the Corporation completed limited drilling in the La Verde and Northeast Extension areas. The total on the project drilling also includes condemnation and geotechnical holes.

SRK concluded that the drilling operations completed on the project were conducted professionally, the RC chips and core were handled and logged in an acceptable manner by professional geologists, and that the results are suitable for support pursuant to a NI 43-101 resource estimation.

### ***Mineral Resource and Reserve Estimates***

#### ***Mineral Resource Estimate***

The resource estimate is based on the current drill-hole database, digitized as-built topography of open pits, interpreted fault structures, geologic controls and current topographic data. The estimation of mineral resource was completed utilizing a computerized resource block model by VULCAN® modeling software.

The drill-hole database was compiled by Argonaut and is determined to be of good quality. The database consists of four, Microsoft Excel® spreadsheets containing collar locations surveyed in UTM grid coordinates, drill-hole orientations with some down hole deviation surveys, assay intervals with gold and silver analyses by fire assay and geologic intervals with rock types.

The resource estimation is supported by 1,319 drill-holes, totaling 154,918 m. The drill-hole database has 80,187 samples. The drill-holes are generally located in a wide range of spacing and orientations. The maximum drill-hole depth is 479 metres and the average is 117 metres. The historic drill-holes are generally short and lack down-hole surveys. Nearly all of the modern, longer holes do have down-hole surveys. The appropriate codes for missing samples and no recovery were used during the modeling procedures.

The resource estimation is based on a generalized geologic model consisting of a single rock type. The mineralization is primarily controlled by the fault and vein development and occurs in all lithologies. The principal mineralization occurs as quartz veinlets and silica replacement within the La Colorada, Gran Central, El Crestón and Veta Madre fault/vein zones. The Intermediate Zone is defined as diffuse zone of mineralization located parallel, and midway between the Gran Central and La Colorada structures.

Overall, the resource area is deeply oxidized along faults/veins. The bedrock is typically well oxidized within the mineralized zones and less oxidized in the barren zones. All material within the current resource models is considered oxidized or transitional.

Four block models were used to estimate the current resources. A 5 metre x 5 metre x 5 metre block size was chosen as an appropriate dimension based on the current drill-hole spacing and a potential open pit, selective mining unit.

In 2012, subsequent to a Preliminary Economic Assessment, dated December 30, 2011, that included a preliminary resource on Veta Madre, Argonaut drilled 73 holes (19,977 metres) to better define the Veta Madre Resource. These drill results were provided to SRK and were integrated into the existing data base to complete a revised resource estimate for the Veta Madre Deposit.

#### ***Mineral Resource Statement***

The La Colorada Mine Mineral Resources, as reported in the October 2011 Preliminary Economic Assessment Report by SRK, are tabulated in the table below. Resources are based on a 0.1 g/t Au cut-off grade. The cut-off is supported by a mining cost of \$1.20 per tonne, a processing cost of \$2.70 per tonne, Au and silver (“Ag”) recoveries of 60% and 30% respectively, G&A cost of \$0.20 per tonne, no NSR and Au, Ag prices of \$1,500/oz, \$20.00/oz respectively. The mineral resources are confined within a conceptual Whittle pit design based on the same parameters used for the cut-off grade and a 50° pit slope.

Deposit	Class	Au Cut-off	Tonnes (000s)	Au (g/t)	Au oz (000s)	Ag (g/t)	Ag oz (000s)
La Colorada	Indicated	0.10	29,900	0.724	696	5.1	4,905
	Inferred	0.10	2,500	1.204	95	8.4	661
El Crestón	Indicated	0.10	14,400	0.618	287	12.1	5,635
	Inferred	0.10	2,200	0.887	63	13.3	944
Veta Madre	Indicated	0.10	2,900	0.491	46	3.3	307
	Inferred	0.10	0	0.665	0.2	2.4	0.7
RoM Pad	Indicated	0.10	2,700	0.429	38	36.5	3,200
	Inferred	0.10	-	-	-	-	-
All Deposits	Indicated	0.10	50,000	0.664	1,067	8.7	14,047
	Inferred	0.10	4,700	1.044	158	10.6	1,605

Source: SRK

Effective Date: October 15, 2011

Note: The RoM Pad was mined out in 2012.

In December of 2012 SRK completed a Preliminary Resource Estimation on Veta Madre that incorporated additional drilling that occurred subsequent to the October 2011 resource study. This updated Veta Madre Mineral Resource estimate is reported below at a 0.1 g/t cut-off grade. The cut-off is based on a mining cost of \$1.50 per tonne, a processing cost including G&A of \$4.00 per tonne, Au and Ag recoveries of 85% and 15% respectively, a 3% NSR and Au, Ag prices of \$1,600/oz and \$20.00/oz respectively. The mineral resources are confined within a conceptual Whittle® pit design based on the same parameters used for the cut-off grade and a 45° pit slope.

**Table 1: Veta Madre Resource Statement**

Class	Au Cut-off (g/t)	Tonnes (000s)	Au (g/t)	Au oz (000s)	Ag (g/t)	Ag oz (000s)
Indicated	0.1	6,718	0.51	110	3.25	702
Inferred	0.1	18	0.19	0.1	5.62	3

## ***Mining Operations***

### *Mining Method*

The mining method employed at the La Colorada Mine consists of traditional open pit drill and blast operations followed by excavator loading of rigid body haul trucks for ore transport to a crusher and waste transport to designated dump locations.

The mine contractor Sinergia, S.A. de C.V. (“Sinergia”) drills 5.5-inch holes which are loaded with sacked ANFO. The amount of ANFO loaded is approximately 52 kg per drill hole. Argonaut pays for explosives as is common in Mexico, but the contractor is responsible for loading, priming and blasting of rock. Drill chips are sampled and sent to the local assay lab for grade control map creation by the mine engineering staff.

Loading is conducted using two Caterpillar 992 front end loaders and one Caterpillar 990 front end loader to fill four Caterpillar 775 75-ton haulage trucks, ten 100-tonne class haulage trucks (four Terex TR100’s and six Caterpillar 777’s). Waste material is sent to a main repository located to the south of the mine. No ARD issues are currently evident with the mining.

A new crushing facility was commissioned in the third quarter 2013 and expanded in 2014. This crushing plant consists of a 44-inch x 50-inch primary jaw crusher, two K400 secondary cone crushers and four K400 tertiary cone crushers, all operated in closed-circuit with a triple-deck Combo screens to produce a -3/8 inch final product. In addition, the original 30-inch by 55-inch jaw crusher, one K400 secondary cone crusher in line with an 8 ft. x 16 ft. double deck screen, and one Terex 400 hp tertiary cone crusher in line with an 8 ft. x 20 ft. triple-deck combo screen, operated in closed-circuit, processed low grade ore from the pit and old heaps to produce a -3/8 inch final product. During the last quarter of 2014, the combined crushing plants averaged 12,600 tonnes per day (384,100 tonnes per month), and have a designed capacity to reach 410,000 tonnes per month, or 4.9 million tonnes per year.

Crushed ore from the crushing facilities is conveyed on a set of 36-inch portable conveyors and placed on the leach pad using a 150-foot stacker. The ore is placed in 8m high lifts. After a new lift has been completed the drip irrigation system is installed and ore is put under leach at an initial solution application rate of 10 l/m<sup>2</sup>/hour for the 90 day leach cycle.

### *Metallurgical Process*

During 2012 the Corporation processed RoM ore through the old west side crushing system sent to La Colorada from El Castillo (see El Castillo west crusher). This system processed 2.7 million tonnes of the RoM ore reducing the rock to less than 3/4" during 2012. The system consisted of a 30-inch x 55-inch Jaw crusher followed by a triple deck screen and a K400 cone crusher to render the material to a <3/4" product size.

During 2012, leaching was performed on pad 9. The leach cycle had been determined to be 90 days for the RoM material and solution was applied at 10 litres per square metre per hour for the first 10 days and then reduced to five litres per square metre thereafter. The Corporation completed the processing and placement of all RoM material on the newly created pad 9. This material was placed under leach during 2012 and approximately 20,000 ounces of gold and 133,000 ounces of silver were liberated and poured as doré. Residual leaching started in 2013 and has continued to present.

Construction of a new leach pad (8-10-11) was started in 2012 and completed in 2013. Design capacity of the 8-10-11 Leach Pads is 17.0 million tonnes. An additional leach pad (Northeast) is planned for construction starting in late 2015. The design capacity for the Northeast Leach Pad will add an additional 30.0 million tonnes when completed.

In 2014, the Corporation started to process previously leached ore from the old leach pads 5 and 6, in addition to the new mined ore from the Gran Central/La Colorada Pit. By year end, 1.0 million tonnes of this ore with a grade of 0.43 g/t Au had been crushed and placed on the leach pads. For 2015, plans call for processing an additional 3.4 million tonnes of leach pads 5 and 6 ore with a grade of 0.42 g/t Au and 11.89 g/t Ag, blending this ore with the new mined ore.

After stacking, the crushed ore is irrigated with a dilute cyanide solution. The solution is applied utilizing drip tubing to minimize evaporation. Gold bearing leach solutions, now "pregnant", drain from the leach pad to the pregnant solution pond, where they are directed to carbon columns. The carbon absorbs the gold and silver from the pregnant solution. The solution then drains from the carbon columns to a barren solution tank where it is refortified with cyanide and pumped back to the leach pad.

In the second quarter of 2012, the Corporation completed a Desorption/Refinery at the La Colorada Mine that is now used to process loaded carbon from both the El Castillo and La Colorada operations. At La Colorada, the carbon is removed from the first column and pumped to a tank for acid washing with a dilute hydrochloric acid solution. Carbon from the subsequent columns in series is advanced to replace the carbon removed. The El Castillo carbon arrives by truck, is off loaded and placed in the tank for acid washing. After acid washing, the carbon is pumped to one of two pressure vessels with a capacity of five tonnes of carbon where the gold and silver are stripped from the carbon and placed back into solution. The gold and silver bearing solutions are pumped through electrowinning cells where the precious metals are electroplated onto stainless steel-wool cathodes. After stripping, the La Colorada carbon is placed back into the carbon column train in the last column in series. The El Castillo carbon is shipped by truck back to the operation. Periodically the carbon is thermally regenerated to maintain desired activity levels.

The gold and silver materials are removed from the stainless steel cathodes by high pressure washing then dried, mixed with flux reagents and smelted on-site into doré bars. The doré bars are shipped off-site for further refinement and sale.

### *Mine Design*

For the PEA, an ultimate pit for the La Colorada Mine was designed by SRK with three possible phases. El Creston and Veta Madre were designed to meet mining width limitations. The resultant pit design defined 32.8 Mt of potentially minable resource with an average grade of 0.72 g/t Au and average strip ratio of 3.7:1 (Waste:Ore). At a 4 Mt annual ore production rate, it is expected the potential mine life to be in excess of 9 years. The production schedule targeted a consistent total mine tonnage of 24 million tonne per year ("MTPY") from year three onwards and any resources mined above 4 MTPY were stockpiled for use in years where not enough direct RoM feed was possible.

Final dimensions of the proposed open pits detail the potential magnitude of operations and have not been limited to

infrastructure restrictions. Potential restrictions may include additional required permitted space for future heap leach pads and relocation of several structures within the La Colorada township. As detailed engineering continues the effect of these restrictions or the elimination of the restriction resulting from further land negotiations will be addressed when final reserve estimation is complete.

As part of the resource evaluation, Whittle® pit optimizations were carried out on the La Colorada Mine region, in particular, areas defined as Gran Central, Veta Madre and El Crestón. As part of the PEA, the pit optimization results have been used as a guide for pit and waste dump construction. Inputs used for the optimization do not necessarily conform to those quoted in the final preliminary economic model. In all cases, measured, indicated and inferred resources have been considered during pit optimization.

Both La Colorada/Gran Central and El Crestón deposits have been previously worked by both open pit and underground methods. They both contain areas where the pit has been backfilled and, as such, the slope angles that intersect old waste have been considered during the optimization process. Underground voids have been depleted from the resource model for both La Colorada/Gran Central and El Crestón.

### Whittle® Results and Analysis

As a result of the pit optimization, the relationship of potential pit shells is based on stripping ratio variability and subject to a revenue of \$1,500/oz Au and \$20/oz Ag, respectively. By looking at the relationship of potentially mineable resource to waste and the associated best case and worst case cash flows generated at each incremental pit, the risk profile and revenue generating potential of the deposit can be estimated. For illustration purposes, pit 36 represents the maximum possible cash flow at \$1,500/oz Au, pit 86 represents a pit constructed using \$3,000/oz Au gold (but dependent on \$1,500/oz Au revenue) and pit 1 represents a pit constructed using \$420/oz Au.

### Open Pit Design

The El Crestón and La Colorada/Gran Central pit designs combine current site access, mining width requirements and generalized geotechnical parameters to explore the possible extraction of the resources through open pit techniques in a practical manner. As such, no restrictions were placed on either pit. However, during the PEA process the following issues were identified and will need to be resolved moving forward:

- La Colorada/Gran Central pit wall may be limited by the La Colorada township boundary if land purchases cannot be made;
- Heap leach pad sequencing may be modified to account for overlap between pit crests and heap footprint;
- Geotechnical buffers between pit crest, dump and heap toe must be defined; and
- Geotechnical zones updated based on pit depth and ground water level.

There is historical geotechnical information for both La Colorada/Gran Central and El Crestón open pits.

### Pit Design Parameters and Construction

For all three pits, the ramp width has been sized at 27 metres which can safely support Cat 777 (or equivalent) sized mining trucks. While this ramp size penalizes the stripping ratio, the operational savings in using the larger equipment during stripping campaigns will be vital especially given that El Crestón and Gran Central are both waste bound. One way access of 15 metres has been applied at the pit bottom after stripping requirements have been met.

Phase designs for both pits are largely driven by the effective mining widths and their influence on access to the resource. The same design parameters used in the final pit design have been incorporated into the phase designs.

*Production Schedule*

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Total</b>
<b>La Colorada</b>									
Total Tonnes	6,000,000	12,000,000	24,000,000	23,627,390	7,096,084	2,455,178			75,178,652
Mineable Resource Tonnes	1,152,641	2,663,632	4,018,013	4,947,177	3,064,470	1,689,896			17,535,829
Waste Tonnes	4,847,359	9,336,368	19,981,987	18,680,213	4,031,613	765,283			57,642,823
Stripping Ratio (W:O)	4.21	3.51	4.97	3.78	1.32	0.45			3.29
Gold Ounces	45,047	90,422	89,905	89,257	85,989	58,730			459,349
Silver Ounces	273,835	589,994	853,003	781,109	454,249	259,547			3,211,738
Gold Grade (0.1<Au)	1.22	1.06	0.70	0.56	0.87	1.08			0.81
Silver Grade (0.1<Au)	7.39	6.89	6.60	4.91	4.61	4.78			5.70
<b>El Crestón</b>									
Total Tonnes				372,610	16,903,916	21,544,822	24,000,000	10,436,578	73,257,926
Mineable Resource Tonnes				0	1,648,022	925,908	5,191,084	4,450,389	12,215,403
Waste Tonnes				372,610	15,255,895	20,618,914	18,808,916	5,986,189	61,042,524
Stripping Ratio (Waste:Ore)					9.26	22.27	3.62	1.35	5.00
Gold Ounces					43,673	13,832	99,302	98,279	255,086
Silver Ounces					783,908	235,293	2,259,253	1,673,203	4,951,658
Gold Grade (0.1<Au)					0.82	0.46	0.59	0.69	0.65
Silver Grade (0.1<Au)					14.79	7.90	13.54	11.69	12.61
<b>Veta Madre</b>									
Total Tonnes								5,535,267	5,535,267
Mineable Resource Tonnes								3,002,090	3,002,090
Waste Tonnes								2,533,177	2,533,177
Stripping Ratio (Waste:Ore)								0.84	0.84
Gold Ounces								43,841	43,841
Silver Ounces								285,387	285,387
Gold Grade (0.1<Au)								0.45	0.45
Silver Grade (0.1<Au)								2.96	2.96
<b>Total Tonnes</b>	<b>6,000,000</b>	<b>12,000,000</b>	<b>24,000,000</b>	<b>24,000,000</b>	<b>24,000,000</b>	<b>24,000,000</b>	<b>24,000,000</b>	<b>15,971,845</b>	<b>153,971,845</b>

Mineable Resource Tonnes	1,152,641	2,663,632	4,018,013	4,947,177	4,712,492	2,615,803	5,191,084	7,452,479	32,753,322
Waste Tonnes	4,847,359	9,336,368	19,981,987	19,052,823	19,287,508	21,384,197	18,808,916	8,519,366	121,218,523
Stripping Ratio (Waste:Ore)	4.21	3.51	4.97	3.85	4.09	8.18	3.62	1.14	3.70
Gold Ounces	45,047	90,422	89,905	89,257	129,662	72,562	99,302	142,120	758,276
Silver Ounces	273,835	589,994	853,003	781,109	1,238,157	494,841	2,259,253	1,958,590	8,448,782
Gold Grade (0.1<Au)	1.22	1.06	0.70	0.56	0.86	0.86	0.59	0.59	0.72
Silver Grade (0.1<Au)	7.39	6.89	6.60	4.91	8.17	5.88	13.54	8.17	8.02

The production schedule is used as the basis of the economic model and comprises predicted waste, resource tonnes, silver and gold grade. The bench scale inventory for each phase design within each pit was accumulated and the life of mine schedule performed with the Chronos scheduling package.

### *Manpower*

Due to the proximity of potential mining operations to the La Colorada village, Argonaut has focused on hiring as many unskilled positions locally as possible. For skilled operators, the La Colorada Mine is a 40 minute drive from the town of Hermosillo which is generally considered the center for mine personnel within the Sonoran region.

### *Markets*

Gold markets are mature, global markets with reputable smelters and refiners located throughout the world. Markets for doré are readily available. The La Colorada Mine operations perform gold extraction and refining and pour doré, after which this doré is shipped to a bullion refiner in North America for final processing and sale.

### *Environmental Conditions*

Minera Pitalla has authorizations necessary to carry on its activities at its project:

- La Colorada. Preventative Notice (Informe Preventivo, or IP) – February 2015
- Manifestación de Impacto Ambiental - April 2012

Reclamation and closure plans have been prepared for the project and the Corporation is in compliance.

### *Taxes and Royalties*

The La Colorada Mine is subject to government taxes including a 30% statutory income tax, a 7.5% special mining duty tax on mine operating profit before depreciation, depletion and amortization of mineral properties, plant and equipment and certain other deductions and a 0.5% mining royalty tax on net revenue from the sale of precious metals.

During 2013 all royalties at the La Colorada Mine were purchase by the Corporation for \$3.6M.

### *Exploration and Development*

Pediment drilled several targets at the La Colorada Mine between May 2008 and January 2010 (La Verde, Veta Madre Extension NE, El Creston and Gran Central-La Colorada, RoM pad and waste dumps). Pediment completed 134 drill holes at the La Colorada Mine (RC and diamond totaling 14,098 metres) during its exploration programs. Pediment's objective was mainly to confirm the resources identified by Eldorado, but also to explore for prospective zones with resource potential such as Veta Madre.

Argonaut Gold began exploring La Colorada in January 2011. From that date until October 2012, The Corporation completed 572 holes totaling 88,537 meters in RC, diamond and percussion drill holes. Argonaut's main focus for 2011 was to increase the resources in the project and to explore new zones. During 2011 the main drilling focus was on the La Colorada/Gran Central pit. For 2012, the main focus was outlining the Veta Madre zone, especially its western portion which was discovered in late 2011. The above total included 2,554 metres of drilling on the La Verde and Northeast Extension targets and 893 meters of geotechnical drilling completed in 2013. There was no drilling at La Colorada in 2014.

### *Social Management Planning*

Minera Pitalla is in the process of implementing a social management plan ("SMP") to "identify, prevent, control and mitigate the possible impacts that might come with the La Colorada Mine and could affect the social, economic and environmental dynamics of the project's area of influence." The proposed SMP, prepared by an independent third party, has been formulated according to the environmental and social policies of the Corporation, as well as the international guidelines and standards regarding social impacts management.

In order to comply with the SMP objectives, Minera Pitalla has a Community Relations office located in the town of La Colorada. This office is in charge of maintaining open dialogue and relations with the locals while coordinating with the mine environmental and human resources departments. The current SMP is fairly general in its approach, but does include descriptions of activities to be carried out in the areas of:

- Community communication and dialogue;
- Contribution program for financial assistance;
- Local labor hiring program;
- Community development program; and
- Social and environmental programs.

### **San Antonio Gold Project**

#### *Property Description and Location*

The San Antonio Project is located in the southern peninsula of the Baja California Sur state of Mexico approximately 45 km southeast of the city of La Paz and about 160 km north of the resort town of Cabo San Lucas.

The San Antonio Project contains four known gold deposits; 1) at Los Planes (North Zone), 2) Intermediate (between Los Planes and Las Colinas), 3) Las Colinas, 4) and La Colpa. There are also a number of exploration targets on ground currently controlled by the Corporation. The mineral concessions comprising the San Antonio Project were acquired in four stages. There are 16 concessions held on the San Antonio Project which have a total area of 23,383 Ha. The Corporation also holds land to the south on the mineral trend. This block called South San Antonio covers 5,238 Ha.

All concessions were granted for a duration of 50 years. The concessions are held in the name of Minera Pitalla. As per Mexican requirements for grant of tenure, the concessions comprising the San Antonio Project have been surveyed on the ground by a licensed surveyor. To date, annual exploration reports and work commitments have been maintained as required, and that concessions covering the project are valid at the time of the report.

Argonaut also hold four concessions over a historic mining camp called El Triunfo that is situated west of the San Antonio resource area. The Mexican government retains a sliding scale (variable) 1% to 3% NSR royalty on this concession group. The sliding scale is based on fluctuations in gold price. No other royalties are payable on any other concession, including the concessions on which the San Antonio deposits are located.

Minera Pitalla has purchased 2,624 Ha of surface rights in the San Antonio Project area and acquired leases over another 310 Ha. Surface access agreements with the Procuraduria Agraria office in Baja California Sur (paid on an annual basis to

the local ejidos) allow for either "low impact" exploration i.e. prospecting, soil and rock sampling and hand trenching, or "transition" exploration (i.e. road building, mechanical trenching, drilling), with higher cash payments.

There are no work commitments and all types of exploration are permitted except mining. As much as is possible, Argonaut has hired all local staff from the ejidos and surrounding communities and has consulted with local village councils on all aspects of exploration.

#### *Mexican Geological Survey Agreement*

In July 2008, Pediment acquired the El Triunfo–Valle Perdido concessions from the Mexican Geological Survey and committed to a variable 1% to 3% NSR; payable to the Mexican Geological Survey.

As a guarantee for the payment of NSR, Argonaut has to provide a bond to the Mexican Geological Survey for the amount of MXN\$506,853. The bond is renewed annually, so the amount of the bond is held in trust for as long as the Mexican Geological Survey has its NSR active. Minera Pitalla will remain responsible for payment of royalties on this material to the Mexican Geological Survey, as non-payment of the royalty will result in concession cancellation.

#### *Environmental Liabilities*

Argonaut maintains that current project environmental liabilities are restricted to exploration site activities and access roads constructed to service exploration programs.

#### *Location of Mineralized Zones*

Mineralization has currently been identified along a 1.8 km strike length and has been subdivided into four fault-bounded blocks, which have been named Las Colinas, Intermediate, North Zone and La Colpa, from south to north. The North Zone represents the largest deposit to date.

#### *Permits*

Activity on site completed to date consists of exploration-level activities and has been performed in accordance with Mexican regulatory requirements. In 2011, AMEC Earth & Environmental ("AMEC"), a division of AMEC Americas Limited noted that a visit by the regulatory enforcement authority, La Procuraduria Federal de Proteccion al Ambient ("PROFEPA"), was requested by Pediment for the project, and conducted in January 2009 to check the status of the exploration disturbance limit at that time. Subject to this inspection, the San Antonio Project was deemed to be in compliance. However, in 2012, PROFEPA ordered a cease-and-desist injunction against the San Antonio Exploration Zone. This injunction was under review until October of 2013, when it was determined by a regional court that a fine was applicable. The Corporation paid the fine of approximately MX\$125,000 to avoid interest and penalties. Similarly during the same period the Fandango Exploration Program, another exploration program of the Corporation carried out in the project vicinity, related to exploration peripheral to the San Antonio resource area, was stopped and the Corporation was fined \$10,000. This fine was paid and the case was finalized.

In August of 2012, Argonaut received notice that the Environmental Impact Assessment permit application had been denied, without objection to the substance of the application, by the regulator. The regulator requires amendment of the underlying municipal zoning plan, a process Argonaut had already begun. The need to amend the zoning has always been anticipated by Argonaut as one of the items required for development of the mine. The Corporation continues work with federal, state and local governments to receive the required zoning changes, through both legal and administrative channels and will pursue necessary permits for the San Antonio project at the appropriate time. The Corporation continues to engage with local communities as well.

As a result of the denial of the Environmental Impact Assessment application the Corporation's wholly-owned subsidiary Minera Pitalla issued a protective order against the ruling. This protective order was filed with the 9th Circuit Court and was assigned case number 1011/2012 naming a number of officials and agencies relevant to the permitting. On January 10, 2014, a constitutional hearing was convened by the 9th Circuit Court, denying the protective order to Minera Pitalla. In this

sense and in order to challenge such resolution, Minera Pitalla submitted a remedy of appeal, which fell in the case number 132/2014 before the 18th Collegiate Tribunal, remains pending the official ruling.

A number of additional permits would be required to construct and operate the San Antonio Project:

- Environmental Impact Assessment Authorization
- Risk Analysis Report
- Operating License (and Air Quality Permit)
- Land Use Change Permit
- Concession for Underground Water Extraction
- Wastewater Discharge Permit
- Stream Diversions
- Hazardous Waste Register
- Permit for the Use of Explosives
- Land Use License

### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

The San Antonio Project is within the San Antonio–Triunfo mining district located about 40 km southeast of La Paz, the principal sea port and the capital city of the state of Baja California Sur, Mexico. The closest towns are San Antonio, 8 km west of the San Antonio Project, Triunfo, 10 km northwest of the San Antonio Project, and Los Planes, 15 km east of the San Antonio Project. Travel time from San Antonio to the project is approximately 10 minutes.

A road connecting Highway No. 1 and Highway 286 crosses through the project boundaries and will necessarily have to be relocated.

The climate is normally arid and hot, with an average temperature in January of 24°C during the day and average lows of 13°C at night. In July temperatures average 32°C during the day and 27°C at night. Average precipitation of 450 mm/y is far outpaced by evaporation. Rainfall is cyclical, with distinct wet and dry seasons with almost 80% of the annual rainfall between July and September. The potential operations could operate year-round, pending potential delays caused by unpredictable natural phenomena such as hurricanes or flash flooding.

There is no existing project infrastructure. Exploration crews stay in San Antonio and travel to site as required. Cell coverage in the area is available. Roads and power lines pass directly through the San Antonio Project area.

It is a reasonable expectation that any additional surface rights that may be required to support any planned infrastructure locations can be obtained.

Power for any mining operation would be available from an upgraded 34.5 kV line that crosses over the San Antonio Project. The current route of the power line will require relocation to allow for project construction.

The Corporation has acquired water rights required for operation.

The project is located in an area defined by erosional features, and the mineralization is generally covered by an extensive pediment of sand and gravel.

Some elements of the dry forest are present in this community as are a high percentage of xeric plant species. The Sierra La Laguna Biosphere Reserve is in the region of the project. The project site is located 18 km from the biosphere buffer zone, in a completely separate hydrographic basin from the biosphere reserve.

## ***History***

### *Historic Production*

Historic production in the district is poorly documented. The nearby Triunfo district is thought to have produced around 115,000 ounces of gold and approximately 21 million ounces of silver through 1914. Other production was from the nearby El Tule area, where a flotation mill was operating at some point during the 1940's or 1950's. The most recent production in the district was gold produced by Minera Tepmin at the Testera Mine, located approximately 10 km south of San Antonio. This mine processed approximately 50 tonnes per day and operated intermittently from 1997 to 2000. There is no recorded production from the current project area.

### *Legacy Exploration Activities*

The government geological branch, Consejo De Recursos Minerales ("CRM"), carried out work in the 1970s, consisting of mapping, trenching and limited magnetic and induced polarization ("IP") surveys which covered portions of the San Antonio Project.

A Canadian-based company, Viceroy Resource Corp., ("Viceroy") began investigation of the Paredones Amarillos area south of the San Antonio Project, in about 1990. Echo Bay Exploration Inc. ("Echo Bay") acquired the Paredones Amarillos area from Viceroy through joint venture ("JV") entered into in 1993.

During the approximate period from 1993 to 1998 Echo Bay carried out detailed geological mapping, stream sediment, soil and rock chip sampling, trenching, ground electromagnetics, airborne radiometrics, magnetic and very-low frequency electromagnetic surveys, RC and core drilling, a first-time mineral resource estimate in 1996, and metallurgical studies.

The radiometric survey is reported to have identified the Las Colinas mineralization within the San Antonio Project. The Los Planes, Intermediate and La Colpa zones however were not recognized due to sand and gravel cover.

### *Argonaut and Pediment Activities*

Exploration work by Pediment staff in the area commenced in 2005. Activities to 2010 included data review, rock chip and grab sampling of old trenches and workings, soil sampling, reconnaissance IP geophysical surveys, RC and core drilling, mineral resource estimation, and metallurgical test-work. Third-party studies in relation to socio-economics, hydrogeology and geotechnical data have commenced.

A PEA was commissioned from AMEC in 2010.

In 2011 Argonaut published a resource estimation completed by AMEC.

## ***Geological Setting***

### *Regional Geology*

The basement of the Baja California Sur region comprises a chain of Mesozoic granitic bodies and accompanying late Paleozoic to Mesozoic metasedimentary roof pendants. Metasediments are schists, gneiss, and marbles, which are thought to have experienced some regional metamorphism prior to the emplacement of intrusive rocks. The crystalline basement complex west of the La Paz fault that includes the San Antonio district is composed of two separate intrusive complexes hosted in sediment-derived schists and gneisses. Host rocks are generally described as a hornblende-rich intrusive varying in composition between gabbro and quartz-diorite. The biotite granodiorite batholith that hosts mineralization at the nearby Concordia (Paredones Amarillo) gold deposit (held by third parties) is considered to be a younger intrusive event. Overlying the basement rocks and the intrusions are Tertiary and Quaternary sediments. The structural geology of the region is dominated by Mesozoic large-scale low-angle thrust faulting featuring cataclasites, mylonites, and mineralized stockwork zones that host the silver and gold mineralization. Shear zones related to thrust faulting exceed 200 metres in thickness and are regionally traceable over 40 km.

Comparisons of the San Antonio district to the nearby Triunfo district indicate that while both districts exhibit similar characteristics, significant differences in the geochemistry exist. Both districts are thought to have a similar age and origin, and mineralization is roughly hosted in the same rock units. However, San Antonio is known to be a gold-dominant system, whereas Triunfo is silver-dominant with associated base metals. Strikes and dips are also dissimilar between the two districts, with San Antonio having a north-south strike and a variable dip to the west, and Triunfo striking roughly 20° to 30° east of north and dipping gently to the east.

### *Project Geology*

#### Lithologies

Due to the paucity of outcrop within the San Antonio Project, geological interpretations are primarily based on drill data. The primary rock units within the San Antonio Project belong to the basement of the Baja Sur, and include:

- Diorites and gabbros: usually coarse grained, contain abundant hornblende or augite and are dark-coloured. Common in the southern portion of the Colinas area, and near the historic La Colpa mine. Some fine-grained variants were noted in the La Colpa area.
- Biotite–hornblende quartz diorites: abundant hornblende and minor quantities of magnetite; commonly have ilmenite as the dominant opaque mineral. Quartz diorite is common in both the hanging-wall and footwall of the Planes deposit, and coarse-grained biotite–hornblende quartz diorite is the most common rock type present in the Planes deposit. Las Colinas has a mix of diorite and quartz diorite.
- Biotite granodiorite–granite: The intrusion has a weakly porphyritic character with fine grained biotite of a brownish coffee color. It is present as a medium-grained quartz-rich intrusive beneath the Planes deposit and is seen mainly in the drill holes which penetrate deeper into the hanging-wall of the large thrust fault shear zone. Rocks of similar texture crop out south of the Colinas deposit and adjacent to the southeast of the La Colpa mine zone.

#### Structure

The San Antonio Project geology is defined by mineralization hosted in a regional shear zone, possibly a Mesozoic-age thrust fault. The shear dips to the west at about 45°, and is dominated by stockwork, cataclasites, and mylonites.

Current drilling suggests that a northwest-trending graben basin has displaced the Los Planes deposit by more than 200 metres, over increments between 20 to 100 metres. These blocks are bounded by listric faulting and are dropped en echelon down to the northeast along N40W-trending structures.

### *Exploration*

Exploration activities on the San Antonio Project have included regional and detailed geological mapping, rock, grab, and soil sampling, trenching, RC and core drilling, ground magnetic and induced polarization (“IP”) geophysical surveys, mineralization characterization studies, and metallurgical testing of samples. Petrographic studies and density measurements on the different lithologies have also been carried out.

During 2008, Pediment performed prospect-scale geological mapping along the strike from Las Colinas to Intermediate, and at the Fandango prospect.

During 2010 Pediment undertook prospect-scale mapping over the La Colpa zone and the Triunfo area, at a scale of 1:2,000. The program focused on the northeast end of the Triunfo trend and identified general areas of alteration, structure, and mineralization at outcrop level.

Geochemical sampling performed by Echo Bay and CRM included rock chip, grab, and soil sampling. Rock and trench samples were collected by qualified Mexican geologists/prospectors with data, including universal transverse mercator (“UTM”) coordinates, lithology and mineralization recorded in field books.

Soil samples were collected mainly in 2007 and the results are not contoured. A total of 3,600 samples were collected.

The surveys identified two gold anomalous trends that were related to the northern extent of the Las Colinas trend and the northern trend from Mina La Colpa. A large western zone, Fandango, showed anomalous gold values. The La Virgen zone also returned a broad low-level gold anomaly.

Anomalous arsenic, silver, lead and antimony (“As, Ag, Pb and Sb”), characteristic of the El Triunfo mineralization, occurred in a zone with no outcrop, called the 602 anomaly, near the east side of the Trini concession.

A small number of trial pits were reportedly dug in some areas.

During the mid-1990s, Echo Bay completed an IP survey over the Las Colinas deposit. Additional lines to the north were also run. Results of the survey indicated continuation of the Las Colinas mineralization to the north of the then-existing drilling.

Reconnaissance IP was completed by Minera Pitalla in 2006. Results of the survey showed two large anomalies which extend off the Cirio concession north and east.

In 2006 Minera Pitalla completed a resampling program of four Echo Bay trenches and widespread rock chip sampling and results confirmed gold mineralization in the trenches.

Two additional trenches of about 40 metre length each were excavated and bulk sampled in 2008. This work provided samples of gold mineralization averaging about 1 g/t Au for leach testing.

Golder Associates Inc. was contracted in July 2010 to complete a final feasibility-level pit slope study. Field work was conducted including the drilling and logging of six oriented drill core holes to better characterize the type of rock and existence of geologic structures such as faults and formations. The final report on this work was completed during 2011.

Hydrological studies have been performed, to evaluate and develop the water resources, quality and groundwater control method that could be implemented over the life of the project.

In 2012, 2013 and 2014 exploration has been mainly limited to regional mapping and sampling to identify outlier target areas of eventual follow-up.

## ***Mineralization***

### *Deposits*

Gold mineralization on the San Antonio Project has been identified along a 1.8 km strike length and has been subdivided into four fault-bounded zones, which have been named Las Colinas, Intermediate, La Colpa, and Los Planes. Los Planes is the best known of the deposits to date and is the most densely drilled.

#### *Los Planes (North Zone)*

Mineralization extends along a north-south strike length of approximately 800 metres. Drilling has encountered continuous mineralization to depths of 380 metres from the surface. Mineralization generally varies between 1 and 20 metres in thickness. Mineralization thickness is highly variable due to the stockwork style of mineralization, and zones can locally coalesce into broader intervals over 100 metres in thickness. Mineralization is interpreted to be open along strike to the north and at depth.

Mineralization is hosted in diorites and gabbros within a large shear zone that dips between 75° and 45° to the west and horizontally to very shallowly to the east. The shear zone is broken into subunits that are defined by their structure, alteration, and degree of mineralization. These units are described as:

- Hanging Wall 1 (“HW1”) – Strong deformation, foliated intrusive, microbreccia,
- Stockwork/Cataclastite – breccia zones, cemented by iron sulphides, elevated Au grades, interpreted as a primary fluid pathway for mineralization;
- Hanging Wall 2 (“HW2”) – Transition from HW1, weakly altered, less sulphide mineralization; and
- Footwall – below faulted/gouge zone, subtle deformation, unmineralized.

The HW1 and stockwork/cataclastite zones host the great majority of the Au mineralization. Mineralization is intimately associated with sulphides, although near-surface oxidation affects Los Planes to depths in excess of 100 metres along faults and fracture zones.

#### *Las Colinas and Intermediate Zones*

Las Colinas and Intermediate zones appear to be genetically related, and are separated by post-mineral normal faults that effectively truncate mineralization between the northern (Intermediate) and southern (Las Colinas) zones. The faults that bound Intermediate to the north and south dip away from each other at 50° to the north and 55° to the south, respectively. Known mineralization in the Colinas zone is truncated to the south by the mineral tenement boundaries. The deposits dip approximately 50° to 60° to the west, and are hosted in shear zones measuring over a km in strike length. Shear zones are generally competent in both zones, and are described as being composed of potassium feldspar and quartz in a matrix of sericite, chlorite, and quartz. The mineralized zones vary in thickness, and are generally thinner to the south in the Las Colinas zone. The most notable difference between the zones is the conspicuous absence of a well-developed stockwork zone at Las Colinas. Much like the mineralization at Los Planes, gold grades in the Intermediate zone are best associated with the stockwork zones characterized by elevated sulphide content.

#### *La Colpa*

Mineralization at La Colpa is interpreted to be a sheeted vein complex with intermediate stockwork zones. Due to the unpredictable nature of this mineralization, the number of parallel veins varies within the zone from two to six sequential structures. The stockwork zones are hosted in cataclastic units with a schist footwall, and are weakly chlorite/sericite altered. Originally, the mineralization was interpreted to be hosted in a shear zone dipping to the west at about 10° to 20° and composed of cataclastite and mylonite, with alteration dominated by sericite, silicification, and local K-feldspar. The dip of these units has been reinterpreted to be about 50° to 60° dip after more information was acquired in the recent expanded drilling program. This dip is more consistent with the dips observed in the southern end of the property such as those at Las Colinas. Grade shells were built that reflect this steeper dip.

#### *Deposit Types*

The mineral deposits described in the previous sections are considered to be mesothermal or orogenic origin. These deposits are historically important throughout many major gold-producing districts worldwide and have been described in multiple peer-reviewed publications.

Orogenic gold deposits are almost always characterized by their association with deformed metamorphic terranes, independent of age. The great majority of these deposits are thought to have been formed during the Middle Precambrian to the Later Precambrian, and continuously throughout the Phanerozoic. There is evidence for a strong correlation between greenschist facies metamorphism and gold in many of these deposits, although some deposits are known to occur along with higher metamorphic grades. The mineralogy of these deposits is typified by quartz dominant veins with 3% to 5% sulphides and 5% to 15% carbonate minerals. Mineralization can be continuous over vertical ranges in excess of 1 to 2 km with very little change in grade or mineralogy, although deposits with significant vertical zonation do exist. Gold to silver ratios generally range from 10:1 (normal) to 1:1 (less common). The San Antonio district falls in this range, although it generally appears to be closer to the 1:1 ratio. Sulphides are typically iron rich, although arsenopyrite and pyrrhotite are commonly found in metasediments and metamorphosed igneous rocks respectively.

Hydrothermal alteration typically exhibits a strong lateral zonation from proximal to distal assemblages on the scale of metres. Assemblages are highly variable and depend heavily on wallrock composition and crustal level. The alteration mineralogy can be summarized as: most commonly, carbonates include ankerite, dolomite or calcite; sulphides include

pyrite, pyrrhotite or arsenopyrite; alkali metasomatism involves sericitization or, less commonly, formation of fuchsite, biotite or K-feldspar and albitization and mafic minerals are highly chloritized. Amphibole or diopside occur at progressively deeper crustal levels and carbonate minerals are less abundant. Sulphidization is extreme in a banded iron formation ("BIF") and iron rich mafic host rocks. Wall-rock alteration in greenschist facies rocks involves the addition of significant amounts of carbon dioxide, sulfur, potassium, water, silicon dioxide, sodium and large ion lithophile elements. ("CO<sub>2</sub>, S, K, H<sub>2</sub>O, SiO<sub>2</sub> Na and LILE").

These deposits typically occur along first-order crustal-scale fault zones, which can be hundreds of kilometres long and several kilometres wide. Deposition of gold occurs in the related second or third-order structures, in stockwork zones or breccias within the fractured or sheared host rocks. These structures can actually be highly variable in type, including brittle faults, ductile shear zones, fracture arrays, low angle compressive structures, foliated zones, fold hinges in turbidite sequences, and more.

### ***Drilling***

The Project database includes 589 drill-holes comprising 101,898.3 metres drilled using various methods and contractors. Of these drill-holes, eight have been excluded as they were drilled for water monitoring purposes rather than exploration activities. The drilling has mostly taken place on the four primary targets of Los Planes, Las Colinas, Intermediate and La Colpa. Other areas of drilling include the Fandango and La Virgen. The drilling includes 31 RC holes drilled by Echo Bay from 1995 to 1997, totaling an estimated 6,187 metres. No records or historical information are available from this program, with the exception of the basic drilling information contained in the database.

### ***Sampling and Analysis & Security of Samples***

#### ***Reverse Circulation Sampling***

Reverse circulations cuttings were sampled in 5 foot (1.52 metre) increments regardless of lithology, alteration, or mineralization. In the sample recovery process, a cyclone is set up to initially split the material in half using a vertical and a lateral discharge. When normal samples are collected, material from the vertical discharge (50%) is discarded and the side discharge goes through a second splitter to obtain two samples, each representing 25% of the total discharge. These two samples are collected and sealed with plastic pull ties in pre-numbered cloth bags (for wet material) or plastic bags (for dry material). One of the bags is later weighed and stored in large rice sacks in the fenced yard at the Minera Pitalla warehouse as a duplicate, while the other is weighed and sent to the ALS Chemex preparation laboratory in Hermosillo.

All samples were taken by Minera Pitalla staff in a pickup truck at the end of the shift to the central logging facility at San Antonio (about 10 minute drive) where they were stored in a gated and fenced compound.

The samples were shipped to the ALS Chemex preparation facility located in Hermosillo.

#### ***Core Sampling***

All core sampling was generally carried out at 1.52 metre intervals. In a few areas of poor recovery, core samples can be combined into lengths greater than 1.52 metres. The 1.52 metre sample intervals are not tied to lithology, alteration, or structure.

Core was generally split using a diamond saw where half of the core is put into individual sample bags while the other remaining half is retained in the core boxes and stored on site in San Antonio.

#### ***Quality Assurance and Quality Control ("QA/QC")***

SRK was able to assess QA/QC procedures used at the project since the start of the 2010 drilling program. Data from 2010-2012 includes blanks, duplicates and certified reference materials or standards. SRK is of the opinion that the QA/QC methods and procedures employed by Argonaut are appropriate and consistent with industry standards.

### *Data Verification*

SRK randomly spot-checked ten assay certificates from various stages of the project. Although there were differences in the sample identification prefixes, visual comparison yielded no errors. SRK also attempted a more thorough comparison of the drill-hole database to the analytical certificates, and reviewed certificates via mathematical comparison. SRK concluded that the database is adequate for the purposes of resource estimation.

### *Mineral Resource and Mineral Reserve Estimates*

#### *Mineral Resource Estimation*

The general procedure used for resource estimation was as follows:

- The drill-hole database was imported into Vulcan™ and examined for data errors, such as overlapping intervals, missing data, etc.;
- Wireframes were provided for Los Planes, Las Colinas and Intermediate zones by Argonaut. The wireframes were constructed at a nominal cut-off grade ("CoG") of 0.2 g/t gold. A high grade area in Los Planes was constructed at about 0.5 g/t Au. SRK reviewed the validity of the wireframes and made corrections where necessary;
- SRK prepared wireframes for the La Colpa zone;
- Statistics were run for assays within the wireframes and lognormal probability plots were examined for data outliers;
- The assays were composited into 3 metre lengths from the top of the drill-hole and statistics were run for the composites within the wireframes;
- A three-dimensional block model was created with 5 metres x 5 metres x 5 metres blocks with percentages inside the wireframes recorded;
- Block grades were estimated for gold using ordinary kriging ("OK") with composites inside the wireframes. Nearest neighbor grades were also estimated, in order to provide a comparative model used to validate the OK grades; and
- Resources were classified according to the estimation pass and drill-hole spacing.

#### *Mineral Resource Statement*

The resources are constrained to a pit optimization shell run with the following parameters:

- Gold price: \$1,500;
- Mining cost: \$1.45 per tonne moved;
- Processing cost: \$3.09 per tonne processed;
- G&A: \$0.63 per tonne processed; and
- Recovery: 70% in oxide and transition, 50% in sulphide.

The internal gold CoG (excluding mining cost) is 0.11 g/t Au for oxide and transition and 0.15 g/t Au for sulphide.

The Measured, Indicated and Inferred Resources within the pit optimization shell are provided in the table below.

<b>Deposit</b>	<b>Class</b>	<b>Tonnes (x 1,000)</b>	<b>(Au g/t)</b>	<b>Au ounces</b>
<b>Los Planes</b>	<b><i>Oxide/Transition</i></b>			
	Measured	12,351	0.76	303,000
	Indicated	8,408	0.67	181,000
	<b><i>Sulphide</i></b>			

<b>Deposit</b>	<b>Class</b>	<b>Tonnes (x 1,000)</b>	<b>(Au g/t)</b>	<b>Au ounces</b>
	Measured	6,649	1.17	250,000
	Indicated	22,065	0.92	653,000
	<i>Oxide/Transition</i>			
	Inferred	101	0.42	1,000
	<i>Sulphide</i>			
	Inferred	410	0.99	13,000
<b>Intermediate</b>	<i>Oxide/Transition</i>			
	Indicated	643	0.39	8,000
	<i>Sulphide</i>			
	Indicated	4,961	0.77	123,000
	<i>Oxide/Transition</i>			
	Inferred*	7	0.23	0
	<i>Sulphide</i>			
	Inferred*	0	0.39	0
<b>Las Colinas</b>	<i>Oxide/Transition</i>			
	Indicated	1,910	0.62	38,000
	<i>Sulphides</i>			
	Indicated	8,103	0.69	179,000
	<i>Oxide/Transition</i>			
	Inferred	61	0.39	1,000
	<i>Sulphide</i>			
	Inferred*	13	0.69	0
<b>La Colpa</b>	<i>Oxide/Transition</i>			
	Inferred	4,481	0.27	39,000
	<i>Sulphide</i>			
	Inferred	1,662	0.32	17,000
<b>All Deposits</b>	<i>Oxide/Transition</i>			
	Measured	12,351	0.76	303,000
	Indicated	10,961	0.64	227,000
	Measured & Indicated	23,312	0.71	530,000
	<i>Sulphides</i>			
	Measured	6,649	1.17	250,000
	Indicated	35,129	0.85	955,000
	Measured & Indicated	41,778	0.90	1,205,000

Deposit	Class	Tonnes (x 1,000)	(Au g/t)	Au ounces
	<i>Oxide/Transition</i>			
	Inferred	4,257	0.27	37,000
	<i>Sulphide</i>			
	Inferred	1,957	0.47	30,000
	<i>All types</i>			
	Measured	19,000	0.91	553,000
	Indicated	46,090	0.80	1,182,000
	Measured & Indicated	65,089	0.83	1,735,000
	Inferred	6,215	0.34	67,000

\* Rounding results in less than 1,000 tonnes or less than 1,000 ounces.

(1) Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves. Inferred Mineral Resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assured that all or part of the Inferred Mineral Resources will ever be upgraded to a higher category.

(2) Resources are stated at CoG of 0.11 g/t Au for oxide and transition and 0.15 g/t Au for sulphide and are contained within a pit optimization shell.

(3) Pit optimization is based on an assumed gold price of \$1,500/oz, metallurgical recovery of 70% for oxide and transition and 50% for sulphide, mining cost of \$1.45 per tonne of material moved, processing cost of \$3.09 per tonne processed and G&A cost of \$0.63 per tonne processed.

(4) Mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.

(5) Mineral resource tonnage and grade are reported as diluted.

(6) Gold assays were capped prior to compositing.

(7) Mineral resources may be materially affected by metallurgical, environmental, permitting, legal, taxation, socio-economic, marketing, political and other relevant issues.

## ***Mining Operations***

### ***Metallurgical Testing***

Testing of metallurgical samples from Argonaut's San Antonio Gold Project located in Baja California Sur, Mexico has consisted of gravity concentration, flotation, bottle roll leach, column leach testing and preliminary environmental testing. The samples tested have demonstrated amenability to flotation and heap leach cyanide leaching. Gold recovery in laboratory column leach testing varied from 47% to 91%, depending on material type. For study purposes, KCA normally discounts the laboratory results by two to three percentage points when projecting field recovery. Field gold recovery by heap leaching is therefore estimated to range from 44% to 86% considering averages of similar material types and pit locations and crushing to P80 9.5 mm (3/8 inch). Cyanide consumption will be low to moderate on the order of 0.26 kg/t, and lime consumption will be moderate on the order of 1.3 kg/t.

During fiscal 2010 Pediment engaged METCON Research ("Metcon") of Tucson, Arizona to conduct a comprehensive metallurgical test program for the San Antonio Project. Metcon found that gold recovery increases with decreasing particle size as was indicated in the bottle roll tests. The average recovery of all material crushed to P100 101 mm was 36.7%; the average recovery of all material when crushed to P80 19.1 mm was 56.1%; and the average recovery for all material when crushed to P80 9.5 mm was 66.4%. Considering all tests, gold recovery increased by 19.4% when decreasing the particle size from P100 101 mm to P80 19.1 mm, and by 29.7% when decreasing the particle size from P100 101 mm to P80 9.5 mm.

Best gold recoveries were demonstrated by oxide portions of the Starter and Los Planes Pits composites when crushed to P80 9.5 mm, yielding 91% and 87% respectively. Silver recovery was low in all cases, but did generally increase as the testing particle sizes decreased. Average silver recovery for all composites when crushed to P80 9.5 mm was 19.5%.

### *Mining Method*

The project is classified as an advanced stage exploration project.

The preliminary economic analysis is based upon mining of the resource through the development of three open pits. The operation will be carried out with the use of a contract miner. Within Mexico, several mining contractors exist with experience and equipment necessary to perform this function. No contractors have been contacted at this point in time; however, Argonaut has experience working with contractors at its other Mexican operations. The resulting pit designs contain 60.2 Mt of Measured and Indicated mineral resources with an average grade of 0.85 g/t Au and 0.5 Mt of Inferred resources with an average grade of 0.84 g/t Au. The average strip ratio of is 3.1:1. At a 4 MTPY production rate, it is expected the potential mine life to be in excess of 15 years. The production schedule targeted a consistent total mine tonnage of 18 MTPY from year two onwards.

### *Capital and Operating Costs*

The life-of-mine ("LOM") capital expenditures required for processing, G&A, infrastructure, pre-production mining and sustaining capital cost are \$97.5 million excluding reclamation and salvage value. Of this capital, \$84.3 million is initial capital and \$13.2 million is sustaining capital. The costs are in second quarter 2012 U.S. dollars. For items not sourced in the U.S., the MXN/US\$ conversion rate of 13:1 was used. Capital costs were compiled by KCA. Quotes for major equipment were based on either new quotes from a supplier or from recently received quotes in KCA's files. Minor equipment item costs are based on recent quotes for similar equipment from KCA files, recent quotes from similar sized projects in Mexico or from quotes within their files. Capital estimates are at a scoping level and are accurate within a +/- 25% range.

The estimated operating cost is \$3.91 per processed tonne including G&A, crushing, processing, carbon transport to Argonaut's La Colorada Mine and carbon treatment costs. Contract mining costs, provided by Argonaut, are \$1.45 per tonne of rock mined, and \$1.30 for sand or alluvium or \$5.50 per processed tonne for the life of the project, excluding pre-production stripping. The mining costs consider using a contractor miner and are based on Argonaut's experience with contract miners at its other Mexican operations. Corporate overhead costs are not included. The costs were developed based on the project metallurgical test work, scoping level engineering and data from KCA files for operating and maintenance equipment and supplies. Labor has been estimated using staffing and wage requirements based on typical rates in the Mexican mining industry.

### *Economic Analysis*

The financial analysis results, shown in the table below indicate a net present value ("NPV") of \$293 million on a pretax basis at an 8% discount rate. Payback will be approximately 1.5 years of production. The following provides the basis of the San Antonio Project LOM plan and economics:

- Measured, Indicated and Inferred resources are included;
- A mine operating life of 15 years;
- An overall average metallurgical recovery rate of 63% Au over the LOM;
- A net operating cost of \$553/oz. Au;
- Capital costs of \$97.5 million, comprising initial capital costs of \$84.3 million, and
- Sustaining capital over the LOM of \$13.2 million;
- Mine closure cost, included in the above estimates is \$15.4 million;
- The analysis does not include provision for salvage value; and
- Operating costs are 43% of revenue.

The Corporation has performed internal calculations and estimates the cost to build a plant that can process 6 MTPY will require an additional \$10M in capital.

## ***Exploration and Development***

Further metallurgical testing was recommended.

Additional and ongoing data collection is recommended in connection with climatological and air quality work and waste rock characterization and management.

In addition to continuing permitting work, recommended work includes further optimizing mining plans, reviewing and improving engineering studies on the capital and infrastructure projects and preparing for a construction decision. Further exploration in the project area is not anticipated.

<b>Description</b>	<b>Value</b>	<b>Units</b>	<b>Units</b>
<b>Production Summary</b>			
Waste Mined	173,414	kilo tonnes ("kt")	
Process Material	60,612	kt	
Oz-Au Refined	1,046	kilo ounces ("koz")	
Avg. LOM Strip Ratio	3.1		
Avg. Annual Production (Oz Au)	74	koz	
<b>Estimate of Cash Flow</b>			
Gross Income	\$1,349,671	000s	
Refining	(\$10,459)	000s	
Net Revenue	\$1,339,212	000s	
<b>Operating Costs</b>			
		<b>\$/t-crushed</b>	<b>\$/oz-Au</b>
Mining	\$333,624	5.50	318.99
Processing	\$198,565	3.28	189.85
General & Admin	\$46,250	0.76	44.22
<b>Total Operating</b>	<b>\$578,439</b>	<b>\$9.54</b>	<b>\$553.06</b>
Operating Margin	\$760,773	000s	
Initial Capital	\$84,309	000s	
LOM Sustaining Capital	\$13,201	000s	
Cash Flow Available for Debt Service	\$647,862	000s	

## **Magino Gold Project**

Prodigy is a subsidiary of Argonaut and the Corporation will be referred to here as Argonaut/Prodigy for subjects and events that postdate the Prodigy Arrangement.

### ***Project Description and Location***

Argonaut/Prodigy has a 100% interest in the Magino Gold Project (the "Property", the "Magino Mine" or the "Project"), which comprises seven patented mining claims (mining and surface rights), four leased mining claims and 70 unpatented mining claims with a combined area of 5,844 acres (2,365 Ha) located within the Sault Ste. Marie mining district of Ontario, Canada.

In October of 2013, Argonaut announced that it had entered into a surface and mining rights exchange agreement with Richmond Mines Inc. ("Richmont"; TSX:RIC). Pursuant to this agreement, Argonaut expanded land access associated with its Magino Gold Project by obtaining both surface rights and mining rights up to 400 metres in depth on certain Richmont claims surrounding the project. Argonaut transferred its interest in certain claims to Richmont, to enable it to expand its exploration potential at its Island Gold Deep project. The terms of this agreement provide a CA\$2 million payment from Argonaut to Richmont. The additional surface and mining rights acquired covered 217 acres (88 Ha).

The Property is approximately 40 km northeast of the town of Wawa, Ontario, in Finan Township Ontario. The Project is approximately 14 km southeast of the town of Dubreuilville, Ontario. The Project consists of an underground mine that was active between 1986 and 1992, and processed 768,678 tonnes at a recovered grade of 0.137 troy oz/tonne gold to produce 105,543 troy oz of gold. Since the closure of the underground mine, Prodigy and its predecessors conducted several studies that evaluated the feasibility of re-commencing underground operations and/or commencing open pit operations.

*Environmental Matters*

Golden Goose Resources Inc. (“Golden Goose”) the subsidiary of Prodigy that holds the Magino mine, retained AMEC Earth & Environmental, a division of AMEC Americas Limited, to carry out a dam safety inspection of the tailings dams at the Magino Mine (Yong et al. 2008). The inspection was conducted in accordance with guidelines applicable to structures in Ontario, and also took into account the site’s closure plan requirements and the recommendations provided in AMEC’s previous dam safety inspection report (AMEC 2002). With the exception of some requirements for erosion protection maintenance, all three dams appeared to be in stable condition with no visible signs of distress or instability. The conditions of the dams are not expected to change because tailings are no longer being discharged to the primary pond.

A detailed mine site characterization was completed for the Magino Mine as part of the mine closure plan. The original plan, "Magino Mine Closure Plan – Muscocho Explorations Limited", was prepared in October 1992 by Environmental Applications Group Limited (Young and Simms 1992). It was revised in 1993 by HBT AGRA Limited (Young and Simms 1993). The mine site characterization is part of the February 2003 amendment "Closure Plan – Amendment No.1, Golden Goose Resources Inc., Magino Mine Site" (Dyck and Bleiker 2003). The changes in the amendment are in accordance with the requirements laid out in Part VII of the Ontario Mining Act and have been formatted as per Ontario Regulation 240/00 and the associated Mine Rehabilitation Code of Ontario. In 2010 AMEC conducted a hydrogeological study for Golden Goose (McBride and Duckworth 2010).

In early 2013, Prodigy Gold signed an agreement with SLR Consulting Inc. to provide environmental baseline studies, consultation for permitting and engineering of the tailings management facility at Magino.

In addition, in early 2013, Prodigy Gold signed an agreement with JDS Mining and Engineering to prepare a Pre-feasibility Study (“PFS”) on the Property. The highlights of the PFS were released on December 17, 2013, with the full report filed on January 31, 2014. The highlights included information on an economic mine model resulting with the following information:

<b>PROJECT LOM PRODUCTION HIGHLIGHTS (\$1,250 Gold Price)</b>	
Mine Life (years)	13.2
Life of Mine Strip Ratio (waste: ore)	2.6:1
Gold Grade (average in g/t)	0.90
Gold Recovery (average)	95%
Gold Payable	99%
M&I Gold Ounces Recovered (000s)	1,661
Annual Production (average)	127,000
Capital Costs “CAPEX” (millions):	\$414
Operating Cost/Ore Tonne (average)	\$18.94
Cash Cost (including leasing costs of \$78 million)	\$693 per ounce
<b>ECONOMIC HIGHLIGHTS OF PRE-FEASIBILITY STUDY (\$1250 per ounce gold price)</b>	
NPV (After-tax at a 5% discount rate)	\$199 million
Cash Flow (Undiscounted, after-tax)	\$350 million
Internal Rate of Return (After-tax “IRR”)	18%
Payback (After-tax, years of production)	4.2
Capital Cost (pre-production)	\$356 million
Sustaining and Closure	\$58 million
Cash Cost (including leasing costs of \$78 million)	\$693 per ounce Au
<i>Note: all costs were calculated using an exchange rate of CA\$0.95:US\$1</i>	

Base line studies, engineering and metallurgical studies, preparation of permitting documentation and consultation with First Nations, Metis and local community groups is on-going. Prior to the mine commencing operations the following will be required:

- A Certificate of Authorization for Air is required under the Environmental Protection Act, Regulation 346.
- A permit to take water (“PTTW”) is required for dewatering of the mine.
- A PTTW is required for Webb Lake.
- A Waste Generator Registration from the Ontario Ministry of Environment is required for waste generated on-site such as oils, solvents, etc.
- The Magino Mine is currently in temporary suspension and will remain as such until Prodigy resubmits a closure plan for the new open pit. The closure of the old mine workings will be integrated into the new open pit and the Property is expected to emerge as an operating mine under a 2013 closure plan, Amendment #1.
- A First Nations consultation must be held with any First Nations potentially affected by the Project. Such consultations would address a requirement in Ontario's mining regulations, as well as various requirements for other approvals. The Project lies within the Finan and Jacobson townships. The First Nations and Metis groups potentially affected by the project have been identified by the government and communicated to the Company. The Company has initiated discussion and/or providing information to and updated these groups about the project.

### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

#### *Accessibility*

The Magino Mine is located in Finan Township, approximately 40 km northeast of Wawa, Ontario. The Magino Mine can be accessed via a 14 km, all-weather gravel road (Chemin Goudreau) west of Dubreuilville, which is located on Highway 519, 30 km east of the junction of Highway 17 and Highway 519. This junction is approximately 40 km north of Wawa on Highway 17.

#### *Climate*

The mean annual temperature for the area is slightly above the freezing point at 1°C. The average July temperature is 20°C and the average January temperature is -15°C. The average annual precipitation is 650 mm with rainfall highest in September, averaging 90 mm. Snow typically falls from October to May, but the peak is from November to March when the monthly average reaches 30 mm.

#### *Local Resources*

The area is well serviced by mining and milling industries. The town of Dubreuilville, population 900, is the closest service community. The Island Gold Mine (operated by Richmond) is 1.5 km east of the Magino Mine, and the Eagle River Mine (Wesdome Gold Mines) is 80 km to the west. The Hemlo operations (Barrick Gold Corp.) are located approximately 150 km to the northwest. General labor and experienced workers are available in Wawa, Sault Ste. Marie and Thunder Bay.

#### *Infrastructure*

The Magino Mine is also connected to the rail sidings of Lochalsh (14 km to the east, Canadian Pacific Railway) and Goudreau (7 km to the west, Algoma Central Railway) by means of a gravel road. A 44 kV power line extends from Goudreau to Lochalsh and currently services the Magino Mine. Most of the former surface buildings have been dismantled, and only the electrical and carpenter shops remain in service. The underground workings were under operation until 1993, when flooding occurred, and have been sealed to prevent entry.

#### *Physiography*

The Magino Mine is located in the geological Wawa Subprovince of the Canadian Shield. The topography of the area is characterized by low ridges and hills (up to 50 metres of relief), flanked by generally flat areas of glacial outwash, swamps and numerous lakes and bogs.

### *History*

Various companies owned, operated and explored the Property between 1917 and 1996. In 1996, Golden Goose obtained the Property through an amalgamation of Muscocho Explorations, Flanagan McAdams Resources Inc. and McNellen Resources

Information regarding historical mineral resource estimates commissioned by parties other than Argonaut or Prodigy disclosed in this "History" section are provided for information purposes only. A qualified person has not done sufficient work to classify these historical estimates as current mineral resources and Argonaut is not treating these historical estimates as current mineral resources.

#### *2000 – 2010 Golden Goose*

In May of 2000, Golden Goose, using contractors, carried out a program that would assist their re-evaluation of the Property. There were two separate components to the work. The first was a review of the digital diamond drill hole ("DDH") database to determine where un-sampled and/or missing core occurred in the central part of deposit. This was followed by retrieving the archived core for those intervals and having them assayed to determine background gold levels for un-sampled lengths of core.

The second component involved the drilling of 19 large diameter DDHs (HQ diameter) in the central part of the deposit to:

- assist with grade determination in areas subject to underground mining
- provide new baseline data to aid with grade reconciliation
- determine if there was variability in assay data as a function of sample size.

During the year a total of 1,231 metres was drilled. This drilling plus the re-sampling program, helped to establish a mean grade of 0.015 oz per tonne gold for un-sampled core from the central 1,000 ft (305 m) of the deposit. It also provided information on the existence of a significant percentage of granodiorite in the main part of the deposit at a grade considered sufficient for a low-grade, large-tonnage mining operation (0.06 to 0.10 oz per tonne).

#### *2001*

In 2001, based on the work completed in the previous year a revised resource estimate was completed. Taking into account past production, the total Measured Resource at a cut-off grade of 0.05 oz per tonne was estimated at approximately 5.8 Mt at a grade of 0.09 oz per tonne gold. These resources were estimated for an open-pit operation.

#### *2002*

In 2002, Golden Goose conducted a 17-hole diamond drilling program (2,743 m). The holes were mostly drilled west of the mine area and did not identify significant mineralization.

#### *2004*

In 2004, a NI 43-101 technical report reviewed the 2001 block model resource estimate to determine its suitability for use in scoping studies involving pit optimization.. It was concluded that for a potential open pit mine based on a cut-off grade of 0.04 oz per tonne, the 2004 combined Measured and Indicated Mineral Resource at the Magino Mine, after subtracting historical production, was 7.295 Mt grading 0.075 oz per tonne gold.

#### *2006*

In 2006, 21 core holes were completed for a total of 9,442 metres. The holes demonstrated the down-dip continuity of known gold mineralization, which remained open at depth and along strike. The 2006 drilling program was designed to target mineralization below historical workings from a depth of 130 to 400 metres below surface and within the range of a future extended decline access.

2007

Golden Goose drilled 14 core holes on the Property for a total of 9,239 metres. The drilling program was designed to outline and extend multiple known gold zones from 150 to 400 metres below surface and below the historical Magino Mine workings. The drilling demonstrated the continuity of the mineralization, which remained open at depth and along strike.

2008

#### Resource Estimate

In 2008, InnovExplo completed a mineral resource estimate for the Magino Mine below the old mine workings (i.e., below the 650 metre level) that was published as a NI 43-101 technical report (Turcotte and Pelletier 2008). Specifically, InnovExplo's mandate was to prepare a resource estimate from a depth of 200 to 600 metres. The resulting resource was classified as Inferred as per CIM standards and guidelines for reporting mineral resources and reserves. The total estimated Inferred Resources were 3,755,600 tonnes grading 5.94 g/t gold for a total of 717,227 oz of gold (cut-off at 3 g/t gold). The highlight of this resource estimate was the addition of a large portion of Inferred Resources below the old workings of the Magino Mine

In July 2008, Golden Goose carried out stripping and channel sampling in the vicinity of the southern contact of the Webb Lake granodiorite stock and adjacent volcanic rocks. The stripped area lies over the old mine workings and consists of seven small stripping's totaling 2,790 m<sup>2</sup>. The purpose of the work was to enhance the understanding of structural controls on gold deposition. A total of 78 channel samples were collected from the stripped areas. The best results for the stripping and channel sampling program were: 19.85 g/t gold over 0.5 metre, and 17.59 g/t gold over 1.0 metre.

2009

In 2009 InnovExplo reported that the Magino Mine has Measured and Indicated Resources of 2,091,900 tonnes grading 6.74 g/t gold for a total of 453,189 oz. Total Inferred Resources were reported as 5,828,800 tonnes grading 6.29 g/t gold for a total of 1,178,124 oz at a cut-off grade of 3.0 g/t gold, as published in a technical report in compliance with NI 43-101 and Form 43-101F1.

2010

In November 2009 to March 2010, Golden Goose conducted a 14-hole diamond drilling program totaling 4,012 metres. Most of the holes were drilled in volcanic rocks south of the mine area and succeeded in identifying some significant gold mineralization. This mineralization remains open at depth and along strike.

2011 - 2012

During 2011 and through June of 2012, Prodigy completed 187,585 metres of drilling. The results of the drilling were released in the NI43-101 technical report on resource update in October of 2012 Tetra Tech Wardrop ("Tetra Tech") completed a study which utilized 210 surface and underground DDHs (for a total of 219,739 metres). Seven hundred and nineteen holes for 170,357 metres were drilled from surface and 491 holes for 49,382 metres were drilled from the underground workings. Only the underground holes with lengths greater than 50 metres were included after Snowden identified a significant assay bias with the less than 50 metre holes. Following the resource estimate completed in November 2011 by Snowden, Prodigy completed 242 surface DDHs for a total of 67,848 metres, with an average length of 280 metres all of which were NQ or NQ2 diameter and 12 of which were drilled as geotechnical holes. This additional drill data was utilized in the Tetra Tech resource estimate.

2013

During 2013, many of the activities were associated with the baseline environment and engineering studies in preparation for the permitting process. In July, the Corporation submitted a Project Description Report to the Canadian Environmental Assessment Agency ("CEAA"). In November, CEAA responded with the emission of the Guidelines for the Preparation of an Environmental Impact Statement. In December 2013, Argonaut/Prodigy announced the results of a PFS that was completed by JDS Energy and Mining Inc. ("JDS") "Preliminary Feasibility Study Technical Report for the Magino Project

Wawa, Ontario, Canada”, by Gord Doerksen, P.Eng., Dino Polotto, P.Eng., Garth Kirkham, P. Geo., Richard Boehnke, P.Eng., and Matt Bender of JDS Energy and Mining Inc. and Ian Hutchinson of SLR and Larry Buter of LJB Mineral Services. This resource portion of this PFS was based on 179,079 metres of drilling in 652 drill holes and is wholly contained within the geologic domain known as the expanded Webb Lake Stock. The resource methodology used by JDS differs from the previous Tetra Tech resource estimate in that it did not utilize pre-1997 surface and underground drilling that was completed prior to current QA/QC requirements.

2014

During 2014 activities at the Magino Project consisted of ongoing environmental monitoring and baseline gathering activities, studies to support permitting activities, and dialogue with the local communities and First Nations and Metis groups with interests in the project area. The Corporation, in conjunction with consultation with communities and aboriginal groups and government agencies, is in the process of preparing an Environmental Impact Statement (“EIS”) to be submitted to CEAA for review. The Corporation is also in the process of preparing the permitting documentation for the Provincial level permitting process.

During 2014 Argonaut reviewed historic drill core left over from historic drilling. These holes were not utilized in the latest resource calculation as they did not meet today’s QA/QC requirements. From these holes the Corporation obtained 250 core samples and sent these in for assay. The program was designed to provide additional information in proximal to the historic mine workings. Argonaut will potentially utilize this assay information in future resource updates.

### ***Geological Setting and Mineralization***

#### ***The Geology of the Magino Mine Area***

The Magino Mine is situated in the Goudreau-Lochalsh gold district of the Wawa gold camp. Supracrustal rocks in the Goudreau-Lochalsh district consist of Cycle 2 felsic to intermediate pyroclastic metavolcanics capped by pyrite-bearing ironstone. To the north are pillowed, massive and schistose, mafic to intermediate metavolcanics and minor intercalations of Cycle 3 mafic pyroclastic rock. Several medium to coarse-grained quartz dioritic to dioritic sills and/or dikes intrude all metavolcanic rocks.

Gold mineralization at the Magino mine is dominantly hosted by the Webb Lake Stock, which intrudes isoclinally folded mafic volcanic rocks. The Webb Lake Stock is classified as a granodiorite in mine terminology and by mine geologists.

Subsequently the Lovell Lake Stock of granodiorite and the South Metavolcanics have also been found to contain significant gold mineralization.

The Webb Lake stock is east-north-east-striking and has a steep northerly dip. Its surface expression is at least 1,800 metres long and up to 300 metres wide. The country rocks that were intruded by the Webb Lake stock are predominately mafic volcanics. The southern contact of the stock is quite linear and regular, consisting mostly of dark green mafic rocks. The northern contact is irregular and there is some inter-fingering of granodiorite. The granodiorite is medium to coarse-grained, green-grey, moderately hard, non-magnetic and massive. It is locally foliated and hydrothermally altered, and has been affected by greenschist facies metamorphism.

The granodiorite is cut by numerous shear zones related to the Goudreau-Localsh Deformation Zone and it is on these shear-hosted gold-bearing quartz veins that the Magino Mine occurs. The portion of the intrusion north of the deformation zone hosts gold mineralization and is more deformed than the southern portion.

#### ***Gold Mineralization***

Gold mineralization at the Magino gold mine occurs primarily within the Webb Lake and Lovell Lake granodiorite stocks and the metavolcanics to the south east. The Webb Lake and Lovell Lake stocks underwent variable metasomatic alteration during deformation and gold mineralization. Distinct haloes of quartz-sericite-pyrite with minor iron-carbonate and hematite alteration are observed adjacent to the quartz vein systems. Alteration of the Webb Lake stock outside the gold-bearing zones is manifested by a chlorite-albite-quartz-tourmaline-calcite assemblage. Mineralization within the metavolcanic zones is associated with silica-pyrite and minor carbonate.

Gold mineralization occurs in several sub-parallel high-strain zones striking 070° to 080° within the Webb Lake and Lovell Lake stocks and within mafic metavolcanic rocks, both immediately along the northern margin of the stock and along strike of the stock. There are two types of mineralized material shoots, namely "zones" and "veins". The "zones" are usually 2 to 4.5 metres wide and have a strike length of 25 to 70 metres. They consist of foliated, bleached and silica-flooded granodiorite. The zones are folded in places, which produces mineable widths of up to 10.5 metres. The "zones" dip at about the same angle as the foliation and have a vertical plunge. Weak bleaching and silica flooding are the distinguishing features of the "zones". Silica flooding consists of incipient pale gray quartz replacing the foliated granodiorite. Gold content is directly related to the amount of silica flooding.

The "veins" consist of discrete pale grey to pale green to almost white quartz veins varying in width from a few to 45 cm. They have a strike length of several to 35 m. Gold values are distributed erratically within the veins, but overall grades are quite high. The veins are folded in places, with gold concentrated in the fold noses vertical continuity of the "veins" is similar to that of the "zones", and the plunge is also vertical.

Native gold occurs in zones of pervasive silicification and in narrow (i.e. less than 1 to 20 cm wide) quartz veins that form complex systems 1 to 3 metres wide. Gold occurs within both quartz veins and foliated and altered wall rocks, but the better gold grades are in the veins. Finely disseminated leaf-like visible gold can be observed in numerous quartz veins. The gold tends to form plates or leaves along fractures in quartz rather than coarse nuggets. The quartz hosting the gold tends to be fine-grained and dull milky grey. Up to 10% disseminated pyrite is also present, most commonly found in alteration haloes around the gold-bearing quartz veins. The granodiorite is sericitized, carbonatized, silicified and chloritized. Gold bearing quartz veins have diffuse boundaries.

#### *Current View on Mineralization Controls and Identification of Mineralized Material Zones*

Generally four levels of alteration to the Webb Lake and Lovell Lake Stock granodiorite are recognized, as follows:

- Granodiorite: Relatively unaltered, coarse grained, equigranular quartz – plagioclase – chlorite +/- carbonate with typically more than 10% chlorite, network texture, no planar fabric is observed.
- Weakly Altered Granodiorite: Weakly developed planar fabric (foliation) caused by the alignment of sericite/chlorite grains, unit is finer grained than "Network Granodiorite" however relict texture can still be interpreted. Quartz +/- carbonate +/- tourmaline veining varies from 1 to 2%; pyrite mineralization is elevated in places but generally less than 0.5%.
- Moderately Altered Granodiorite: Well-developed planar fabric (foliation) caused by alignment of sericite/chlorite grains which make up more than 20% of the rock. This planar sericite/chlorite alignment is referred to as "Sericite Lace". Dependent on amount of chlorite this rock has a light green to light grey – grey colour. The unit is finer grained than weakly altered granodiorite, with rounded quartz crystals. Quartz +/- carbonate +/- tourmaline veining varies from 2% to 5%; pyrite mineralization is elevated in places but generally averages around 0.5% to 1%.
- Strongly Altered Granodiorite: Well-developed planar fabric (foliation) caused by alignment of sericite/chlorite/quartz grains which make up more than 80% of the rock, the remaining constituent being quartz +/- carbonate +/- tourmaline veining. Visible gold is most commonly observed in this alteration, and the presence of visible gold is believed to be dependent on the amount of smoky grey quartz veining/flooding (i.e. silica in the system at that locality). Gold bearing grey (altered) quartz veins are typically subparallel to foliation, millimetre-centimetre in scale with some five to ten grey quartz flooded zones. The rock has a green and more often a light tan pink coloration, remnant intrusive texture is completely destroyed. Remnant quartz phenocrysts are often augen shape and appear isolated in the sericite matrix.

Visible gold is nearly always observed within silica (most typically small veinlets of smoky grey quartz). Gold emplacement within the moderate to strong altered zones is somewhat erratic due to the anastomosing nature of silica (quartz vein/flooding emplacement). As veins are typically less than 5 cm in thickness and pinch and swell in nature or are anastomosing, it is not

realistic to model continuity amongst the individual veins. The more broadly altered zones which contain the erratic quartz units are more continuous in nature and can be modeled more readily.

## ***Drilling***

### *Type and Extent*

From September 2011 until the end of 2012, Prodigy continued its infill-drilling program initially designed in late 2010. The 2011 and 2012 drilling totaled 67,848 metres in 242 holes. Of this drilling 12 holes were completed for geotechnical purposes and were not utilized in subsequent resource updates. The core diameter was either NQ or HQ.

### *2011-12 Diamond Drilling Results*

Drilling continued to establish continuity between past mineralized intercepts on the mineralization trends.

### *Core Recovery*

Tetra Tech believed that there were no recovery factors that could materially affect the sampling. The rock mass is typically tight and recovery information indicates better than 98% core recovery in the granodiorite stocks. Core recoveries only seem to be affected when historic underground workings are encountered.

The 2011/2012 drilling programs were conducted under the supervision of Prodigy employees. Employees of Prodigy who undertook the samplings were supervised at all times by QPs and this is normal industry practice.

### *QP Opinion*

The authors of the 2013 Magino Technical Pre-Feasibility Report geological section were satisfied that the sample preparation, security and analytical procedures are adequate for the purposes of the report for the drill holes included in the resource calculation. Despite some variability outside the standard limits, JDS was satisfied that there was no significant bias in the laboratory analysis.

### *Data Verification*

During their study Tetra Tech believed the sampling practices of Prodigy met current industry standards. Tetra Tech also believed that the sample database provided by Prodigy and validated by Tetra Tech was suitable to support mineral resource estimation.

### *Mineral Resource Estimates*

The region of interest covers 1,350 metres of the 075° trending Webb Lake granodiorite stock and the alteration zones that aggregate up to 300 metres width, and dip steeply to depths of up to 600 metres and remains open.

The database provided to Tetra Tech by Prodigy on March 27, 2012, and an update on the June 8, 2012 contained 1,210 surface and underground core holes (for a total of 219,739 metres). Seven hundred and nineteen holes for 170,357 metres were drilled from surface and 491 holes for 49,382 metres were drilled from underground. Only the underground holes with lengths greater than 50 metres were included after Snowden identified a significant assay bias with the less than 50 metres holes.

Mineral resource estimates for the Property as completed in the 2013 JDS study were reported in categories of Indicated and Inferred, in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum Definition Standards for Mineral Resources and Mineral Reserves.

### 2013 JDS Resource Estimate

The December 2013 Resource study on Magino was completed by JDS Energy & Mining Inc., Vancouver, Canada. The resource was used in the PFS study as reported in the section above. Magino mine PFS study takes into consideration the PFS design pit, representing 40% of a larger defined resource. It does not include any potential expansion from the land or mineral rights acquisition from neighboring landowner Richmond.

The mineral resource estimate used in the PFS was completed in December 2013 by Garth Kirkham, P.Geo. an independent Qualified Person (“QP”) and is summarized below (inclusive of mineral reserves).

<b>Deposit</b>	<b>Resource</b>	<b>Tonnes</b>	<b>Cut-off g/t</b>	<b>Gold Grade g/t</b>	<b>Contained Gold Au (k ozs)</b>
Webb Lake	Indicated	127.7	0.35	1.01	4,161
Webb Lake	Inferred	30.1	0.35	1.08	1,044

(\*) Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves. Inferred Mineral Resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assured that all or part of the Inferred Mineral Resources will ever be upgraded to a higher category.

### Mineral Reserve Estimate

The PFS mineral reserve estimate is summarized in the following table.

<b>Deposit</b>	<b>Reserve</b>	<b>Diluted Tonnes</b>	<b>Cut-off g/t</b>	<b>Gold Grade g/t</b>	<b>Contained Gold Au (k ozs)</b>
Webb Lake	Probable	60.2	0.31	0.90	1,746
<b>Total</b>		<b>60.2</b>	<b>0.31</b>	<b>0.90</b>	<b>1,746</b>

The reserve estimate does not include any resources within the adjacent Richmond land, of which Argonaut signed a land acquisition agreement with Richmond. The mineral reserves also do not include resources below Webb Lake which lies along strike on the southern side of the PFS pit. If the land ownership and lake constraints are removed, the potential for a larger pit exists, which may enhance the overall projects economics.

### 2013 JDS pit compared to 2012 Tetra Tech Historical Resource

The 2013 JDS mineral resource estimate and the 2012 Tetra Tech historic mineral resource estimate are contained within the same geologic host environment. The two resources differ, in part, because the JDS resource did not incorporate pre-1997 underground and surface drill holes that were used in the historical 2012 Tetra Tech mineral resource estimate. JDS concluded that this earlier drilling, consisting of approximately 750 holes and totaling nearly 95,000 metres, could not be used for their 2013 mineral resource estimate as it is non-compliant with today’s QA/QC requirements. The absence of the underground data reduced the grades and contained gold ounces of the 2013 mineral resource estimate, when compared to the historical Tetra Tech estimate.

The Magino deposit is characterized by broad zones of disseminated mineralization hosting pockets of higher grade material. These possible occurrences of the higher grade gold zones reported by the underground drilling were not incorporated in the JDS mineral resource estimate.

The drilling information used in the 2013 JDS and historical 2012 Tetra Tech mineral resource estimations are shown below:

<b>Mineral Resource Estimate</b>	<b>Cutoff Grade</b>	<b>Contained Au Ounces (Million)</b>	<b>No. of Drill Holes Used</b>	<b>Drilled Metres Used</b>
JDS – Dec. 2013	0.35 g/t Au	4.1	652	180,000
Historic Tetra Tech – Oct. 2012	0.35g/t Au	5.8	1,402	275,000

The Corporation cautions that the October 2012, Tetra Tech report provides historic information only and does not constitute current mineral resources or current mineral reserves. A qualified person has not done sufficient work to classify the historic estimate as current mineral resources or reserves. The Corporation believes this information continues to be relevant as a basis for a better understanding of the Magino deposit and resources.

## **San Agustin**

### ***Property Description and Location***

The San Agustin property is composed of four mining concessions located in the northern San Lucas de Ocampo District, four km north of the village of San Agustin de Ocampo and approximately 100 km north of the city of Durango in the state of Durango, Mexico. The main part of the San Agustin property is composed of two concessions acquired from Silver Standard in December of 2013. One additional concession, named Nuestra Señora del Carmen, was acquired from Geologix in May of 2014. This concession is located immediately east of and bordering the original concessions acquired from Silver Standard. A second concession called Consejo was also acquired from Geologix in November of 2014. This concession is located immediately west of the Project and bordering the original concessions acquired from Silver Standard.

Surface rights are controlled by two Ejidos, one community and several individual landowners. The current exploration area is located on lands belonging to the San Agustin de Ocampo Ejido and the San Lucas de Ocampo Community. The Corporation has agreements in place to allow exploration over the resource area and other areas planned for additional exploration. For future mine development, additional surface agreements will need to be completed with other surface owners and concession holders.

### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

The San Agustin property is easily accessible year round. Initial access to the area can be obtained via paved Highway 45 for 90 km north from the city of Durango to San Lucas de Ocampo. The San Agustin Project can be reached from San Lucas de Ocampo by a 10 km all-weather gravel road. Well maintained dirt roads provide access to much of the Corporation's concession areas and a network of drill roads cover the current resource area. Additional two track roads are also in place and provide access to surrounding exploration areas.

The San Agustin Project is mainly comprised of low hills with a maximum relief of 100 m with much of the area comprised of flat lying zones that form aprons around the central hills. Absolute relief varies from 1875 m above mean sea level ("masl") in stream gullies to near 2000 masl in areas of highest relief. Numerous intermittent streams bisect the landscape and drainage in an almost fan-like manner away from the higher hills on the San Agustin Project. Locally, drainages are more linear and appear to be topographic expressions of fault structures.

Vegetation in the area consists of various species of cactus, mesquite, and other thorny bushes. Fertile areas of the flat-lying fans near prominent streams are under cultivation (corn, beans) while the remainder is used as pasture for cattle.

A semi-dry climate dominates the San Agustin area and rainfall is limited to approximately 500 mm annually. The climate is temperate with an average annual temperature of 18°C, maximum temperature reaching 35°C, and minimum temperature falling to 2°C. The rainy season is from June through September, with minimal rainfall occurring from October to May.

Argonaut currently anticipates that they will generate their own power on site utilizing diesel powered generators, as is accomplished at its nearby El Castillo Mine.

The Corporation also expects they will be able to complete water wells in proximity to any future mining operation. Adequate water rights are available and Argonaut anticipates developing the necessary water sources required to move forward with the San Agustin Project. Currently, for drilling operations, water is pumped either from open drill holes or local ponds by the drilling contractors.

Drill helpers and personnel for the San Agustin Project's general labor needs are recruited from local communities including, San Agustin, San Lucas de Ocampo, and San Juan del Rio. The largest city closest to the San Agustin Project is Durango, which serves as the main center for services and as a transportation hub for incoming contractors and equipment. Personnel for a mining operation will likely come from the city of Durango and surrounding areas which already support several ongoing mining operations, including the El Castillo Mine. Management and much of the engineering staff and other skilled positions will be shared with the El Castillo operation. Other necessary technical personnel will be recruited from other parts of Mexico.

## ***History***

### *Past Exploration and Development*

The immediate area of the San Agustin property has a documented exploration history of about 30 years. A few small adits, shafts, and pits focusing on narrow veins are situated throughout the San Agustin Project area but actual mining appears to have been limited.

Consejo de Recursos Minerales (Mexican government agency) conducted exploration in the south and west parts of the San Agustin property (now the Consejo Concession) in the 1980's. This work focused entirely on the evaluation of narrow high-grade veins. Their work included drilling 4,339 m in 35 holes. Only paper copies and maps are available from this work and none of this data is deemed suitable for public disclosure.

The El Carmen property, bordering San Agustin on the east, is the site of a few old workings of unknown date. As far as Argonaut is aware, it has not seen any modern exploration.

In late 1996, Monarch acquired 4,800 Ha in the San Agustin area including the current claims. La Cuesta International Inc. ("La Cuesta"), original locators of the San Agustin Project working on behalf of Monarch, also investigated San Agustin in 1996. Their surface work defined a distinct gold anomalous zone over a 1.5 km<sup>2</sup> area.

Monarch carried out a Phase I drilling program between May and July 1997. The program consisted of 35 RC drill holes totaling 3,703 m, and four diamond drill holes totaling 1,002 m. In 1998, an additional 29 RC holes totaling 5,651 m were completed. Monarch abandoned the property in 1999.

In December of 2002, Silver Standard located the current San Agustin claims. In late 2003, they undertook an extensive mapping and sampling program including the collection of 1,257 surface rock chip samples. This program was followed by an RC drilling program consisting of 23 holes totaling 3,917 m. Most of this work was focused in better defining mineralized areas originally identified by Monarch.

In August of 2006, Silver Standard optioned the San Agustin property to Geologix who completed significant work on the project. In February of 2009, Geologix returned the San Agustin property to Silver Standard.

Geologix undertook a number of exploration activities while their lease option was active. This work included an IP survey, soil and rock chip sampling and drilling of 40,717 m in 176 holes.

## Historical Mineral Resource Estimates

Geologix commissioned Wardrop to estimate mineral resources and to prepare a technical report on the San Agustin Project (Wardrop, 2008). The Wardrop technical report was filed with SEDAR with a date of December 18, 2008. That report disclosed that the San Agustin deposit contained capped Indicated Resources of 121.0 million tonnes grading 0.41 g/t Au, 12.3 g/t Ag, 0.49% Zn, 0.06% Pb and additional Inferred Resources of 92.9 million tonnes grading 0.36 g/t Au, 12.6 g/t Ag, 0.48% Zn, 0.07% Pb, using a cutoff of \$3.40 recoverable metal value (“RMV”) for oxide and \$6.25 RMV for sulfide. Within this combined oxide/sulfide resource, Wardrop estimated that the oxide portion of the system held an indicated resource of 272,000 ounces of gold and 10.9 million ounces of silver and an Inferred Resource of 127,000 ounces of gold and 5.6 million ounces of silver.

Argonaut is not classifying the 2008 and 2009 Wardrop resource estimates as current Mineral Resources.

In October of 2014, Michael J. Lechner, P. Geo from Resource Modeling Inc. (RMI) completed an oxide resource estimate Technical Report (following NI 43-101 standards) for the San Agustin Project.

Mineral resources were estimated after a thorough review of all available data. Exploratory data and geostatistical analyses were completed which led to the development of a grade estimation plan.

### *Argonaut Activities*

In December of 2013, Argonaut purchased the San Agustin property from Silver Standard. In early 2014, Argonaut initiated a drilling campaign designed to better define the San Agustin resource area that was originally outlined by Monarch, Silver Standard and Geologix. By late June of 2014, Argonaut completed a total of 24,765 m in 240 RC holes and 999 m in 13 core holes. The core holes were used for metallurgical testing.

### *Historic Production*

A few small adits, shafts, and pits focusing on narrow veins are situated throughout the Project area but actual mining appears to have been very limited. There was no known production from the San Agustin property.

## **Geological Setting**

### *Regional Geology*

The San Agustin Project is located in Northwest Mexico in the east flank of the Sierra Madre Occidental (“SMO”) bordering the great Mesa Central Mexicana (Raisz, 1964). The oldest rocks in the region are mica schists and mylonites reported in nearby San Lucas de Ocampo that have been dated by the Mexican Geological Survey at 251 Ma  $\pm$  20 Ma. These are overlain by a sedimentary flysch sequence dominated by an alternating sequence of shale and fine-grained sandstone. These units are correlated with the Mezcalera Formation of the Parral Group and are assigned an age of Upper Jurassic to Lower Cretaceous.

The volcanic complex of the Sierra Madre Occidental is present in the area. The Lower Volcanic Complex can be seen in the area of San Lucas de Ocampo as agglomerates, tuffs and andesitic flows. The Upper Volcanic Complex is present with a sequence of rhyolite tuffs, crystal tuffs and ash tuffs. Discordantly covering all previously mentioned lithology is a package of welded rhyolite tuffs that are post formation of the Sierra Madre Occidental.

There is a widespread occurrence of poorly consolidated conglomerate that fill valleys related to basin-and-range extensional faulting. At the nearby El Castillo Mine, drilling shows this conglomerate exceeds thicknesses of 200 metres.

### *Local Geology*

Two main structural trends have been identified in the San Agustin area: northwest (320°) trending lineaments and northeast (050° to 060°) trending lineaments, both of which are sub-vertical. Definitive offsets have not yet been identified or recognized. Mineralization on the San Agustin property appears to be related mainly to the northeast trending structural zones. The most obvious structure recognized on the property is the Main Fault, which trends northwesterly and dips steeply

to the southwest. This fault appears to be a post-mineral normal fault that down drops the westerly hanging-wall portion of the resource downward relative to the easterly footwall side of the fault.

At the San Agustin Project the area of known mineralization is dominated by an igneous, quartz monzonite dome complex intruding a clastic sedimentary sequence composed of shale, mudstone and less abundant sandstone. Both the intrusive and sedimentary sequences occur along a dominant northwest trend with sub-vertical dips. These two main units are unconformably covered by post mineral rhyolites and rhyolitic conglomerates of the SMO.

#### *Local Lithology*

The flysch-type sedimentary sequence that occurs within the concessions is composed of alternating shales, mudstones and fine-grained sandstones with rare occurrence of calcareous horizons. The sedimentary layers are thinly stratified and follow a northwest strike with sub-vertical dips. These older rocks have been intruded by a variety of intrusive related rocks including Quartz Monzonite (Dacite Porphyry) and cross cutting banded dacite dikes. Later in the intrusive sequence came dacite pebble dykes and dacite breccias that were emplaced within the sedimentary and intrusive rock assemblages. The intrusive rock types, especially the dacite porphyry, host upwards of 80% of the known mineralization.

Cutting all rock types is a series of intrusive breccias and fracture systems that were generally emplaced along a northeasterly trend and appear to be associated with mineralization. They are characterized by local silicification and irregular vug and fracture fillings of pyrite-base metal sulfides and lesser quartz.

#### *Type, Character and Distribution of Mineralization*

The host rocks for mineralization at San Agustin and El Castillo deposits are quartz monzonite-dacite bodies and the sedimentary sequence they intrude. Mineralization is emplaced through a strong and widespread system of sulfide rich veins, veinlets and fissure fillings that make the system similar to a disseminated deposit. These fracture systems follow two main project-scale fracture systems that run northeast and northwest. Locally, mineralization can be observed following lithological controls in the sediments especially where they run parallel to the sediment-intrusive contact. The mineral system has very little silica and is more related to sulfide fracture filling. Two late phases of mineralization have been identified with one carrying sphalerite and pyrite, and the other, galena and sphalerite.

#### Alteration

The most dominant alteration type is phyllic characterized as an assemblage of sericite-quartz-pyrite mineralization. The rock matrix also shows the presence of sericite, local silicification and disseminated pyrite.

The San Agustin deposit appears genetically and spatially related to a quartz monzonite stock with intense phyllic alteration. The mineral occurrence may point towards a telescoped system associated with a deeper porphyry center. This is supported by broad zones of potassic alteration that is overprinted by pervasive phyllic alteration; however, locally on surface and in some drill holes boiling textures, suggestive of an epithermal system do occur. Mineralization is mainly associated with sulfides that fill fractures and occur in the matrix of hydrothermal breccias. These form an extensive system of sulfide stockworks dominated by pyrite with lesser percentages of sphalerite and galena.

Based on the above it could be concluded that the San Agustin deposit is an intermediate sulfidation style epithermal gold-silver system with vertical base-metal zonation associated with a dacite dome complex. Early potassic alteration suggests a possible genetic connection to a porphyry that may be located either vertically or laterally to the deposit. Potassic alteration appears to be overprinted by the mineral system.

## ***Drilling***

### Pre-2014 Drilling

In 1997 Monarch drilled 35 RC holes totaling 3,703 m and 4 core holes totaling 1,002 m. In 1998 another 29 RC holes were drilled totaling 5,651 m.

In 2002 Silver Standard conducted an RC drilling program that consisted of 23 holes totaling 3,917 m.

In the period of 2006 – 2009 Geologix drilled 162 core holes and 13 RC holes totaling 40,717 m.

### 2014 Argonaut Core Drilling

Argonaut completed a total of 999 metres of PQ sized core (3.35 inches or 8.5 cm diameter) in 13 holes with hole-depths ranging from 33 to 146 metres. The objective of the core program was to obtain samples for metallurgical testing.

### 2014 Argonaut RC Drilling

Argonaut completed a total of 240 RC drill holes at the San Agustin Project in 2014 as part of a Phase 1 program totaling 24,765 metres. The majority of that drilling was positioned within the currently recognized resource area. A Phase 2 drilling program totaling 24 holes was positioned in areas of potential located outside of the current resource area.

### Pre-2014 Sample Preparation, Analyses and Security

Drill hole samples that were collected by Monarch, Silver Standard, and Geologix were assayed by large, well-recognized commercial laboratories (Bondar-Clegg, BSI, and ALS Chemex). The samples were prepared and analyzed using industry standard practices.

The Qualified Person responsible for the October 2014 Technical Report did make gold grade comparisons between select Monarch, Silver Standard, and Geologix drill hole assays and 2014 Argonaut RC samples. Based on a review of the Wardrop 2009 report and comparisons with Argonaut's assay results, it was the opinion of the Qualified Person responsible for this section of the Technical Report that the pre-Argonaut assay samples are suitable to be used to estimate mineral resources.

### 2014 Argonaut RC Sample Program

Argonaut trained local technicians to collect RC cuttings every 1.52 metres (five feet), regardless of their geologic characteristics.

All samples were transported to the San Lucas de Ocampo warehouse by Argonaut personnel where they were inventoried, weighed and loaded into rice bags for transportation to the ALS Chemex preparation laboratory located in Zacatecas, Mexico. The samples were picked up about every three days by a Chemex employee who drove them to Zacatecas.

Technicians under the supervision of an Argonaut geologist inserted one of three QA/QC samples (standard, blank, or duplicate) into the sample stream. Argonaut's sampling protocol resulted in the submission of one control sample for every nine drill hole samples which meant that every batch of samples contained at least three QA/QC samples.

Based on chain of custody protocols established by Argonaut, the RC samples were always under the control of Argonaut's personnel, locked in a secure warehouse facility, and picked up by laboratory personnel.

### Electronic Database Verification

The Qualified Person was able to review and examine Argonaut's drill hole database that contains assay, survey, and various geologic information for data collected from Argonaut's own drilling program and historical drill hole data that were inherited from prior companies and imported into their database.

### ***Mineral Processing and Metallurgical Testing***

The San Agustin Project is planned to be designed as an open-pit mine with a heap leach operation utilizing a multiple-lift, single-use leach pad. Test work evaluated heap leach recoveries of both crushed and ROM material.

Preliminary economics indicate that crushing to a size of 80% passing 22 mm is optimal for the majority of the mineralized oxide material at San Agustin. Crushing will be accomplished using a two-stage crushing circuit that will produce a 22 mm product (80% passing size or p80). The final product from the crushing circuit will be conveyed to the heap leach pad where a conveyor stacking system will place the material in discrete lifts. The resource estimate prepared for this report is based on crushing all the material. Some low grade material will be coarse crushed to a p80 of 100 mm and leached with the fine crushed ore. The coarse crushed material will be conveyor stacked on the same leach pad as the fine crushed product. Lime will be added to both the final crusher products prior to stacking.

The stacked material will be leached with a low-grade cyanide solution. The gold and silver bearing solution will be collected in a pregnant pond and pumped to a carbon adsorption circuit to extract gold and silver.

The loaded carbon will be shipped to Argonaut's La Colorada facility in Sonora, Mexico, where the metal from the loaded carbon will be processed and recovered. Treated barren carbon will be transported back to San Agustin for re-use.

Cyanidation tests including bottle roll and column leach have been conducted on composite samples from San Agustin by various laboratories starting from about 2009.

Results from cyanidation tests conducted by McClelland Laboratories Inc. El Castillo and KCA were primarily used in the development of the recoveries for use in this study. There were essentially no differences between the recovery results of surface samples and ones at depth.

The projected field gold and silver recoveries, reagent consumptions, leach time and crush size based on the available test work results are summarized as follows:

- Au Recovery:
  - 66% (Fine Crush)
  - 57% (Coarse Crush)
- Ag Recovery:
  - 16% (Fine Crush)
  - 9% (Coarse Crush)
- Sodium Cyanide:
  - 0.23 kg/t (Fine Crush)
  - 0.18 kg/t (Coarse Crush)
- Lime:
  - 4.0 kg/t (Fine Crush)
  - 3.5 kg/t (Coarse Crush)
- Leach Time:
  - 75 days
- Crush Size:
  - 80% passing 22 mm (Fine Crush)
  - 80% passing 100 mm (Coarse Crush)

The samples tested by KCA have demonstrated amenability to heap leach cyanide leaching and there are no known processing factors or deleterious elements that could have a significant effect on potential economic extraction.

## ***Mineral Resource Estimate***

### **San Agustin Block Model**

The San Agustin deposit was modeled by Resource Modeling Inc. (“RMI”) using MineSight®, a widely recognized mine engineering software package (version 8.50 - build 60766-67). Various digital data were provided to RMI by Argonaut's geologic staff. These data were imported into MineSight® where various statistical analyses were completed. A three-dimensional block model was setup for the purpose of estimating gold and silver resources.

Block model gold grades were estimated with drill hole assay intervals that were composited into six-meter-long composites after high-grade outliers were capped. RMI elected to cap raw gold assays at 7.5 g/t for the three principal host rocks.

RMI elected to cap raw silver dacite assays at 500 g/t. A capping threshold of 100 g/t was established for dacite breccia and sediment rock types.

Based on the scale of the San Agustin deposit, the raw sample lengths and discussions with Argonaut's technical staff about possible mining scenarios, a drill hole composite length of six metres was selected to estimate resources.

Argonaut's geologic staff and geologic consultants constructed a number of wireframe solids using Leapfrog software. These three dimensional solids included shapes for key lithologic units, oxidation units, and a critical fault plane. The lithologic, oxidation, and structural solids were used to code drill holes and model blocks. After the data were coded with these solids various statistical analyses were completed

A number of gold grade models were constructed using ordinary kriging and inverse distance estimators. After visual inspections of block grades and global bias comparisons were made, RMI selected one of the inverse distance models for resource declaration. After comparing the results from models estimated using inverse distance powers of two and three, the model based on an inverse distance power of two was selected.

The silver grade estimate closely followed the gold estimation plan using a two-pass inverse distance squared estimator with nearly identical parameters as those used for gold. High-grade outlier restrictions were used for sulfide and oxide plus transition material after observing unrealistic smearing of high-grade silver composites in both oxide and sulfide material. Higher grade silver values appear to be structurally controlled but at the current drill hole spacing it was not possible to construct domains to constrain the estimate of silver grades.

To date, 166 bulk density determinations have been completed for the San Agustin Project. RMI assigned the current lithologic and oxidation codes to the samples and tabulated average bulk density values for various combinations. Based on a review of the various averages, RMI elected to assign bulk density values of 2.38 and 2.76 for oxide and sulfide blocks, respectively.

### **Mineral Resources**

An inventory of tonnes, grades, and contained metal was tabulated using various gold equivalent (“AuEq”) cutoff grades. The equivalent gold grades were calculated using ratios of metal prices and metal recoveries in the following equation:

$AuEq = (Au + Ag/Equivalency\ Factor)$  where

$Equivalency\ Factor = ((Au\ price\ in\ \$/g * Au\ recovery) / (Ag\ price\ in\ \$/g * Ag\ recovery))$

Recoveries were used in the equivalency calculation because silver tends to have a relatively low recovery and simple metal price ratios may lead to unrealistic values. Note that the gold equivalent cutoff grade of 0.18 g/t is the cutoff that was used to tabulate San Agustin Mineral Resources.

In order to demonstrate that at least some portion of the San Agustin deposit has a reasonable prospect for economic extraction, RMI generated a conceptual pit using price, cost, and recovery data that are believed to be valid for an open pit heap leach precious metal operation in this part of Mexico. Mining, processing, and G&A costs parallel costs at Argonaut's

existing heap leach operations. Gold and silver recoveries are based on completed metallurgical testwork that has been undertaken by KCA and Argonaut. The gold and silver metal prices that were used for this study are lower than the three year trailing average but are in line with current metal prices. RMI generated a series of conceptual pits using MineSight's MSEP Lerchs-Grossman algorithm. Economic value was only allowed from Indicated and Inferred oxide and transition material. No recoverable value was allowed from sulfide material due to limited metallurgical testwork. The table below tabulates the parameters that were used to generate a conceptual pit that was used to summarize Mineral Resources.

**San Agustin Conceptual Resource Pit Parameters**

Parameter	Value
Gold Price (US \$/ounce)	\$1,300.00
Silver Price (US \$/ounce)	\$20.00
Gold Recovery (%) - Crusher	68%
Silver Recovery (%) - Crusher	21%
Mining Cost (US \$/tonne mined)	\$1.00
Pad Cost (US \$/tonne leached)	\$0.50
Crush/stack Cost (US \$/tonne leached)	\$1.40
Process/leaching Cost (US \$/tonne leached)	\$1.82
G&A Cost (US \$/tonne leached)	\$0.50
Pit Slope Angle (degrees)	45

The following table summarizes the in-pit oxide and transition Mineral Resources based on the parameters shown above.

Material Type	Indicated Resources					
	Tonnes (000)	AuEq (g/t)	Au (g/t)	Ag (g/t)	Contained Ozs (000)	
					Au Ozs	Ag Ozs
Oxide	79,373	0.37	0.32	10.6	817	27,050
Transition	2,837	0.37	0.31	13.3	28	1,213
Total Indicated	82,210	0.37	0.32	10.7	845	28,263

Material Type	Inferred Resources					
	Tonnes (000)	AuEq (g/t)	Au (g/t)	Ag (g/t)	Contained Ozs (000)	
					Au Ozs	Ag Ozs
Oxide	6,800	0.34	0.29	10.6	63	2,317
Transition	164	0.35	0.23	26.9	1	142
Total Inferred	6,964	0.34	0.29	11.0	65	2,459

Note:

Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. Inferred Mineral Resources have a high degree of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Resource will ever be upgraded to a higher category.

Tonnes, grade values, and contained metal quantities may differ due to rounding.

**Mining Operations**

*Mine Design*

For the PEA, an ultimate pit was generated by Argonaut's mining engineer, Xochitl Valenzuela, and reviewed by Argonaut's qualified person, Michael Lechner, P. Geo. The pit was designed with five mining phases and contains 72.4M tonnes of Indicated mineral resources at an average grade of 0.32 g/t Au and 10.6 g/t Ag. The life-of-mine strip ratio is

0.39:1. Pit resources were broken into two different material types designated for heap leach processing: high-grade and low-grade. At a 6 MTPY production rate of high-grade material, it is expected that the potential mine life will be 10.5 years. The production schedule targeted a consistent total mine tonnage of approximately 10 MTPY, consisting of high-grade, low-grade, and waste material.

The dimensions of the San Agustin Pit are 1,500 m in the east-west and 1,100 m in the north-south directions. One primary waste dump was designed and located 500 m northeast of the San Agustin Pit.

Pit optimization was completed using MineSight® software and the Lerchs-Grossman (LG) algorithm. Thirty-three pit optimization cases were generated using gold prices ranging between \$700 to \$1,500 per ounce and silver prices ranging between \$9.70 to \$20.90 per ounce. Only Indicated mineral resources were considered for the pit optimization study.

Argonaut selected a pit shell corresponding to metals prices of \$1,125 and \$15.70 for gold and silver, respectively for the basis of the pit design. This pit was chosen because it generated the maximum net revenue and provided a balanced life-of-mine strip ratio. Site access, mining width requirements and assumed geotechnical parameters were integrated into the design resulting in a life-of-mine pit that could be mined in a reasonable manner.

A pit ramp width of 25 m was selected providing a truck factor of 3.5, which can safely support Cat 777 or equivalent sized mining trucks. One way access of 15 m was applied for the six bottom pit benches after stripping requirements were met.

#### Production Schedule

The production schedule was used as the basis for developing the economic model based on contained tonnage (resource and waste) and precious metal grades. Gold and silver metal prices of \$1,200 and \$17 per ounce respectively, were used in the development of the economic analysis. Argonaut developed a mine production schedule that assumes the production of two heap leach material sources. The primary heap leach feed consists of a higher grade resource to be crushed to 22 mm size (p80) with two stage crushing at a rate of approximately 6 MTPY. The schedule also assumes the processing of additional low-grade resources to be crushed at 100 mm (p80) with a single stage of crushing. The low-grade material ranges between 10 to 18 percent of the total mined resource per year. The schedule is primarily driven by the 6 MTPY high-grade feed requirements.

The two heap leach feed materials are defined by a AuEq cutoff grade. Resources  $>0.158$  and  $<0.200$  g/t AuEq are planned to be processed using single stage crushing and resources  $>0.20$  g/t AuEq to be processed using two stage crushing. The following table summarizes the annual mine plan quantities.

## San Agustin Annual Mine Production Schedule

	Pre-Prod	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Total Tonnes	184,000	7,280,000	10,164,000	10,164,000	10,164,000	10,192,000	9,801,000
Minable Resource Tonnes	70,000	5,487,000	6,750,000	6,750,000	6,800,000	6,867,000	6,850,000
Waste Tonnes	114,000	1,793,000	3,414,000	3,414,000	3,364,000	3,325,000	2,951,000
Stripping Ratio (W:O)	1.63	0.33	0.51	0.51	0.49	0.48	0.43
Gold Contained Ounces	864	69,374	76,019	87,236	79,942	74,411	64,620
Silver Contained Ounces	15,879	1,706,551	1,501,880	1,886,266	3,016,233	3,720,196	3,072,593
Gold Grade (>0.158 AuEQ)	0.385	0.393	0.350	0.402	0.366	0.337	0.293
Silver Grade (>0.158 AuEQ)	7.09	9.67	6.92	8.69	13.80	16.85	13.95
Tonnes per Day Mined	3,060	20,000	28,000	28,000	28,000	28,000	27,000

	Year 7	Year 8	Year 9	Year 10	Year 11	Total
Total Tonnes	9,801,000	9,801,000	9,828,000	9,194,000	4,447,000	101,019,000
Minable Resource Tonnes	7,250,000	7,300,000	7,267,000	7,200,000	3,833,000	72,423,000
Waste Tonnes	2,551,000	2,501,000	2,561,000	1,994,000	613,000	28,596,000
Stripping Ratio (W:O)	0.35	0.34	0.35	0.28	0.16	0.39
Gold Contained Ounces	65,647	60,133	59,870	70,551	37,446	746,114
Silver Contained Ounces	2,565,532	2,815,057	2,409,441	1,514,891	341,376	24,565,894
Gold Grade (>0.158 AuEQ)	0.282	0.256	0.256	0.305	0.304	0.320
Silver Grade (>0.158 AuEQ)	11.0	12.0	10.3	6.5	2.8	10.6
Tonnes per Day Mined	27,000	27,000	27,000	25,328	21,481	0

### *Mining Method*

The mining method expected to be used at San Agustin consists of traditional drill and blast operations with the resulting broken material loaded with front end loaders into rigid body haul trucks for ore transport to a crushing system and waste transport to the designated dump location.

The mine fleet will be based on Cat 777 size haul trucks and Cat 992 class front-end loaders. Argonaut examined the long term mine plan for the El Castillo Mine and identified several items of equipment that will be surplus and could be used at San Agustin. The remainder of the equipment was assumed to be purchased used. Argonaut has purchased used equipment for the majority of the current fleet at the El Castillo Mine with success and has estimated the capital cost of the San Agustin used equipment based on this recent purchasing experience.

### *Metallurgical Process*

The Project has been designed as an open-pit mine with a heap leach operation utilizing a multiple-lift, single-use leach pad. Ore will be crushed, stockpiled, reclaimed, and stacked on the leach pad with a conveyor stacking system. Two separate crushing circuits are included for higher and lower grade material, where the product of these are combined prior to heap leach stacking. The stacked ore will be leached with a low-grade cyanide solution and the resulting pregnant solution will be processed in a carbon adsorption circuit to extract gold and silver. The loaded carbon will be processed off-site at a client owned facility (La Colorada Mine).

### *Capital and Operating Cost*

Capital and operating costs for the San Agustin Project were estimated by KCA with input from Argonaut and Golder Associates. The total capital cost for the San Agustin Project is \$90.5 million, which includes a \$67.1M pre-production capital and \$23.4M sustaining capital. All costs are presented in fourth quarter 2014 US dollars and include contingencies. For costs provided in Mexican pesos, an exchange rate of 13.4:1 US\$ was used. The costs have been based on the design outlined in the Preliminary Economic Assessment study and are considered to have an accuracy of  $\pm 25\%$ .

The estimated average LOM operating cost totals \$5.01 per tonne processed including mining, G&A, crushing, heap leaching and precious metal recovery along with loaded carbon transport to the La Colorada Project and carbon treatment costs. Mining costs were estimated by Argonaut based on their nearby El Castillo operation and are \$1.09 per total tonne of

material excavated, or \$1.52 per tonne processed. The total G&A cost is \$0.35 per tonne processed. Labor cost has been estimated using staffing and wage scales provided by Argonaut from their existing operations in Mexico. Corporate overhead costs are not included. The process cost is \$3.14 per tonne processed which includes crushing, stacking, heap leaching, metal recovery and carbon processing. Operating costs have been estimated and are presented without any added contingency allowances. The mine, processing, support and general and administrative operating costs are considered to have an accuracy range of +/-20%.

### *Economic Analysis*

The financial analysis results indicate an NPV at a 5% discount rate of \$101.3 million before taxes and \$70.2 million after taxes. Payback is expected to be in about 4.1 years after production commences.

The following provides the basis of the LOM plan and economics:

- Gold price of \$1,200/oz and silver price of \$17.00/oz;
- Only Indicated resources are included, no inferred resources were included in the mine or production plan;
- A mine operating life of 10.5 years;
- An overall average metallurgical recovery rate of 65% Au over the LOM;
- An overall cash cost of \$611 calculated on a by-product basis;
- Capital costs of \$90.5 million, comprising initial capital costs of \$67.1 million, and sustaining capital over the LOM of \$23.4 million.

### *Environmental Conditions*

Argonaut currently has an approved “Informe Preventivo” for the project site which allows the construction of specific drill site access roads and the drilling of exploration holes. In addition, baseline environmental information has been collected for the site and a “Manifiesto de Impacto Ambiental” document is being prepared for project development permitting with submittal anticipated during the current year, 2015.

There are no known environmental liabilities associated with the property.

### *Taxes and Royalties*

The San Agustin Project is subject to government taxes including a 30% statutory income tax, a 7.5% special mining duty tax on mine operating profit before depreciation, depletion and amortization of mineral properties, plant and equipment and certain other deductions and a 0.5% mining royalty tax on net revenue from the sale of precious metals.

The San Agustin, San Agustin I, Del Carmen, and Consejo 1 concessions are currently 100% owned by Argonaut. The San Agustin property is not subject to any royalties on the oxide resource but Silver Standard holds a 2% NSR royalty on any sulfide mineralization that could be developed in the future. There are no other known royalties, back-in rights, payments, or agreements and encumbrances to which the property is subject. The property has no known environmental liabilities or outstanding issues.

### *Exploration Stage Projects*

Beyond its material properties, the Corporation also has interests in the exploration stage projects noted below.

#### *La Fortuna Project*

The La Fortuna Project, which was acquired through the acquisition of Castle, is located in the State of Durango, Mexico. The silver/copper/gold project has seen a significant amount of work over the years, culminating in an NI43-101 Technical

Report issued in October of 2008 by Toren K Olson P. Geo who is an independent qualified person. The report can be found on SEDAR. An Indicated mineral resource estimate that was calculated by Fluor Daniel Wright in July of 1995 was included in the Olson Report. Indicated gold resource estimates, at various gold cut-off grades are summarized in the following table.

Cut-off grade Gold g/t	Tonnes	Gold g/t	Gold Ounces	Silver g/t	Copper %	Copper tonnes
0.3	5,200,000	2.03	339,400	n/a	n/a	n/a
0.5	4,451,000	2.25	322,000	29.9	0.23	10,237
0.8	3,213,000	2.64	282,700	n/a	n/a	n/a

La Fortuna remains an active project for the Corporation and sufficient work was complete on the concessions in 2014 to meet Mexican expenditure requirements.

#### *Caborca, La Cien and Texson Projects*

The Caborca, La Cien and Texson Projects, were acquired through the acquisition of Pediment. All three concessions are located in the State of Sonora, Mexico and all show potential for silver/copper and gold. In 2013 the Corporation transferred the concessions to Riverside Resources Inc. (“Riverside”) in exchange for a 1% NSR royalty on any future production. Riverside continues to evaluate the concessions.

#### *Daniel/Ely Project*

The Daniel/Ely Project, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The gold project consists of four concessions totaling 2,350 hectares. In mid-2013 the Corporation formed a purchase agreement with Mexico based, Minera Penmont (“Penmont”), where Penmont made an initial \$300,000 cash payment on October 24, 2013 and agreed to make \$100,000 cash payments every six months over a five year period with payments totaling \$5.4 million. Penmont is also required to spend \$3 million in work commitments over five years. Should Penmont meet all of these obligations they will own a 100% interest in the Daniel/Ely concessions. Argonaut will maintain a 2% NSR Royalty that Penmont can purchase for \$1 million. Penmont may terminate the purchase agreement at any time by giving written notice. Penmont continues to hold the project and is current on all property obligations.

## **RISK FACTORS**

***An investment in Argonaut should be considered highly speculative due to the nature of Argonaut’s business and operations. In addition to the other information in this AIF, an investor should carefully consider each of, and the cumulative effect of, the following factors. The risks described herein, or in documents incorporated herein by reference, are not the only risks facing Argonaut. Additional risks and uncertainties not currently known to Argonaut, or that Argonaut currently considers immaterial, may also materially and adversely affect its operating results, properties, business and condition (financial or otherwise).***

#### ***Commodity Price Volatility***

The profitability of the Corporation’s operations will be dependent upon the market price of mineral commodities. Mineral prices, including the price of gold, fluctuate widely and are affected by numerous factors beyond the control of the Corporation. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities, including the price of gold, has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Corporation’s business, financial condition and results of operations.

Furthermore, reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Corporation's investment in mining properties and increased amortization, reclamation and closure charges.

In addition to adversely affecting the Corporation's reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

### ***Uncertainty of Exploration and Development***

Exploration and development projects are uncertain and consequently, it is possible that actual cash operating costs and economic returns will differ significantly from those estimated for a project prior to production. Since mines have limited lives based on Mineral Reserves and Mineral Resources, the Corporation will be required to continually replace and expand its Mineral Reserves and Mineral Resources as its mines continue to produce gold. The life-of-mine estimates may not be correct. The Corporation's ability to maintain or increase its annual production of gold in the future will be dependent in significant part on its ability to identify and acquire additional commercially viable mineral properties, bring new mines into production and to expand Mineral Reserves or Mineral Resources at existing mines. Mineral exploration and development is a highly speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. There can be no assurance that the Corporation will successfully acquire additional mineral rights. While discovery of additional ore bearing structures may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration and development programs of the Corporation will result in profitable commercial mining operations. The profitability of the Corporation's operations will be, in part, directly related to the cost and success of its exploration and development programs which may be affected by a number of factors. Development projects are subject to the completion of, among other things, successful feasibility studies and environmental assessments, issuance of necessary governmental permits and receipt of adequate financing. They typically require a number of years and significant expenditures during the development phase before production is possible. The economic feasibility of development projects is based on many factors such as: estimation of reserves; anticipated metallurgical recoveries; environmental considerations and permitting; future gold prices; and anticipated capital and operating costs.

Any of the following events, among others, could affect the profitability or economic feasibility of a project: unanticipated changes in grade and tonnage of ore to be mined and processed; unanticipated adverse geotechnical conditions; incorrect data on which engineering assumptions are made; costs of constructing and operating a mine in a specific environment; availability and costs of processing and refining facilities; availability of economic sources of power; adequacy of water supply; adequate access to the site, including competing land uses (such as agriculture); unanticipated transportation costs; government regulations (including regulations regarding prices, royalties, duties, taxes, permitting, restrictions on production, quotas on exportation of minerals, as well as the costs of protection of the environment and agricultural lands); title claims, including aboriginal land claims; fluctuations in prices of precious metals; and accidents, labour actions and force majeure events. Anticipated capital and operating costs, production and economic returns, and other estimates contained in feasibility studies, if prepared, may differ significantly from the Corporation's actual capital and operating costs. In addition, delays to construction schedules may negatively impact the net present value and internal rates of return of the Corporation's mining properties as set forth in the applicable feasibility studies. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Corporation not receiving an adequate return on invested capital. There is no certainty that the expenditures made by the Corporation towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of ore.

The future development of the Corporation's properties that are found to be economically feasible will require the expansion and improvement of existing mining operations, as well as the construction and operation of additional mines, processing plants and related infrastructure. As a result, the Corporation is subject to all of the risks associated with establishing and expanding mining operations and business enterprises including: the timing and cost, which will be considerable, of the construction of additional mining and processing facilities; the availability and costs of skilled labour, power, water, transportation and mining equipment; the availability and cost of appropriate smelting and/or refining arrangements; the

need to obtain necessary environmental and other governmental approvals and permits, and the timing of those approvals and permits; and the availability of funds to finance construction and development activities. The costs, timing and complexities of mine construction and development are increased by the remote location of some of the Corporation's mining properties. It is not unusual in new mining operations to experience unexpected problems and delays during the construction and development of a mine. In addition, delays in the commencement or expansion of mineral production often occur and, once commenced or expanded, the production of a mine may not meet expectations or estimates set forth in feasibility or other studies. Accordingly, there are no assurances that the Corporation will successfully develop and expand mining operations or profitably produce precious metals at its properties.

### ***Uncertainty in the Estimation of Mineral Reserves and Mineral Resources***

To extend the lives of its mines and projects, ensure the continued operation of the business and realize its growth strategy, it is essential that the Corporation continues to realize its existing identified reserves, convert resources into reserves, develop its resource base through the realization of identified mineralized potential, and/or undertake successful exploration or acquire new resources.

The figures for Mineral Reserves and Mineral Resources are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realized or that Mineral Reserves could be mined or processed profitably. Actual reserves may not conform to geological, metallurgical or other expectations, and the volume and grade of ore recovered may be below the estimated levels. There are numerous uncertainties inherent in estimating Mineral Reserves and Mineral Resources, including many factors beyond the Corporation's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Short-term operating factors relating to the Mineral Reserves, such as the need for orderly development of the ore bodies or the processing of new or different ore grades, may cause the mining operation to be unprofitable in any particular accounting period. In addition, there can be no assurance that gold recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. Lower market prices, increased production costs, reduced recovery rates and other factors may result in a revision of its reserve estimates from time to time or may render the Corporation's reserves uneconomic to exploit. Reserve data are not indicative of future results of operations. If the Corporation's actual Mineral Reserves and Resources are less than current estimates or if the Corporation fails to develop its resource base through the realization of identified mineralized potential, its results of operations or financial condition may be materially and adversely affected. Evaluation of reserves and resources occurs from time to time and they may change depending on further geological interpretation, drilling results and metal prices. The category of inferred resource is the least reliable resource category and is subject to the most variability. The Corporation will regularly evaluate its resources and reserves and will determine the merits of increasing the reliability of its overall resources.

### ***Competition for Exploration, Development and Operation Rights***

The mining industry is intensely competitive in all of its phases and the Corporation competes with many companies possessing greater financial and technical resources than the Corporation. Competition in the precious metals mining industry is primarily for: mineral rich properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a global basis. Such competition may result in the Corporation being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect the Corporation's prospects for mineral exploration and success in the future.

Higher gold prices may encourage increases in mining exploration, development and construction activities, which may result in increased demand for, and cost of, exploration, development and construction services and equipment. Increased demand for services and equipment could cause project costs to increase materially, resulting in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, or at all, and increase potential scheduling difficulties and cost increases due to the need to coordinate the availability of services or equipment, any of which could materially increase project exploration, development or construction costs, result in project delays or both.

### ***Recent Global Financial Conditions***

Recent global financial conditions have been characterized by increased volatility. Access to public financing has been negatively impacted. These factors may impact the ability of the Corporation to obtain equity or debt financing in the future on terms favourable to it, if at all. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses as well as lead to an increase in liquidity risk. Liquidity risk is the risk that the Corporation will be unable to meet its financial obligations as they become due. The Corporation will manage this risk through regular monitoring of its cash flow requirements to support ongoing operations and expansionary plans. The Corporation will ensure that there are sufficient committed loan facilities to meet its business. If such increased levels of volatility and market turmoil continue, the operations of the Corporation could be adversely impacted and the price of the Common Shares may be adversely affected.

### ***Financing Requirements***

The exploration, development and continued operations of the Corporation's properties, including continuing exploration and development projects at the El Castillo Mine, the La Colorada Mine, the San Antonio Project and the San Agustin Project in Mexico, and the Magino Gold Project in Ontario and the construction and commencement of mining facilities and operations and continued operations, may require substantial additional financing. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any or all of the Corporation's properties or even a loss of a property interest. When such additional capital is required, the Corporation plans to pursue sources of such capital through various financing transactions or arrangements, including joint venturing of projects, debt financing, equity financing or other means. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Corporation and might involve substantial dilution to existing shareholders. The Corporation may not be successful in locating suitable financing transactions in the time period required or at all, may not obtain the capital required by other means and failure to raise capital when needed would have a material adverse effect on the Corporation's business, financial condition and results of operations. If the Corporation does succeed in raising additional capital, future financings are likely to be dilutive to shareholders, as additional Common Shares or other equity will most likely be issued to investors in future financing transactions. In addition, debt and other mezzanine financing may involve a pledge of assets and may be senior to interests of equity holders. The Corporation may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. The ability to obtain needed financing may be impaired by such factors as the capital markets (both generally and in the gold industry in particular), the Corporation's status as a new enterprise with a limited history, the location of the Corporation's gold properties in Mexico and price of gold on the commodities markets (which will impact the amount of asset-based financing available) and/or the loss of key management. Further, if gold price on the commodities markets decreases, then revenues will likely decrease, and such decreased revenues may increase the requirements for capital. Some of the contractual arrangements governing the Corporation's exploration activity may require commitment to certain capital expenditures, and the Corporation may lose contract rights if it does not have the required capital to fulfill these commitments. If the amount of capital raised from financing activities, together with cash flow from operations, is not sufficient to satisfy capital needs (even to the extent that operations are reduced), the Corporation may be required to cease operations.

### ***Construction and Start-up of New Mines***

The success of construction projects and the start-up of new mines by the Corporation is subject to a number of factors including the availability and performance of engineering and construction contractors, mining contractors, suppliers and consultants, the receipt of required governmental approvals and permits in connection with the construction of mining facilities and the conduct of mining operations (including environmental permits), an ADR plant, the conveyors to move the ore, mining equipment and other operational elements that have to be factored in. Any delay in the performance of any one or more of the contractors, suppliers, consultants or other persons on which the Corporation is dependent in connection with its construction activities, a delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay in or failure in connection with the completion and successful operation of the operational elements in connection with new mines could delay or prevent the construction and start-up of new mines as planned. There can be no assurance that current or future construction and start-up plans implemented by the Corporation will be successful; that the Corporation will be able to obtain sufficient funds to finance construction and start-up activities; that available personnel and equipment will be available in a timely manner or on reasonable terms to successfully complete construction projects; that the Corporation will be able to obtain all necessary governmental approvals and permits; and that

the completion of the construction, the start-up costs and the ongoing operating costs associated with the development of new mines will not be significantly higher than anticipated by the Corporation. Any of the foregoing factors could adversely impact the operations and financial condition of the Corporation.

### ***Operational Risks***

In addition, mining operations generally involve a high degree of risk. The Corporation's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of gold including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding, pit wall failure and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, operations are subject to hazards such as fire, equipment failure or failure of retaining mechanisms, areas which may result in environmental pollution and consequent liability.

### ***The Corporation may not achieve its Production Estimates***

The Corporation prepares estimates of future gold production for its operating mines. The Corporation cannot give any assurance that it will achieve its production estimates. The failure of the Corporation to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, profitability, results of operations and financial condition. These production estimates are dependent on, among other things, the accuracy of mineral reserve estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions, physical characteristics of ores, such as hardness and the presence or absence of particular metallurgical characteristics and the accuracy of estimated rates and costs of mining and processing.

The Corporation's actual production may vary from its estimates for a variety of reasons, including: actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades from those planned; mine failures, slope failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; labour shortages or strikes; civil disobedience and protests; and restrictions or regulations imposed by government agencies or other changes in the regulatory environments. Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property of the Corporation or others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable, forcing the Corporation to cease production. It is not unusual in new mining operations to experience unexpected problems during the start-up phase. Depending on the price of gold or other minerals, the Corporation may determine that it is impractical to commence or, if commenced, to continue commercial production at a particular site.

### ***Increase in Production Costs***

Changes in the Corporation's production costs could have a major impact on its profitability. Its main production expenses are contractor costs, materials, personnel costs and energy. Changes in costs of the Corporation's mining and processing operations could occur as a result of unforeseen events, including international and local economic and political events, a change in commodity prices, increased costs and scarcity of labour, and could result in changes in profitability or reserve estimates. Many of these factors may be beyond the Corporation's control.

The Corporation relies on third party suppliers for a number of raw materials. Any material increase in the cost of raw materials, or the inability by the Corporation to source third party suppliers for the supply of its raw materials, could have a material adverse effect on the Corporation's results of operations or financial condition.

### ***Environmental Risks and Hazards***

All phases of the Corporation's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased

finances and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing or future environmental regulation will not materially adversely affect the Corporation's business, financial condition and results of operations.

Government environmental approvals and permits are currently, or may in the future be, required in connection with the Corporation's operations. To the extent such approvals are required and not obtained, the Corporation may be curtailed or prohibited from proceeding with planned exploration, development or operation of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, including the Corporation, may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Corporation and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

#### ***Write-downs and Impairments***

Mining interests are the most significant assets of the Corporation and represent capitalized expenditures related to the development of mining properties and related plant and equipment and the value assigned to exploration potential on acquisition. The costs associated with mining properties are separately allocated to exploration potential, reserves and resources and include acquired interests in production, development and exploration-stage properties representing the fair value at the time they were acquired. The values of such mineral properties are primarily driven by the nature and amount of material interests believed to be contained or potentially contained, in properties to which they relate.

The Corporation will review and evaluate its mining interests for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable, which becomes more of a risk in the global economic conditions that exist currently. An impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources. Differences between management's assumptions and market conditions could have a material effect in the future on the Corporation's financial position and results of operation.

In addition, with a weaker global economy, there is a larger risk surrounding inventory levels. The assumptions used in the valuation of work-in process inventories by the Corporation include estimates of gold contained in the ore stacked on leach pads, assumptions of the amount of gold stacked that is expected to be recovered from the leach pads, assumptions of the amount, if any, of by-products that will be crushed for concentrate, assumptions of the amount of gold and by-products in these circuits and an assumption of the gold and by-products price expected to be realized when the gold and by-products is recovered. If these estimates or assumptions prove to be inaccurate, the Corporation could be required to write-down the recorded value of its work-in-process inventories, which would reduce the Corporation's earnings and working capital.

#### ***Local Legal, Political and Economic Factors***

The Corporation's operations are primarily conducted in foreign jurisdictions and, as such, the Corporation's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from location to location and include, but are not limited to: terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licences, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency

controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Political instability could result in new governments or the adoption of new policies, laws or regulations that might assume a substantially more hostile attitude toward foreign investment, including the imposition of additional taxes. In an extreme case, such a change could result in the termination of contract rights and expropriation of foreign-owned assets. Any changes in gold or investment regulations and policies or a shift in political attitudes in the countries in which the Corporation intends to operate will be beyond the Corporation's control and may significantly hamper the ability to expand operations or operate the business at a profit. Examples of such changes are changes in laws in the jurisdictions in which the Corporation operates or into which it will expand that have the effect of favouring local enterprises, and changes in political views regarding the exploration, development and operation of mineral properties and economic pressures that may make it more difficult to negotiate agreements on favourable terms, obtain required licenses and permits, comply with regulations or effectively adapt to adverse economic changes, such as increased taxes, higher costs, inflationary pressure and currency fluctuations.

Exploration, development and production activities are primarily in Mexico in which the legal system is different than Canada or the United States. Doing business in foreign jurisdictions may result in risks such as (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or, in an ownership dispute, being more difficult to obtain, (ii) a higher degree of discretion on the part of governmental authorities, (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations, (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions, and (v) relative inexperience of the judiciary and courts in such matters. Other risks may include decisions of local governments leading to restrictions on production, price controls, export controls, currency remittance, income and other taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses, permits and agreements for business. These licenses, permits and agreements may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. Property right transfers, joint ventures, licenses, license applications or other legal arrangements pursuant to which the Corporation operates and will operate may be adversely affected by the actions of government authorities and the effectiveness of and enforcement of rights under such arrangements in these jurisdictions may be impaired. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Corporation's operations or profitability.

### ***Governmental Regulation of the Mining Industry***

The mineral exploration activities of the Corporation are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although the Corporation believes that the current exploration and operational activities at its properties are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Corporation's properties. Amendments to current laws and regulations governing the operations and activities of the Corporation or more stringent implementation thereof could have a material adverse effect on the Corporation's business, financial condition and results of operations.

### ***Permitting Risk***

The Corporation's operations are subject to receiving and maintaining permits from appropriate governmental authorities. There is no assurance that delays will not occur in connection with obtaining all necessary renewals of permits for the existing operations, additional permits for any possible future changes to operations, or additional permits associated with new legislation. Prior to any development or operations on any of its properties, the Corporation must receive permits from appropriate governmental authorities. There can be no assurance that the Corporation will continue to hold all permits necessary to develop or continue operating at any particular property.

### ***Foreign Subsidiaries***

The Corporation is a holding company that conducts operations through foreign subsidiaries and substantially all of its assets are held in such entities. Accordingly, any limitation on the transfer of cash or other assets between the parent Corporation and such entities, or among such entities, could restrict the Corporation's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist now or in the future, could have an adverse impact on the Corporation's valuation and stock price.

### ***Operations in Mexico***

The Corporation's Mexican property interests and operations are subject to the political risks and uncertainties associated with investment in any foreign country.

The Corporation's property interests located in Mexico are subject to Mexican federal and state laws and regulations. As a result the Corporation's mining investments are subject to the risks normally associated with the conduct of business in foreign countries. The present attitude of the government of Mexico and of the State of Durango, where the El Castillo Mine is located, the State of Sonora, where the La Colorada Mine is located, and the States of Baja California Sur and Durango, where the San Antonio and San Agustin Projects are located respectively, to foreign investment and mining has been favorable; however, investors should assess the political risks of investing in a foreign country. Any variation from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Corporation. In addition, the enforcement by the Corporation of its legal rights to exploit its properties may not be recognized by the government of Mexico or by its court system. These risks may limit or disrupt the Corporation's operations, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization or expropriation without fair compensation.

### ***Foreign Currency Exchange Rate Fluctuation***

Currency fluctuations may affect the Corporation's capital costs and the costs that the Corporation incurs at its operations. Gold is sold throughout the world based principally on a United States Dollar price, but a portion of the Corporation's expenses are incurred in, amongst others, Mexican pesos and Canadian dollars. The appreciation of foreign currencies, particularly the Mexican peso or Canadian dollar against the United States Dollar, would increase the costs of gold production at properties located in those jurisdictions, which could materially and adversely affect the Corporation's earnings and financial condition.

### ***Exchange Controls***

Foreign operations may require funding if their cash requirements exceed operating cash flow. To the extent that funding is required, there may be exchange controls limiting such funding or adverse tax consequences associated with such funding. In addition, taxes and exchange controls may affect the dividends received from foreign subsidiaries. Exchange controls may prevent transferring funds abroad.

### ***Safety and Security***

The Corporation owns properties in the states of Durango, Sonora and Baja California Sur, Mexico. Risks associated with conducting business in these regions include risks related to personnel safety and asset security. Risks may include, but are not limited to: kidnappings of employees and contractors, exposure of employees and contractors to local crime related activity and disturbances, exposure of employees and contractors to drug trade activity, and damage or theft of Corporate or personal assets including future gold shipments. These risks may result in serious adverse consequences including personal injuries or death, in property damage or theft, all of which may expose the Corporation to costs as well as potential liability. Although the Corporation has developed policies regarding these risks, due to the unpredictable nature of criminal activities, there is no assurance that the Corporation's efforts are able to effectively mitigate risks and safeguard personnel and corporate property effectively.

As the Corporation places a high priority on the safety of its employees, contractors and affiliates, these risks may at times have impacts such as limiting or disrupting the Corporation's operations, or restricting the movement of personnel for safety reasons. The Corporation is committed to controlling security risks and activity in this regard includes the completion of

security assessments by experienced security experts and the hiring of security professionals to assess and respond to both personal and property safe-guarding issues which may arise in connection with the Corporation's activity in the region.

### ***Infrastructure***

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Corporation's business, financial condition and results of operations.

### ***Community Relations***

The Corporation's relationship with the communities in which it operates is critical to the successful development, construction and operation of its properties. The Corporation is committed to operating in a socially responsible manner. However, there is no guarantee it projects will be accepted by the communities in which they are located.

### ***Contractors***

A significant amount of the construction and operations is performed by contractors. As a result the Corporation is subject to a number of risks such as negotiating contracts with acceptable terms; failure of the contractor to comply with the terms of the contract or to following regulatory requirements; or inability to replace the contractor in a timely manner if either party cancels the contract.

### ***Labour and Employment Matters***

While the Corporation has good relations with its employees, production at its mining operations is dependent upon the efforts of the Corporation's employees. In addition, relations between the Corporation and its employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in whose jurisdictions the Corporation carries on business. Changes in such legislation or in the relationship between the Corporation and its employees may have a material adverse effect on the Corporation's business, results of operations and financial condition.

### ***Attracting and Retaining Talented Personnel***

The Corporation's success will depend in large measure on the abilities, expertise, judgment, discretion, integrity and good faith of management and other personnel in conducting the business of the Corporation. The Corporation has a small management team and the loss of any of these individuals or the inability to attract suitably qualified staff could materially adversely impact the business. The Corporation's ability to manage its operating, development, exploration and financing activities will depend in large part on the efforts of these individuals. The Corporation may also experience difficulties in certain jurisdictions in efforts to obtain suitably qualified staff and retaining staff who are willing to work in that jurisdiction. The Corporation's success will depend on the ability of management and employees to interpret market and geological data successfully and to interpret and respond to economic, market and other business conditions in order to locate and adopt appropriate investment opportunities, monitor such investments and ultimately, if required, successfully divest such investments. Further, key personnel may not continue their association or employment with the Corporation, which may not be able to find replacement personnel with comparable skills. The Corporation has sought to and will continue to ensure that management and any key employees are appropriately compensated; however, their services cannot be guaranteed. If the Corporation is unable to attract and retain key personnel, business may be adversely affected. The Corporation faces intense competition for qualified personnel, and there can be no assurance that the Corporation will be able to attract and retain such personnel.

In addition, the Corporation anticipates that, as it expands its existing production and brings additional properties into production, and as the Corporation acquires additional mineral rights, the Corporation will experience significant growth in its operations. The Corporation expects this growth to create new positions and responsibilities for management personnel and to increase demands on its operating and financial systems, as well as to require the hiring of a significant number of

additional operations personnel. There can be no assurance that the Corporation will successfully meet these demands and effectively attract and retain additional qualified personnel to manage its anticipated growth and hire enough additional operations personnel. The failure to attract such qualified personnel to manage growth effectively could have a material adverse effect on the Corporation's business, financial condition or results of operations.

### ***Contract Renegotiation***

The Corporation has contracts that provide access to projects and construction and operation of the mine. Although the contracts may be binding, they may contain provisions for price adjustments, or a party to the contract may request to renegotiate terms of the contract. A risk exists that the cost of the contract may rise or the parties may not reach acceptable terms causing an interruption to the access to or operation of the project.

### ***Title to Properties***

The Corporation presently holds all necessary licenses and permits required to carry on with activities in relation to El Castillo and La Colorada. The Corporation is compliant under applicable laws and regulations in all material respects with the terms of such licenses and permits. Title reviews have been performed with respect to the Corporation's other properties. Although title reviews are often done according to industry standards prior to the purchase of a mining property, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Corporation which could result in a reduction of the revenue received by the Corporation. Third parties may have valid claims underlying portions of the interest in certain Projects, including prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Corporation may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

The mining concessions may be terminated in certain circumstances. Under the laws of the foreign jurisdictions where the Corporation's operations, development projects and prospects are located, mineral resources belong to the state and governmental concessions are required to explore for, exploit, and extract, mineral reserves. The concessions held by the Corporation in respect of its operations and development projects may be terminated under certain circumstances, including where minimum production levels are not achieved by the Corporation (or a corresponding penalty is not paid), if certain fees are not paid or if environmental and safety standards are not met. Termination of any one or more of the Corporation's mining, exploration or other concessions could have a material adverse effect on the Corporation's financial condition or results of operations.

### ***There is uncertainty related to unsettled First Nations rights and title in Ontario and this may create delays in Magino Project approval or interruptions in project progress.***

The nature and extent of First Nation rights and title remains the subject of active debate, claims and litigation in Canada. The Magino Project lies within traditional First Nation territories and no comprehensive treaty or land claims settlement has been concluded regarding these traditional territories. There can be no guarantee that the unsettled nature of land claims in Ontario will not create delays in project approval or unexpected interruptions in project progress, or result in additional costs to advance the Corporation's projects. In many cases mine construction and commencement of mining activities is only possible with the consent of the local First Nations groups and many companies have secured such consent by committing to take measures to limit the adverse impact to, and ensure some of the economic benefits of the construction and mining activity will be enjoyed by, the local First Nations group.

### ***Volatility of Market for Common Shares***

The market price of the Common Shares may be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond the Corporation's control, including: (i) dilution caused by issuance of additional Common Shares and other forms of equity securities, which the Corporation expects to make in connection with future capital financings to fund operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies, (ii) announcements of new acquisitions, reserve discoveries or other business initiatives by competitors, (iii) fluctuations in revenue from gold operations as new reserves come to market, (iv) changes in the market for gold and/or in the capital markets generally, (v) changes in the demand for gold; and (vi) changes in the social, political and/or legal climate in the regions in which the Corporation operates. In addition, the market price of the Common Shares could be subject to wide fluctuations in response to: (a) quarterly variations in revenues and operating

expenses, (b) changes in the valuation of similarly situated companies, both in the gold industry and in other industries, (c) changes in analysts' estimates affecting the Corporation, competitors and/or the industry, (d) changes in the accounting methods used in or otherwise affecting the industry, (e) additions and departures of key personnel, (f) fluctuations in interest rates, exchange rates and the availability of capital in the capital markets, and (g) significant sales of the Corporation's common stock, including sales by future investors in future offerings which may be made to raise additional capital. These and other factors will be largely beyond the Corporation's control, and the impact of these risks, singularly or in the aggregate, may result in material adverse changes to the market price of the Common Shares and/or results of operations and financial condition.

### ***Fluctuations in Operating Results can cause Common Share Price Decline***

The Corporation's operating results will likely vary in the future primarily from fluctuations in revenues and operating expenses, including the ability to produce gold, expenses that are incurred, the price of gold in the commodities markets and other factors. If the results of operations do not meet the expectations of current or potential investors, the price of the Common Shares may decline.

### ***Foreign Private Issuer Status***

The Corporation, as successor to Pediment's registration with the U.S. Securities and Exchange Commission, was considered a "foreign private issuer" under both the U.S. Securities Act of 1933, as amended, and the U.S. Securities Exchange Act of 1934, as amended, and met the eligibility requirements to file continuous reporting documents and registration statements with the SEC under the Multi-Jurisdictional Disclosure System ("MJDS") adopted by the United States and Canada. Subsequently, in 2011 the Corporation deregistered with the Securities and Exchange Commission.

The Corporation may cease to qualify as a foreign private issuer in the future. To the extent that the Corporation ceases to qualify as a foreign private issuer it may be subject to registration requirements in the United States which will increase its annual cost and may be subject to more restrictive capital raising provisions which may increase costs of, or limit the ability of the Corporation to access capital markets in the future.

### ***Lack of Hedging***

The Corporation does not currently intend to enter into forward sales arrangements to reduce the risk of exposure to volatility in commodity prices. Accordingly, the Corporation's future operations are exposed to the impact of any significant decrease in commodity prices. If such prices decrease significantly at a time when the Corporation is producing, the Corporation would realize reduced revenues. While it is currently not the Corporation's current intention to enter into forward sales arrangements, the Corporation is not restricted from entering into forward sales arrangements at a future date.

### ***Internal Control over Financial Reporting***

No evaluation can provide complete assurance that the Corporation's internal control over financial reporting will detect or uncover all failures of persons within the Corporation to disclose material information required to be reported. The effectiveness of the Corporation's control and procedures could also be limited by simple errors or faulty judgments. In addition, as the Corporation continues to expand, the challenges involved in implementing appropriate internal control over financial reporting will increase and will require that the Corporation continue to improve its internal control over financial reporting. Although the Corporation intends to devote substantial time and incur substantial costs, as necessary, to ensure ongoing compliance, the Corporation cannot be certain that it will be successful in complying with Section 404 of the Sarbanes-Oxley Act of 2002 in the United States.

### ***Acquisitions and Integration***

The Corporation's business plan focuses on international exploration and production opportunities, currently in Mexico and Canada, and later in other parts of the world. In the event that the Corporation does not succeed in negotiating additional property acquisitions, future prospects in the long-term will likely be substantially limited, and the Corporation's financial condition and results of operations may deteriorate.

Any acquisition that the Corporation may choose to complete may be of a significant size, may change the scale of the Corporation's business and operations, and may expose the Corporation to new geographic, political, operating, financial and geological risks. The Corporation's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, negotiate acceptable terms for any such acquisition, and integrate the acquired operations successfully with those of the Corporation. Any acquisitions would be accompanied by risks. For example, there may be a significant change in commodity prices after the Corporation has committed to complete the transaction and established the purchase price or exchange ratio; a material ore body may prove to be below expectations; the Corporation may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt the Corporation's ongoing business and its relationships with employees, customers, suppliers and contractors; and the acquired business or assets may have unknown liabilities which may be significant. In the event that the Corporation chooses to raise debt capital to finance any such acquisition, the Corporation's leverage will be increased. If the Corporation chooses to use equity as consideration for such acquisition, existing shareholders may suffer dilution. Alternatively, the Corporation may choose to finance any such acquisition with its existing resources. There can be no assurance that the Corporation would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

### ***Risk Management***

Gold exploration and development companies face many and varied kinds of risks that have been mentioned or alluded to throughout this document. While risk management cannot eliminate the impact of all potential risks, the Corporation will strive to manage such risks to the extent possible and practical.

### ***Insurance and Uninsured Risks***

The Corporation's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, catastrophic equipment failures, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Corporation's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although the Corporation will maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all the potential risks associated with a mining company's operations. The Corporation may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Corporation or to other companies in the mining industry on acceptable terms. The Corporation might also become subject to liability for pollution or other hazards that may not be insured against or that the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### ***Dilution Risk***

In order to finance future operations and development efforts, the Corporation may raise funds through the issue of Common Shares or securities convertible into Common Shares. The constituting documents of the Corporation will allow it to issue, among other things, an unlimited number of Common Shares for such consideration and on such terms and conditions as may be established by the directors of the Corporation, in many cases, without the approval of shareholders. The size of future issues of Common Shares or securities convertible into Common Shares or the effect, if any, that future issues and sales of the Common Shares will have on the price of the Common Shares cannot be predicted at this time. Any transaction involving the issue of previously authorized but unissued Common Shares or securities convertible into Common Shares would result in dilution, possibly substantial, to present and prospective shareholders of the Corporation.

### ***Possible Conflicts of Interest of Directors and Officers of the Corporation***

Certain of the directors and officers of the Corporation may also serve as directors and/or officers of other companies involved in natural resource exploration and development and, consequently, there exists the possibility for such directors and officers to be in a position of conflict. The Corporation expects that any decision made by any of such directors and officers involving the Corporation will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Corporation and its shareholders, but there can be no assurance in this regard.

### ***Enforcement of Civil Liabilities in the United States***

The Corporation is incorporated under the laws of the Province of Ontario, Canada. Some of its directors and officers are residents of Canada. Also, almost all of the Corporation's assets and the assets of these persons are located outside of the United States. As a result, it may be difficult for shareholders to initiate a lawsuit within the United States against these non-United States residents, or to enforce judgments in the United States against the Corporation or these persons which are obtained in a United States court and that are predicated upon civil liabilities under the United States federal securities laws or the securities or "blue sky" laws of any state within the United States.

## **DIVIDENDS**

There are no restrictions in Argonaut's constituting documents that would restrict or prevent Argonaut from paying dividends. However, it is not contemplated that any dividends will be paid on the Common Shares in the immediate future as it is anticipated that all available funds will be reinvested in the Corporation to finance the growth of its business. Any decision to pay dividends on the Common Shares in the future will be made by the Board of Directors of Argonaut (the "Board") on the basis of the earnings, financial requirements and other conditions existing at such time.

## **CAPITAL STRUCTURE**

Argonaut is authorized to issue an unlimited number of Common Shares. As at December 31, 2014, the Corporation had 154,446,434 Common Shares issued and outstanding and a total of 3,211,856 Options issued and outstanding.

### ***Common Shares***

Each Common Share of the Corporation entitles the holder thereof to receive notice of any meetings of the shareholders of Argonaut and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all of the directors standing for election. Holders of Common Shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Board at its discretion from funds legally available therefore and, upon the liquidation, dissolution or winding up of Argonaut, are entitled to receive on a pro rata basis the net assets of the Corporation after payment of debts and liabilities. The Common Shares do not carry any pre-emptive, subscription, redemption, retraction or conversion rights, nor do they contain any sinking or purchase fund provisions.

### ***Options***

As at December 31, 2014, the Corporation had a total of 3,211,856 options outstanding. Upon the acquisition of Prodigy Gold on December 11, 2012, 16,466,000 outstanding options of Prodigy were converted to 1,715,899 options of Argonaut on a basis of 0.10421 Argonaut options for each Prodigy option. These options were exercisable up to August of 2017 at exercise prices ranging from CA\$2.79 to CA\$8.35. In 2014, a total of 12,505 of these options were exercised and no options expired. As of December 31, 2014, there were 1,352,611 converted Prodigy options outstanding. Upon the acquisition of Pediment Gold on January 27, 2011, the outstanding options of Pediment converted to Argonaut Gold options. These options are exercisable up to March of 2015 at an exercise price of CA\$2.24. In 2014, none of these options expired and as of December 31, 2014, there were 93,750 converted Pediment options still outstanding. Of the total options outstanding, 1,765,495 were issued under the Argonaut Share Incentive Plan to certain employees, directors and consultants of the Corporation. The options are exercisable for up to 10 years from the dates of grant at prices ranging from CA\$1.62 to CA\$10.35. During 2014, a total of 537,828 options were granted to certain officers, directors, key employees and

consultants of the Corporation under the share incentive plan, 17,394 options were exercised and 109,376 options were cancelled.

### ***Restricted Shares***

During 2014, the Board approved for grant awards of 287,496 restricted Common Shares of the Corporation to certain officers, directors and key employees of the Corporation. These awards carry the same rights as the Common Shares described above, but have restrictions regarding the vesting or required holding period of the restricted shares. As at December 31, 2014 a total of 411,626 restricted Common Shares were unvested.

## **MARKET FOR SECURITIES**

### ***Price Range and Trading Volume of Common Shares and Warrants***

The Common Shares of Argonaut are traded on the TSX under the symbol "AR". The following tables set out the market price ranges in Canadian dollars per Common Share of Argonaut and aggregate trading volumes on a monthly basis as reported by the TSX for the most recently completed financial year, respectively.

#### ***Common Shares***

The following table sets forth the volume of trading and price ranges for each month for the Common Shares on the TSX during the period from January 1, 2014 to December 31, 2014. The Common Shares closed at CA\$1.83 on December 31, 2014.

	<u>High</u>	<u>Low</u>	<u>Average Daily Volume</u>
	CA\$	CA\$	Number of Shares
January .....	6.24	4.76	918,300
February .....	6.65	4.88	936,000
March .....	6.24	4.72	939,000
April .....	4.95	3.60	854,700
May .....	4.10	3.50	501,700
June .....	4.57	3.43	1,034,100
July .....	5.01	3.84	1,121,600
August .....	5.28	3.82	616,600
September .....	4.72	3.82	833,300
October .....	3.95	2.16	939,000
November .....	2.70	1.82	1,456,800
December .....	2.09	1.24	2,287,400

### Prior Sales

The following table sets forth the date and consideration per security for all securities of the Corporation issued during the most recently completed financial year:

<u>Date of Grant/Issuance</u>	<u>Price per Security (CA\$)</u>	<u>Number of Securities Issued</u>
<b>Stock options granted:</b>		
February 3, 2014	4.99	418,510
May 9, 2014	4.02	79,318
November 11, 2014	2.21	22,500
December 24, 2014	1.62	17,500
<b>Restricted shares granted:</b>		
February 3, 2014	4.99	250,183
May 9, 2014	4.02	37,313
<b>Common shares issued on exercise of stock options:</b>		
	<u>Price per Security (CA\$)</u>	<u>Number of Securities Issued</u>
February 7, 2014	3.38-4.48	17,394
September 9, 2014 <sup>(1)</sup>	2.79	12,505

(1) Converted Prodigy options exercised.

### Securities Subject to Contractual Restriction on Transfer

The following table sets forth the number of securities of the Corporation subject to contractual restriction on transfer during the most recently completed financial year:

<b>Designation of class</b>	<b>Number of securities subject to contractual restriction on transfer</b>	<b>Percent of class</b>	<b>Date issued<sup>(1)</sup></b>
Restricted Common Shares	31,167 <sup>(2)</sup>	0.03	February 8, 2012
Restricted Common Shares	97,736 <sup>(3)</sup>	0.08	February 4, 2013
Restricted Common Shares	15,293 <sup>(4)</sup>	0.01	April 15, 2013
Restricted Common Shares	13,334 <sup>(5)</sup>	0.01	August 16, 2013
Restricted Common Shares	216,783 <sup>(6)</sup>	0.19	February 3, 2014
Restricted Common Shares	37,313 <sup>(7)</sup>	0.03	May 9, 2014

(1) The restricted shares vest one-third per year over three years.

(2) Restriction on Common Shares ended on February 8, 2015.

(3) Restriction on 1/2 of Common Shares ends on February 4, 2015 and 2016, respectively.

(4) Restriction on 1/2 of Common Shares ends on April 15, 2015 and 2016, respectively.

(5) Restriction on 1/2 of Common Shares ends on August 16, 2015 and 2016, respectively.

(6) Restriction on 1/3 of Common Shares ends on February 3, 2015, 2016, and 2017, respectively.

(7) Restriction on 1/3 of Common Shares ends on May 9, 2015, 2016, and 2017, respectively.

This table does not include the restricted Common Shares issued to directors as part of their director compensation, which vest immediately. These shares are restricted for a minimum of two years during their position as a director or six months after retirement from the board of the Corporation.

### DIRECTORS AND OFFICERS

The following table sets forth for each of the directors and executive officers of the Corporation as at December 31, 2014 the person's name, municipality of residence, position with the Corporation, principal occupation during the last five years and, if a director, the date on which the person became a director. Each of the directors of the Corporation has been appointed to serve until the next annual meeting of the shareholders of the Corporation.

<b>Name and Municipality of Residence</b>	<b>Position</b>	<b>Work Experience</b>	<b>Since</b>
Brian J. Kennedy <sup>(1)</sup> Nevada, United States	Director (Chairman)	President & CEO Argonaut LLC; Chairman, President & CEO, Meridian Gold Inc.; Director, NV Energy Inc.	December 30, 2009
James E. Kofman <sup>(2)</sup> Ontario, Canada	Director	Vice-Chairman, Cormark Securities Inc.; Chairman & CEO, Zenn Motor Company; President, JEK Capital Advice; Vice Chairman, UBS Securities Canada Inc.	January 13, 2010
Christopher R. Lattanzi Ontario, Canada	Director	Mining Engineer, Consultant; Director, Teranga Gold Corporation, Spanish Mountain Gold Ltd.	December 30, 2009
Peter Mordaunt Arizona, United States	Director	Director of Ethos Gold Corp.; Chairman & CEO, Stingray Copper Inc.; Professional GeoScientist	January 27, 2011
Dale C. Peniuk British Columbia, Canada	Director	CPA CA (Chartered Accountant) and Corporate Director of a number of publicly traded companies (currently Lundin Mining Corporation and Capstone Mining Corp. in addition to the Corporation); formerly Assurance Partner, KPMG LLP	December 30, 2009
David H. Watkins British Columbia, Canada	Director	Chairman, Atna Resources, Euro Ressources SA and Commander Resources Ltd.; Director, Camino Minerals Corp., Golden Minerals Company and Rio Novo Gold Inc.	December 11, 2012
Peter C. Dougherty Nevada, United States	President & Chief Executive Officer and Director	President and Chief Executive Officer, Argonaut; Vice-President Finance, CFO, and Corporate Secretary, Meridian Gold Inc.	December 30, 2009
David A. Ponczoch Nevada, United States	Chief Financial Officer and Corporate Secretary	Chief Financial Officer, Argonaut; Chief Financial Officer, Twin Metals Minnesota; Regional Finance Director, Yamana Gold Inc.	November 15, 2013
Richard S. Rhoades Nevada, United States	Chief Operating Officer	Chief Operating Officer, Argonaut; General Manager Mission Complex, Asarco LLC.	December 12, 2011
Thomas H. Burkhart Nevada, United States	Vice President Exploration	Vice President Exploration, Argonaut; Vice President Exploration, The Northair Group; Vice President Exploration, Pegasus Gold Corp.	March 17, 2010
Curtis K. Turner Nevada, United States	Corporate Development Officer	Corporate Development Officer, Argonaut; CFO, Argonaut; CFO, Cyanco ; Director of Finance, Yamana Gold Inc.; Corporate Controller, Meridian Gold Inc.	December 30, 2009
W. Robert Rose Nevada, United States	Vice President of Technical Services	Vice President of Technical Services, Argonaut; Chief Operating Officer, Andina Minerals; Senior Engineer/Project Manager, Kappes, Cassidy & Associates	April 15, 2013

(1) Mr. Kennedy's principal occupation is President and CEO of Argonaut LLC, an investment company.

(2) Mr. Kofman's principal occupation is Vice-Chairman of Cormark Securities, an investment dealer.

As of December 31, 2014, the Board's standing committees are the Audit Committee, the Nominating, Compensation and Governance Committee, and the Safety, Health, Environment, Sustainability and Technical Committee. The Audit Committee is comprised of Messrs. Peniuk (Chair), Kennedy, Kofman and Lattanzi. The Nominating, Compensation and Governance Committee is comprised of Messrs. Kofman (Chair), Mordaunt, Peniuk and Watkins. The Safety, Health, Environment, Sustainability and Technical Committee is comprised of Messrs. Lattanzi (Chair), Mordaunt and Watkins.

As at December 31, 2014, the directors and officers of the Corporation as a group, beneficially owned, directly or indirectly, or exercised control or direction over an aggregate of 4,925,008 Common Shares, representing approximately 3.2% of the then outstanding Common Shares.

#### ***Corporate Cease Trade Orders or Bankruptcies***

None of the directors or executive officers of Argonaut is, or within the 10 years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company, that: (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as a director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, with the exception of Mr. David Watkins. Mr. Watkins was a director of Landrill International Inc. ("Landrill") from June, 2011 until August 26, 2012. On August 31, 2012, Landrill obtained an Initial Order from the Court of Queen's Bench of New Brunswick under the *Companies' Creditors Arrangement Act* (Canada) granting protection from creditors to enable Landrill to continue operations while conducting an orderly sale of assets as a going concern.

None of the directors or executive officers of Argonaut or a shareholder holding a sufficient number of securities of Argonaut to materially affect the control of Argonaut: (a) is, as at the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receive manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

#### ***Conflicts of Interest***

The directors of the Corporation supervise the management of the business and affairs of the Corporation in accordance with the provisions of the OBCA. The directors and officers of the Corporation will in all cases be required by law to act honestly and in good faith with a view to the best interest of the Corporation.

To the knowledge of the Corporation, after reasonable inquiry, there are no existing or potential material conflicts of interest between the Corporation and any director or officer of the Corporation. Certain of the directors and officers of the Corporation serve as directors, officers or members of management or are otherwise insiders of other companies engaged in the business of mineral exploration or other related businesses, and therefore it is possible that a conflict may arise as a result of being a director, officer, member of management or insider of such other companies.

#### ***Audit Committee***

The Audit Committee consists of Messrs. Peniuk (Chairman), Lattanzi, Kennedy and Kofman. For the purposes of National Instrument 52-110 – *Audit Committees*, published by the Canadian Securities Administrators ("**NI 52-110**"), all of the members of the Audit Committee are considered to be financially literate and all are considered to be independent.

#### ***Relevant Education and Experience***

Mr. Peniuk is a CPA CA (Chartered Accountant) that has provided financial consulting services to a number of mining

companies for many years. He has served as a corporate director since 2006 and has been the audit committee chairman of a number of mining companies. In addition to the Corporation, he currently serves on the board of directors and as the chairman of the audit committees of Lundin Mining Corporation and Capstone Mining Corp. Mr. Peniuk holds a B. Comm from the University of British Columbia and a CA designation from the Institute of Chartered Accountants of British Columbia. Mr. Peniuk worked for over 20 years at KPMG, Chartered Accountants and predecessor firms, including being an assurance partner from 1996 to 2006 and was the leader of KPMG's British Columbia mining practice.

Mr. Lattanzi is a mining engineer with more than 50 years of experience in the mineral industry, initially in the planning and supervision of mining operations and since 1969 as a consultant. He was president of Micon International Limited, an independent mineral consultancy, from its founding in 1988 until 2005. He was a director of Meridian Gold Inc. from 1999 to 2007 and from 2004 to 2006 he served as chairman of that company. He is presently a director and member of the audit committees of Spanish Mountain Gold Ltd., a Canadian junior exploration company and Teranga Gold Corporation, which produces gold from a mine in Senegal. He continues to maintain an active consulting practice.

Mr. Kennedy was President and Chief Executive Officer of Meridian Gold Inc. from June 1996 to December 2006. He was President and COO of FMC Gold Company, a predecessor of Meridian Gold Inc., from May 1987 until June 1996. Mr. Kennedy holds a B.S. from the US Naval Academy and an MBA from Harvard University. He also served on the audit committee and board of directors of NV Energy Inc.

Mr. Kofman has been in the financial services industry since 1996 and prior to that was a securities and mergers and acquisitions lawyer in Canada and in England. He holds a B.Comm and an LLB from Queen's University in Kingston, Canada. He has been actively involved in advising companies on financial matters in his various roles. He is currently Vice-Chairman of Cormark Securities Inc.

#### *Audit Committee Oversight*

At no time since the commencement of the most recently completed financial year of the Corporation was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the directors of the Corporation.

#### *Reliance on Certain Exemptions*

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on the exemption set out in Section 2.4 (*De Minimis Non-Audit Services*), section 3.2 (*Initial Public Offerings*), subsection 3.3(2) (*Controlled Companies*), section 3.4 (*Events Outside Control of Member*), section 3.5 (*Death, Disability or Resignation of Audit Committee Member*), section 3.6 (*Temporary Exemption for Limited and Exceptional Circumstances*) or section 3.8 (*Acquisition of Financial Literacy*) of NI 52-110 or any exemption from the application of NI 52-110, in whole or in part, granted under Part 8 of NI 52-110 (*Exemptions*).

#### *Pre-Approval Policies and Procedures*

The Audit Committee, or its delegate appointed in accordance with the Audit Committee Charter, must pre-approve all non-audit services to be provided by the external auditor of the Corporation. The Audit Committee has not adopted specific policies and procedures for the engagement of such non-audit services.

### External Auditor Service Fees

PwC was appointed auditors of the Corporation on December 30, 2009. The aggregate fees billed by PwC are reflected below.

<b>Service Billed*</b>	<b>2014</b>	<b>2013</b>
Audit Fees <sup>(1)</sup>	\$ 262,814	\$ 175,426
Audit-Related Fees <sup>(2)</sup>	42,774	53,524
Tax Fees <sup>(3)</sup>	35,026	6,781
Other Services <sup>(4)</sup>	-	-
<b>Total</b>	<b>\$ 340,614</b>	<b>\$ 235,731</b>

\*Services billed during the year reflect the aggregate fees billed by PwC, which may include services provided in previous covered financial years.

#### **Notes:**

- (1) Audit Fees refers to the aggregate fees billed for audit services.
- (2) Audit-Related Fees refers to the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under Audit Fees.
- (3) Tax Fees refers to the aggregate fees billed for professional services for tax compliance, tax advice and tax planning.
- (4) Other Services refers to the aggregate fees billed for products and services, other than the services comprising the fees disclosed under Audit Fees, Audit-Related Fees or Tax Fees.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Other than as set forth below, the Corporation was not, during 2014, and is not currently, a party to, nor was/is any of its property the subject of, any legal proceedings, or any known to be contemplated, which involve a material claim for damages within the meaning of applicable securities legislation.

On August 2, 2012, SEMARNAT denied the authorization for an Environmental Impact Assessment for the Corporation's San Antonio project. The Corporation's wholly-owned subsidiary Minera Pitalla issued a protective order against the ruling. This protective order was filed with the 9th Circuit Court and was assigned case number 1011/2012 naming a number of officials and agencies relevant to the permitting. On January 10, 2014, a constitutional hearing was convened by the 9th Circuit Court, denying the protective order to Minera Pitalla. In this sense and in order to challenge such resolution, Minera Pitalla submitted a remedy of appeal, which fell in the case number 132/2014 before the 18th Collegiate Tribunal, remains pending the official ruling which is still under review as of the date of this report.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

David Watkins is a former director and shareholder of Prodigy and was appointed to the Board upon completion of the Prodigy Arrangement.

Except as otherwise disclosed in this AIF, no director, executive officer or insider of the Corporation, or any associate or affiliate of a director, executive officer or insider of the Corporation, has or had any material interest, direct or indirect within the three most recently completed financial years or during the current financial year, in any transaction or any proposed transaction which has materially affected or will materially affect the Corporation.

### **TRANSFER AGENT, REGISTRAR AND AUDITORS**

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc., located at 100 University Avenue, 8<sup>th</sup> floor, Toronto, ON, M5J 2Y1.

The auditors of Argonaut are PricewaterhouseCoopers LLP of Vancouver, British Columbia.

## MATERIAL CONTRACTS

### *Material Contracts*

The following material contracts have been entered into by Argonaut:

1. The arrangement agreement dated October 14, 2012, between the Corporation and Prodigy.

## INTEREST OF EXPERTS

The following persons and companies are named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made by the Corporation under National Instrument 51-102 – *Continuous Disclosure Obligations* during, or relating to, the most recently completed financial year and whose profession or business gives authority to the statement, report or valuation made by the person, firm or company:

- Bart Stryhaus, C.P.G., Ph.D., Bret C. Swanson, BE Mining, MAusIMM, Eric Olin, MAusIMM of SRK Consulting (U.S.), Inc. ("SRK") "NI 43-101 Technical Report on Resources and Reserves, Argonaut Gold Inc. El Castillo Mine Durango State, Mexico", report dated February 24, 2011.
- Bart Stryhaus, C.P.G., Ph.D., Bret Swanson, BE Mining, MMSA and Mark Allan Willow, M. Sc., C.E.M. of SRK Consulting (U.S.), Inc. and Richard J. Taylor, P.E., of Kappes, Cassidy & Associates "NI 43-101 Preliminary Economic Assessment La Colorada Project Sonora Mexico", report dated December 30, 2011.
- Leah Mach, M.Sc. Geology, CPG, and Mark Willow, M.Sc., C.E.M. of SRK Consulting (U.S.) Inc., Richard Rhoades, P.E., of Argonaut Gold Inc., and Carl Defilippi, M.Sc. C.E.M., SME of Kappes, Cassidy & Associates "NI 43-101 Technical Report on Resources, San Antonio Project", report dated October 10, 2012.
- Patrick Huxtable, MAIG (RPGeo), Todd McCracken, P.Geo., and Todd Kanhai, P.Eng of Tetra Tech WEI Inc. "Technical Report on the Magino Property, Wawa, Ontario", effective date October 4, 2012.
- Bart Stryhas, Ph.D., C.P.G., Bret Swanson, BE Mining, MMSA of SRK Consulting (U.S.), Inc., Alberto Orozco, Argonaut Gold Inc. and Richard J. Taylor , P.E, Kappes, Cassidy and Associates "Preliminary Resource Estimation, Veta Madre Deposit, La Colorada Project , Sonora, Mexico", report dated October 15, 2011.
- Gord Doerksen, P.Eng., Dino Polotto, P.Eng., Garth Kirkham, P. Geo., Richard Boehnke, P.Eng., and Matt Bender of JDS Energy and Mining Inc. and Ian Hutchinson of SLR and Larry Buter of LJB Mineral Services "Preliminary Feasibility Study Technical Report for the Magino Project Wawa, Ontario, Canada", report dated January 30, 2014.
- Michael J. Lechner, P. Geo and Carl E. Defilippi, SME Registered Member, "Oxide Resource Estimate, San Agustin Project, Durango Mexico", report dated October 3, 2014.
- Michael J. Lechner, P. Geo and Carl E. Defilippi, SME Registered Member, "Technical Report and Preliminary Economic Assessment, San Agustin Heap Leach Project, Durango Mexico", report dated January 20, 2015.

To the best knowledge of the Corporation, after reasonable enquiry, none of the foregoing persons, beneficially owns, directly or indirectly, or exercises control or direction over any securities of the Corporation representing more than one per cent of the outstanding Common Shares.

The Corporations auditors, PricewaterhouseCoopers LLP, report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

## ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and [www.ArgonautGold.com](http://www.ArgonautGold.com). Further, information with respect to the Corporation, including directors' and officers' remuneration and indebtedness, principal holders of securities of the Corporation and securities authorized for issuance under equity compensation plans is contained in the management information circular of the Corporation for its most recent annual meeting of shareholders (the "Information Circular") that involved the election of directors. Additional financial information is provided in the comparative consolidated financial statements and the management's discussion and analysis of the Corporation for its most recently completed financial year. A copy of this AIF and the Information Circular may be obtained upon request from the Secretary of the Corporation.

## AUDIT COMMITTEE CHARTER *Amended and Restated as of March 19, 2014*

The Board of Directors (the "**Board**") of Argonaut Gold Inc. (the "**Corporation**") shall establish an Audit Committee (the "**Committee**") comprised of not fewer than three members of the Board, none of whom are executive officers or employees of the Corporation or any of its affiliates and at least one of whom shall be a resident Canadian. The membership qualifications, authority, responsibility, and specific duties of the Committee are set forth herein.

### PURPOSE

The purpose of the Committee is to provide oversight of the Corporation in relation to:

- (a) **the accounting and financial reporting processes and interim reviews and audits of financial statements,**
- (b) **the integrity of financial statements,**
- (c) **compliance with legal and regulatory requirements,**
- (d) **the qualifications and independence of independent auditors, and**
- (e) **the performance of the independent auditors.**

The function of the Committee is oversight. In fulfilling their responsibilities under this Charter, it is recognized that members of the Committee are not full-time employees of the Corporation and are not, and do not represent themselves to be, performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards.

*The Committee is directly responsible for the appointment, compensation and oversight of the work of the independent auditors (including resolving disagreements between management and the independent auditors regarding financial reporting). The Committee has the authority and responsibility to appoint, retain and terminate the independent auditors (subject, if applicable, to shareholder approval).*

Management is responsible for the preparation, presentation and integrity of the financial statements and any financial information filed with securities regulatory authorities or stock exchanges or otherwise publicly disseminated.

*Management and the persons responsible for the internal audit function, whether employees of, or consultants to, the Corporation, are responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations.*

### MEMBERSHIP QUALIFICATIONS

The Committee shall consist of three or more members of the Board, each of whom the Board has determined has no material relationship with the Corporation and each of whom is otherwise "unrelated" or "independent", as the case may be,

under the applicable requirements, regulations or rules of (i) the Canadian Securities Administrators and (ii) the Toronto Stock Exchange. (collectively, the "Applicable Regulatory Authorities").

Members of the Committee shall be appointed by the Board based on nominations recommended by the Nominating, Compensation and Governance Committee. Members of the Committee shall serve at the pleasure of the Board and for such term or terms as the Board may determine.

The Board shall determine whether each member is "financially literate" and whether one member of the Committee is an "audit committee financial expert", or such other similar qualifications, expertise or experience required by the Applicable Regulatory Authorities, in each case as interpreted by the Board in its business judgment.

No director may serve as a member of the Committee if such director serves on the audit committees of more than two other public companies, unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee, and discloses this determination in the public disclosure documents.

The Board shall designate, based on the recommendation of the Committee, one member of the Committee as its chairperson. In the event of a tie vote on any issue, the chairperson's vote shall decide the issue.

### **COMMITTEE MEETINGS**

Subject to the By-laws of the Corporation and any resolution of the Board, the Committee shall meet at a time and place determined by the chairperson of the Committee. A resolution in writing, signed by all of the Committee members shall be as valid as if it had been passed at a meeting of the Committee.

Members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting. A Committee member participating in such a meeting by such means is deemed to be present at that meeting.

The Committee should meet separately at least quarterly with management, the persons responsible for the internal audit function and representatives of the independent auditors to discuss any matters that the Committee or any of these persons believe should be discussed privately. The Committee may request any officer or employee or outside legal counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall follow the rules of procedure set forth in the By-laws of the Corporation or of the Board established by it from time to time to govern its activities.

### **DUTIES AND RESPONSIBILITIES**

The role, duties and responsibility of the Committee shall be:

- (a) to appoint, retain and terminate the independent auditors (subject, if applicable, to shareholder approval), including the sole authority to approve all audit and interim review engagement fees and terms, and to determine any other compensation to be paid to the independent auditors,
- (b) to pre-approve, or adopt appropriate procedures to pre-approve, and to monitor all audit and non-audit services to be provided by the independent auditors,
- (c) to ensure that the independent auditors prepare and deliver annually the Auditors' Statement relating to, among other things, the independent auditors' internal quality-control procedures (it being understood that the independent auditors are responsible for the accuracy and completeness of the Auditors' Statement),
- (d) to obtain from the independent auditors annually a formal written statement of the fees billed in each of the last two fiscal years for the services rendered by the independent auditors,
- (e) to obtain from the independent auditors in connection with any audit a timely report relating to the annual audited financial statements describing all critical accounting policies and practices used, all alternative treatments of financial information within generally accepted accounting principles that have been

discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and any material written communications between the independent auditors and management, such as any "management" letter or schedule of unadjusted differences,

- (f) to resolve any disagreements between management and the independent auditors regarding financial reporting by the Corporation,
- (g) to review and evaluate the qualifications, performance and independence of the lead audit partner of the independent auditors,
- (h) to discuss with management the timing and process for implementing the rotation of the lead audit partner, the concurring audit partner and any other active audit engagement team partner and consider whether there should be a regular rotation of the audit firm itself,
- (i) to take into account the opinions of management and the persons responsible for the internal audit function in assessing the independent auditors' qualifications, performance and independence,
- (j) to instruct the independent auditors that the independent auditors are ultimately accountable to the Board and the Committee, as representatives of the shareholders, and  
with respect to the internal audit function,
- (k) to review the appointment and replacement of the person with principal responsibility for the internal audit function when applicable,
- (l) to advise the person with principal responsibility for the internal audit function that he or she is expected to provide to the Committee summaries of and, as appropriate, the significant reports to management prepared in relation to the internal audit function, and  
with respect to financial reporting principles and policies and internal audit controls and procedures,
- (m) to advise management, the persons responsible for the internal audit function and the independent auditors that they are expected to provide to the Committee a timely analysis of significant financial reporting issues and practices,
- (n) to meet with management, the persons responsible for the internal audit function and the independent auditors to discuss, and review before the public disclosure by the Corporation of, among other things, the annual audited financial statements and quarterly unaudited financial statements, including disclosures under "Management's Discussion and Analysis ",
- (o) to consider any reports or communications (and management's responses thereto) submitted to the Committee by the independent auditors required by applicable auditing standards,
- (p) to discuss internal controls with the Corporation's chief executive officer and chief financial officer,
- (q) to discuss guidelines and policies governing the process by which senior management and the relevant departments of the Corporation assess and manage exposure to risk, and to discuss major financial risk exposures and the steps management has taken to monitor and control such exposures,
- (r) to undertake, from time to time, a review of any balance sheet or income statement item to gain understanding and comfort with accounting, cash, management, and policies of the Corporation,
- (s) to obtain from the independent auditors assurance that the audit was conducted in a manner consistent with applicable generally accepted auditing standards,
- (t) to discuss with the chief legal officer or outside legal counsel, or both, any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or the business, operations or compliance policies of the Corporation, including material notices to or inquiries received from governmental agencies,
- (u) to discuss earnings press releases,

- (v) to establish procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters,
- (w) to recommend to the Board candidates for appointment, as applicable, as, the Controller and Chief Accounting Officer, and Vice-President, Finance and Chief Financial Officer,
- (x) to establish hiring policies for employees or former employees of the independent auditors, and
- (y) to review all related party transactions.

## **COMMITTEE REPORTS**

The Committee shall produce or cause to be produced the following reports and provide them to the Board:

- (a) any reports or other disclosures required to be prepared in relation to the Committee or its activities pursuant to applicable laws or stock exchange requirements in Canada for inclusion in the Corporation's public disclosure documents,
- (b) an annual performance evaluation of the Committee, which evaluation shall compare the performance of the Committee with the requirements of this Charter. The performance evaluation should also recommend to the Board any improvements to this Charter deemed necessary or desirable by the Committee. The performance evaluation shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the chairperson of the Committee or any other member of the Committee designated by the Committee to make this report; and
- (c) a summary of the actions taken at each Committee meeting, which shall be presented to the Board at its next scheduled meeting.

The Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee.

The Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Committee at its next scheduled meeting.

## **RESOURCES AND AUTHORITY OF THE COMMITTEE**

The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate and approve the fees and other retention terms of special legal counsel or other experts or consultants, as it deems appropriate, without seeking approval of the Board or management.