ARGONAUT GOLD INC.

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

The following Management's Discussion and Analysis ("MD&A") of Argonaut Gold Inc. (the "Company" or "Argonaut") and its subsidiaries has been prepared as at February 19, 2019. All dollar amounts are expressed in United States ("US") dollars unless otherwise stated. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2018. The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information relating to the Company, including its Annual Information Form, is available under the Company's profile on the SEDAR website at www.sedar.com.

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

FOURTH QUARTER AND ANNUAL FINANCIAL HIGHLIGHTS[1]

- Revenue of $51.6 million in the fourth quarter of 2018 (fourth quarter of 2017 - $39.5 million). Revenue of $196.1 million in 2018 (2017 - $155.1 million).
- Sales of 41,030 ounces of gold in the fourth quarter of 2018 (fourth quarter of 2017 - 29,912 ounces of gold). Sales of 149,695 ounces of gold in 2018 (2017 - 120,041 ounces of gold).
- Net loss of $17.5 million or $0.10 per basic share in the fourth quarter of 2018 (fourth quarter of 2017 - net income of $5.2 million or $0.03 per basic share). Net loss of $7.6 million or $0.04 per basic share in 2018 (2017 - net income of $23.9 million or $0.14 per basic share).
- Adjusted net income of $2.5 million or $0.01 per basic share in the fourth quarter of 2018 (fourth quarter of 2017 - $6.4 million or $0.04 per basic share). See "Non-IFRS Measures" section. Adjusted net income of $16.4 million or $0.09 per basic share in 2018 (2017 - $14.9 million or $0.09 per basic share).
- Cash flows from operating activities before changes in non-cash operating working capital and other items were $9.2 million in the fourth quarter of 2018 (fourth quarter of 2017 - $11.7 million). Cash flows from operating activities before changes in non-cash operating working capital and other items were $58.1 million in 2018 (2017 - $45.9 million).
- Production of 51,658 gold equivalent ounces ("GEO" or "GEOs") (based on a silver to gold ratio of 70:1) in the fourth quarter of 2018 (fourth quarter of 2017 - 34,987 GEOs (based on a silver to gold ratio of 70:1)). Production of 165,117 GEOs (based on a silver to gold ratio of 70:1) in 2018 (2017 - 126,704 GEOs including pre-commercial production from San Agustin of 2,932 GEOs[1] (based on a silver to gold ratio of 70:1)).
- Cash cost per gold ounce sold of $945 in the fourth quarter of 2018 (fourth quarter of 2017 - $755). See "Non-IFRS Measures" section. Cash cost per gold ounce sold of $792 in 2018 (2017 - $787).
- All-in sustaining cost per gold ounce sold of $1,046 in the fourth quarter of 2018 (fourth quarter of 2017 - $897). See "Non-IFRS Measures" section. All-in sustaining cost per gold ounce sold of $912 in 2018 (2017 - $922).
- All-in cost per gold ounce sold of $1,116 in the fourth quarter of 2018 (fourth quarter of 2017 - $1,157). See "Non-IFRS Measures" section. All-in cost per gold ounce sold of $1,069 in 2018 (2017 - $1,151).
- Cash and cash equivalents was $15.4 million as at December 31, 2018 (September 30, 2018 - $20.6 million; December 31, 2017 - $14.1 million).
- Net cash was $2.4 million as at December 31, 2018 (September 30, 2018 - $12.6 million; December 31, 2017 - $6.1 million). See "Non-IFRS Measures" section.

[1] San Agustin produced 2,932 GEOs prior to announcement that commercial production had been achieved effective October 1, 2017. These GEOs are excluded from the other financial highlights presented in this section.

2018 AND RECENT COMPANY HIGHLIGHTS

Corporate

- Set new records for quarterly and annual GEO production.
- Achieved the milestone of one million GEOs of production since the launch of the Company at the end of 2009.
- Received nationally awarded Environmental Socially Responsible Company recognition at both the El Castillo mining complex and La Colorada mine.
- Increased corporate revolving credit facility from $30.0 million to $50.0 million with an accordion feature providing for total availability of up to $75.0 million.
- Entered into zero cost collar Mexican peso ("MXN") to US dollar ("USD") contracts for $24.0 million with downside protection of 20.00 MXN:1 USD and participation up to 23.56 MXN:1 USD for 2019.

El Castillo Mining Complex

- Operated with safety results significantly better than industry standards.
- Increased full year production by 60% to 117,126 GEOs and reduced cash cost per gold ounce sold (see "Non-IFRS Measures" section) by 14% to $737 with the first full year of the San Agustin mine contributing to the El Castillo mining complex.
- Achieved crusher throughput of approximately 22% over nameplate capacity of 16,700 tonnes per day at San Agustin.
- Completed the El Castillo west crusher throughput expansion from 5,000 tonnes per day to 14,000 tonnes per day.
- Completed construction of the La Victoria leach pad and Cell 1 of the Phase 8A leach pads at El Castillo and the Phase 2 leach pad expansion at San Agustin.

La Colorada

- Operated the entire year without a lost time injury.
- Completed construction of the Northeast Phase 2 leach pad.

Cerro del Gallo

- Re-logged drill core and developed a detailed geologic model.
- Completed a drill program for metallurgical test work samples.
- Conducted metallurgical test work.

San Antonio

- Submitted new Environmental Impact Assessment application in February 2019.

Magino

- Completed Federal Environmental Assessment process with receipt of a positive Decision Statement.
- Signed the Community Engagement Agreement with the Métis Nation of Ontario.

DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

PROPERTY ACQUISITIONS

On November 24, 2017, the Company completed the acquisition of the Cerro del Gallo project through the purchase of all the issued and outstanding shares of San Anton Resource Corporation, a wholly-owned subsidiary of Primero Mining Corp. for total consideration of $15.2 million. The transaction was accounted for as an asset acquisition. The purchase price has been allocated to the assets acquired and liabilities assumed based upon estimated fair values at the date of acquisition.

On February 23, 2017, the Company acquired the San Juan mineral concession adjacent to the El Castillo mine from a wholly-owned subsidiary of Fresnillo plc ("El Aguila") pursuant to a purchase and sale agreement dated February 23, 2017 between El Aguila and Minera Real del Oro S.A. de C.V. ("MRO"), a wholly-owned subsidiary of Argonaut, for total consideration of $25.5 million. The transaction was accounted for as an asset acquisition. The purchase price has been allocated to mineral properties based upon the estimated fair value of the assets acquired at the date of acquisition.

For more information, please read note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2018.

SELECTED ANNUAL INFORMATION

The following table sets forth selected annual financial information extracted from the Company's audited financial statements, which have been prepared in accordance with IFRS, for the years noted:

	2018[1]		2017		2016	
Revenue ($000s)	$	196,056	$	155,089	$	144,780
Inventory (write down) reversal ($000s)	$	(21,482)	$	-	$	3,551
Impairment of mineral properties, plant and equipment ($000s)	$	(2,011)	$	-	$	-
Net income (loss) ($000s)	$	(7,621)	$	23,852	$	4,331
Earnings (loss) per share - basic and diluted	$	(0.04)	$	0.14	$	0.03
Total assets ($000s)	$	694,516	$	689,860	$	609,900
Long-term liabilities ($000s)	$	48,979	$	33,223	$	29,500
Dividends declared per share		Nil		Nil		Nil

(1) The Company adopted IFRS 9 and IFRS 15 in the annual period commencing January 1, 2018 (see "Recent Accounting Pronouncements-New and amended standards adopted by the Company" section). The Company applied IFRS 9 retrospectively, although there were no measurement adjustments required to the comparative amounts. The Company elected to apply IFRS 15 using a modified retrospective approach; therefore, comparative amounts were not restated.

SUMMARY OF QUARTERLY RESULTS

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

	2018 Q4[(1)]	2018 Q3[(1)]	2018 Q2[(1)]	2018 Q1[(1)]	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Revenue ($000s)	$ 51,629	$ 41,310	$ 50,171	$ 52,946	$ 39,454	$ 28,678	$ 42,501	$ 44,456
Inventory write down ($000s)	$ (14,614)	$ (6,868)	$ -	$ -	$ -	$ -	$ -	$ -
Impairment of mineral properties, plant and equipment ($000s)	$ (2,011)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net income (loss) ($000s)	$ (17,545)	$ (2,686)	$ 381	$ 12,229	$ 5,187	$ 440	$ 6,201	$ 12,024
Earnings (loss) per share - basic	$ (0.10)	$ (0.02)	$ 0.00	$ 0.07	$ 0.03	$ 0.00	$ 0.04	$ 0.07
Earnings (loss) per share - diluted	$ (0.10)	$ (0.02)	$ 0.00	$ 0.07	$ 0.03	$ 0.00	$ 0.03	$ 0.07
Gold ounces sold	41,030	33,179	37,414	38,072	29,912	22,206	32,961	34,962
Average realized gold price per ounce	$ 1,226	$ 1,212	$ 1,295	$ 1,330	$ 1,276	$ 1,270	$ 1,260	$ 1,228
Cash cost per gold ounce sold[(2)]	$ 945	$ 867	$ 704	$ 650	$ 755	$ 893	$ 785	$ 751

[(1)] The Company adopted IFRS 9 and IFRS 15 in the annual period commencing January 1, 2018 (see "Recent Accounting Pronouncements-New and amended standards adopted by the Company" section). The Company applied IFRS 9 retrospectively, although there were no measurement adjustments required to the comparative amounts. The Company elected to apply IFRS 15 using a modified retrospective approach; therefore, comparative amounts were not restated.

[(2)] See Non-IFRS Measures section.

Quarterly results are predominantly influenced by the number of ounces of gold sold, the realized price per ounce of gold sold, the cash cost per ounce of gold sold (see "Non-IFRS Measures" section) and any unusual matters. The quarterly year-over-year increase in revenue for the fourth quarter of 2018 was primarily due to an increase in gold ounces sold ($13.7 million), partially offset by a lower gold price ($1.5 million). In the fourth quarter of 2018, a non-cash impairment write down of $12.8 million was recorded related to the net realizable value of non-current work-in-process inventory at the El Castillo mine, as a result of the increase in management's estimate of future production costs to convert the inventory into saleable form. Additionally, in the fourth quarter of 2018, a negative inventory adjustment of $4.0 million at the El Castillo mining complex and $1.3 million at the La Colorada mine was recorded related to finished goods inventory currently part of a bankruptcy case (see "Contingencies" section). The adjustments and non-cash impairments of inventory referenced above were partially offset by a non-cash impairment reversal of $2.6 million at the El Castillo mine and $0.9 million at the La Colorada mine related to the net realizable value of current work-in-process inventory, as a result of an increase in the price of gold as at December 31, 2018. The net loss in the fourth quarter of 2018 was primarily due to the adjustment and non-cash impairment of inventory referenced above and the net non-cash impairment of mineral properties, plant and equipment of $2.0 million, along with an increase in cash cost per gold ounce sold and other operating expenses. Cash cost per gold ounce sold increased in the fourth quarter of 2018, due to a lower proportion of gold ounces sold from the San Agustin mine, which has a lower cash cost per gold ounce sold and an increase in cash cost due to an increase in cost of consumables.

The net loss in the third quarter of 2018 was primarily due to a non-cash impairment write down of $4.4 million at the El Castillo mine and $2.5 million at the La Colorada mine related to the net realizable value of work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018. The decrease in net income in the second quarter of 2018 was primarily due to an increase in income tax expense, due primarily to the foreign exchange effects of the weakening Mexican peso on the calculation of deferred taxes and foreign exchange losses, partially offset by an increase in ounces sold. The increase in net income in the first quarter of 2018 and the first and second quarters of 2017 was principally due to the increase in gold ounces sold, foreign exchange gains and a decrease in income tax expense due primarily to the foreign exchange effects of the strengthening Mexican peso on the calculation of deferred taxes. The increase in net income for the fourth quarter of 2017 was principally related to a decrease in income tax expense, driven by the recognition of a deferred tax asset related to the net operating losses ("NOLs") from prior years of its subsidiary, MRO, which were not previously recognized as the utilization of the NOLs became probable with the declaration of commercial production at the San Agustin mine effective October 1, 2017. The ounces sold and cash cost (see "Non-IFRS Measures" section) in the third quarter of each year are generally negatively impacted by the rainy season, which decreases throughput and results in higher per unit costs.

DISCUSSION OF OPERATIONS

Expressed in $000s	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Revenue	$ 51,629	$ 39,454	$ 196,056	$ 155,089
Cost of sales				
Production costs	37,962	23,883	122,921	98,765
Depreciation, depletion and amortization	8,623	7,379	33,177	25,027
Inventory write down	14,614	-	21,482	-
Total cost of sales	61,199	31,262	177,580	123,792
Gross profit (loss)	(9,570)	8,192	18,476	31,297
Exploration expenses	156	99	547	436
General and administrative expenses	3,357	2,880	12,958	11,667
Other operating expenses	3,112	780	3,112	780
Impairment of mineral properties, plant and equipment	2,011	-	2,011	-
Profit (loss) from operations	(18,206)	4,433	(152)	18,414
Finance income	8	6	33	153
Finance expenses	(312)	(331)	(1,201)	(1,334)
Gains (losses) on foreign exchange derivatives	487	(576)	1,071	1,994
Other income (expense)	(797)	(1,165)	(716)	1,791
Income (loss) before income taxes	(18,820)	2,367	(965)	21,018
Current income tax expense (recovery)	1,045	(625)	3,986	1,180
Deferred income tax expense (recovery)	(2,320)	(2,195)	2,670	(4,014)
Net income (loss) for the period	$ (17,545)	$ 5,187	$ (7,621)	$ 23,852

For the three months ended December 31, 2018, as compared to the three months ended December 31, 2017

Revenue for the three months ended December 31, 2018 was $51.6 million, an increase from $39.5 million for the three months ended December 31, 2017. During the fourth quarter of 2018, gold ounces sold totaled 41,030 at an average realized price per ounce of $1,226 (compared to 29,912 gold ounces sold at an average price per ounce of $1,276 during the same period of 2017).

Production costs for the fourth quarter of 2018 were $38.0 million, an increase from $23.9 million in the fourth quarter of 2017 primarily due to the increase in gold ounces sold and an increase in cash cost per gold ounce sold. Cash cost per gold ounce sold (see "Non-IFRS Measures" section) was $945 in the fourth quarter of 2018, compared to $755 in the same period of 2017, due to a higher proportion of gold ounces sold from the El Castillo mine, which has a higher cash cost per gold ounce sold and an increase in cash cost per gold ounce sold at the San Agustin and La Colorada mines. All operating mines saw an increase in cash cost during the fourth quarter of 2018 due to the increase in cost of consumables, coupled with lower deferred stripping in the fourth quarter of 2018 at the La Colorada mine. Depreciation, depletion and amortization ("DD&A") expense included in cost of sales for the fourth quarter of 2018 totaled $8.6 million, an increase from $7.4 million in the fourth quarter of 2017, due to the increase in gold ounces sold, as many of the mining assets are amortized on a unit-of-production basis. Included in cost of sales in the fourth quarter of 2018 is a non-cash impairment write down of $12.8 million related to the net realizable value of non-current work-in-process inventory at the El Castillo mine, as a result of the increase in management's estimate of future production costs to convert the inventory into saleable form. Additionally, included in cost of sales in the fourth quarter of 2018 is a negative inventory adjustment of $4.0 million at the El Castillo mining complex and $1.3 million at the La Colorada mine related to finished goods inventory currently part of a bankruptcy case (see "Contingencies" section). The adjustments and non-cash impairments of inventory referenced above were partially offset by a non-cash impairment reversal of $2.6 million at the El Castillo mine and $0.9 million at the La Colorada mine related to the net realizable value of current work-in-process inventory, as a result of an increase in the price of gold as at December 31, 2018.

General and administrative expenses for the fourth quarter of 2018 were $3.4 million, an increase from $2.9 million in the same period of 2017, primarily due to employee related costs.

Other operating expenses for the fourth quarter of 2018 were $3.1 million, an increase from $0.8 million in the fourth quarter of 2017, primarily due to the revision of estimated reclamation costs associated with a section of the La Colorada mine where mining activities have ceased.

During the fourth quarter of 2018, the Company recognized a net non-cash impairment of mineral properties, plant and equipment of $2.0 million, primarily due to revised life-of-mine ("LOM") plans for the El Castillo and La Colorada mines (see "Critical Accounting Estimates-Impairment of non-current assets" section).

Gains on foreign exchange derivatives for the fourth quarter of 2018 were $0.5 million, compared to losses of $0.6 million in the fourth quarter of 2017, primarily due an increase in unrealized gains on the Company's outstanding zero-cost collar contracts on the Mexican peso (see "Financial Instruments and Risks - Foreign exchange derivative contracts" section).

Other expense for the fourth quarter of 2018 was $0.8 million, a decrease from $1.2 million in the fourth quarter of 2017, primarily due to differences in foreign currency translation effects.

Income tax recovery for the fourth quarter of 2018 was $1.3 million, a decrease from $2.8 million in the same period of 2017. The change is primarily due to the recognition of previously unrecognized Mexican deferred tax assets in the fourth quarter of 2017.

Net loss for the fourth quarter of 2018 was $17.5 million or $0.10 per share, a decrease from net income of $5.2 million or $0.03 per basic share for the fourth quarter of 2017.

For the year ended December 31, 2018, as compared to the year ended December 31, 2017

Revenue for the year ended December 31, 2018 was $196.1 million, an increase from $155.1 million for the year ended December 31, 2017. Gold ounces sold totaled 149,695 at an average realized price per ounce of $1,267 (compared to 120,041 gold ounces sold at an average price per ounce of $1,257 for 2017). Gold ounces sold increased in 2018 primarily due to the commencement of commercial production at the San Agustin mine effective October 1, 2017, partially offset by a reduction in gold ounces produced and sold at the El Castillo mine.

Production costs for the year ended December 31, 2018 were $122.9 million, an increase from $98.8 million in 2017, primarily due to an increase in gold ounces sold due to a full year of production at the San Agustin mine, which achieved commercial production effective October 1, 2017. Cash cost per gold ounce sold (see "Non-IFRS Measures" section) was $792 for the year ended December 31, 2018, comparable to $787 in the same period of 2017. DD&A expense included in cost of sales for the year ended December 31, 2018, totaled $33.2 million, an increase from $25.0 million for the year ended December 31, 2017, due to an increase in ounces sold, as many of the mining assets are amortized on a unit-of-production basis, and the commencement of commercial production at the San Agustin mine, which has a higher DD&A expense per ounce. Included in cost of sales during 2018 is a non-cash impairment write down of $12.8 million related to the net realizable value of non-current work-in-process inventory at the El Castillo mine, as a result of the increase in management's estimate of future production costs to convert the inventory into saleable form. Additionally included in cost of sales during the year ended December 31, 2018 is a negative inventory adjustment of $4.0 million at the El Castillo mining complex and $1.3 million at the La Colorada mine related to finished goods inventory currently part of a bankruptcy case (see "Contingencies" section). Further, included in cost of sales is a net non-cash impairment write down of $1.8 million at the El Castillo mine and $1.6 million at the La Colorada mine related to net realizable value of the current work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018 and a subsequent increase in the price of gold as at December 31, 2018.

General and administrative expenses for the year ended December 31, 2018 were $13.0 million, an increase from $11.7 million for the year ended December 31, 2017, primarily due to employee related costs.

Other operating expenses for the year ended December 31, 2018 were $3.1 million, an increase from $0.8 million for 2017, primarily due to the revision of estimated reclamation costs associated with a section of the La Colorada mine where mining activities have ceased.

During 2018, the Company recognized a net non-cash impairment of mineral properties, plant and equipment of $2.0 million, primarily due to revised LOM plans for the El Castillo and La Colorada mines (see “Critical Accounting Estimates-Impairment of non-current assets” section).

Gains on foreign exchange derivatives during the year ended December 31, 2018 were $1.1 million, compared to $2.0 million for the year ended December 31, 2017, primarily due to a decrease in realized gains on the Company’s zero-cost collar contracts on the Mexican peso (see “Financial Instruments and Risks - Foreign exchange derivative contracts” section).

Other expense for the year ended December 31, 2018 was $0.7 million compared to other income of $1.8 million in 2017, primarily due to differences in foreign currency translation effects.

Income tax expense for the year ended December 31, 2018 was $6.7 million compared to income tax recovery of $2.8 million in the same period of 2017. The change is primarily due to the recognition in 2017 of a deferred tax asset related to the NOLs from prior years of its subsidiary, MRO, which were not previously recognized as the utilization of the NOLs became probable with the declaration of commercial production at the San Agustin mine effective October 1, 2017.

Net loss for the year ended December 31, 2018 was $7.6 million or $0.04 per share, a decrease from net income of $23.9 million or $0.14 per basic share for the year ended December 31, 2017.

The Company provided updated full-year guidance in November of 2018 towards the lower end of its full year guidance range of 165,000 to 180,000 GEOs of production (based on a three-year historical average silver to gold ratio of 70:1) at a cash cost per gold ounce sold at the upper end of the full year guidance range of $700 to $800 (see “Non-IFRS Measures” section). All-in sustaining cost per gold ounce sold (see “Non-IFRS Measures” section) was also expected to be at the upper end of the full year guidance range of $850 and $950, with total capital spending of between $37 million and $40 million. In 2018, the Company produced 165,117 GEOs at a cash cost per gold ounce sold of $792 (see “Non-IFRS Measures” section). All-in sustaining cost per gold ounces sold was $912 in 2018 (see “Non-IFRS Measures” section), with total capital spending of $35.9 million. Total capital spending was slightly below the guidance range due to cost savings and change in timing of certain capital projects.

El Castillo Mining Complex

Operating Statistics for the El Castillo Mine	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Tonnes ore (000s)	2,766	1,940	8,801	8,140
Tonnes waste (000s)	3,105	1,961	12,303	10,407
Tonnes mined (000s)	5,871	3,901	21,104	18,547
Waste/ore ratio	1.12	1.01	1.40	1.28
Tonnes crushed (000s)	2,848	1,894	8,840	7,395
Tonnes overland conveyor (000s)	0	0	0	769
Gold grade to leach pads (grams per tonne)	0.37	0.38	0.37	0.36
Contained gold ounces to leach pads	34,231	23,109	106,552	95,705
Gold ounces produced	18,823	8,551	47,857	59,000
Gold ounces sold	14,373	8,707	41,665	62,194
Cash cost per gold ounce sold (see Non-IFRS Measures section)	$ 1,007	$ 1,015	$ 1,016	$ 918

During the fourth quarter of 2018, El Castillo mined 5.9 million tonnes including 2.8 million tonnes of ore from the El Castillo mine. The El Castillo mine crushed and loaded 2.8 million tonnes during the quarter, which resulted in an estimated 34,231 contained gold ounces to the leach pads. During the fourth quarter of 2018, the El Castillo mine produced 18,823 gold ounces, compared to 8,551 for the fourth quarter of 2017. The increase in production in the fourth quarter of 2018 was primarily driven by increased crusher throughput rates due to the west crusher expansion.

El Castillo sold 14,373 gold ounces during the fourth quarter of 2018 at a cash cost per gold ounce sold of $1,007 (see "Non-IFRS Measures" section), compared to 8,707 gold ounces sold at a cash cost per gold ounce sold of $1,015 for the fourth quarter of 2017.

During the year ended December 31, 2018, the Company mined 21.1 million tonnes including 8.8 million tonnes of ore from the El Castillo mine. The El Castillo mine crushed and loaded 8.8 million tonnes during the year, which resulted in an estimated 106,552 gold ounces to the leach pads. During the year ended December 31, 2018, the El Castillo mine produced 47,857 gold ounces, compared to 59,000 gold ounces for the year ended December 31, 2017. The decrease in production in 2018 is due to an increase in work-in-process inventory (see discussion below), partially offset by an increase in crusher throughput rates due to the west crusher expansion. El Castillo sold 41,665 gold ounces during the year ended December 31, 2018 at a cash cost per gold ounce sold of $1,016 (see "Non-IFRS Measures" section), compared to 62,194 gold ounces sold at a cash cost per gold ounce sold of $918 for the year ended December 31, 2017. The increase in cash cost per gold ounce sold over the comparable period of 2017 is primarily due to cost increases associated with key consumables such as cyanide, lime and diesel.

Due to the increase in work-in-process inventory at the El Castillo mine during 2018, the Company completed a drilling, sampling and analysis program of the El Castillo East leach pads from November 2018 through January 2019 to determine the total content of gold remaining in the material. The results of this program indicate that there is potential leachable residual gold ounces remaining in the inactive areas of the East leach pads. The Company has determined that the retained ounces in the leach pads will require a "re-leach" program to fully realize the indicated recoverable ounces. The Company plans to initiate an active re-leach program in the second half of 2019; however, believes only a portion of the residual gold ounces will be recovered during 2019. As a result, during the year ended December 31, 2018, the Company transferred $33.3 million from current work-in-process inventory to non-current reflecting the ore on the leach pads that the Company does not expect to process in the next 12 months. The net realizable value of the non-current portion of work-in-process inventory was revised to incorporate an increase in management's estimate of future production costs associated with the re-leach program, resulting in a non-cash impairment write down of $12.8 million.

Presented below is a summary of operating statistics and a discussion of operations at the San Agustin mine for the three months and year ended December 31, 2018. The comparative numbers presented for the year ended December 2017 exclude pre-commercial production statistics. Commercial production was declared on October 1, 2017.

Operating Statistics for the San Agustin Mine	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017[(1)]
Tonnes mineralized material mined (000s)	2,055	939	7,379	939
Tonnes waste mined (000s)	1,434	404	3,216	404
Total tonnes mined (000s)	3,489	1,343	10,595	1,343
Waste/mineralized material ratio	0.70	0.43	0.44	0.43
Tonnes mineralized material crushed (000s)	2,073	1,004	7,408	1,004
Gold grade to leach pads (grams per tonne)	0.37	0.50	0.39	0.50
Contained gold ounces to leach pads	24,658	15,967	93,181	15,967
Gold ounces produced	18,201	10,302	65,323	10,302
Gold ounces sold	14,750	8,309	60,972	8,309
Silver ounces produced	55,463	45,100	244,470	45,100
Silver ounces sold	43,088	32,626	228,504	32,626
GEOs produced (70:1 ratio)	18,993	10,946	68,815	10,946
GEOs sold (70:1 ratio)	15,365	8,775	64,236	8,775
Cash cost per gold ounce sold (see Non-IFRS Measures section)	$ 764	$ 385	$ 545	$ 385

(1) Excludes pre-commercial production operating statistics. Commercial production was declared on October 1, 2017.

During the fourth quarter of 2018, the Company mined 3.5 million tonnes including 2.1 million tonnes of mineralized material from the San Agustin mine. During the same period, San Agustin loaded 2.1 million tonnes on the leach pads, which resulted in an estimated 24,658 contained gold ounces to the leach pads. San Agustin produced 18,201 gold ounces and 55,463 silver ounces or 18,993 GEOs. San Agustin sold 14,750 gold ounces during the fourth quarter of 2018 at a cash cost per gold ounce sold of $764 (see "Non-IFRS Measures" section), compared to 8,309 gold ounces sold at a cash cost per gold ounce sold of $385 for the fourth quarter of 2017. The increase in cash cost per gold ounce sold over the comparable period of 2017 is primarily due to lower grades and higher waste to ore ratio, which was in line with the current mine sequencing, coupled with higher costs associated with key consumables.

During the year ended December 31, 2018, the Company mined 10.6 million tonnes including 7.4 million tonnes of mineralized material from the San Agustin mine. During the same period, San Agustin loaded 7.4 million tonnes on the leach pads, which resulted in an estimated 93,181 contained gold ounces to the leach pads. During the year ended December 31, 2018, San Agustin produced 65,323 gold ounces and 244,470 silver ounces or 68,815 GEOs. San Agustin sold 60,972 gold ounces during the year ended December 31, 2018, at a cash cost per gold ounce sold of $545 (see "Non-IFRS Measures" section). The increase in cash cost per gold ounce sold over the comparable period of 2017 is primarily due to lower grades, coupled with higher costs associated with key consumables.

Capital expenditures associated with the El Castillo mine during the fourth quarter and year ended December 31, 2018 were $4.6 million and $16.7 million, respectively, primarily related to deferred stripping, crushing and conveying circuit improvements and leach pad construction. Capital expenditures associated with the San Agustin mine during the fourth quarter and year ended December 31, 2018 were $1.5 million and $7.5 million, respectively, primarily related to leach pad construction. In addition to the above capital expenditures, during the fourth quarter and year ended December 31, 2018, there were $0.4 million and $2.3 million, respectively, in capital expenditures by another subsidiary of the Company that is primarily related to mining equipment currently being used at the El Castillo mining complex.

La Colorada Mine

Operating Statistics	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Tonnes mineralized material mined (000s)	1,568	1,109	4,926	4,492
Tonnes waste mined (000s)	6,216	4,409	18,416	18,864
Total tonnes mined (000s)	7,784	5,518	23,342	23,356
Waste/mineralized material ratio	3.97	3.97	3.74	4.20
Tonnes rehandled (000s)	0	10	38	39
Tonnes mineralized material direct to leach pads (000s)	289	93	289	383
Tonnes mineralized material crushed (000s)	1,292	1,134	4,764	4,490
Gold grade to leach pads (grams per tonne)	0.46	0.47	0.40	0.54
Contained gold ounces to leach pads	23,342	18,430	65,108	84,050
Gold ounces produced	13,052	14,779	45,886	50,796
Gold ounces sold	11,907	12,896	47,058	49,538
Silver ounces produced	44,000	38,861	147,348	174,330
Silver ounces sold	36,511	34,404	144,674	175,502
GEOs produced (70:1 ratio)	13,681	15,334	47,991	53,286
GEOs sold (70:1 ratio)	12,429	13,387	49,125	52,045
Cash cost per gold ounce sold (see Non-IFRS Measures section)	$ 1,093	$ 817	$ 914	$ 691

During the fourth quarter of 2018, La Colorada mined 7.8 million tonnes containing 1.6 million tonnes of mineralized material. La Colorada loaded 1.6 million tonnes on the leach pads during the quarter, which resulted in an estimated 23,342 contained gold ounces to the leach pads. During the fourth quarter of 2018, crusher throughput rates were 14% higher compared to the fourth quarter of 2017, as the Company successfully ran operations above plan in an effort to make up for the timeframe earlier in 2018 when it lacked the ability to blast material. La Colorada produced 13,052 gold ounces and 44,000 silver ounces during the fourth quarter of 2018 or 13,681 GEOs. La Colorada sold 11,907 gold ounces in the fourth quarter of 2018 at a cash cost per gold ounce sold of $1,093 (see "Non-IFRS Measures" section), compared to 12,896 gold ounces sold at a cash cost per gold ounce sold of $817 for the fourth quarter of 2017. The increase in cash cost per gold ounce sold over the comparable period of 2017 is primarily due to lower deferred stripping in the fourth quarter of 2018.

As previously disclosed, the Company lacked the ability to blast material during a portion of 2018 due to the temporary suspension of the La Colorada mine's explosives permit and therefore mined previously blasted material and free-dig material in the pit plus utilized low-grade stockpiles to maintain crushing throughput at its budget of 12,000 tonnes per day. As a result, the grade of ore placed on the leach pads during the period of suspension, which was processed during the second half of 2018, was approximately 50% lower than if blasting had not been interrupted. The Company saw the impact of the lower grade ore during the second half of the year in the form of lower production and higher cash cost (see "Non-IFRS Measures" section).

During the year ended December 31, 2018, La Colorada mined 23.3 million tonnes containing 4.9 million tonnes of mineralized material. La Colorada loaded 5.1 million tonnes on the leach pads during the year, which resulted in an estimated 65,108 contained gold ounces to the leach pads. La Colorada produced 45,886 gold ounces and 147,348 silver ounces during the year ended December 31, 2018 or 47,991 GEOs. La Colorada sold 47,058 gold ounces for the year ended December 31, 2018 at a cash cost per gold ounce sold of $914 (see "Non-IFRS Measures" section), compared to 49,538 gold ounces sold at a cash cost per gold ounce sold of $691 for the year ended December 31, 2017. The increase in cash cost per gold ounce sold over the comparable period of 2017 is primarily due to lower deferred stripping in 2018.

Capital expenditures at La Colorada during the fourth quarter and year ended December 31, 2018 were $1.5 million and $5.7 million, respectively, primarily for leach pad construction and deferred stripping.

Advanced Exploration Projects

Capital expenditures for the San Antonio project were as follows:

	Three months ended December 31,				Year ended December 31,			
Expressed in $ millions		2018		2017		2018		2017
Camp costs, land costs and other	$	0.1	$	0.1	$	0.7	$	0.8
Technical studies and personnel costs		0.2		0.1		0.7		0.6
	$	0.3	$	0.2	$	1.4	$	1.4

During 2018, the Company held technical sessions with the Mexican Environmental Authority in preparation of new Environmental Impact Assessment (Manifiesto de Impacto Ambiental or "MIA") application submittal. The Company submitted a new MIA application in February 2019.

Capital expenditures for the Magino project were as follows:

	Three months ended December 31,				Year ended December 31,			
Expressed in $ millions		2018		2017		2018		2017
Assays and geochemistry	$	-	$	-	$	-	$	0.1
Camp costs, land costs and other		0.4		0.2		0.9		2.3
Technical studies and personnel costs		1.0		0.9		3.1		4.5
Drilling and geology		-		-		-		0.6
	$	1.4	$	1.1	$	4.0	$	7.5

In the fourth quarter of 2017, the Company filed a feasibility study technical report pursuant to National Instrument 43-101 - Standards of Disclosure of Mineral Projects ("NI 43-101") for its Magino project. During 2018, the Company continued to advance the Environmental Assessment process (federal and provincial), initiated the Schedule 2 permitting process including public consultation, continued to consult with and inform Indigenous communities and local stakeholders about the project and signed the Community Engagement Agreement with the Métis Nation of Ontario. The Company received federal Environmental Assessment approval in January 2019 and anticipates receiving provincial approval during the first half of 2019.

Capital expenditures for the Cerro del Gallo project were as follows (comparative numbers presented for 2017 represent capital expenditures incurred after the Company acquired the Cerro del Gallo project on November 24, 2017):

	Three months ended December 31,		Year ended December 31,	
Expressed in $ millions	2018	2017	2018	2017
Assays and geochemistry	$ 0.1	$ -	$ 0.2	$ -
Camp costs, land costs and other	0.1	-	0.6	-
Technical studies and personnel costs	0.2	-	0.7	-
Drilling and geology	-	-	0.2	-
	$ 0.4	$ -	$ 1.7	$ -

During 2018, the Company re-logged drill core, developed a geologic model, conducted a drill program to obtain metallurgical samples and initiated metallurgical test work at the Cerro del Gallo project. The Company is currently advancing a pre-feasibility study, which it anticipates will be completed during the second half of 2019.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents balance as at December 31, 2018 was $15.4 million, as compared to $14.1 million as at December 31, 2017 and $20.6 million as at September 30, 2018.

In February 2018, the Company entered into an amended and restated credit agreement (the "Amended Revolving Facility" or "ARF") with a syndicate of Canadian banks for an aggregate amount of $50.0 million, representing a $20.0 million increase from the principal amount of $30.0 million under the original revolving credit facility. The ARF encompasses an extension of maturity through March 31, 2021 and a $25.0 million accordion feature, providing for total availability of up to $75.0 million. The ARF is subject to eight commitment reductions of $3.1 million per quarter, plus the ratable amount of any incremental commitment derived from the accordion, with reductions to commence on June 30, 2019 and extend through maturity. The ARF bears interest at the London Inter-bank Offered Rate ("LIBOR") plus 2.25% to 3.25% on drawn amounts and 0.51% to 0.73% on undrawn amounts, based on the Company's consolidated leverage ratio, as defined in the agreement.

The ARF is secured by all of the Company's assets and is subject to various covenants including those that require the Company to maintain certain net tangible worth and ratios for leverage and interest coverage. As at December 31, 2018, the Company was in compliance with these covenants.

As at December 31, 2018, the Company had utilized $13.0 million, and as at December 31, 2017 and September 30, 2018, the Company had utilized $8.0 million, of the revolving credit facility. Net cash was $2.4 million as at December 31, 2018, as compared to $6.1 million as at December 31, 2017 and $12.6 million as at September 30, 2018 (see "Non-IFRS Measures" section).

Cash Flows

Expressed in $000s	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Operating activities				
Cash flows from operating activities before changes in non-cash operating working capital and other items	$ 9,194	$ 11,711	$ 58,133	$ 45,869
Changes in non-cash operating working capital and other items	(13,699)	(10,161)	(26,429)	(7,049)
Net cash provided by (used in) operating activities	(4,505)	1,550	31,704	38,820
Investing activities				
Expenditures on mineral properties, plant and equipment	(6,248)	(5,580)	(35,910)	(70,215)
Cash consideration paid on property acquisitions	-	(27,943)	(120)	(40,943)
Other	169	594	425	2,277
Net cash used in investing activities	(6,079)	(32,929)	(35,605)	(108,881)
Financing activities				
Proceeds from issuance of common shares, net of share issuance costs	-	5	-	32,046
Proceeds from debt	5,000	8,000	17,000	8,000
Repayment of debt	-	-	(12,000)	(916)
Proceeds from settlement of derivatives	-	381	9	2,546
Other	(163)	(60)	(970)	(398)
Net cash provided by financing activities	4,837	8,326	4,039	41,278
Effects of exchange rate changes on cash and cash equivalents	565	(343)	1,180	745
Increase (decrease) in cash and cash equivalents	(5,182)	(23,396)	1,318	(28,038)
Cash and cash equivalents, beginning of period	20,560	37,456	14,060	42,098
Cash and cash equivalents, end of period	$ 15,378	$ 14,060	$ 15,378	$ 14,060

For the three months ended December 31, 2018, as compared to the three months ended December 31, 2017

During the fourth quarter of 2018, cash decreased by $5.2 million due primarily to $6.2 million of capital expenditures incurred and $4.5 million of cash used in operations, partially offset by $4.8 million from financing activities, as compared to the fourth quarter of 2017 in which cash decreased by $23.4 million due primarily to $27.9 million of cash consideration paid on property acquisitions (see "Property Acquisitions" section) and $5.6 million of capital expenditures incurred, partially offset by $8.3 million from financing activities and $1.6 million of cash flows from operations.

Cash used in operating activities totaled $4.5 million in the fourth quarter of 2018, as compared to cash provided by operating activities of $1.6 million in the fourth quarter of 2017. The decrease in cash provided by operations is primarily related to the net increase in non-cash operating working capital due to an increase in receivables, coupled with higher cash costs and a lower realized gold price in the fourth quarter of 2018 as compared to the fourth quarter of 2017.

Cash used in investing activities totaled $6.1 million in the fourth quarter of 2018, versus $32.9 million in the fourth quarter of 2017. The cash used in investing activities in the fourth quarter of 2018 primarily relates to capital expenditures including $1.7 million for exploration and development activities, $1.7 million for leach pad construction, $1.1 million for deferred stripping at the El Castillo mine, $1.1 million for crushing and conveying circuit improvements and mining equipment and other capital at the Company's properties. The cash used in investing activities in the fourth quarter of 2017 primarily relates to $14.9 million of cash consideration paid for the acquisition of the Cerro del Gallo project (see "Property Acquisitions" section), $13.0 million of deferred cash consideration paid for the acquisition of the San Juan mineral concession adjacent to the El Castillo mine (see "Property Acquisitions" section) and $3.5 million for deferred stripping at the El Castillo and La Colorada mines.

Cash provided by financing activities totaled $4.8 million in the fourth quarter of 2018, as compared to $8.3 million in the fourth quarter of 2017. During the fourth quarter of 2018, the Company received proceeds from debt of $5.0 million related to the drawdown of the revolving credit facility. During the fourth quarter of 2017, the Company received proceeds from debt of $8.0 million related to the drawdown of the revolving credit facility.

For the year ended December 31, 2018, as compared to the year ended December 31, 2017

During 2018, cash increased by $1.3 million due primarily to $31.7 million of cash flows from operations and $4.0 million from financing activities, offset by $35.9 million of capital expenditures incurred, as compared to 2017 in which cash decreased by $28.0 million, due primarily to $70.2 million of capital expenditures incurred and $40.9 million of cash consideration paid on property acquisitions (see "Property Acquisitions" section), partially offset by $38.8 million of cash flows from operations and $41.3 million of cash flows provided by financing activities.

Cash provided by operating activities totaled $31.7 million during 2018, as compared to $38.8 million in 2017. The decrease in cash provided by operations is primarily related to the net increase in non-cash operating working capital during 2018. The net increase in non-cash operating working capital for 2018 is primarily due to the increase in work-in-process inventories at the El Castillo mining complex (see "Discussion of Operations-El Castillo Mining Complex" section), partially offset by the increase in accounts payable and accrued liabilities due to timing of payments. The net increase in non-cash operating working capital is partially offset by an increase in gold ounces sold and a higher average realized gold price during 2018 as compared to 2017.

Cash used in investing activities totaled $35.6 million in 2018, versus $108.9 million in 2017. The cash used in investing activities during 2018 relates to capital expenditures including $10.5 million for leach pad construction, $8.7 million for deferred stripping at the El Castillo and La Colorada mines, $8.0 million for exploration and development activities, $5.4 million for crushing and conveying circuit improvements and mining equipment and other capital at the Company's properties. The cash used in investing activities during 2017 relates to capital expenditures including $27.3 million for construction costs related to the San Agustin project, $26.0 million cash consideration paid for the acquisition of the San Juan mineral concession adjacent to the El Castillo mine (see "Property Acquisitions" section), $18.7 million for deferred stripping at the El Castillo and La Colorada mines, $14.9 million cash consideration paid for the acquisition of the Cerro del Gallo project (see "Property Acquisitions" section) and other capital or exploration activities on the Company's operating, development and exploration properties.

Cash provided by financing activities totaled $4.0 million in 2018, as compared to $41.3 million in 2017. During 2018, the Company received net proceeds from debt of $5.0 million related to the drawdown of the revolving credit facility. During 2017, the Company received proceeds, net of share issuance costs, of $32.0 million primarily from the issuance of common shares, proceeds from debt of $8.0 million related to the drawdown of the revolving credit facility and proceeds from the settlement of derivatives of $2.5 million.

Total assets increased to $694.5 million as at December 31, 2018, as compared to $689.9 million as at December 31, 2017, principally due to an increase in inventories at the El Castillo mining complex (see "Discussion of Operations-El Castillo Mining Complex" section), partially offset by a decrease mineral properties, plant and equipment. Total liabilities increased to $85.5 million as at December 31, 2018, as compared to $57.4 million as at December 31, 2017, primarily due to an increase in accounts payable and accrued liabilities, debt and reclamation provision. Total shareholders' equity decreased to $609.0 million as at December 31, 2018, as compared to $632.4 million as at December 31, 2017, primarily due to foreign currency effects of $18.6 million and net loss of $7.6 million.

Liquidity Outlook

In 2019, the Company plans to produce between 200,000 and 215,000 GEOs (based on the three-year historical average silver to gold ratio of 75:1). Cash cost per gold ounce sold (see "Non-IFRS measures" section) in 2019 is expected to be between $775 and $875.

The Company noted the World Gold Council issued amended guidance on all-in sustaining cost (see "Non-IFRS Measures" section) during the fourth quarter of 2018. The Company will follow the amended all-in sustaining cost guidance recommended by the World Gold Council for 2019 and therefore has updated its previously reported 2019 all-in sustaining cost guidance from between $875 to $975 to between $975 to $1,075 for 2019.

The Company plans to invest $50 million to $60 million on capital expenditures and exploration initiatives in 2019. Major capital expenditures in 2019 are expected to include $27 million to $31 million at the El Castillo mining complex, $14 million to $16 million at the La Colorada mine and $9 million to $13 million on Magino, San Antonio, Cerro del Gallo and other.

The following table summarizes the Company's payments for commitments and contractual obligations as at December 31, 2018:

Expressed in $000s	2019	2020	2021	2022	2023	Thereafter	Total
Operating lease obligations	$ 126	$ 76	$ 79	$ 68	$ -	$ -	$ 349
Land agreement obligations[(1)(3)]	2,006	1,189	1,123	1,169	990	9,446	15,923
Purchase obligations[(2)(3)]	56,642	45,506	22,136	-	-	-	124,284
Debt	-	-	13,000	-	-	-	13,000
Reclamation provision[(4)]	731	995	1,016	8,277	4,333	3,689	19,041
	$ 59,505	$ 47,766	$ 37,354	$ 9,514	$ 5,323	$ 13,135	$ 172,597

(1) The Company has entered into agreements for surface and access rights to land associated with operating mines, development projects and exploration projects.

(2) The Company has entered into commitments totaling $115,722 for mining services, $4,799 for capital projects, $3,438 for supplies and $325 for maintenance services.

(3) Certain commitments may contain cancellation clauses, however the Company discloses its commitments based on management's intent to fulfill the contracts.

(4) Reclamation provision amounts represent management's estimate of when the reclamation expenditures are expected to be paid.

The Company's cash and cash equivalents balance, the cash expected to be generated from the operation of the El Castillo mining complex and the La Colorada mine during the next 12 months and undrawn amounts on the Company's ARF are anticipated to be sufficient to meet obligations and the planned investing and operating activities of the Company for the next 12 months. If required, the Company anticipates it can raise cash from proceeds from sale of shares or proceeds from sale of mineral properties or other assets to meet its cash requirements. The Company's results are highly dependent on the price of gold and future changes in the price of gold will therefore impact performance. Readers are encouraged to read the "Cautionary Statement" section and the "Risk Factors" contained in the Company's 2017 Annual Information Form, which is available on SEDAR at www.sedar.com.

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

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

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

CONTINGENCIES

Various tax and legal matters are outstanding from time to time. Judgments and assumptions regarding these matters are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations.

In the event that management’s estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in the consolidated financial statements on the date such changes occur.

The Company understands that refiner Republic Metals Corporation ("Republic") filed for protection under chapter 11 of the United States Bankruptcy Code on November 2, 2018 (the “Petition Date”) in the United States Bankruptcy Court for the Southern District of New York. Republic processed material from certain of the Company’s properties in the past and, as of the Petition Date, had in its possession approximately 4,600 and 13,600 ounces of the Company’s gold and silver, respectively. The Company has engaged counsel to assert its legal right for the return of its material and otherwise protect its rights in Republic’s bankruptcy case. It is not possible at this time to accurately assess the prospects for success of the Company’s claims against Republic or the length of time it will take to resolve them. The Company has relationships with other refineries and does not anticipate any material disruption in its overall production as a result of Republic’s bankruptcy filing.

FINANCIAL INSTRUMENTS AND RISKS

Overview

The Company’s activities expose it to risks, including financial and operational risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks related to financial instruments to which the Company is exposed are credit risk, foreign exchange risk, liquidity risk and interest rate risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework and reviews the Company’s policies on an ongoing basis. Readers are encouraged to read and consider the “Cautionary Statement” section and the “Risk Factors” described in the Company’s Annual Information Form for the year ended December 31, 2017. The risk factors could materially impact future operating results of the Company and cause events to differ materially from those described in forward-looking information of the Company.

Credit risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company maintains substantially all of its cash with major financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. The Company manages credit risk for trade and other receivables through established credit monitoring activities. To reduce credit risk, the Company regularly reviews the collectability of its amounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. The Company currently transacts with highly rated counterparties for the sale of gold. Management believes that the credit risk concentration with respect to these financial instruments is remote.

Foreign exchange risk

Because the Company operates on an international basis, foreign exchange risk exposures arise from transactions and balances denominated in foreign currencies. The Company’s foreign exchange risk arises primarily with respect to the Canadian dollar and the Mexican peso. The Company’s cash flows from Mexican operations are exposed to foreign exchange risk as commodity sales are denominated in US dollars and the majority of operating expenses and capital expenditures are denominated in Mexican pesos and US dollars. Administrative transactions and exploration expenditures associated with the Magino project are primarily denominated in Canadian dollars.

The Company is exposed to foreign exchange risk through the following financial instruments denominated in currencies other than the US dollar as of December 31:

Expressed in $000s	US dollar value of Canadian dollar balances 2018	US dollar value of Canadian dollar balances 2017	US dollar value of Mexican peso balances 2018	US dollar value of Mexican peso balances 2017
Cash and cash equivalents	$ 85	$ 645	$ 369	$ 1,238
Other receivables	-	-	192	-
Accounts payable and accrued liabilities	(1,011)	(1,083)	(19,746)	(13,074)
Other liabilities	-	-	(1,270)	(1,593)
	$ (926)	$ (438)	$ (20,455)	$ (13,429)

Based on the above net exposures as at December 31, 2018, a 10% appreciation in the Canadian dollar would result in a $0.1 million decrease (December 31, 2017 - less than $0.1 million) in the Company's other comprehensive income (loss). A 10% appreciation in the Mexican peso would result in a $2.0 million decrease (December 31, 2017 - $1.3 million) in the Company's income (loss) before income taxes.

Foreign exchange derivative contracts

On January 20, 2017 (referred to as the "2017 foreign exchange contracts"), on September 25 and December 28, 2017 (together referred to as the "2018 foreign exchange contracts") and on November 13, 2018 (referred to as the "2019 foreign exchange contracts"), the Company entered into zero-cost collar contracts whereby it purchased a series of foreign exchange call option contracts and sold a series of foreign exchange put option contracts with equal and offsetting values at inception. These contracts were entered into to normalize operating expenses and capital expenditures to be incurred by the Company's Mexican operations as expressed in US dollar terms. The foreign exchange derivative contracts are classified as Level 2 in the fair value hierarchy. The details of the contracts were as follows:

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

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

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

The resulting fair values of the outstanding contracts at December 31, 2018 have been recognized, on a net basis, in foreign exchange derivative assets on the statement of financial position. These derivative instruments were not designated as hedges by the Company and are marked-to-market at the end of each reporting period with the mark-to-market adjustment recorded in the statement of income (loss). Details are as follows:

	Three months ended December 31,		Year ended December 31,	
Expressed in $000s	2018	2017	2018	2017
2017 foreign exchange contracts				
Unrealized gains	$ -	$ -	$ -	$ 1,694
Reversal of unrealized gains from prior period	-	(548)	-	(1,694)
Realized gains	-	381	-	2,546
2018 foreign exchange contracts				
Unrealized gains (losses)	-	(409)	593	(552)
Reversal of unrealized gains from prior period	(23)	-	(41)	-
Realized gains	-	-	9	-
2019 foreign exchange contracts				
Unrealized gains	510	-	510	-
Net gains (losses) on foreign exchange derivatives	$ 487	$ (576)	$ 1,071	$ 1,994

Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and credit facilities. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities. As at December 31, 2018, the Company had a cash balance of $15.4 million (December 31, 2017 - $14.1 million), an undrawn ARF of $37.0 million (December 31, 2017 - $22.0 million) and current liabilities of $36.5 million (December 31, 2017 - $24.2 million).

Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Company has interest bearing cash balances, which are subject to fluctuations in the interest rate. A 10% increase or decrease in the interest earned from financial institutions on deposits held would result in a nominal increase or decrease in the Company's income (loss) before income taxes. The Company has additional exposure to interest rate risk on the ARF, which is subject to a floating interest rate. Floating interest rates are based on the LIBOR plus a fixed margin. The Company does not enter into derivative contracts to manage this risk. Based on the utilized ARF balance of $13.0 million at December 31, 2018, a 0.1% increase in LIBOR rates (10 basis point increase) would result in a nominal decrease in the Company's income (loss) before income taxes.

Financial instruments

As at December 31, 2018 and 2017, the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at December 31, 2018 and 2017, the carrying amounts of other liabilities and debt are considered to be reasonable approximations of their fair values as there have been no significant changes in market interest rates since inception.

OUTSTANDING SHARE DATA

As at December 31, 2018, the Company had 177,802,911 common shares issued and outstanding and 4,011,413 stock options and 1,231,291 restricted share units ("RSUs") and 736,507 performance share units ("PSUs") granted and outstanding.

Subsequent to December 31, 2018:

- the Company granted 584,226 stock options under the amended and restated share incentive plan,
- the Company granted 1,567,719 RSUs under the amended and restated share incentive plan,
- the Company granted 967,725 PSUs under the amended and restated share incentive plan,
- 599,153 RSUs vested,
- 138,327 RSUs and 72,448 restricted shares were withheld to satisfy tax withholding and
- 3,624 RSUs forfeited.

As at February 19, 2019, the Company had 178,191,289 common shares issued and outstanding and 4,595,639 stock options, 2,196,233 RSUs and 1,704,232 PSUs granted and outstanding.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may vary from those estimates due to inherent uncertainty or other factors. The Company regularly reviews its estimates. Revisions to estimates and the resulting effects on the carrying amounts of the assets and liabilities are accounted for prospectively. Key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Fair value of assets and liabilities acquired through an acquisition

Judgment and estimates are used to determine the fair value of the assets and liabilities acquired by way of an acquisition. In the determination of the fair value of the assets and liabilities, management makes certain judgments and estimates regarding reserves, resources, exploration potential, capital expenditures, commodity prices, operating costs, economic lives, reclamation costs and discount rates, among others. It may take time to obtain the information necessary to measure their fair values. In the case of a business combination, changes to the provisional measurements of assets and liabilities acquired are retrospectively adjusted when new information is obtained until the final values are determined. Final values will be determined within one year of closing the acquisition.

Work-in-process inventory / Production costs

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

During 2018, the Company recognized a net non-cash impairment write down on current work-in-process inventory of $1.8 million at the El Castillo mine and $1.6 million at the La Colorada mine and a non-cash impairment write down on non-current work-in-process inventory of $12.8 million at the El Castillo mine.

As at December 31, 2018, the carrying amount of work-in-process inventory was $75.5 million (December 31, 2017 - $59.7 million). During 2018, the company transferred $33.3 million from current work-in-process inventory to non-current reflecting ore on leach pads that the Company does not expect to process in the next 12 months.

Mineral properties

The cost of acquiring, exploring and developing mineral properties and the cost to increase future output by providing access to additional reserves or resources, are deferred. After a mine commences production, these costs are amortized over the proven and probable reserves to which they relate if available; otherwise, the Company will use its best estimate based on measured and indicated resources or other relevant metric. The determination of reserves and resources is complex and requires the use of estimates and assumptions related to geological sampling and modeling, future commodity prices and costs to extract and process the ore. The mineral reserve or resource is used in estimating the value of the mineral property and in the determination of recoverable ounces which is further used in depletion and depreciation calculations.

As at December 31, 2018, the carrying amount of mineral properties, including exploration and evaluation assets, was $515.9 million (December 31, 2017 - $539.2 million).

Impairment of non-current assets

The Company reviews the carrying amounts of non-current assets whenever events or changes in circumstances indicate that the carrying amounts may exceed the estimated recoverable amounts determined by reference to estimated future operating results and discounted future cash flows. An impairment loss is recognized when the carrying amount of those assets is not recoverable. Non-current assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. Calculating the estimated recoverable amount of the cash generating units ("CGU" or "CGUs") for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable reserves and resources, estimated future commodity prices, future production and sales volume, the expected future operating, capital and reclamation costs, discount rates and exchange rates. These estimates are subject to various risks and uncertainties which may ultimately have an effect on the estimated recoverability of the carrying amounts of non-current assets.

The Company, from time to time, acquires exploration and evaluation assets. When a number of properties are acquired in a portfolio, the Company must make a determination of the fair value attributable to each of the properties within the total portfolio. When the Company conducts further exploration on acquired properties, it may determine that certain properties do not support the fair values applied at the time of acquisition. If such determination is made, the property is impaired and could have a material effect on the consolidated statements of financial position and consolidated statements of income (loss).

During 2018, the Company recognized a net non-cash impairment of mineral properties, plant and equipment of $2.0 million, as summarized in the following table:

Expressed in $000s		Mineral properties		Plant and equipment		Total
El Castillo mine	$	23,123	$	4,585	$	27,708
La Colorada mine		(19,863)		(6,072)		(25,935)
Other		-		238		238
Total impairment (reversal)	$	3,260	$	(1,249)	$	2,011

For more information, please read note 24 of the Company's audited consolidated financial statements for the year ended December 31, 2018.

Key assumptions

The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal prices, production costs estimates, future capital expenditures, changes in the amount of recoverable reserves, resources, and exploration potential, discount rates, inflation and exchange rates. The determination of fair value less direct costs of disposal includes the following key applicable assumptions:

- Gold price per ounce: $1,250 in 2019 and beyond (2017 - $1,250 in 2018 and beyond)
- Operating and capital costs based on historical costs incurred and estimated forecasts
- Production volume and recoveries as indicated in the LOM plan
- After-tax discount rates between 5% and 8% based on the stage and associated risk of each project

Sensitivities

The Company has performed a sensitivity analysis on CGUs where an impairment or reversal was recorded. The Company assumed a 5% change in the gold price assumption and a 5% change in the operating cost assumption while holding all other assumptions constant. Based on the impairment testing performed as at December 31, 2018, the sensitivity to changes in these key assumptions appear below for El Castillo and La Colorada.

Expressed in $000s	Change in recoverable amount from a 5% change in gold price	Change in recoverable amount from a 5% change in operating costs
El Castillo	$ 9,809	$ 5,770
La Colorada	$ 9,430	$ 5,550

Additionally, the Company has performed a sensitivity analysis on CGUs where no impairment or reversal was recognized. The table below indicates the long-term gold price assumption which would cause a CGU's carrying value to equal the recoverable amount while holding all other assumptions constant.

	Long-term price per ounce required for recoverable amount to equal carrying amount
San Agustin	$ 1,242
San Antonio	$ 987
Magino	$ 1,229

The Company believes that adverse changes in metal price assumptions would also impact certain other inputs in the LOM plans which may offset, to a certain extent, the impact of these adverse gold price changes.

Deferred income taxes

The determination of current income tax expense (recovery) and deferred income tax expense (recovery) involves judgment and estimates as to the future taxable earnings and interpretation of laws in the countries in which the Company operates. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these estimates may materially affect the final amount of current or deferred income taxes or the timing of tax payments.

Reclamation provision

Reclamation provision represents the present value of estimated future costs for the reclamation of the Company's mines and properties. These estimates include assumptions as to the future activities, cost of services, timing of the reclamation work to be performed, inflation rates, exchange rates and interest rates. The actual cost to reclaim a mine may vary from the estimated amounts because there are uncertainties in factors used to estimate the cost and potential changes in regulations or laws governing the reclamation of a mine. Management periodically reviews the reclamation requirements and adjusts the liability as new information becomes available and will assess the impact of new regulations and laws as they are enacted.

As at December 31, 2018, the carrying amount of the Company's provision for reclamation and remediation cost obligations was $16.8 million (December 31, 2017 - $9.4 million).

RECENT ACCOUNTING PRONOUNCEMENTS

New and amended standards adopted by the Company

The Company has adopted the following new and amended standards in the annual period commencing January 1, 2018 and as a result, changed the relevant accounting policies described in note 2 of the consolidated financial statements for the year ended December 31, 2018. These changes were made in accordance with the applicable transitional provisions.

IFRS 9, Financial Instruments ("IFRS 9")

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

The Company applied IFRS 9 retrospectively; however, the adoption of IFRS 9 did not require any adjustments to the classification or measurement of the Company's financial assets and financial liabilities. The adoption of the new expected credit loss model under IFRS 9 had a negligible impact on the carrying amounts of our financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

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

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

New and amended standards not yet adopted by the Company

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

IFRS 16, Leases ("IFRS 16"), was issued in January 2016 by the IASB. According to the new standard, all leases will be on the statement of financial position of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019. The Company expects IFRS 16 will result in the recognition of additional assets and liabilities in the statement of financial position and a corresponding increase in depreciation, depletion and amortization and finance expenses and a decrease in production costs in the statement of income (loss). The Company also expects cash flows from operating activities to increase under IFRS 16 as lease payments will be recorded as financing outflows in the statement of cash flows. The Company has identified and collected data relating to existing agreements and has reviewed this information to identify which agreements are in scope for IFRS 16. Based on the review performed to date, the Company believes that the adoption of IFRS 16 will not have a material impact on the amounts recognized in the consolidated financial statements.

There are no other IFRSs or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the consolidated financial statements of the Company.

DISCLOSURE CONTROLS AND PROCEDURES

The Canadian Securities Administrators have issued National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109") which requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the disclosure controls and procedures that are in use at the Company. The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, to enable this information to be reviewed and discussed so that appropriate decisions can be made regarding the timely public disclosure of the information. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2018 and have concluded that these controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

NI 52-109 also requires public companies in Canada to submit interim and annual certificates relating to the design of internal control over financial reporting ("ICFR") and an annual certificate that includes evaluating the effectiveness of ICFR. The Company's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining ICFR. The Company used the 2013 Commission of Sponsoring Organizations of the Treadway Commission ("COSO") framework as the basis for designing its ICFR. Due to its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's ICFR as at December 31, 2018 and have concluded that these controls and procedures are effective.

Changes to Internal Control over Financial Reporting

NI 52-109 also requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. There were no changes in ICFR during the quarter ended December 31, 2018 that materially affected or are reasonably likely to materially affect the Company's ICFR.

NON-IFRS MEASURES

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

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

El Castillo	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Production costs[(1)(2)] ($000s)	$ 14,632	$ 9,025	$ 42,841	$ 57,758
Less silver sales ($000s)	160	185	493	651
Net cost of sales ($000s)	$ 14,472	$ 8,840	$ 42,348	$ 57,107
Gold ounces sold	14,373	8,707	41,665	62,194
Cash cost per gold ounce sold	$ 1,007	$ 1,015	$ 1,016	$ 918

San Agustin	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Production costs[(1)] ($000s)	$ 11,911	$ 3,745	$ 36,881	$ 3,745
Less silver sales ($000s)	636	545	3,627	545
Net cost of sales ($000s)	$ 11,275	$ 3,200	$ 33,254	$ 3,200
Gold ounces sold	14,750	8,309	60,972	8,309
Cash cost per gold ounce sold	$ 764	$ 385	$ 545	$ 385

La Colorada	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Production costs[(1)(2)] ($000s)	$ 13,550	$ 11,113	$ 45,330	$ 37,262
Less silver sales ($000s)	535	571	2,311	3,039
Net cost of sales ($000s)	$ 13,015	$ 10,542	$ 43,019	$ 34,223
Gold ounces sold	11,907	12,896	47,058	49,538
Cash cost per gold ounce sold	$ 1,093	$ 817	$ 914	$ 691

All Mines	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Production costs[(1)(2)] ($000s)	$ 40,093	$ 23,883	$ 125,052	$ 98,765
Less silver sales ($000s)	1,331	1,301	6,431	4,235
Net cost of sales ($000s)	$ 38,762	$ 22,582	$ 118,621	$ 94,530
Gold ounces sold	41,030	29,912	149,695	120,041
Cash cost per gold ounce sold	$ 945	$ 755	$ 792	$ 787

(1) Excludes depreciation, depletion and amortization.

(2) The production costs in the three months and year ended December 31, 2018 include the impact of non-cash impairment write downs related to work-in-process inventory.

All-in sustaining costs include net cost of sales at the Company's mining operations, which forms the basis of the Company's cash cost per gold ounce sold. Additionally, the Company includes general and administrative expenses, exploration expenses, accretion of reclamation provision and sustaining capital expenditures. Sustaining capital expenditures are defined by management as those expenditures that do not increase annual gold ounce production at a mine site and excludes all expenditures at the Company's pre-production development stage and advanced exploration stage projects and certain expenditures at the Company's operating sites that are deemed expansionary in nature. Capitalized stripping and leach pad construction costs are considered by management of the Company as expansionary in nature. The following table provides a reconciliation of all-in sustaining costs per gold ounce sold to the consolidated financial statements:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Net cost of sales ($000s)	$ 38,762	$ 22,582	$ 118,621	$ 94,530
General and administrative expenses ($000s)	3,357	2,880	12,958	11,667
Exploration expenses ($000s)	156	99	547	436
Accretion of reclamation provision ($000s)	49	47	197	160
Sustaining capital expenditures ($000s)	611	1,230	4,240	3,919
All-in sustaining cost ($000s)	$ 42,935	$ 26,838	$ 136,563	$ 110,712
Gold ounces sold	41,030	29,912	149,695	120,041
All-in sustaining cost per gold ounce sold	$ 1,046	$ 897	$ 912	$ 922

The Company noted the World Gold Council issued amended guidance on all-in sustaining costs and all-in costs during the fourth quarter of 2018. Following the amended guidance, the Company's all-in sustaining cost would increase from $1,046 to $1,073 for the three months ended December 31, 2018 and from $912 to $969 for the year ended December 31, 2018. The primary reason for the increase is a reallocation from expansion capital to sustaining capital, primarily driven by reallocations of capital stripping and leach pad expansion capital. The amended guidance did not result in a change to the Company's cash cost or all-in cost for 2018.

All-in costs include all-in sustaining costs, which forms the basis of the Company's all-in sustaining cost per gold ounce sold and additional costs for expansionary capital expenditures related to properties in commercial production, excluding the acquisition of the rights to land. The following table provides a reconciliation of all-in costs per gold ounce sold to the consolidated financial statements:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
All-in sustaining cost ($000s)	$ 42,935	$ 26,838	$ 136,563	$ 110,712
Expansionary capital expenditures ($000s)	2,869	7,756	23,414	27,505
All-in cost ($000s)	$ 45,804	$ 34,594	$ 159,977	$ 138,217
Gold ounces sold	41,030	29,912	149,695	120,041
All-in cost per gold ounce sold	$ 1,116	$ 1,157	$ 1,069	$ 1,151

Adjusted net income and adjusted earnings per share - basic excludes foreign exchange impacts on deferred income taxes, foreign exchange (gains) losses, non-cash impairment write down (reversal) of work-in-process inventory, non-cash impairment loss (reversal) on certain non-current assets, other operating expenses and unrecognized (recognition of previously unrecognized) Mexican deferred tax assets. The following table provides a reconciliation of adjusted net income to the consolidated financial statements:

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Net income (loss), as reported ($000s)	$ (17,545)	$ 5,187	$ (7,621)	$ 23,852
Impact of foreign exchange on deferred income taxes ($000s)	3,516	4,052	592	(2,558)
Foreign exchange (gains) losses, net of tax ($000s)	(255)	(943)	2,048	(208)
Inventory write down, net of tax ($000s)	9,476	-	14,056	-
Impairment of mineral properties, plant and equipment, net of tax ($000s)	5,174	-	5,174	-
Other operating expenses, net of tax ($000s)	2,178	513	2,178	513
Recognition of previously unrecognized Mexican deferred tax assets ($000s)	-	(2,452)	-	(6,662)
Adjusted net income ($000s)	$ 2,544	$ 6,357	$ 16,427	$ 14,937
Weighted average number of common shares outstanding, as reported	177,801,574	177,224,856	177,719,713	173,183,225
Adjusted earnings per share - basic	$ 0.01	$ 0.04	$ 0.09	$ 0.09

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

	December 31, 2018	September 30, 2018	December 31, 2017
Cash and cash equivalents ($000s)	$ 15,378	$ 20,560	$ 14,060
Debt ($000s)	(13,000)	(8,000)	(8,000)
Net cash ($000s)	$ 2,378	$ 12,560	$ 6,060

CAUTIONARY STATEMENT

Readers of this MD&A are encouraged to read the "Risk Factors" as more fully described in the Company's filings with the Canadian Securities Administrators, including its Annual Information Form for the year ended December 31, 2017, available on SEDAR at www.sedar.com. The following, while not exhaustive, are important Risk Factors to consider: Commodity Price Volatility; Uncertainty of Exploration and Development; Uncertainty in the Estimation of Mineral Reserves and Mineral Resources; Permitting Risk; Mineral and Surface Rights; Financing Requirements; The Revolving Credit Facility may present certain risks to the Corporation; Operational Risks; The Corporation may not achieve its Production Estimates; Increase in Production Costs; Uncertainty Relating to Mineral Resources; Environmental Risks and Hazards; Fluctuations in Operating Results can cause Common Share Price Decline; Local Legal, Political and Economic Factors; Changes in Climate Conditions; Unsettled First Nations Rights; Governmental Regulation of the Mining Industry; Foreign Subsidiaries; Operations in Mexico; Competition for Explorations, Development and Operation Rights; Foreign Currency Exchange Rate Fluctuation; Title to Properties; Safety and Security; Infrastructure; Community Relations; Contractors; Labour and Employment Matters; Attracting and Retaining Talented Personnel; Contract Renegotiation; Construction and Start-up of New Mines; Volatility of Market for Common Shares; Foreign Private Issuer Status; Internal Control over Financial Reporting; Acquisitions and Integration; Risk Management; Insurance and Uninsured Risks; Dilution Risk; Asset Impairment Charges; Write-downs and Impairments; Exchange Controls; Possible Conflicts of Interest of Directors and Officers of the Corporation; Enforcement of Civil Liabilities in the United States; Cybersecurity Risks; Security and Privacy Breaches; Recent Global Financial Conditions; and Foreign Corrupt Practices and Anti-Bribery Legislation.

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

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

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

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

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

TECHNICAL INFORMATION AND QUALIFIED PERSON

The technical information contained in this document has been prepared under the supervision of, and has been reviewed and approved by, Mr. Brian Arkell, Argonaut's Vice President of Exploration, a qualified person as defined by NI 43-101.

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

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

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