

Argonaut Gold Inc.

Interim Condensed Consolidated Financial Statements
(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

ARGONAUT GOLD INC.**CONSOLIDATED BALANCE SHEETS****(Unaudited and expressed in United States dollars)**

	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current assets			
Cash and cash equivalents	\$ 34,187,039	\$ 25,394,399	\$ 47,421,864
Receivables (Note 6)	4,849,522	3,639,719	5,133,217
Inventories (Note 7)	21,508,858	21,260,711	12,240,511
Prepaid expenses and other	1,910,336	1,591,673	1,028,256
	62,455,755	51,886,502	65,823,848
Mineral properties, plant and equipment (Note 8)	278,501,809	138,871,619	133,476,519
Other assets	1,009,440	1,636,878	246,843
Total assets	\$ 341,967,004	\$ 192,394,999	\$ 199,547,210
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (Note 9)	\$ 6,272,751	\$ 4,945,851	\$ 8,319,919
Deferred revenue	-	1,932,307	-
Income taxes payable	2,231,880	1,551,567	259,988
	8,504,631	8,429,725	8,579,907
Long-term debt	6,373,201	6,194,207	6,904,587
Reclamation and remediation provisions	3,200,303	3,161,036	2,991,768
Deferred income taxes	34,063,648	34,950,416	38,360,444
	52,141,783	52,735,384	56,836,706
SHAREHOLDERS' EQUITY			
Share capital (Note 10)	271,313,765	129,487,511	128,626,718
Warrants	12,202,978	12,202,978	12,202,978
Contributed surplus	2,385,533	499,591	18,826
Retained earnings (deficit)	2,305,558	(3,624,881)	(605,827)
Accumulated other comprehensive income	1,617,387	1,094,416	-
Total equity attributable to shareholders of the Company	289,825,221	139,659,615	140,242,695
Non-controlling interest	-	-	2,467,809
	289,825,221	139,659,615	142,710,504
Total liabilities and shareholders' equity	\$ 341,967,004	\$ 192,394,999	\$ 199,547,210

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

ARGONAUT GOLD INC.**CONSOLIDATED STATEMENTS OF INCOME****(Unaudited and expressed in United States dollars)**

	Three months ended March 31,	
	2011	2010
Revenue	\$ 25,676,454	\$ 9,353,367
Cost of sales		
Production costs	10,949,664	9,332,091
Depreciation, depletion and amortization	3,685,366	-
Total cost of sales	14,635,030	9,332,091
Gross profit	11,041,424	21,276
General and administrative expenses	1,938,774	1,826,105
Profit (loss) from operations	9,102,650	(1,804,829)
Finance income	47,029	33,201
Finance expenses (Note 4)	(97,835)	(243,402)
Other income (expense), net (Note 5)	(288,260)	(277,600)
	(339,066)	(487,801)
Income (loss) before income taxes	8,763,584	(2,292,630)
Income tax recovery (expense)	(2,833,145)	133,453
Net income (loss) for the period	\$ 5,930,439	\$ (2,159,177)
Total net income (loss) attributable to		
Non-controlling interest	\$ -	\$ 40,122
Shareholders of the Company	\$ 5,930,439	\$ (2,199,299)
Earnings (loss) per share		
Basic	\$ 0.07	\$ (0.04)
Diluted	\$ 0.07	\$ (0.04)
Weighted average number of common shares outstanding (Note 11)		
Basic	79,286,659	55,842,392
Diluted	81,200,008	55,842,392

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

ARGONAUT GOLD INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited and expressed in United States dollars)**

	Three months ended March 31,	
	2011	2010
Net income (loss) for the period	\$ 5,930,439	\$ (2,159,177)
Other comprehensive income		
Foreign currency translation differences	522,971	1,001,335
Comprehensive income (loss) for the period	\$ 6,453,410	\$ (1,157,842)
Comprehensive income (loss) attributable to:		
Non-controlling interest	\$ -	\$ 40,122
Shareholders of the Company	\$ 6,453,410	\$ (1,197,964)

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

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

(Unaudited and expressed in United States dollars)

	Three months ended March 31,	
	2011	2010
Cash flows from operating activities		
Net income (loss) for the period	\$ 5,930,439	\$ (2,159,177)
Items not affecting cash:		
Depreciation, depletion and amortization	3,709,279	10,972
Share-based compensation	353,575	-
Finance income and expense	50,806	210,201
Unrealized foreign exchange loss	182,065	200,741
Deferred income taxes	(886,769)	(1,203,185)
	9,339,395	(2,940,448)
Changes in non-cash operating working capital items		
Receivables	515,559	(1,310,135)
Inventories	(336,952)	3,067,532
Prepaid expenses and other	(254,226)	(122,391)
Accounts payable and accrued liabilities	(5,332,021)	(615,215)
Deferred revenue	(1,932,307)	-
Income taxes payable	3,676,267	1,195,344
Changes in other long-term assets	633,178	-
Income taxes paid	(2,995,954)	(191,312)
Net cash provided by (used in) operating activities	3,312,939	(916,625)
Cash flows from investing activities		
Expenditures on mineral properties, plant and equipment	(1,071,896)	(2,623,615)
Purchase of Castle Gold shares, net of amounts included in receivables	-	(5,624,520)
Cash acquired on acquisition of Pediment (Note 3)	4,296,483	-
Interest received	47,029	33,201
Net cash provided by (used in) investing activities	3,271,616	(8,214,934)
Cash flows from financing activities		
Private placement transaction costs	-	(3,533,818)
Repayment of long-term debt	-	(6,798)
Proceeds from exercise of stock options	1,751,931	-
Interest paid	(58,568)	(208,866)
Net cash provided by (used in) financing activities	1,693,363	(3,749,482)
Effects of exchange rate changes on cash and cash equivalents	514,722	1,036,768
Increase (decrease) in cash and cash equivalents	8,792,640	(11,844,273)
Cash and cash equivalents, beginning of period	25,394,399	47,421,864
Cash and cash equivalents, end of period	\$ 34,187,039	\$ 35,577,591

See note 13 Supplemental Cash Flow Information

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

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited and expressed in United States dollars)

	Three months ended March 31,	
	2011	2010
Share capital		
Balance at the beginning of the period (Note 10)	\$ 129,487,511	\$ 128,626,718
Shares issued on acquisition of Pediment (Note 3)	136,400,028	-
Shares issued to agents for business acquisitions	1,005,900	466,240
Stock options exercised	4,230,617	-
Restricted shares issued and vested	189,709	-
Balance at the end of the period	271,313,765	129,092,958
Warrants		
Balance at the beginning of the period	12,202,978	12,202,978
Balance at the end of the period	12,202,978	12,202,978
Contributed surplus		
Balance at the beginning of the period	499,591	18,826
Options issued on acquisition of Pediment (Note 3)	4,200,765	-
Stock options exercised	(2,478,688)	-
Restricted shares issued and vested	(75,873)	-
Share-based compensation	239,738	-
Balance at the end of the period	2,385,533	18,826
Retained earnings (deficit)		
Balance at the beginning of the period	(3,624,881)	(605,827)
Acquisition of non-controlling interest	-	(6,737,561)
Net income (loss) for the period	5,930,439	(2,199,299)
Balance at the end of the period	2,305,558	(9,542,687)
Accumulated other comprehensive income		
Balance at the beginning of the period	1,094,416	-
Other comprehensive income	522,971	1,001,335
Balance at the end of the period	1,617,387	1,001,335
Non-controlling interest		
Balance at the beginning of the period	-	2,467,809
Net income for the period	-	40,122
Acquisition of non-controlling interest	-	(2,507,931)
Balance at the end of the period	-	-
Total shareholders' equity	\$ 289,825,221	\$ 132,773,410

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

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)
For the three months ended March 31, 2011 and 2010

1 NATURE OF OPERATIONS

Argonaut Gold Inc. (the "Company" or "Argonaut") is engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in the Americas. As at March 31, 2011, the Company owns the producing El Castillo mine, located in the State of Durango, the exploration stage properties San Antonio in the State of Baja California Sur, La Colorada in the State of Sonora and La Fortuna in the State of Durango. All of the Company's properties are in Mexico.

Corporate History

The Company was incorporated with the name "Intuitivo Capital Corporation" ("Intuitivo") under the Ontario Business Corporation Act ("OBCA") on April 3, 2007. On December 30, 2009, Intuitivo was acquired through a "reverse takeover" by Argonaut Gold Inc. ("AGI"). Effective December 30, 2009, the articles of Intuitivo were amended to change the name of the Company from Intuitivo to Argonaut Gold Ltd. ("AGL"). Although AGL was the legal parent, AGI was determined to be the acquirer for accounting purposes. On October 1, 2010, AGL was amalgamated with its wholly owned subsidiary AGI and the amalgamated company was named Argonaut Gold Inc.

The registered office of the Company is located at Suite 400, Toronto-Dominion Centre, 77 King Street West, Toronto ON, M5K 0A1. The head office and principal address of the Company are located at 9604 Prototype Ct. Reno, Nevada, 89521, USA.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Consolidation

These interim condensed consolidated financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Because these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IAS 34 'Interim Financial Reporting' and IFRS 1 'First-time Adoption of IFRS' as discussed in note 15.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of June 1, 2011, the date the Board of Directors approved the financial statements. The policies set out below were consistently applied to all the periods presented unless otherwise noted.

These interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Note 15 discloses IFRS information for the year ended December 31, 2010 that is material to an understanding of these interim condensed consolidated financial statements. Items included in this note are reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income, IFRS 1 exemptions and elections applied, an explanation of the transition to IFRS, details of significant changes in accounting policies and presentation reclassifications.

(b) Use of Estimates and Significant Judgements

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

the amounts reported in the consolidated financial statements and accompanying notes. Significant areas where judgment is applied include asset and investment valuations, ore reserve estimation, ore recovery estimates, finished and in process inventory quantities, the useful lives mineral property, plant and equipment, impairment assessments, estimated current and deferred tax balances, share-based compensation, reclamation and remediation provisions and other environmental liabilities. The Company regularly reviews its estimates; however, the actual results could differ from management's estimates and such differences could be material. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Work-in-process Inventory

Leach pad inventory comprises 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 assays of sample material and expected recoveries. The Company monitors the recovery of gold from the leach pad and may refine its estimate of gold content in the leach pad.

Mineral Properties

The costs 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 modelling, future commodity prices and costs to extract and process the ore.

Reclamation and Remediation Provisions

The reclamation and remediation provisions represent 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, changes in timing of activities, changes 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.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks, and short-term investments with original maturities

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

of three months or less.

(d) Marketable Securities

Investments in marketable securities are designated upon initial recognition at fair value through profit or loss. Fair values are determined by reference to quoted market prices at the balance sheet date. Unrealized gains and losses on marketable securities are recognized in operations. Investment transactions are recognized on the trade date with transaction costs charged to the statement of income.

(e) Receivables and Accounts Payable

Receivables and accounts payable are non-interest bearing and stated at carrying values, which approximate fair values due to the short terms to maturity. Where necessary, receivables include allowances for uncollectible amounts.

(f) Inventories

Supplies inventories are valued at the lower of average cost and net realizable value. Cost includes acquisition, freight and other directly attributable costs. Work-in-process and finished goods inventories are valued at the lower of average cost and net realizable value. Work-in-process inventory includes ore in the leaching process, stockpiled ore at mining operations, and gold on carbon in transit to or at a custom stripping facility. For work-in-process and finished goods inventories, cost includes all direct costs incurred in production including direct labour and materials, freight, depreciation and amortization and directly attributable overhead costs.

(g) Mineral Properties, Plant and Equipment

(i) Plant and Equipment

Plant and equipment are recorded at cost less accumulated depreciation and impairment charges. The costs of buildings, plant and processing equipment used in the Company's mining operations are amortized on either a straight-line basis over the estimated useful life of the related asset or on a unit-of-production basis over estimated proven and probable reserves. The cost of office equipment, furniture and fixtures and vehicles is amortized on a straight-line basis over the estimated useful life of the related asset.

(ii) Construction in Progress

During construction, plant and equipment expenditures are capitalized and classified as construction in progress. Once completed, all applicable assets related to construction are reclassified to plant and equipment. Other development expenditures relating to mineral properties are capitalized directly to mineral properties.

(iii) Mineral Properties and Mine Development Costs

The cost of acquiring, exploring and developing mineral properties or property rights and the cost to increase future output by providing access to additional sources of reserves or resources, are deferred. Revenue and expenses derived from mining activities prior to the assets being ready for use in the manner intended by management are included in the cost of the related mineral property.

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

Mineral properties are recorded at cost less accumulated depletion, amortization and impairment charges. When assets are ready for use as intended by management, mineral properties and mine development costs are amortized on a units-of-production basis over the estimated proven and probable reserves to which they relate. Upon sale or abandonment of mineral properties, the cost and related accumulated depletion and amortization are written off and any gains or losses thereon are included in the statement of income.

During the production phase, development costs resulting in a betterment of the mineral property are capitalized to mineral properties. Stripping costs incurred in the production phase are accounted for as variable production costs. Stripping costs resulting in a betterment of the mineral property by providing access to additional sources of ore are capitalized and amortized as the relevant mineral reserves are mined.

(iv) Exploration and Evaluation

All costs directly related to the acquisition of rights to explore for minerals are capitalized.

Exploration and evaluation expenditures comprise costs that are directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Exploration and evaluation expenditures for each area of interest are carried forward as an asset provided that such costs are expected to be recouped in full through successful development and exploration of the area of interest or, alternatively, by its sale.

Once management has determined that the development potential of the property is economically viable and the necessary permits are in place for its development, the exploration asset is reclassified to mineral properties within mineral properties, plant and equipment.

(v) Depreciation, Depletion and Amortization of Mineral Properties, Plant and Equipment

Estimates of residual values and useful lives are reassessed periodically and any change in estimate is taken into account in the determination of remaining depreciation, depletion and amortization charges. Depreciation, depletion and amortization commences on the date the asset is available for use in the manner intended by management.

- Plant and Equipment - 1 to 10 years straight-line or on a units-of-production basis, over estimated proven and probable reserves
- Construction in Progress - not depreciated
- Mineral Properties - on a units-of-production basis over estimated proven and probable reserves
- Deferred Stripping - on a units-of-production basis over estimated proven and probable reserves accessed

(vi) Borrowing Costs

Borrowing costs attributable to the acquisition, advancement, or construction of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

costs are recognized as finance expense in the statement of income in the period in which they are incurred.

(vii) Impairment of Long Lived Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the statement of income.

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. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of income.

(h) Long-Term Debt

Long-term debt is initially recorded at fair value net of transaction costs incurred. Long-term debt is subsequently measured at amortized cost and interest is calculated using the effective interest rate method. Debt assumed on acquisition is measured at fair value.

(i) Revenue Recognition

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer according to the sales contract. This generally occurs when delivery terms are completed. Revenue is measured at the fair value of the consideration received or receivable.

(j) Provisions

Reclamation and Remediation Provisions

Reclamation and remediation provisions are made for close down, restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) when the related environmental disturbance occurs. At the time of establishing the provision, a corresponding

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

asset is capitalized, where it gives rise to a future benefit, and amortized over future production from the operations to which it relates. The provision is discounted using a current market-based risk-free discount rate and the unwinding of the discount is included in finance expenses in the statement of income.

The provision is reviewed at each reporting period for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is amortized prospectively.

Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted to net present value using an appropriate current market-based pre-tax discount rate and the unwinding of the discount is included in finance expenses in the statement of income.

(k) Share-Based Payments

The Company grants share-based awards to employees, directors and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as share-based compensation expense and contributed surplus. The fair value of share-based payments is determined using the Black-Scholes option pricing model using estimates at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the statement of income with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

(l) Income Taxes

Current Tax

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred Tax

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being probable to occur, a valuation allowance in the amount of the potential future benefit is provided and no asset is recognized. On an asset acquisition, the Company does not gross up the assets for deferred tax liabilities.

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

Taxes receivable

Taxes receivable comprise value added taxes in Mexico and harmonized sales and goods and services tax in Canada that the Company has paid.

(m) Financial Instruments

On initial recognition, financial instruments are measured at fair value or in the case of financial instruments not classified as "fair-value-through-profit-and-loss" at the amortized cost plus transaction costs or discounts. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair-value-through-profit-and-loss", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities". The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition. Financial liabilities are classified as either "fair-value-through-profit-and-loss" or "other financial liabilities". Financial liabilities are classified as "fair-value-through-profit-and-loss" when the financial liability is either "held-for-trading" or it is designated as "fair-value-through-profit-and-loss".

Financial assets and financial liabilities classified as "fair-value-through-profit-and-loss" are measured at fair value with changes in those fair values recognized in the statement of income. Financial assets classified as "available-for-sale" are measured at fair value, with changes in those fair values recognized in other comprehensive income ("OCI"). Financial assets classified as "held-to-maturity" or "loans and receivables" and "other financial liabilities" are measured at amortized cost. Unrealized currency translation gains and losses on available-for-sale securities are recognized in the statement of income.

Cash, restricted cash and short-term deposits are designated as "fair-value-through-profit-and-loss" and are measured at fair value. Receivables and long-term deposits (included in other assets) are designated as "loans and receivables" and are initially measured at fair value, then at their amortized cost. Accounts payable and accrued liabilities and long-term debt are designated as "other financial liabilities" and are measured at their amortized cost.

Impairment and uncollectibility of financial assets

A financial asset or group of financial assets, other than those classified as "fair-value-through-profit-and-loss", may become impaired. If such evidence exists, the estimated recoverable amount of the financial asset is determined and an impairment loss is recognized for the difference between the recoverable amount and the carrying amount as follows: the carrying amount of the financial asset is reduced to its discounted estimated recoverable amount, either directly or through the use of an allowance account, and the resulting loss is recognized in the statement of income. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in OCI are reclassified to the statement of income.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through the statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized in the statement of income are not reversed through the statement of income. Any increase in fair value subsequent to an impairment loss is recognized in OCI.

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

(n) Share Capital

The proceeds from the exercise of stock options or warrants together with amounts previously recorded on grant date or issue date are recorded as share capital. Share capital issued as consideration is recorded at an amount based on fair market value on the date of issue.

(o) Earnings per Share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated using the treasury stock method. In order to determine diluted earnings per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings per share calculation. The diluted earnings per share calculation excludes any potential conversion of options and warrants that would increase earnings per share. In periods of loss, diluted loss per share is the same as basic loss per share as the effect would be anti-dilutive.

(p) Foreign Currency Translation

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the statement of income.

Assets and liabilities of entities with functional currencies other than United States dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income within shareholders' equity.

3 ACQUISITION OF PEDIMENT GOLD CORP.

On January 27, 2011, the Company completed the acquisition of Pediment Gold Corp. ("Pediment") under a court approved plan of arrangement (the "Arrangement"). Pursuant to the Arrangement, Argonaut acquired all of the issued and outstanding common shares of Pediment ("Pediment Shares") for share and option consideration valued at \$140,600,793 at the acquisition date. In accordance with the Arrangement, former Pediment shareholders received 0.625 of a common share of Argonaut ("Argonaut Shares") for each Pediment Share for a total of 31.8 million Argonaut Shares. Outstanding options to acquire Pediment Shares have been converted into 1.6 million options to acquire Argonaut Shares, adjusted in accordance with the same ratio. Pediment holds the advanced exploration stage San Antonio project in the State of Baja California Sur, Mexico, the past producer and exploration stage La Colorada project in Sonora, Mexico, and other exploration properties in Mexico.

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

The transaction was accounted for as an asset acquisition. The purchase consideration was as follows:

Common shares of Argonaut issued on acquisition	\$ 136,400,028
Deemed issuance of Argonaut stock options in exchange for options of Pediment	4,200,765
Transaction costs	1,715,033
Consideration given	\$ 142,315,826

The allocation of the purchase price to the assets acquired and liabilities assumed is based upon estimated fair values at the date of acquisition. Management has substantially completed the process of determining fair values for the assets and liabilities acquired. However, the purchase price allocation is subject to change and, in particular, the value allocated to mineral properties, plant and equipment may change as the valuation process is completed in 2011. The Company's allocation of the purchase price to the estimated fair value of the assets and liabilities is as follows:

Cash and cash equivalents	\$ 4,296,483
Accounts receivable	1,725,246
Prepaid expenses	58,211
Mineral properties, plant and equipment	138,824,884
Accounts payable and accrued liabilities	(2,588,998)
Net assets acquired	\$ 142,315,826

4 FINANCE EXPENSES

	Three months ended March 31,	
	2011	2010
Interest expense	\$ 58,568	\$ 206,005
Accretion on reclamation and remediation provisions	39,267	37,397
	\$ 97,835	\$ 243,402

5 OTHER INCOME (EXPENSE)

	Three months ended March 31,	
	2011	2010
Foreign exchange loss	\$ (294,412)	\$ (277,600)
Unrealized gain on marketable securities	6,152	-
	\$ (288,260)	\$ (277,600)

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

6 RECEIVABLES

	March 31, 2011	December 31, 2010
Mexican IVA receivable	\$ 4,334,082	\$ 3,606,236
Canadian HST and GST receivable	269,823	11,363
Other receivables	245,617	22,120
	<u>\$ 4,849,522</u>	<u>\$ 3,639,719</u>

7 INVENTORIES

	March 31, 2011	December 31, 2010
Supplies	\$ 688,675	\$ 603,565
Work-in-process	18,754,224	19,569,860
Finished goods	2,065,959	1,087,286
	<u>\$ 21,508,858</u>	<u>\$ 21,260,711</u>

Cost of inventories recognized as expense for the three months ended March 31, 2011 totalled \$14,635,030 (March 31, 2010 - \$9,332,091).

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)
For the three months ended March 31, 2011 and 2010

8 MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Mineral properties	Exploration and evaluation assets	Plant and equipment	Total
Cost				
Balance at January 1, 2011	\$ 130,383,984	\$ 9,227,189	\$ 11,111,400	\$ 150,722,573
Acquisition of Pediment (Note 3)	-	138,620,472	204,412	138,824,884
Additions	1,768,311	1,368,537	1,288,932	4,425,780
Balance at March 31, 2011	132,152,295	149,216,198	12,604,744	293,973,237

Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2011	10,935,898	-	915,056	11,850,954
Additions	3,361,989	-	258,485	3,620,474
Balance at March 31, 2011	14,297,887	-	1,173,541	15,471,428
Net book value	\$ 117,854,408	\$ 149,216,198	\$ 11,431,203	\$ 278,501,809
Assets under construction	\$ 4,822,751	\$ -	\$ 6,520,620	\$ 11,343,371

	Mineral properties	Exploration and evaluation assets	Plant and equipment	Total
Cost				
Balance at January 1, 2010	\$ 123,426,307	\$ 9,304,919	\$ 745,293	\$ 133,476,519
Additions	8,898,110	70,598	10,442,131	19,410,839
Disposals	(22,252)	-	(76,024)	(98,276)
Adjustment for Rocas El Tambor	(1,918,181)	(148,328)	-	(2,066,509)
Balance at December 31, 2010	130,383,984	9,227,189	11,111,400	150,722,573

Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2010	10,935,898	-	951,821	11,887,719
Additions	10,935,898	-	951,821	11,887,719
Disposals	-	-	(36,765)	(36,765)
Balance at December 31, 2010	10,935,898	-	915,056	11,850,954
Net book value	\$ 119,448,086	\$ 9,227,189	\$ 10,196,344	\$ 138,871,619
Assets under construction	\$ 3,316,178	\$ -	\$ 5,372,850	\$ 8,689,028

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2011	December 31, 2010
Trade accounts payable	\$ 5,173,811	\$ 3,660,210
Accrued liabilities	1,098,940	1,285,641
	\$ 6,272,751	\$ 4,945,851

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)
For the three months ended March 31, 2011 and 2010

10 SHARE CAPITAL

- (a) Authorized Share Capital: Unlimited common shares without par value
- (b) Issued and Outstanding Share Capital

	Number of shares	Amount
Balance as at January 1, 2010	55,750,000	\$ 128,626,718
Shares issued to agent on completion of Castle Gold acquisition	178,911	511,613
Restricted shares issued to directors	17,856	46,640
Restricted shares issued to employees - vested	-	208,708
Restricted shares issued to employees - unvested	326,859	-
Stock options exercised	25,000	93,832
Balance as at December 31, 2010	56,298,626	129,487,511
Shares issued on acquisition of Pediment	31,830,983	136,400,028
Shares issued to agent on completion of Pediment acquisition	236,488	1,005,900
Restricted shares issued to directors	25,296	113,836
Restricted shares issued to employees - vested	-	75,873
Restricted shares issued to employees - unvested	187,998	-
Stock options exercised	969,791	4,230,617
Balance as at March 31, 2011	89,549,182	\$ 271,313,765

- (c) Share-Based Compensation

The following table summarizes information relating to stock options outstanding and exercisable at March 31, 2011 that were granted by the Company:

	Exercise Price Per Share	Number Outstanding	Weighted Average Remaining Contractual Life (years)		Weighted Average Exercise Price	Options Exercisable		Weighted Exercise Price
CA\$	2.90 – 5.28	615,433	9.40	CA\$	3.99	74,218	CA\$	3.41

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

The following table summarizes stock option activity for the Company:

	Options	Weighted Average Exercise Price (CA\$)
Outstanding at January 1, 2010	-	-
Granted	328,166	3.32
Forfeited	(5,000)	3.00
Outstanding at December 31, 2010	323,166	3.33
Granted	331,933	4.52
Exercised	(16,666)	3.10
Forfeited	(23,000)	3.00
Outstanding at March 31, 2011	615,433	3.99

The total share-based compensation expense related to stock options granted by the Company for the three months ended March 31, 2011 was \$105,845 (March 31, 2010 - \$nil).

The following weighted average assumptions were used in computing the fair value of options granted during the three months ended March 31, 2011:

Weighted average share price	CA\$	4.52
Expected dividend yield		Nil
Expected volatility		41.6%
Risk-free interest rate		3.6%
Estimated forfeiture rate		2.0%
Expected life		10 years
Weighted average fair value per stock option granted	CA\$	2.61

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of a composite of indexes and gold sector companies. The Black-Scholes values are estimates that are subject to change.

Restricted shares

During the three months ended March 31, 2011, 213,294 restricted shares were granted to directors and employees. The weighted average fair value of these restricted shares is CA\$4.51. Restricted shares issued to directors are immediately vested and are restricted for the shorter of two years or six months after a director retires from the board. Restricted shares granted to employees vest one-third per year for three years. The total share-based compensation expense related to restricted shares for the three months ended March 31, 2011 was \$133,894 (March 31, 2010 - \$nil).

(d) Options issued on acquisition of Pediment

At March 31, 2011, the Company had outstanding options for the purchase of common shares of former holders of Pediment options issued under the former Pediment share incentive plan. On January 27, 2011, when the Company completed the acquisition of Pediment, each issued and outstanding option of Pediment was exchanged for 0.625 of an

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

option of Argonaut. The weighted average fair value of options exchanged on the acquisition of Pediment was CA\$2.56. The fair value of the options was estimated on the date of the exchange using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 37.4%, risk-free interest rate of 3.6% and an expected option life of 0.48 years.

The Pediment stock option activity subsequent to the acquisition was as follows:

	Options		Weighted Average Exercise Price
Argonaut options issued on acquisition of Pediment	1,634,375	CA\$	1.74
Exercised	(953,125)		1.73
Outstanding at March 31, 2011	681,250	CA\$	1.75

11 EARNINGS/LOSS PER SHARE

	Three months ended March 31,	
	2011	2010
Basic weighted average shares outstanding	79,286,659	55,842,392
Weighted average shares dilution adjustments:		
Dilutive stock options ⁽¹⁾	561,803	-
Broker options ⁽¹⁾	74,397	-
Common share purchase warrants ⁽¹⁾	1,277,149	-
Diluted weighted average shares outstanding	81,200,008	55,842,392

⁽¹⁾ Dilutive stock options and warrants were determined using the Company's average share price for the three months ended March 31, 2011 and 2010 of CA\$4.73 and CA\$3.11, respectively.

12 SEGMENT INFORMATION

Reportable segments are those operations whose operating results are reviewed by the chief operating decision maker (the Chief Executive Officer) to make decisions about resources to be allocated to the segment and assess its performance, provided those operations pass certain quantitative thresholds. Operations whose revenues, earnings or losses or assets exceed 10% of the total consolidated revenues, earnings or losses or assets are reportable segments. In order to determine reportable operating segments, management reviews various factors, including geographical location and managerial structure. The La Fortuna property and Compania Minera Pitalla ("Pitalla"), which holds the San Antonio and La Colorada properties, are exploration and evaluation assets that have not reached commercial production levels but are considered reportable segments because they have reached quantitative asset thresholds. Non-mining and other operations are reported in corporate and other. The Company operates in one reportable segment in the mining industry and its principal product is gold. Sales are to two customers. The Company's primary mineral properties are in Mexico.

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

The following tables summarize segment information of the Company:

Three months ended March 31, 2011	El Castillo	La Fortuna	Pitalla ⁽¹⁾	Corporate and other	Total
Revenue	\$ 25,676,454	\$ -	\$ -	\$ -	\$ 25,676,454
Gross profit	\$ 11,041,424	\$ -	\$ -	\$ -	\$ 11,041,424
General and administrative expenses	\$ 76,084	\$ 10,851	\$ 76,953	\$ 1,774,886	\$ 1,938,774
Profit (loss) from operations	\$ 10,965,340	\$ (10,851)	\$ (76,953)	\$ (1,774,886)	\$ 9,102,650
Capital expenditures	\$ 3,048,354	\$ 16,294	\$ 1,352,243	\$ 8,889	\$ 4,425,780

Mineral properties, plant and equipment at March 31, 2011	\$ 128,999,338	\$ 9,243,483	\$ 140,172,033	\$ 86,955	\$ 278,501,809
Total assets at March 31, 2011	\$ 167,278,391	\$ 9,359,812	\$ 141,876,847	\$ 23,451,954	\$ 341,967,004

⁽¹⁾ See note 3. Capital expenditures for the three months ended March 31, 2011 for Pitalla consisted of expenditures at San Antonio for \$823,323 and at La Colorada for \$528,920.

Three months ended March 31, 2010	El Castillo	La Fortuna	Corporate and other	Total
Revenue	\$ 9,353,367	\$ -	\$ -	\$ 9,353,367
Gross profit	\$ 21,276	\$ -	\$ -	\$ 21,276
General and administrative expenses	\$ 229,122	\$ 19,754	\$ 1,577,229	\$ 1,826,105
Profit (loss) from operations	\$ (207,846)	\$ (19,754)	\$ (1,577,229)	\$ (1,804,829)
Capital expenditures	\$ 2,969,886	\$ 70,598	\$ 82,947	\$ 3,123,431

Mineral properties, plant and equipment at January 1, 2010	\$ 124,154,115	\$ 9,304,919	\$ 17,485	\$ 133,476,519
Total assets at January 1, 2010	\$ 141,001,057	\$ 9,368,461	\$ 49,177,692	\$ 199,547,210

Mineral properties, plant and equipment at December 31, 2010	\$ 129,560,827	\$ 9,227,189	\$ 83,603	\$ 138,871,619
Total assets at December 31, 2010	\$ 160,012,383	\$ 9,335,113	\$ 23,047,503	\$ 192,394,999

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)
For the three months ended March 31, 2011 and 2010

13 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended March 31,	
	2011	2010
Changes as a result of investing activities:		
Accounts receivable	\$ 1,725,246	\$ 3,620,972
Prepaid expenses and other	58,211	-
Mineral properties, plant and equipment	138,824,884	-
Accounts payable and accrued liabilities	(2,588,988)	-
Changes in accounts payable and accrued liabilities as a result of financing activities	-	(3,533,818)
Common shares issued as consideration for acquisition fees	1,005,900	466,240
Fair value on date of grant of restricted shares vested	75,873	-
Fair value on date of grant of stock options exercised	2,478,688	-

14 COMMITMENTS

During the three months ended March 31, 2011, the Company entered into contracts to construct a retention pond and a leach pad for approximately \$2.1 million, which are scheduled to be completed in the second quarter of 2011.

15 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS on January 1, 2011 with a date of transition of January 1, 2010 (the "Transition Date") and this is the date on which the Company prepared its opening IFRS balance sheet. Under IFRS 1 'First-time Adoption of International Financial Reporting Standards', IFRS accounting policies are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken into retained earnings (deficit) unless certain exemptions are applied.

In preparing these interim condensed consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and selected 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.

(a) *IFRS exemptions selected:*

- i) **Business combinations** – IFRS 1 provides the option to apply IFRS 3 'Business Combinations' retrospectively or prospectively from January 1, 2010. The retrospective basis would require the restatement of prior acquisitions that meet the definition of a business combination under IFRS 3. The Company elected to adopt IFRS 3 effective January 1, 2010.
- ii) **Share-based payments** – IFRS 1 encourages the application of IFRS 2 'Share-based Payments' to equity

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to only apply IFRS 2 to equity instruments granted after November 7, 2002 that had not vested by the Transition Date.

iii) **Decommissioning liabilities included in the cost of mineral properties, plant and equipment** – IFRS 1 provides the option to measure the restoration provision at the Transition Date in accordance with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Accordingly, the Company re-measured the provisions as at the Transition Date under IAS 37 and estimated the cost of the related asset by discounting the liability to the date at which the liability first arose. The Company did this using its best estimate of the historical risk-free discount rates, and recalculated the accumulated depreciation, depletion and amortization under IFRS up to the Transition Date.

(b) *Reconciliation between Canadian GAAP and IFRS*

Presented below are reconciliations prepared by the Company to reconcile the assets, liabilities and equity reported under Canadian GAAP to IFRS:

Reconciliation of Balance Sheet Totals

	Note	December 31, 2010	March 31, 2010	January 1, 2010
ASSETS				
Total assets under Canadian GAAP	\$	191,270,180	\$ 184,383,117	\$ 198,363,574
<u>Adjustments for differing accounting treatments:</u>				
Inventories		53,647	20,984	-
Mineral properties, plant and equipment	i	1,071,172	1,162,652	1,183,636
Total assets under IFRS	\$	192,394,999	\$ 185,566,753	\$ 199,547,210
LIABILITIES				
Total liabilities under Canadian GAAP	\$	53,776,312	\$ 53,533,700	\$ 55,581,323
<u>Adjustments for differing accounting treatments:</u>				
Reclamation and remediation provisions	i	1,164,766	1,178,090	1,183,636
Deferred income taxes	ii(a)	(2,205,694)	(1,918,447)	71,747
Total liabilities under IFRS	\$	52,735,384	\$ 52,793,343	\$ 56,836,706
EQUITY				
Total equity under Canadian GAAP	\$	137,493,868	\$ 130,849,417	\$ 142,782,251
<u>Adjustments for differing accounting treatments:</u>				
Reclamation and remediation provisions	i	(39,947)	5,546	-
Deferred income taxes	ii(a)	2,205,694	1,918,447	(71,747)
Total equity under IFRS	\$	139,659,615	\$ 132,773,410	\$ 142,710,504

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

i) IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'

a. Reclamation and remediation provisions

Under IFRS, reclamation and remediation provisions are substantially consistent with Canadian GAAP, where provisions have been previously measured based on the estimated cost of rehabilitation, discounted to its net present value upon initial recognition. Under Canadian GAAP a credit-adjusted risk-free rate is used, while IFRS requires a risk-free rate which reflects the market assessment of the time value of money and the risks specific to the liability. Under Canadian GAAP, adjustments to the discount rate are not reflected in the provisions or the related assets unless there is an upward revision of the future cost estimates whereas under IFRS the provision is remeasured at every period end using current discount rates. IFRS 1 provides an exemption from applying full retrospective application upon first-time adoption. As such, the Company has re-measured the reclamation and remediation provisions as at the Transition Date under IAS 37, estimated the amount to be included in the related asset by discounting the liability to the date which the liability arose, and recalculated the accumulated depreciation, depletion and amortization under IFRS.

ii) IAS 12 'Income Taxes'

a. Deferred tax adjustments to net income (loss) to give effect to other IFRS adjustments are as follows:

	December 31, 2010	March 31, 2010	January 1, 2010
Reclamation and remediation provisions	11,984	(1,664)	-
Deferred tax adjustment	1,990,464	1,906,226	-
Foreign exchange effect on tax basis of non-monetary assets	203,246	13,885	(71,747)
	2,205,694	1,918,447	(71,747)

b. Under IAS 12, where the non-monetary assets and liabilities of an entity are measured in its functional currency but the taxable profit or tax loss and the tax base of its non-monetary assets and liabilities is determined in a different currency, deferred income tax is recognized. The review of non-monetary asset and liability balances translated using the relevant closing exchange rates at January 1, 2010, March 31, 2010 and December 31, 2010 resulted in foreign exchange differences on tax basis as noted above.

c. The following additional reclassifications have been identified:

- Amounts recorded as current deferred income tax liability under Canadian GAAP were classified as non-current deferred income tax liability under IFRS.
- Certain amounts recorded as foreign exchange gains or losses associated with deferred income tax liabilities under Canadian GAAP were classified as income tax expense under IFRS.

ARGONAUT GOLD INC.**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

Reconciliation of Statements of Comprehensive Income

A reconciliation between the Canadian GAAP and IFRS comprehensive income for the period ended March 31, 2010 and year ended December 31, 2010 is provided below:

	Note	Year ended December 31, 2010	Three months ended March 31, 2010
Comprehensive income (loss) under Canadian GAAP		\$ 2,599,795	\$ (3,153,582)
Increase (decrease) in net income (loss) for:			
Foreign exchange	i	(1,094,416)	(1,001,335)
Reclamation and remediation provisions	ii	(39,947)	5,546
Stock options	iii	15,756	-
Deferred income taxes		2,277,441	1,990,194
Increase in other comprehensive income for:			
Currency translation adjustments	i	1,094,416	1,001,335
Comprehensive income (loss) under IFRS		\$ 4,853,045	\$ (1,157,842)

i) Foreign exchange

Under Canadian GAAP, the Company determines whether a subsidiary is an integrated operation or a self-sustaining entity which determines the method of translation into the presentation currency of the Group. IFRS requires that an entity determine the functional currency of each subsidiary individually, prior to consolidation into the Group's presentation currency.

The Company determined that the parent entity (Argonaut Gold Inc.) had a functional currency other than the US dollar, which under Canadian GAAP had been classified as being integrated operations. This entity under Canadian GAAP was consolidated using the temporal method (i.e. monetary assets and liabilities translated at the current rate and non-monetary assets and liabilities at historic exchange rates with gains or losses being charged to the statement of income), whereas under IFRS, entities with non US dollar functional currencies are translated into US dollars using the current rate method (whereby all assets and liabilities are translated using the reporting date exchange rates with any gains or losses being recorded in equity).

The Company also elected to take the IFRS 1 exemption to deem cumulative translation adjustments to be zero at the date of transition to IFRS. Hence all existing CTA balances and the impact of the above adjustments as of January 1, 2010 were recorded against the brought forward retained earnings (deficit). For the three month period ended March 31, 2010 and for the year ended December 31, 2010, the impact was an increase in foreign exchange loss of \$978,358 and \$562,300 respectively, with a related charge to currency translation adjustment ("CTA").

ii) Reclamation and remediation provisions

The asset retirement obligation under Canadian GAAP has been recalculated as at January 1, 2010 in accordance with IAS 37. The discount rate required under IAS 37 is the pre-tax rate reflecting current market assessment of the time value of money. Under Canadian GAAP, the December 31, 2009 asset retirement obligation was based on a credit adjusted risk-free rate of 9.5% comprised of a risk-free rate of 6.5% and a 3% entity credit risk factor. The discount rate used under IAS 37 to calculate the provision at January 1, 2010 is the long-term interest rate on Mexican treasuries of approximately 5%, as only risks specific to the liability require adjustment under IAS 37.

ARGONAUT GOLD INC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

For the three months ended March 31, 2011 and 2010

iii) Stock options

Under IFRS, share-based compensation has estimated forfeiture rates applied to the initial grant calculation (based on management's best estimate) and changes taken into account by adjusting the number of equity instruments included in subsequent period calculations, to reflect the number of options expected to vest, such that the expense recognized is based on the number of instruments that eventually vest. The ultimate expense is the same as Canadian GAAP, but the timing of the expense is different.

Cash Flows

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 \$175,665, increased cash flows from investing activities by \$33,201 and decreased the cash flows from financing activities by \$208,866 for the three months ended March 31, 2010.