

ARGONAUT GOLD INC.

MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE NINE MONTHS ENDED SEPTEMBER 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 November 10, 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 nine months ended September 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 September 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.

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.

THIRD QUARTER AND RECENT HIGHLIGHTS:

- Revenues of \$22.7 million in Q3 2011 (\$9.8 million in Q3 2010) on sales of 13,260 ounces of gold
- Net income of \$6.0 million in Q3 2011 (\$1.0 million in Q3 2010)
- Cash flow from operating activities before changes in non-cash operating working capital and other items was \$9.7 million in Q3 2011 (\$2.6 million in Q3 2010)
- Cash on hand was \$35.0 million at September 30, 2011
- Q3 2011 operating statistics and highlights:
 - 29,997 ounces of gold loaded on the pad in the 3rd quarter, 24% increase over Q3 2010
 - Gold production of 16,884 ounces for the 3rd quarter, 33% increase over Q3 2010
 - Approximately 5 million total tonnes mined
 - 2.9 million ore tonnes mined
 - Finalized agreement with the Company's mining contractor to expand from 13 to 18 trucks with 100 tonne capacity, fourth 992 loader added to the mining fleet
 - West crusher relocated to east side for consolidated crushing circuit with design capacity of 500,000 tonnes per month ("TPM"); operational in October
 - East side pad loading initiated and east carbon plant operational in October with the ramp up to continue through the 4th quarter of 2011
 - Completed a 100 hectare surface rights agreement at El Castillo
- Exploration:
 - NI 43-101 resource of 1.06 million ounces of gold defined at La Colorada, a 76% increase since the 2009 Giroux & Hendrick report
 - La Colorada – three drill rigs continue on 52,000 metre drill program with a fourth drill rig added as of November
 - Completed 36,234 metres for 245 holes (39 pending release)
 - El Castillo – Column testing of core samples to define the leaching characteristics of sulfide mineralization is ongoing
 - San Antonio – Two drill rigs continue work on drill program
 - Completed 10,242 metres for 71 holes

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 early stage development property La Colorada in the State of Sonora, Mexico, the advanced exploration stage property San Antonio in the State of Baja California Sur, Mexico and the early stage exploration property La Fortuna in the State of Durango, Mexico. The Company acquired these mineral properties through the acquisition of Castle Gold Corp. (“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 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2 ⁽²⁾	2010 Q1 ⁽²⁾	2009 Q4 ⁽¹⁾
Revenue	\$22,706,718	\$21,631,900	\$25,676,454	\$19,885,954	\$9,813,684	\$12,509,430	\$9,353,367	-
Net income (loss)	\$6,039,747	\$5,178,575	\$5,930,439	\$4,100,252	\$961,881	\$855,673	(\$2,159,117)	(\$534,080)
Income (loss) per share – basic	\$0.07	\$0.06	\$0.07	\$0.07	\$0.02	\$0.02	(\$0.04)	(\$0.01)
Income (loss) per share – diluted	\$0.06	\$0.06	\$0.07	\$0.07	\$0.02	\$0.02	(\$0.04)	(\$0.01)
Gold ounces sold	13,260	14,331	18,461	14,414	7,994	10,387	8,398	-
Average realized gold price per ounce	\$1,707	\$1,507	\$1,388	\$1,377	\$1,226	\$1,203	\$1,109	-

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

⁽²⁾ In 2010 Q1 and Q2, cost of sales includes 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 September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue	\$ 22,706,718	\$ 9,813,684	\$ 70,015,072	\$ 31,676,481
Cost of sales				
Production costs	8,397,483	4,980,229	27,665,456	21,729,933
Depreciation, depletion and amortization	2,411,849	1,651,506	8,782,369	3,203,102
Total cost of sales	10,809,332	6,631,735	36,447,825	24,933,035
Gross profit	11,897,386	3,181,949	33,567,247	6,743,446
Exploration expenses	76,512	-	76,512	-
General and administrative expenses	1,454,581	1,032,333	5,265,455	4,485,488
Profit from operations	10,366,293	2,149,616	28,225,280	2,257,958
Finance income	50,793	25,154	145,775	91,348
Finance expenses	(99,546)	(99,567)	(299,086)	(499,406)
Other income (expense), net	895,248	(324,764)	549,638	(300,425)
	846,495	(399,177)	396,327	(708,483)
Income before income taxes	11,212,788	1,750,439	28,621,607	1,549,475
Income tax expense	5,173,041	788,558	11,472,846	1,891,098
Net income (loss) for the period	\$ 6,039,747	\$ 961,881	\$ 17,148,761	\$ (341,623)

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

During the quarter ended September 30, 2011, revenue increased 131% to \$22,706,718 compared with \$9,813,684 in the third quarter of 2010. Gold sales were 13,260 ounces (7,994 ounces in the same period of 2010) at an average realized price per ounce of \$1,707 (\$1,226 average price per ounce in the same period of 2010). The increase in ounces sold is due to improved production.

Cost of sales increased to \$10,809,332 from \$6,631,735 in the third quarter of 2010. Cash cost per gold ounce for units sold (see Non-IFRS Measures section) increased to \$628 from \$622 in the same period of 2010 principally because of an increase in the cost of mining, and the cost and consumption of cyanide. Depreciation, depletion and amortization expense included in cost of sales increased to \$2,411,849 from \$1,651,506 in the third quarter of 2010 due to the depreciation of upgrades and improvements made since the third quarter of 2010 and the increase in ounces sold.

General and administrative expenses increased to \$1,454,581 from \$1,032,333 in the same period of 2010, primarily due to additional personnel costs including stock based compensation. Exploration expenses were \$76,512 during the third quarter of 2011 (nil in the third quarter of 2010). Net finance expenses were \$48,753 as compared to \$74,413 in the same period of 2010. Other income (primarily foreign exchange gains) was \$895,248 as compared to a loss of \$324,764 in the third quarter of 2010, primarily due to fluctuations in exchange rates. Income tax expense increased to \$5,173,041 from \$788,558 due to the higher earnings.

Net income for the quarter was \$6,039,747 or \$0.07 per basic share. In the third quarter of 2010, the Company's net income was \$961,881, or \$0.02 per share.

For the nine months ended September 30, 2011 as compared against the nine months ended September 30, 2010

During the nine months ended September 30, 2011, revenue increased 121% to \$70,015,072 compared with \$31,676,481 in the first nine months of 2010. The increase in revenue was due to higher gold sales of 46,052 ounces (26,779 ounces in the same period of 2010) at a higher average realized price per ounce of \$1,517 (\$1,180 average price per ounce in the same period of 2010). The increase in ounces sold is due to improved production resulting from 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 nine months of 2011 to 0.77 from 1.13 in the comparative period in 2010.

Cost of sales increased to \$36,447,825 from \$24,933,035 in the first nine months of 2010 primarily due to increased production and sales. Cash cost per gold ounce for units sold (see Non-IFRS Measures section) decreased to \$597 from \$809 in the same period of 2010 principally because a significant portion of the ounces sold in the first nine months of 2010 had been fair valued on the acquisition of Castle Gold. Depreciation, depletion and amortization expense included in cost of sales increased to \$8,782,369 from \$3,203,102 in the first nine months of 2010 because the depletion in 2010 only reflects the cost of units produced and sold in 2010, the depreciation of upgrades and improvements made since the third quarter of 2010 and the increase in gold ounces sold.

General and administrative expenses increased to \$5,265,455 from \$4,485,488 in the first nine months of 2010, primarily due to additional personnel costs including stock based compensation. Exploration expenses were \$76,512 during the first nine months of 2011 (nil in the first nine months of 2010). Net finance expenses were \$153,311 as compared to \$408,058 in the same period of 2010 as a result of reduced interest expense on long term debt due to the negotiation of the debt terms in the second quarter of 2010. Other income (primarily foreign exchange gains) was \$549,638 as compared to a loss of \$300,425 in the first nine months of 2010, primarily due to fluctuations in exchange rates. Income tax expense increased to \$11,472,846 from \$1,891,098 due to the higher earnings.

Net income for the first nine months of 2011 was \$17,148,761 or \$0.20 per basic share. In the first nine months of 2010, the Company's net loss was \$341,623 or \$0.03 per share.

El Castillo Gold Mine

Operating Statistics	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Tonnes ore	2,908,150	2,013,668	8,232,763	5,197,406
Tonnes waste	1,933,470	2,735,942	6,339,150	5,896,110
Tonnes mined	4,841,620	4,749,610	14,571,913	11,093,516
Waste/ore ratio	0.66	1.36	0.77	1.13
Tonnes direct to leach pad	2,282,601	1,675,504	6,016,269	4,237,532
Tonnes crushed	612,548	369,275	2,201,941	954,559
Average grams per tonne of gold to leach pad	0.32	0.37	0.33	0.37
Gold ounces to leach pad	29,997	24,202	87,777	60,744
Gold ounces produced	16,884	12,724	52,351	33,032
Gold ounces sold	13,260	7,994	46,052	26,779

During the third quarter of 2011, the Company mined 4,841,620 tonnes (2% more than Q3 2010) containing 2,908,150 ore tonnes (44% more than Q3 2010). During Q3 2011, the Company crushed 612,548 tonnes (66% more than Q3 2010), produced 16,884 gold ounces (33% more than Q3 2010) and sold 13,260 gold ounces (66% more than Q3 2010). The increase in total operating performance is due to a reduction in the waste to ore strip ratio in Q3 2011 to 0.66 from 1.36 in the comparative period in 2010, offset by a decrease in the average grade mined.

During the first nine months of 2011, the Company mined 14,571,913 tonnes (31% more than during the nine

months ended September 30, 2010) containing 8,232,763 ore tonnes (58% more than the nine months ended September 30, 2010). During the first nine months of 2011, the Company crushed 2,201,941 tonnes (131% more than during the nine months ended September 30, 2010), produced 52,351 gold ounces (59% more than during the nine months ended September 30, 2010), and sold 46,052 gold ounces (72% more than during the nine months ended September 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 nine months of 2011 to 0.77 from 1.13 in the comparative period in 2010.

Inventory increased to \$29,821,511 as at September 30, 2011, including \$5,133,085 of finished goods as compared to \$21,260,711 as at December 31, 2010, which included \$1,087,286 of finished goods due mainly to expansion of operations and the timing of sales.

During the quarter, the Company experienced a shortage of cyanide resulting from an overall industry shortage. The Company's primary supplier has since increased delivery to the site. Currently, the Company has a sufficient cyanide supply at site and on order to complete the year in accordance with plans. The Company expects to have sufficient supply of cyanide for the fourth quarter without interruption to production. The Company expects this set back to not impact full year production guidance of approximately 70,000 gold ounces.

Capital expenditures at the El Castillo Mine include the relocation of the west crusher to the east side to consolidate the crushing circuit and increase the design crushing capacity to 500,000 tonnes per month. East side pad loading was initiated and the east carbon plant was operational in October. In addition, 100 hectares of land has been acquired for additional leaching capacity.

The Company has finalized an agreement with its mining contractor at El Castillo to increase its hauling capacity from 13 to 18 trucks with 100 tonne capacity and the addition of a fourth 992 loader added to the mining fleet.

Exploration work includes completion of an 1,800 metre core drilling program to obtain sulphide material for metallurgical test work. Column testing of this sulfide material is ongoing.

San Antonio Project

Capital expenditures for 2011 at the San Antonio project have been allocated for engineering and environmental studies, land and water rights purchases as well as permitting for the project.

Exploration activities on the 10,000 metre drill program were completed during the quarter with 10,242 metres drilled across 71 holes. The drilling was positioned to further test the La Colpa exploration target and better define the projected southeast extension of the North Zone. Some drilling was also utilized to infill areas north and south of the Intermediate Zone and complete condemnation drilling west of the North Zone. The drilling program has since been expanding with two drill rigs currently active on the project: one RVC drill continues to expand known exploration areas while a core drill is dedicated to obtaining material for planned metallurgical studies.

La Colorada Project

Exploration work at the La Colorada project 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 and also complete additional exploration within other known resource areas. The Phase I portion of the program (25,000 metres) is complete with Phase II consisting of an estimated 27,000 metres currently in progress. The Company's priority exploration targets include Veta Madre and La Verde along with further definition of the La Colorada, Gran Central and El Creston deposits. Three drill rigs are operating on the property with a fourth rig scheduled added as of November.

On October 24, 2011, the Company released the results of an updated National Instrument 43-101 ("NI 43-101") Technical Report on resources for the La Colorada project increasing the indicated gold resource from 605,000 to 1,067,000 ounces with an increase in the silver resource from 5,130,000 to 14,047,000 ounces. The updated resource of 1,067,000 ounces is based on previous historical drilling plus an additional 206 drill holes totaling 31,744 metres completed in 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents balance as at September 30, 2011 was \$34,979,834 as compared to the \$32,321,863 balance as at June 30, 2011 and the \$25,394,399 balance as at December 31, 2010.

Cash Flows

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

During Q3 2011, cash increased by \$2,657,971 compared to Q3 2010 in which cash decreased by \$5,087,253. Cash provided by operating activities for the third quarter of 2011 was \$7,662,136 compared with cash used in operating activities in the third quarter of 2010 of \$1,458,169. Cash from operations before changes in non-cash operating working capital and other items in the third quarter of 2011 was \$9,661,613 compared to the third quarter of 2010 of \$2,592,309 principally because of the increase in net income.

Cash used in investing activities in the third quarter of 2011 was \$9,853,952 compared to \$3,937,702 in the third quarter of 2010 due to an increase in capital expenditures.

Cash provided by financing activities in the third quarter of 2011 was \$6,853,680 compared to cash used in financing activities in the third quarter of 2010 of \$62,291. Cash from financing activities in the third quarter of 2011 was primarily from the exercise of broker options issued in connection with the private placement of shares of the Company in late 2009, and the exercise of stock options issued in connection with the acquisition of Pediment. Cash used in financing activities in the third quarter of 2010 was for debt servicing.

For the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010

During the first nine months of 2011, cash increased by \$9,585,435 compared to the first nine months of 2010 in which cash decreased by \$24,958,303. Cash provided by operating activities for the first nine months of 2011 was \$19,352,539 compared with cash provided by operating activities in the first nine months of 2010 of \$34,040. Cash from operations before changes in non-cash operating working capital and other items in the first nine months of 2011 was \$26,573,179 compared to the first nine months of 2010 cash provided of \$1,455,217 principally because of the increase in net income.

Cash used in investing activities in the first nine months of 2011 was \$17,775,493 compared to \$21,651,372 in the first nine months of 2010. Cash used in investing activities in the first nine months of 2011 included capital expenditures of \$22,267,967 principally related to the El Castillo Mine and San Antonio and La Colorada projects offset by \$4,296,483 of cash acquired in the acquisition of Pediment. Cash used in investing activities in the first nine months of 2010 included \$17,892,681 of capital expenditures for the El Castillo Mine and \$5,624,520 used for the purchase of the remaining 8.8% non-controlled interest in Castle Gold.

Cash provided by financing activities in the first nine months of 2011 was \$9,324,655 compared to cash used in financing activities in the first nine months of 2010 of \$3,952,937. Cash from financing activities in the first nine months of 2011 was primarily from the exercise of broker options issued in connection with the private placement of shares of the Company on in late 2009, and the exercise of stock options issued in connection with the acquisition of Pediment. In the first nine months 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 plans on investing approximately \$36 million in exploration and capital expenditures in 2011, including spending during the first nine months of 2011 of \$10.8 million at El Castillo \$5.1 million at San Antonio and \$6.9 million at La Colorada. The 2011 expenditures are expected to include the following:

- \$27 million of capital expenditure investments
 - El Castillo – Capital expenditures are primarily for expanding the east side processing facilities and the leasing of additional land rights.
 - 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.
 - La Colorada – Capital expenditures are primarily for the construction of a leaching pad and the purchase of crushing equipment and a carbon plant.
- \$9 million exploration program
 - El Castillo – 1,800 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 – 10,242 metre drill program was completed during the quarter. Results 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 – 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 11,234 metres complete as of October 24, 2011. Drilling will include drill testing on the Veta Madre, El Creston and La Verde exploration targets.

In 2011, the Company plans to produce approximately 70,000 ounces of gold at the El Castillo Mine. Cash cost per ounce of gold sold in 2011 is expected to be between \$600 and \$625 per ounce. Costs are expected to increase because of longer mine haul distances to the east pad and higher reagent costs. These costs are expected to go down as the Company expands mining to the east.

The Company has entered into commitments totaling \$8.5 million for capital projects, \$5.0 million of which was committed during the third quarter of 2011. The Company expects \$7.0 million of these commitments to be completed by early 2012. Additionally, in the fourth quarter of 2011 the Company entered into a \$5.8 million contract for supplies to be provided during 2012.

Total assets increased to \$361 million as at September 30, 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 September 30, 2011 were \$53 million as compared to \$53 million as at December 31, 2010.

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 September 30, 2011, the Company had 91,562,671 common shares, 25,749,998 warrants and 773,967 stock options issued and outstanding. During the quarter and nine months ended September 30, 2011, the Company granted 15,000 and 363,933 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, 50,000 stock options were exercised (1,501,041 exercised during the first nine months of 2011) and 1,500,000 broker options were exercised.

As of November 10, 2011 the Company had 91,562,671 common shares, 25,749,998 warrants and 773,967 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 assays 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 nine months of 2011 are reported in accordance with IFRS, with comparative information for 2010 restated from that reported under Canadian GAAP.

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 until the fiscal 2011 audited annual financial statements are completed and the Company will continue to monitor accounting and regulatory developments and evaluate impacts on our financial reporting and will continue to fulfill presentation and reporting requirements which will culminate in the preparation of our annual 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 third quarter of 2011 include reconciliations from our previous CDN GAAP reporting to IFRS for our comparative balance sheets as at September 30, 2010 and December 31, 2010 and our statements of income and comprehensive income for the three and nine months ended September 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 September 30, and December 31, 2010:

	December 31, 2010	September 30, 2010
Total equity under Canadian GAAP	\$ 137,493,868	\$ 133,057,958
<u>Adjustments for differing accounting treatments:</u>		
Reclamation and remediation provisions	(39,947)	(15,800)
Deferred income taxes	2,205,694	1,685,505
Total equity under IFRS	\$ 139,659,615	\$ 134,727,663

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

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Comprehensive income (loss) under Canadian GAAP	\$ 345,358	\$ (1,563,240)
Increase (decrease) in net income (loss) for:		
Foreign exchange	533,413	529,544
Reclamation and remediation provisions	(10,922)	(15,800)
Stock options	8,389	9,709
Deferred income taxes	1,152,469	1,757,252
Change in other comprehensive income (loss) for:		
Currency translation adjustments	(533,413)	(529,544)
Comprehensive income under IFRS	\$ 1,495,294	\$ 187,921

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 \$37,017 and \$298,729, increased cash flows from investing activities by \$25,154 and \$91,348 and decreased the cash flows from financing activities by \$62,171 and \$390,077 for the three and nine months ended September 30, 2010, respectively.

CHANGES IN ACCOUNTING STANDARDS

The International Accounting Standards Board (“IASB”) issued the following pronouncements during 2011 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”) 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 IFRS 9 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.

IFRIC 20 - Stripping Costs in the Production Phase of a Mine (“IFRIC 20”) was issued in October 2011 and is effective for years beginning January 1, 2013. IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

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. The Company’s disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Company’s Chief Executive Officer and Chief Financial Officer, to enable this information to be reviewed and discussed so that appropriate decisions can be made regarding the timely public disclosure of the information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 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 has continued to use the Commission of Sponsoring Organizations of the Treadway Commission (COSO) framework as the basis for designing 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 September 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 September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cost of sales (excluding DD&A)	\$8,397,483	\$4,980,229	\$27,665,456	\$21,729,933
Less silver sales	\$69,003	\$9,304	\$169,481	\$64,381
Net cost of sales	\$8,328,480	\$4,970,925	\$27,495,975	\$21,665,552
Gold ounces sold	13,260	7,994	46,052	26,779
Cash cost per gold ounce for units sold	\$628	\$622	\$597	\$809

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 MD&A was prepared under the supervision of, and 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.