

## **ARGONAUT GOLD INC.**

### **MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE QUARTER ENDED JUNE 30, 2011**

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 August 11, 2011. All dollar amounts are expressed in United States dollars unless otherwise stated (CA\$ represents Canadian dollars). This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the three and six months ended June 30, 2011. The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Comparative information included in the June 30, 2011 interim condensed consolidated financial statements and in this MD&A has been restated in accordance with IFRS unless otherwise noted. 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](http://www.sedar.com).

This MD&A contains forward looking information. Reference to the risk factors described in the "Cautionary Statement" at the end of this MD&A is advised.

#### **SECOND QUARTER AND RECENT HIGHLIGHTS:**

- Revenues of \$21.6 million in Q2 2011 (\$12.5 million in Q2 2010)
- Net income of \$5.2 million in Q2 2011 (\$0.9 million in Q2 2010)
- Cash flow from operating activities before changes in non-cash operating working capital and other items was \$7.6 million in Q2 2011 (\$1.8 million in Q2 2010)
- Cash on hand was \$32.3 million at June 30, 2011
- Q2 2011 operating statistics and highlights:
  - Approximately 5 million total tonnes mined in the 2nd quarter of 2011
  - Record ore tonnes crushed for the 2nd quarter of 860,289 tonnes, 218% increase over Q2 2010
  - New crushing circuit is online as of the end of July
  - 29,555 ounces of gold loaded on the pad in the 2nd quarter, 47% increase over Q2 2010
  - Gold production of 17,453 ounces of gold for the 2nd quarter, 73% increase over Q2 2010
- NI 43-101 resource of 1.6 million ounces of gold defined at San Antonio, a 33% increase since the preliminary economic assessment in August 2010 (See also herein under the heading "Technical Information and Qualified Person")

#### **DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS**

The Company is engaged in gold mining, mine development and mineral exploration activities of gold-bearing mineral properties in the Americas. Currently, the Company owns and operates the El Castillo Mine, an open pit heap leach gold operation in the State of Durango, Mexico. The El Castillo Mine has been in commercial production since 2008. The Company also owns the advanced exploration stage properties San Antonio in the State of Baja California Sur and La Colorada in the State of Sonora, Mexico, and the exploration stage property La Fortuna in the State of Durango, Mexico. The Company acquired these mineral properties through the acquisition of Castle Gold Corporation ("Castle Gold") on December 30, 2009 and Pediment Gold Corp. ("Pediment") on January 27, 2011.

## SUMMARY OF QUARTERLY RESULTS (Unaudited)

The following table sets forth selected unaudited quarterly financial information:

	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2 <sup>(2)</sup>	2010 Q1 <sup>(2)</sup>	2009 Q4 <sup>(1)</sup>
Revenue	\$21,631,900	\$25,676,454	\$19,885,954	\$9,813,684	\$12,509,430	\$9,353,367	-
Net Income (Loss)	\$5,178,575	\$5,930,439	\$4,100,252	\$961,881	\$855,673	(\$2,159,117)	(\$534,080)
Income (Loss) per Share – Basic and Diluted	\$0.06	\$0.07	\$0.07	\$0.02	\$0.02	(\$0.04)	(\$0.01)
Gold Ounces Sold	14,331	18,461	14,414	7,994	10,387	8,398	-
Average Realized Gold Price per Ounce	\$1,507	\$1,388	\$1,377	\$1,226	\$1,203	\$1,109	-

<sup>(1)</sup> Amounts are presented in Canadian GAAP. The Company did not have any operating activity until 2009 Q4.

<sup>(2)</sup> In 2010 Q1 and Q2, cost of sales reflected the fair value assigned to the gold ounces in inventory on the acquisition of Castle Gold

The quarterly year-over-year increase in revenue was driven by increases in production due to enhancements in 2010 that include a new contractor mining fleet, additional leach pad capacity, a new crushing circuit and a new processing plant combined with an increase in the realized gold price. The quarterly year-over-year increase in net income resulted from higher revenue and the transition from the cost of sales comprised of the fair value assigned to gold ounces in inventory on the acquisition of Castle Gold that were sold in the first two quarters of 2010 to current production costs.

## DISCUSSION OF OPERATIONS

(Unaudited)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<b>Revenue</b>	\$ 21,631,900	\$ 12,509,430	\$ 47,308,354	\$ 21,862,797
<b>Cost of sales</b>				
Production costs	8,318,309	7,417,613	19,267,973	16,749,704
Depreciation, depletion and amortization	2,685,154	1,551,596	6,370,520	1,551,596
<b>Total cost of sales</b>	11,003,463	8,969,209	25,638,493	18,301,300
<b>Gross profit</b>	10,628,437	3,540,221	21,669,861	3,561,497
General and administrative expenses	1,872,100	1,627,050	3,810,874	3,453,155
<b>Profit from operations</b>	8,756,337	1,913,171	17,858,987	108,342
Finance income	47,953	32,993	94,982	66,194
Finance expenses	(101,705)	(156,437)	(199,540)	(399,839)
Other income (expense), net	(57,350)	301,939	(345,610)	24,339
	(111,102)	178,495	(450,168)	(309,306)
Income (loss) before income taxes	8,645,235	2,091,666	17,408,819	(200,964)
Income tax expense	3,466,660	1,235,993	6,299,805	1,102,540
<b>Net income (loss) for the period</b>	\$ 5,178,575	\$ 855,673	\$ 11,109,014	\$ (1,303,504)

*For the three months ended June 30, 2011 as compared against the three months ended June 30, 2010*

During the quarter ended June 30, 2011, revenue increased 73% to \$21,631,900 compared with \$12,509,430 in the

second quarter of 2010. Gold sales were 14,331 ounces (10,387 ounces in the same period of 2010) at an average realized price per ounce of \$1,507 (\$1,203 average price per ounce in the same period of 2010).

Cost of sales increased to \$11,003,463 from \$8,969,209 in the second quarter of 2010. Cash cost per gold ounce for units sold decreased to \$578 from \$712 in the same period of 2010 (see Non-IFRS Measures section) principally because a significant amount of the ounces sold in the second quarter of 2010 had been fair valued on the acquisition of Castle Gold. Depreciation, depletion and amortization expense included in cost of sales increased to \$2,685,154 from \$1,551,596 in the second quarter of 2010 because the depletion in 2010 only reflects the cost of units produced and sold in 2010.

General and administrative expenses increased to \$1,872,100 from \$1,627,050 in the same period of 2010. Net finance expenses were \$53,752 as compared to \$123,444 in the same period of 2010. Other expenses (primarily foreign exchange losses) were \$57,350 as compared to a gain of \$301,939 in the second quarter of 2010. Income tax expense increased to \$3,466,660 from \$1,235,993 due to the higher earnings.

Net income for the quarter was \$5,178,575 or \$0.06 per share. In the second quarter of 2010, the Company's net income was \$855,673, or \$0.02 per share.

*For the six months ended June 30, 2011 as compared against the six months ended June 30, 2010*

During the six months ended June 30, 2011, revenue increased 116% to \$47,308,354 compared with \$21,862,797 in the first half of 2010. The increase in revenue was due to higher gold sales of 32,792 ounces (18,785 ounces in the same period of 2010) at a higher average realized price per ounce of \$1,440 (\$1,161 average price per ounce in the same period of 2010).

Cost of sales increased to \$25,638,493 from \$18,301,300 in the first half of 2010 primarily due to increased production and sales. Cash cost per gold ounce for units sold decreased to \$585 from \$889 in the same period of 2010 (see Non-IFRS Measures section) principally because the majority of the ounces sold in the first half of 2010 had been fair valued on the acquisition of Castle Gold. Depreciation, depletion and amortization expense included in cost of sales increased to \$6,370,520 from \$1,551,596 in the first half of 2010 because the depletion in 2010 only reflects the cost of units produced and sold in 2010.

General and administrative expenses increased to \$3,810,874 from \$3,453,155 in the first half of 2010. Net finance expenses were \$104,558 as compared to \$333,645 in the same period of 2010 as a result of reduced interest expense on long term debt. Other expenses (primarily foreign exchange losses) were \$345,610 as compared to a gain of \$24,339 in the first half of 2010. Income tax expense increased to \$6,299,805 from \$1,102,540 due to the higher earnings.

Net income for the first half of 2011 was \$11,109,014 or \$0.13 per share. In the first half of 2010, the Company's net loss was \$1,303,504 or \$0.02 per share.

## El Castillo Gold Mine

Operating Statistics	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Tonnes ore	2,786,349	1,867,191	5,324,613	3,183,738
Tonnes waste	2,184,486	1,583,381	4,405,680	3,160,168
Tonnes mined	4,970,835	3,450,572	9,730,293	6,343,906
Waste/ore ratio	0.78	0.85	0.83	0.99
Tonnes direct to leach pad	1,920,657	1,562,907	3,733,668	2,562,028
Tonnes crushed	860,289	270,879	1,589,393	585,284
Average grams per tonne of gold to leach pad	0.33	0.34	0.34	0.36
Gold ounces to leach pad	29,555	20,112	57,780	36,542
Gold ounces produced	17,453	10,066	35,467	20,308
Gold ounces sold	14,331	10,387	32,792	18,785

During the second quarter of 2011, the Company mined 4,970,835 tonnes (44% more than Q2 2010) containing 2,786,349 ore tonnes (49% more than Q2 2010). During Q2 2011, the Company crushed 860,289 tonnes (218% more than Q2 2010), produced 17,453 gold ounces (73% more than Q2 2010), and sold 14,331 gold ounces (38% more than Q2 2010). The increase in total operating performance is due to a larger, more efficient mining equipment fleet, more heap leach pad capacity and improvements to the carbon plant and crushing circuit. In addition, the waste to ore strip ratio decreased in Q2 2011 to 0.78 from 0.85 in the comparative period in 2010.

During the first half of 2011, the Company mined 9,730,293 tonnes (53% more than during the six months ended June 30, 2010) containing 5,324,613 ore tonnes (67% more than the six months ended June 30, 2010). During the first half of 2011, the Company crushed 1,589,393 tonnes (172% more than during the six months ended June 30, 2010), produced 35,467 gold ounces (75% more than during the six months ended June 30, 2010), and sold 32,792 gold ounces (75% more than during the six months ended June 30, 2010). As noted above, the increase in total operating performance is due to a larger, more efficient mining equipment fleet, more heap leach pad capacity and improvements to the carbon plant and crushing circuit. In addition, the waste to ore strip ratio decreased during the first half of 2011 to 0.83 from 0.99 in the comparative period in 2010.

During the quarter, the Company experienced a shortage of cyanide resulting from the Company's supplier experiencing flooding at their production facility and an overall industry shortage. The Company's primary supplier has reestablished production flow to the site. In addition, the Company has attempted to address this issue by sourcing cyanide from alternative sources. Currently, the Company has a sufficient cyanide supply at site but could experience additional shortages of cyanide should supply become restricted again. The Company expects this set back to not impact full year production guidance of 70,000 – 75,000 gold ounces.

Capital expenditures at the El Castillo Mine are primarily for expanding the east side processing facilities. Exploration work includes a 1,500 metre core drilling program to test sulphides with accompanying metallurgical test work that was completed during the quarter. Column testing of core samples to define the leaching characteristics of sulfide mineralization is ongoing.

## **San Antonio Project**

Capital expenditures at the San Antonio project are allocated for engineering and environmental studies, land and water rights purchases as well as permitting for the project.

A new National Instrument 43-101 ("NI 43-101") report on San Antonio resources was released during the second quarter. The NI 43-101 resource of 1.6 million ounces of gold defined at San Antonio, is represented by more than 51 million tonnes at 0.98 g/t, a 33% increase since the preliminary economic assessment entitled "San Antonio Project, Baja California Sur, Mexico NI 43-101 Technical Report on Preliminary Assessment" dated August 10, 2010 and available on Pediment's issuer profile on [www.sedar.com](http://www.sedar.com). The 1.6 million ounces consist of a measured resource found in oxide, transition and sulphide zones of 620,000 ounces represented by more than 18 million tonnes at 1.03 g/t and an indicated resource of more than 995,000 ounces represented by more than 32 million tonnes at 0.96 g/t. Mineral resources are not mineral reserves and do not have demonstrated economic viability.

Exploration activities include an ongoing 10,000 metre drill program. Results will include further definition of the La Colpa exploration target, testing the projected southeast extension of the North Zone, infill drilling to the north and south of the Intermediate Zone and condemnation drilling west of the North Zone.

## **La Colorada Project**

Exploration work at La Colorada includes an ongoing 52,000 metre drill program aimed at converting inferred gold resources on the La Colorada, Gran Central and El Creston targets to measured and indicated. Phase I, a 25,000 metre drill program, is complete. Phase II, a 27,000 metre drill program, is in progress with 4,000 metres complete as of June 30, 2011. Drilling will include drill testing on the Veta Madre and La Verde exploration targets.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash and cash equivalents balance as at June 30, 2011 was \$32,321,863 as compared to the \$34,187,039 balance as at March 31, 2011 and the \$25,394,399 balance as at December 31, 2010.

### **Cash Flows**

*For the three months ended June 30, 2011 as compared to the three months ended June 30, 2010*

During Q2 2011, cash decreased by \$1,865,176 compared to Q2 2010 in which cash decreased by \$8,026,777. Cash provided by operating activities for the second quarter of 2011 was \$8,377,464 compared with cash provided by operating activities in the second quarter of 2010 of \$2,408,834. Cash from operations before changes in non-cash operating working capital and other items in the second quarter of 2011 was \$7,572,171 compared to the second quarter of 2010 of \$1,803,356 principally because of the increase in net income.

Cash used in investing activities in the second quarter of 2011 was \$11,193,157 compared to cash used in investing activities in the second quarter of 2010 of \$9,498,736 due to an increase in capital expenditures.

Cash provided by financing activities in the second quarter of 2011 was \$777,612 compared to cash used in financing activities in the second quarter of 2010 of \$141,164. Cash from financing activities in the second quarter of 2011 was primarily from the exercise of stock options issued in connection with the acquisition of Pediment while cash used in financing activities in the second quarter of 2010 was for debt servicing.

*For the six months ended June 30, 2011 as compared to the six months ended June 30, 2010*

During the first half of 2011, cash increased by \$6,927,464 compared to the first half of 2010 in which cash decreased by \$19,871,050. Cash provided by operating activities for the first half of 2011 was \$11,690,403 compared with cash provided by operating activities in the first half of 2010 of \$ 1,492,209. Cash from operations before changes in non-cash operating working capital and other items in the first half of 2011 was \$16,911,566 compared to the first half of 2010 cash used of \$1,137,092 principally because of the increase in net income.

Cash used in investing activities in the first half of 2011 was \$7,921,541 compared to cash used in investing

activities in the first half of 2010 of \$17,713,670. Cash used in investing activities in the first half of 2011 included \$4,296,483 of cash acquired in the acquisition of Pediment, offset by capital expenditures of \$12,363,222 principally related to the El Castillo Mine and San Antonio and La Colorada projects. Cash used in investing activities in the first half of 2010 included \$12,155,344 of capital expenditures for the El Castillo Mine and \$5,624,520 required for the purchase of the remaining 8.8% non-controlled interest in Castle Gold.

Cash provided by financing activities in the first half of 2011 was \$2,470,975 compared to cash used in financing activities in the first half of 2010 of \$3,890,646. Cash from financing activities in the first half of 2011 was primarily from the exercise of stock options issued in connection with the acquisition of Pediment. In the first half of 2010, cash used in financing activities was principally payment of transaction costs related to the 2009 private placement and the acquisition of Castle Gold.

The Company currently plans on investing approximately \$27 million in exploration and capital expenditures in 2011, including spending during the first half of 2011 of \$7.7 million at El Castillo and a combined \$6.5 million in spending at San Antonio and La Colorada. The 2011 expenditures are expected to include the following:

- \$17 million of capital expenditure investments
  - El Castillo – Capital expenditures are primarily for expanding the east side processing facilities.
  - San Antonio – Capital expenditures are allocated for engineering and environmental studies, land and water rights purchases as well as permitting for the project; a new NI 43-101 report was released during the second quarter.
- \$10 million exploration program
  - El Castillo – 1,500 metre core drilling program to test sulphides with accompanying metallurgical test work was completed during the quarter. Column testing of core samples to define the leaching characteristics of sulfide mineralization is ongoing.
  - San Antonio – 10,000 metre drill program is ongoing. Results will include:
    - Further definition of the La Colpa exploration target;
    - Testing the projected southeast extension of the North Zone;
    - Infill drilling to the north and south of the Intermediate Zone;
    - Condemnation drilling west of the North Zone.
  - La Colorada – 52,000 metre drill program aimed at converting inferred gold resources on the La Colorada, Gran Central and El Creston targets to measured and indicated is ongoing.
    - Phase I, 25,000 metre drill program, is complete.
    - Phase II, 27,000 metre drill program, is in progress with 4,000 metres complete as of June 30, 2011. Drilling will include drill testing on the Veta Madre and La Verde exploration targets.

In 2011, the Company plans to produce between 70,000 - 75,000 ounces of gold at the El Castillo Mine at an average cash cost ranging between \$575 and \$600 per ounce.

Total assets increased to \$350 million during the first half of 2011 as compared to \$192 million as at December 31, 2010 principally because of the acquisition of Pediment and the cash generated from operations. Total liabilities as at June 30, 2011 were \$54 million as compared to \$53 million as at December 31, 2010. In the second quarter of 2011, the existing long-term debt of \$6.4 million was reclassified as current because it is due on May 31, 2012.

## **Liquidity Outlook**

The Company's cash and cash equivalents balance and the cash expected to be generated from the operation of the El Castillo Mine and funds expected to be available through financing are anticipated to be sufficient to meet the planned development and operating activities of the Company for the next 12 months. The Company's development plans for the San Antonio and La Colorada projects for 2012 may exceed the cash on hand and cash generated from operations. If required, the Company anticipates it can raise cash from debt financing or proceeds from sale of shares and from exercise of options and warrants to meet its cash requirements. El Castillo's performance is 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 "Risk Factors" contained in the Company's 2010 Annual Information Form.

The profitability and operating cash flow of Argonaut are affected by various factors, including the amount of gold produced at the El Castillo Mine, 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 subject to volatile 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 U.S. 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 as economies around the world continue their cautious recovery from the economic difficulties experienced over the last several years. 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.

## **FINANCIAL INSTRUMENTS**

Cash and cash equivalents and marketable securities are recorded at fair value. The carrying value of long-term debt is considered to approximate fair value due to its floating rate nature. The carrying value of receivables, accounts payable and accrued liabilities approximate fair value due to their short term nature.

## **OUTSTANDING SHARE DATA**

As at June 30, 2011, the Company had 90,012,671 common shares, 25,749,998 warrants, 1,500,000 broker compensation options and 808,967 options issued and outstanding. During the quarter and six months ended June 30, 2011, the Company granted 17,000 and 348,933 options, respectively, under the 2010 share incentive plan and issued 1,634,375 options in exchange for options of Pediment on acquisition of Pediment in January 2011. During the quarter, 481,250 stock options were exercised (1,451,041 exercised during the first half of 2011).

As of August 11, 2011 the Company had 90,012,671 common shares, 25,749,998 warrants, 1,500,000 broker compensation options and 808,967 options issued and outstanding.

The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbol AR and its warrants trade on the TSX under the symbol AR.WT.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Critical accounting estimates are those that may materially affect the consolidated financial statements and involve a significant level of judgment by management.

### **Work-In-Process Inventory**

The Company records the cost of mined ore and material in the process of being converted to a saleable product as work-in-process inventory. Leach pad inventory is comprised of gold bearing ore from the mine that has been placed on a heap leach pad for processing. The quantity of gold added to the leach pad is estimated based on tonnes placed on the pad and on assays of sample material and expected recoveries. The Company has inventory in the carbon column circuit and various stages of production. The ounces of gold in this inventory are based on assay of gold bearing solution processed through the carbon column plant or loaded carbon. The Company monitors the

recovery from the leach pad and from production and may refine its estimate of gold content in inventory from time to time.

#### 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. The determination of reserves 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.

#### Reclamation and Remediation Provisions

Reclamation and remediation provisions are estimated costs for the reclamation of the Company's mine and properties. These estimates include assumptions as to the time the reclamation work is to be performed, inflation rates and interest rates. The actual cost to reclaim a mine may vary from the estimated amounts because there are uncertainties in environmental remediation, change in timing of activities, change in inflation rates or cost of services, 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.

#### Deferred Income Taxes

The determination of current and deferred tax expense for future periods involves judgment as to the expected timing of reversals of deferred tax assets and liabilities, future 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. These factors may affect the final amount or the timing of tax payments.

### **CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Effective January 1, 2011, International Financial Reporting Standards ("IFRS") became Canadian GAAP ("CDN GAAP") for publicly accountable enterprises. As a result, the Company's interim consolidated financial statements for the first half of 2011 are reported in accordance with IFRS, with comparative information for 2010 restated.

The Company developed and executed a changeover plan in order to begin reporting in accordance with IFRS from January 1, 2011. The changeover plan included a diagnostic phase, an impact analysis and an implementation and review phase, each of which set out activities to be performed over the life of the project, resulting in the Company's first interim reporting under IFRS for the first quarter of 2011. The implementation and review phase will continue and the Company will continue to monitor accounting and regulatory developments and evaluate impacts on our financial reporting, and continuing to fulfill presentation and reporting requirements and culminate in the preparation of our financial reporting under IFRS in 2011.

Throughout 2011, we will continue to execute the final phase of our changeover plan. Activities in this respect include continuing to execute business process and internal control changes and testing internal controls impacted by our IFRS changeover in connection with our 2011 annual internal controls program.

#### **Reconciliations from CDN GAAP to IFRS**

The Company's interim condensed consolidated financial statements for the second quarter of 2011 include reconciliations from our previous CDN GAAP reporting to IFRS for our comparative balance sheets as at June 30, 2010 and December 31, 2010 and our statements of income and comprehensive income for the three and six months ended June 30, 2010.

In preparing the interim condensed consolidated financial statements in accordance with IFRS 1, the Company has applied some of the optional exemptions from full retrospective application of IFRS. Below is a description of the IFRS 1 applicable exemptions applied by the Company in the conversion from Canadian GAAP to IFRS:

- The Company elected to adopt IFRS 3 ‘Business Combinations’ effective January 1, 2010
- The Company elected to only apply IFRS 2 ‘Share-based Payments’ to equity instruments granted after November 7, 2002 that had not vested by the Transition Date (January 1, 2010)
- The Company re-measured the provisions as at the Transition Date under IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’ and estimated the cost of the related asset by discounting the liability to the date which the liability first arose.

The table below outlines adjustments to our equity on adoption of IFRS as at June 30, and December 31, 2010:

	December 31, 2010	June 30, 2010
Total equity under Canadian GAAP	\$ 137,493,868	\$ 132,517,748
<u>Adjustments for differing accounting treatments:</u>		
Reclamation and remediation provisions	(39,947)	(4,878)
Deferred income taxes	2,205,694	533,036
Total equity under IFRS	\$ 139,659,615	\$ 133,045,906

The table below shows adjustments to comprehensive income on adoption of IFRS for the three and six months ended June 30, 2010:

	Three months ended June 30, 2010	Six months ended June 30, 2010
Comprehensive income (loss) under Canadian GAAP	\$ 1,244,984	\$ (1,908,598)
Increase (decrease) in net income (loss) for:		
Foreign exchange	1,005,204	3,869
Reclamation and remediation provisions	(10,424)	(4,878)
Stock options	1,320	1,320
Deferred income taxes	(1,385,411)	604,783
Change in other comprehensive income (loss) for:		
Currency translation adjustments	(1,005,204)	(3,869)
Comprehensive income (loss) under IFRS	\$ (149,531)	\$ (1,307,373)

The transition to IFRS did not have an impact on cash and cash equivalents. The changes made to the consolidated balance sheets and consolidated statements of income have resulted in the reclassification of amounts on the consolidated statements of cash flows; however, there have been no changes to the net cash and cash equivalents. Interest received has been reclassified as an investing activity and interest paid has been classified as a financing activity in the statement of cash flows under IFRS. Under Canadian GAAP, cash interest received and paid was included as an operating activity. This change in classification increased cash flows from operating activities by \$86,047 and \$261,712, increased cash flows from investing activities by \$32,993 and \$66,194 and decreased the cash flows from financing activities by \$119,040 and \$327,906 for the three and six months ended June 30, 2010, respectively.

## CHANGES IN ACCOUNTING STANDARDS

The International Accounting Standards Board (“IASB”) issued the following pronouncements during the quarter that are effective for years beginning January 1, 2012 or later and may affect the Company’s future financial statements. Management is currently assessing the impact of these pronouncements and does not expect the application to have a pervasive impact on accounting procedures or other business activities.

IFRS 9 - Financial Instruments (“IFRS 9”) IFRS 9 was issued in November 2009 and amended in October 2010. On August 4, 2011, the IASB issued an exposure draft to defer the mandatory effective date of from annual periods beginning on or after January 1, 2013 to annual periods beginning on or after January 1, 2015. Early adoption would continue to be permitted. This is the first part of a new standard on classification and measurement of financial

assets that will replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value.

IFRS 10 - Consolidated Financial Statements (“IFRS 10”) was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 12 - Disclosure of Interests in Other Entities (“IFRS 12”) was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. This standard combines and enhances the disclosure requirements for the Company’s interests in other entities, such as joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires disclosure of the nature of risks associated with the Company’s interests in other entities, and the effects of those interests on the Company’s consolidated financial statements.

IFRS 13 - Fair Value Measurement (“IFRS 13”) was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

Amendments to IAS 1 - Presentation of Financial Statements (“IAS 1”) was issued in June 2011 and is effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. This amendment requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Canadian Securities Administrators have issued National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filings (“National Instrument 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. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Company’s Chief Executive Officer and Chief Financial Officer, to enable this information to be reviewed and discussed so that appropriate decisions can be made regarding the timely public disclosure of the information.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

National Instrument 52-109 also requires public companies in Canada to submit an interim certificate relating to the design of internal control over financial reporting (“ICFR”). 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 Canadian generally accepted accounting principles. Management is responsible for establishing and maintaining ICFR. The Company has continued to use the Commission of Sponsoring Organizations of the Treadway Commission (COSO) framework to design its ICFR. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Changes to Internal Control over Financial Reporting**

National Instrument 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, internal control over financial reporting. There were no changes in ICFR during the quarter ended June 30, 2011 that

materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## NON-IFRS MEASURES

The Company has included a non-IFRS measure for "Cash cost per gold ounce for units sold" in this MD&A to supplement its financial statements which are presented in accordance with IFRS. The Company believes that this measure provides investors with an improved ability to evaluate the performance of the Company. 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 for units sold:

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Cost of sales (excluding DD&A)	\$8,318,309	\$7,417,613	\$19,267,973	\$16,749,704
Less silver sales	\$40,848	\$19,041	\$100,478	\$55,077
Net cost of sales	\$8,277,461	\$7,398,572	\$19,167,494	\$16,694,627
Gold ounces sold	14,331	10,387	32,792	18,785
Cash cost per gold ounce for units sold	\$578	\$712	\$585	\$889

## CAUTIONARY STATEMENT

Readers of this MD&A are encouraged to read the "Risk Factors" contained in the Company's Annual Information Form for 2010. Important risk factors to consider, among others, are

- Uncertainty in the Estimation of Mineral Reserves and Mineral Resources
- Uncertainty of Exploration and Development
- The Company May Not Achieve its Production Estimates
- Environmental Risks and Hazards
- Commodity Price Volatility

This MD&A includes certain "forward-looking statements" 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 businesses, operations, plans and other such matters are forward-looking statements.

When used in this MD&A, the words "estimate", "plan", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve 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 statements.

Examples of such forward-looking statements 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, costs of production, expected capital expenditures, costs and timing of development of new deposits, success of exploration activities, permitting requirements, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks and hazards, title disputes or claims and limitations on insurance coverage.

Although the 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 statements 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 statements due to their inherent uncertainty. Argonaut disclaims any intent or obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. These forward-looking statements 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 reviewed and approved by Mr. Thomas H. Burkhart, Argonaut's Vice President of Exploration, a qualified person as defined by NI 43-101.