

# **Argonaut Gold Inc.**

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

**For the three and six months ended June 30, 2011 and 2010**

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

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	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 32,321,863	\$ 25,394,399
Receivables (Note 7)	4,226,941	3,639,719
Inventories (Note 8)	24,812,649	21,260,711
Prepaid expenses and other	2,801,484	1,591,673
	64,162,937	51,886,502
Mineral properties, plant and equipment (Note 9)	285,122,444	138,871,619
Other assets	840,376	1,636,878
<b>Total assets</b>	<b>\$ 350,125,757</b>	<b>\$ 192,394,999</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 7,430,752	\$ 4,945,851
Deferred revenue	-	1,932,307
Income taxes payable	3,409,790	1,551,567
Current portion of long-term debt	6,422,750	-
	17,263,292	8,429,725
Long-term debt	-	6,194,207
Reclamation and remediation provisions	3,240,062	3,161,036
Deferred income taxes	33,235,819	34,950,416
<b>Total liabilities</b>	<b>53,739,173</b>	<b>52,735,384</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	273,448,455	129,487,511
Warrants	12,202,978	12,202,978
Contributed surplus	1,460,067	499,591
Retained earnings (deficit)	7,484,133	(3,624,881)
Accumulated other comprehensive income	1,790,951	1,094,416
<b>Total shareholders' equity</b>	<b>296,386,584</b>	<b>139,659,615</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 350,125,757</b>	<b>\$ 192,394,999</b>

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

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

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	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<b>Revenue</b>	\$ 21,631,900	\$ 12,509,430	\$ 47,308,354	\$ 21,862,797
<b>Cost of sales</b>				
Production costs	8,318,309	7,417,613	19,267,973	16,749,704
Depreciation, depletion and amortization	2,685,154	1,551,596	6,370,520	1,551,596
<b>Total cost of sales</b>	<b>11,003,463</b>	<b>8,969,209</b>	<b>25,638,493</b>	<b>18,301,300</b>
<b>Gross profit</b>	<b>10,628,437</b>	<b>3,540,221</b>	<b>21,669,861</b>	<b>3,561,497</b>
General and administrative expenses	1,872,100	1,627,050	3,810,874	3,453,155
<b>Profit from operations</b>	<b>8,756,337</b>	<b>1,913,171</b>	<b>17,858,987</b>	<b>108,342</b>
Finance income	47,953	32,993	94,982	66,194
Finance expenses (Note 5)	(101,705)	(156,437)	(199,540)	(399,839)
Other income (expense), net (Note 6)	(57,350)	301,939	(345,610)	24,339
	(111,102)	178,495	(450,168)	(309,306)
Income (loss) before income taxes	8,645,235	2,091,666	17,408,819	(200,964)
Income tax expense	3,466,660	1,235,993	6,299,805	1,102,540
<b>Net income (loss) for the period</b>	<b>\$ 5,178,575</b>	<b>\$ 855,673</b>	<b>\$ 11,109,014</b>	<b>\$ (1,303,504)</b>
<b>Total net income (loss) attributable to</b>				
Non-controlling interest	\$ -	\$ -	\$ -	\$ 40,122
Shareholders of the Company	\$ 5,178,575	\$ 855,673	\$ 11,109,014	\$ (1,343,626)
<b>Earnings (loss) per share</b>				
Basic and Diluted	\$ 0.06	\$ 0.02	\$ 0.13	\$ (0.02)
<b>Weighted average number of common shares outstanding</b> (Note 12)				
Basic	89,914,835	55,928,628	84,627,163	55,885,748
Diluted	93,205,729	55,928,628	87,262,360	55,885,748

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

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

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	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<b>Net income (loss) for the period</b>	\$ 5,178,575	\$ 855,673	\$ 11,109,014	(1,303,504)
<b>Other comprehensive income</b>				
Foreign currency translation differences	173,564	(1,005,204)	696,535	(3,869)
<b>Comprehensive income (loss) for the period</b>	\$ 5,352,139	\$ (149,531)	\$ 11,805,549	(1,307,373)
<b>Comprehensive income (loss) attributable to:</b>				
Non-controlling interest	\$ -	\$ -	\$ -	40,122
Shareholders of the Company	\$ 5,352,139	\$ (149,531)	\$ 11,805,549	(1,347,495)

*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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<b>Cash flows from operating activities</b>				
Net income (loss) for the period	\$ 5,178,575	\$ 855,673	\$ 11,109,014	\$ (1,303,504)
Items not affecting cash:				
Depreciation, depletion and amortization	2,702,606	1,567,370	6,411,885	1,578,342
Loss on sale of equipment	46,063	-	46,063	-
Share-based compensation	369,666	376,609	723,241	376,609
Finance income and expense	53,752	123,444	104,558	333,645
Unrealized foreign exchange loss	49,338	(404,833)	231,403	(204,092)
Deferred income taxes	(827,829)	(714,907)	(1,714,598)	(1,918,092)
	7,572,171	1,803,356	16,911,566	(1,137,092)
Changes in non-cash operating working capital items				
Receivables	622,613	(2,665,226)	1,138,172	(3,975,361)
Inventories	(2,839,736)	9,950	(3,176,688)	3,077,482
Prepaid expenses and other	(889,185)	(811,248)	(1,143,411)	(933,639)
Accounts payable and accrued liabilities	2,564,627	5,124,816	(2,767,394)	4,509,601
Deferred revenue	-	-	(1,932,307)	-
Income taxes payable	4,448,098	1,909,070	8,124,365	3,104,414
Changes in other long-term assets	169,064	(1,153,546)	802,242	(1,153,546)
Income taxes paid	(3,270,188)	(1,808,338)	(6,266,142)	(1,999,650)
Net cash provided by operating activities	8,377,464	2,408,834	11,690,403	1,492,209
<b>Cash flows from investing activities</b>				
Expenditures on mineral properties, plant and equipment	(11,291,326)	(9,531,729)	(12,363,222)	(12,155,344)
Purchase of Castle Gold shares, net of amounts included in receivables	-	-	-	(5,624,520)
Proceeds from sale of equipment	50,216	-	50,216	-
Cash acquired on acquisition of Pediment (Note 4)	-	-	4,296,483	-
Interest received	47,953	32,993	94,982	66,194
Net cash used in investing activities	(11,193,157)	(9,498,736)	(7,921,541)	(17,713,670)
<b>Cash flows from financing activities</b>				
Private placement transaction costs	-	-	-	(3,533,818)
Repayment of long-term debt	-	(22,124)	-	(28,922)
Proceeds from exercise of stock options	839,558	-	2,591,489	-
Interest paid	(61,946)	(119,040)	(120,514)	(327,906)
Net cash provided by (used in) financing activities	777,612	(141,164)	2,470,975	(3,890,646)
Effects of exchange rate changes on cash and cash equivalents	172,905	(795,711)	687,627	241,057
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,865,176)</b>	<b>(8,026,777)</b>	<b>6,927,464</b>	<b>(19,871,050)</b>
Cash and cash equivalents, beginning of period	34,187,039	35,577,591	25,394,399	47,421,864
<b>Cash and cash equivalents, end of period</b>	<b>\$ 32,321,863</b>	<b>\$ 27,550,814</b>	<b>\$ 32,321,863</b>	<b>\$ 27,550,814</b>

See note 14 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)**

	Six Months Ended June 30,	
	2011	2010
<b>Share capital</b>		
Balance at the beginning of the period (Note 11)	\$ 129,487,511	\$ 128,626,718
Shares issued on acquisition of Pediment (Note 4)	136,400,028	-
Shares issued to agents for business acquisitions	1,005,900	511,614
Stock options exercised	6,365,307	-
Restricted shares issued and vested	189,709	46,640
<b>Balance at the end of the period</b>	<b>273,448,455</b>	<b>129,184,972</b>
<b>Warrants</b>		
Balance at the beginning of the period	12,202,978	12,202,978
<b>Balance at the end of the period</b>	<b>12,202,978</b>	<b>12,202,978</b>
<b>Contributed surplus</b>		
Balance at the beginning of the period	499,591	18,826
Options issued on acquisition of Pediment (Note 4)	4,200,765	-
Stock options exercised	(3,773,820)	-
Restricted shares issued and vested	(75,873)	-
Share-based compensation	609,404	330,013
<b>Balance at the end of the period</b>	<b>1,460,067</b>	<b>348,839</b>
<b>Retained earnings (deficit)</b>		
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	11,109,014	(1,343,626)
<b>Balance at the end of the period</b>	<b>7,484,133</b>	<b>(8,687,014)</b>
<b>Accumulated other comprehensive income</b>		
Balance at the beginning of the period	1,094,416	-
Other comprehensive income	696,535	(3,869)
<b>Balance at the end of the period</b>	<b>1,790,951</b>	<b>(3,869)</b>
<b>Non-controlling interest</b>		
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)
<b>Balance at the end of the period</b>	<b>-</b>	<b>-</b>
<b>Total shareholders' equity</b>	<b>\$ 296,386,584</b>	<b>\$ 133,045,906</b>

*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 and six months ended June 30, 2011 and 2010

#### **1 NATURE OF OPERATIONS**

Argonaut Gold Inc. (the "Company" or "Argonaut") is a publicly listed company engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in the Americas. As at June 30, 2011, the Company owns the producing El Castillo mine, located in the State of Durango, the advanced exploration stage properties San Antonio in the State of Baja California Sur, La Colorada in the State of Sonora and the exploration stage property La Fortuna in the State of Durango. All of the Company's properties are in Mexico.

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 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"). These financial statements 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 August 11, 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") and the Company's interim consolidated financial statements for the three months ended March 31, 2011 prepared in accordance with IFRS. 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 and details of significant changes in accounting policies and presentation reclassifications. Certain prior period balances have been reclassified to conform to the current period presentation.

#### **3 CHANGES IN ACCOUNTING STANDARDS**

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

IFRS 9 - Financial Instruments ("IFRS 9") IFRS 9 was issued in November 2009 and amended in October 2010. On August 4, 2011, the IASB issued an exposure draft to defer the mandatory effective date of from annual periods beginning on or after January 1, 2013 to annual periods beginning on or after January 1, 2015. Early adoption would continue to be permitted. This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value.

## ARGONAUT GOLD INC.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

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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.

#### 4 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 were 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.

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

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

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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)
<b>Net assets acquired</b>	<b>\$ 142,315,826</b>

**5 FINANCE EXPENSES**

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Interest expense	\$ 61,946	\$ 119,040	\$ 120,514	\$ 325,045
Accretion on reclamation and remediation provisions	39,759	37,397	79,026	74,794
	<b>\$ 101,705</b>	<b>\$ 156,437</b>	<b>\$ 199,540</b>	<b>\$ 399,839</b>

**6 OTHER INCOME (EXPENSE)**

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Foreign exchange gain (loss)	\$ (51,665)	\$ 306,807	\$ (346,077)	\$ 29,207
Unrealized gain (loss) on marketable securities	(5,685)	(4,868)	467	(4,868)
	<b>\$ (57,350)</b>	<b>\$ 301,939</b>	<b>\$ (345,610)</b>	<b>\$ 24,339</b>

**7 RECEIVABLES**

	June 30, 2011	December 31, 2010
Mexican IVA receivable	\$ 3,749,187	\$ 3,606,236
Canadian HST and GST receivable	273,003	11,363
Other receivables	204,751	22,120
	<b>\$ 4,226,941</b>	<b>\$ 3,639,719</b>

**ARGONAUT GOLD INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)  
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**8 INVENTORIES**

	June 30, 2011	December 31, 2010
Supplies	\$ 518,383	\$ 603,565
Work-in-process	21,976,889	19,569,860
Finished goods	2,317,377	1,087,286
	<b>\$ 24,812,649</b>	<b>\$ 21,260,711</b>

Cost of inventories recognized as expense for the three and six months ended June 30, 2011 totalled \$11,003,643 and \$25,638,493, respectively (three and six months ended June 30, 2010 - \$8,969,209 and \$18,301,300, respectively).

**9 MINERAL PROPERTIES, PLANT AND EQUIPMENT**

	Mineral properties	Exploration and evaluation assets	Plant and equipment	Total
<b>Cost</b>				
Balance at January 1, 2011	\$ 130,383,984	\$ 9,227,189	\$ 11,111,400	\$ 150,722,573
Acquisition of Pediment (Note 4)	-	138,620,472	204,412	138,824,884
Additions	4,707,541	6,483,619	3,117,993	14,309,153
Disposals	-	-	(97,556)	(97,556)
Balance at June 30, 2011	135,091,525	154,331,280	14,336,249	303,759,054
<b>Accumulated depreciation, depletion, amortization and impairment</b>				
Balance at January 1, 2011	10,935,898	-	915,056	11,850,954
Additions	6,278,558	-	508,373	6,786,931
Disposals	-	-	(1,275)	(1,275)
Balance at June 30, 2011	17,214,456	-	1,422,154	18,636,610
Net book value at June 30, 2011	\$ 117,877,069	\$ 154,331,280	\$ 12,914,095	\$ 285,122,444
Assets under construction <sup>(1)</sup>	\$ 7,242,609	\$ -	\$ 8,169,695	\$ 15,412,304
<b>Cost</b>				
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
<b>Accumulated depreciation, depletion, amortization and impairment</b>				
Balance at January 1, 2010	10,935,898	-	951,821	11,887,719
Additions	-	-	(36,765)	(36,765)
Disposals	-	-	-	-
Balance at December 31, 2010	10,935,898	-	915,056	11,850,954
Net book value at December 31, 2010	\$ 119,448,086	\$ 9,227,189	\$ 10,196,344	\$ 138,871,619
Assets under construction <sup>(1)</sup>	\$ 3,316,178	\$ -	\$ 5,372,850	\$ 8,689,028

<sup>(1)</sup>Assets under construction are not currently subject to amortization.

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

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**10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	June 30, 2011	December 31, 2010
Trade accounts payable	\$ 6,271,670	\$ 3,660,210
Accrued liabilities	1,159,082	1,285,641
	<b>\$ 7,430,752</b>	<b>\$ 4,945,851</b>

**11 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 on completion of Castle Gold acquisition	178,911	511,614
Restricted shares issued to directors	17,856	46,640
Balance as at June 30, 2010	55,946,767	129,184,972
Restricted shares issued to employees – vested	-	208,707
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	31,830,982	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	170,238	-
Stock options exercised	1,451,041	6,365,307
Balance as at June 30, 2011	90,012,671	\$ 273,448,455

**ARGONAUT GOLD INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)  
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(c) Share-Based Compensation

The following table summarizes information relating to stock options outstanding and exercisable at June 30, 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	608,967	9.15	CA\$ 3.98	91,218	CA\$ 3.66

The following table summarizes stock option activity for the Company:

	Options	Weighted Average Exercise Price
Outstanding at January 1, 2010	-	CA\$ -
Granted	272,666	3.36
Outstanding at June 30, 2010	272,666	3.36
Granted	55,500	3.17
Forfeited	(5,000)	3.00
Outstanding at December 31, 2010	323,166	3.33
Granted	348,933	4.53
Exercised	(16,666)	3.10
Forfeited	(46,466)	3.95
Outstanding at June 30, 2011	608,967	CA\$ 3.98

The total share-based compensation expense related to stock options granted by the Company for the three and six months ended June 30, 2011 was \$199,325 and \$305,170 respectively (three and six months ended June 30, 2010 - \$93,528).

The following weighted average assumptions were used in computing the fair value of options granted during the six months ended June 30, 2011:

**ARGONAUT GOLD INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)  
For the three and six months ended June 30, 2011 and 2010

Weighted average share price	CA\$	4.53
Expected dividend yield		Nil
Expected volatility		41.6%
Risk-free interest rate		3.5%
Estimated forfeiture rate		2.0%
Expected life		10 years
Weighted average fair value per stock option granted	CA\$	2.62

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 six months ended June 30, 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 and six months ended June 30, 2011 was \$170,341 and \$418,071 respectively (three and six months ended June 30, 2010 - \$283,125).

(d) Options issued on acquisition of Pediment

At June 30, 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 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	(1,434,375)		1.73
<b>Outstanding at June 30, 2011</b>	<b>200,000</b>	<b>CA\$</b>	<b>1.89</b>

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

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**12 EARNINGS/LOSS PER SHARE**

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Basic weighted average shares outstanding	89,914,835	55,928,628	84,627,163	55,885,748
Weighted average shares dilution adjustments:				
Stock options <sup>(1)</sup>	315,443	-	438,932	-
Broker options <sup>(1)</sup>	163,786	-	120,895	-
Common share purchase warrants <sup>(1)</sup>	2,811,665	-	2,075,370	-
Diluted weighted average shares outstanding	93,205,729	55,928,628	87,262,360	55,885,748

<sup>(1)</sup>Dilutive stock options, broker options and common share purchase warrants were determined using the Company's average share price for the three and six months ended June 30, 2011 of CA\$5.05 and CA\$4.89 and the three and six months ended June 30, 2010 of CA\$2.87 and CA\$2.98, respectively.

**ARGONAUT GOLD INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**13 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 or other factors. 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 mineral properties are in Mexico. The following tables summarize segment information of the Company:

	El Castillo	La Fortuna	Pitalla <sup>(1)</sup>	Corporate and other	Total
<b>Three months ended June 30, 2011</b>					
Revenue	\$ 21,631,900	\$ -	\$ -	\$ -	\$ 21,631,900
Gross profit	\$ 10,628,437	\$ -	\$ -	\$ -	\$ 10,628,437
General and administrative expenses	\$ 145,915	\$ 194	\$ 122,705	\$ 1,603,286	\$ 1,872,100
Profit (loss) from operations	\$ 10,482,522	\$ (194)	\$ (122,705)	\$ (1,603,286)	\$ 8,756,337
Capital expenditures	\$ 4,700,174	\$ 4,740	\$ 5,113,131	\$ 65,328	\$ 9,883,373
<b>Six months ended June 30, 2011</b>					
Revenue	\$ 47,308,354	\$ -	\$ -	\$ -	\$ 47,308,354
Gross profit	\$ 21,669,861	\$ -	\$ -	\$ -	\$ 21,669,861
General and administrative expenses	\$ 221,999	\$ 11,045	\$ 199,658	\$ 3,378,172	\$ 3,810,874
Profit (loss) from operations	\$ 21,447,862	\$ (11,045)	\$ (199,658)	\$ (3,378,172)	\$ 17,858,987
Capital expenditures	\$ 7,748,528	\$ 21,034	\$ 6,465,374	\$ 74,217	\$ 14,309,153
<b>June 30, 2011</b>					
Mineral properties, plant and equipment	\$ 130,548,176	\$ 9,248,223	\$ 145,184,417	\$ 141,628	\$ 285,122,444
Total assets	\$ 166,612,381	\$ 9,437,710	\$ 147,288,217	\$ 26,787,449	\$ 350,125,757

<sup>(1)</sup> See note 4. Capital expenditures for the three and six months ended June 30, 2011 for Pitalla consisted of expenditures at San Antonio for \$1,785,854 and \$2,609,177 and at La Colorada for \$3,324,488 and \$3,853,408, respectively.

**ARGONAUT GOLD INC.**

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	El Castillo	La Fortuna	Corporate and other	Total
<b>Three months ended June 30, 2010</b>				
Revenue	\$ 12,509,430	\$ -	\$ -	\$ 12,509,430
Gross profit	\$ 3,540,221	\$ -	\$ -	\$ 3,540,221
General and administrative expenses	\$ 269,311	\$ -	\$ 1,357,739	\$ 1,627,050
Profit (loss) from operations	\$ 3,270,910	\$ -	\$ (1,357,739)	\$ 1,913,171
Capital expenditures	\$ 11,272,960	\$ -	\$ -	\$ 11,272,960
<b>Six months ended June 30, 2010</b>				
Revenue	\$ 21,862,797	\$ -	\$ -	\$ 21,862,797
Gross profit	\$ 3,561,497	\$ -	\$ -	\$ 3,561,497
General and administrative expenses	\$ 498,433	\$ 19,754	\$ 2,934,968	\$ 3,453,155
Profit (loss) from operations	\$ 3,063,064	\$ (19,754)	\$ (2,934,968)	\$ 108,342
Capital expenditures	\$ 14,242,846	\$ 70,598	\$ 82,947	\$ 14,396,391
<b>December 31, 2010</b>				
Mineral properties, plant and equipment	\$ 129,560,827	\$ 9,227,189	\$ 83,603	\$ 138,871,619
Total assets	\$ 160,012,383	\$ 9,335,113	\$ 23,047,503	\$ 192,394,999

**14 SUPPLEMENTAL CASH FLOW INFORMATION**

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<b>Changes as a result of investing activities:</b>				
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	-	45,374	1,005,900	511,614
Fair value on date of grant of restricted shares vested	-	46,640	75,873	46,640
Fair value on date of grant of stock options exercised	1,295,132	-	3,773,820	-

## ARGONAUT GOLD INC.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited and expressed in United States dollars)

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#### 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 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.

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

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*(b) Reconciliation between Canadian GAAP and IFRS***Reconciliation of Balance Sheet Totals**

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

<u>ASSETS</u>	Note	December 31, 2010	June 30, 2010
Total assets under Canadian GAAP		\$ 191,270,180	\$ 188,949,789
<u>Adjustments for differing accounting treatments:</u>			
Inventories		53,647	29,872
Mineral properties, plant and equipment	i	1,071,172	1,137,794
<u>Total assets under IFRS</u>		<u>\$ 192,394,999</u>	<u>\$ 190,163,297</u>
 <u>LIABILITIES</u>			
Total liabilities under Canadian GAAP		\$ 53,776,312	\$ 56,432,041
<u>Adjustments for differing accounting treatments:</u>			
Reclamation and remediation provisions	i	1,164,766	1,172,544
Deferred income taxes	ii(a)	(2,205,694)	(533,036)
<u>Total liabilities under IFRS</u>		<u>\$ 52,735,384</u>	<u>\$ 57,071,549</u>
 <u>EQUITY</u>			
Total equity under Canadian GAAP		\$ 137,493,868	\$ 132,517,748
<u>Adjustments for differing accounting treatments:</u>			
Reclamation and remediation provisions	i	(39,947)	(4,878)
Deferred income taxes	ii(a)	2,205,694	533,036
<u>Total equity under IFRS</u>		<u>\$ 139,659,615</u>	<u>\$ 133,045,906</u>

**ARGONAUT GOLD INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited and expressed in United States dollars)

For the three and six months ended June 30, 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 retained earnings as of the balance sheet date to give effect to other IFRS adjustments are as follows:

	December 31, 2010	June 30, 2010
Reclamation and remediation provisions	11,984	1,463
Deferred tax adjustment	1,990,464	656,854
Foreign exchange effect on tax basis of non-monetary items	203,246	(125,281)
	<u>2,205,694</u>	<u>533,036</u>

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 June 30, 2010 and December 31, 2010 resulted in foreign exchange differences on tax basis as noted above.

c. The following additional reclassifications have been made:

- 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)  
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**Reconciliation of Statements of Comprehensive Income**

A reconciliation between the Canadian GAAP and IFRS comprehensive income for the three and six months ended June 30, 2010 is provided below:

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

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. 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 functional currencies, different from the Company's presentation currency (US dollar), 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 ("CTA") 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 and six month period ended June 30, 2010, and for the year ended December 31, 2010, the impact was a change in foreign exchange gain or (loss) of (\$244,168), \$660,723 and \$896,048 respectively, with a related charge to 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%. 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.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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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 (decreased) cash flows from operating activities by (\$86,047) and \$89,618, increased cash flows from investing activities by \$32,993 and \$66,194 and decreased the cash flows from financing activities by \$119,040 and \$327,906 for the three and six months ended June 30, 2010, respectively.