Consolidated Financial Statements

December 31, 2017 and 2016

(Expressed in thousands of United States dollars)

Management's responsibility for financial reporting

These consolidated financial statements have been prepared by management of Argonaut Gold Inc. (the "Company") in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and judgments based on currently available information.

The Audit Committee of the Board of Directors meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

The Company's independent auditors, who are appointed by the shareholders, conduct their audits in accordance with Canadian generally accepted auditing standards to allow them to express an opinion on the consolidated financial statements.

A system of internal control is maintained to provide reasonable assurance that financial information is accurate and reliable. Management conducts ongoing reviews of these controls and reports on their findings to the Audit Committee.

/s/ Peter C. Dougherty	/s/ David A. Ponczoch
President and Chief Executive Officer	Chief Financial Officer

February 22, 2018

February 22, 2018

Independent Auditor's Report

To the Shareholders of Argonaut Gold Inc.

We have audited the accompanying consolidated financial statements of Argonaut Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Argonaut Gold Inc. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2017 and 2016
(Expressed in thousands of United States dollars)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 14,060	$ 42,098
Receivables (Note 6)	19,449	13,666
Inventories (Note 7)	68,911	61,170
Prepaid income tax	768	641
Prepaid expenses and other	1,034	959
	104,222	118,534
Restricted cash (Note 8)	-	1,490
Mineral properties, plant and equipment (Note 8)	579,395	484,094
Deferred income taxes (Note 9)	5,911	5,225
Other assets	332	557
Total assets	$ 689,860	$ 609,900
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	$ 22,881	$ 19,956
Income taxes payable	758	2,280
Current portion of debt (Note 11)	-	916
Foreign exchange derivative liabilities (Note 23(b))	552	-
	24,191	23,152
Debt (Note 11)	8,000	-
Reclamation provision (Note 12)	9,434	10,376
Deferred income taxes (Note 9)	13,033	16,361
Other liabilities	2,756	2,763
Total liabilities	57,414	52,652
SHAREHOLDERS' EQUITY		
Share capital (Note 13(b))	784,447	750,472
Contributed surplus	16,100	15,644
Deficit	(91,344)	(115,196)
Accumulated other comprehensive loss	(76,757)	(93,672)
Total shareholders' equity	632,446	557,248
Total liabilities and shareholders' equity	$ 689,860	$ 609,900

Commitments and contingencies (Note 22)
Events after the reporting period (Note 24)

Approved by the Board of Directors

/s/ Peter C. Dougherty, Director /s/ Dale C. Peniuk, Director

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

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2017 and 2016
(Expressed in thousands of United States dollars)

	2017	2016
Revenue	$ 155,089	$ 144,780
Cost of sales		
Production costs (Note 15)	98,765	94,237
Depreciation, depletion and amortization	25,027	23,492
Reversal of inventory write down (Note 7)	-	(3,551)
Total cost of sales	123,792	114,178
Gross profit	31,297	30,602
Exploration expenses	436	473
General and administrative expenses	11,667	10,594
Other operating expenses	780	-
Profit from operations	18,414	19,535
Finance income	153	195
Finance expenses (Note 16)	(1,334)	(592)
Gains on foreign exchange derivatives (Note 23(b))	1,994	-
Other income (expense) (Note 17)	1,791	(4,764)
Income before income taxes	21,018	14,374
Current income tax expense (Note 9)	1,180	2,554
Deferred income tax expense (recovery) (Note 9)	(4,014)	7,489
Net income for the year	$ 23,852	$ 4,331
Earnings per share		
Basic and diluted	$ 0.14	$ 0.03
Weighted average number of common shares outstanding (Note 14)		
Basic	173,183,225	157,626,147
Diluted	174,393,968	158,718,996

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

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016
(Expressed in thousands of United States dollars)

		2017		2016
Net income for the year	$	23,852	$	4,331
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to net income				
Foreign currency translation differences		16,915		7,456
Comprehensive income for the year	$	40,767	$	11,787

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

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016
(Expressed in thousands of United States dollars)

	2017	2016
Operating activities		
Net income for the year	$ 23,852	$ 4,331
Items not affecting cash:		
Depreciation, depletion and amortization	25,193	23,710
(Gain) loss on disposal of mineral properties, plant and equipment	(221)	294
Share-based compensation	2,385	2,434
Finance income and expense	1,181	397
Unrealized foreign exchange gain	(513)	(65)
Gains on foreign exchange derivatives	(1,994)	-
Deferred income taxes	(4,014)	8,118
Reduction of obligation to renounce flow-through exploration expenditures	-	(633)
Reversal of inventory write down	-	(3,551)
	45,869	35,035
Changes in non-cash operating working capital items		
Receivables	(4,301)	(156)
Inventories	(4,470)	(8,142)
Prepaid expenses and other	(177)	929
Accounts payable and accrued liabilities	2,938	2,526
Income taxes	1,529	4,362
Changes in other long-term assets	2	4
Changes in other long-term liabilities	467	539
Income taxes paid	(3,190)	(1,828)
Interest received	153	195
Net cash provided by operating activities	38,820	33,464
Investing activities		
Expenditures on mineral properties, plant and equipment	(70,215)	(38,089)
Proceeds on disposal of mineral properties, plant and equipment	649	750
Proceeds from sale of other assets	-	15
Cash consideration paid on property acquisitions (Note 5)	(40,943)	-
Decrease in restricted cash (Note 8)	1,628	-
Net cash used in investing activities	(108,881)	(37,324)
Financing activities		
Proceeds from issuance of common shares, net of share issuance costs (Note 13(b))	32,046	3,245
Repayment of debt	(916)	(3,080)
Debt financing and transaction costs	(200)	(594)
Proceeds from debt (Note 11)	8,000	-
Proceeds from settlement of derivatives (Note 23(b))	2,546	-
Interest paid	(198)	(218)
Net cash provided by (used in) financing activities	41,278	(647)
Effects of exchange rate changes on cash and cash equivalents	745	724
Decrease in cash and cash equivalents	(28,038)	(3,783)
Cash and cash equivalents, beginning of year	42,098	45,881
Cash and cash equivalents, end of year	$ 14,060	$ 42,098

Supplemental cash flow information (Note 18)

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

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2017 and 2016
(Expressed in thousands of United States dollars)

	2017	2016
Share capital (Note 13(b))		
Balance at the beginning of the year	$ 750,472	$ 746,259
Issuance of common shares by way of public offering	31,509	-
Stock options exercised	812	51
Restricted shares and restricted share units vested	1,654	1,583
Issuance of flow-through shares	-	2,579
Balance at the end of the year	784,447	750,472
Contributed surplus		
Balance at the beginning of the year	15,644	14,811
Stock options exercised	(275)	(18)
Restricted shares and restricted share units vested	(1,654)	(1,583)
Share-based compensation	2,385	2,434
Balance at the end of the year	16,100	15,644
Deficit		
Balance at the beginning of the year	(115,196)	(119,527)
Net income for the year	23,852	4,331
Balance at the end of the year	(91,344)	(115,196)
Accumulated other comprehensive loss		
Balance at the beginning of the year	(93,672)	(101,128)
Other comprehensive income	16,915	7,456
Balance at the end of the year	(76,757)	(93,672)
Total shareholders' equity	$ 632,446	$ 557,248

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

1 NATURE OF OPERATIONS

Argonaut Gold Inc. (the "Company" or "Argonaut") is a Canadian public company listed on the Toronto Stock Exchange and engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in North America. As at December 31, 2017, the Company owns the producing El Castillo and San Agustin mines (which together form the El Castillo mining complex) in the State of Durango, Mexico, the producing La Colorada mine in the State of Sonora, Mexico, the advanced exploration stage San Antonio project in the State of Baja California Sur, Mexico, the advanced exploration stage Cerro del Gallo project in the State of Guanajuato, Mexico, the advanced exploration stage Magino property in the Province of Ontario, Canada, and several other exploration stage projects, all of which are located in North America. The Company commenced construction of the San Agustin project in 2016 and declared commercial production effective as of October 1, 2017.

The registered office of the Company is located at Suite 3400, One First Canadian Place, 100 King Street West, Toronto, Ontario, M5X 1A4, Canada. The head office and principal address of Argonaut Gold (U.S.) Corp., a subsidiary of the Company providing management services, is 9600 Prototype Ct., Reno, Nevada, 89521, USA.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise noted.

a) Basis of presentation

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and included in Part 1 of the Handbook of the Chartered Professional Accountants of Canada. These consolidated financial statements have been prepared in accordance with the significant accounting policies presented below and are based on the IFRS and IFRS Interpretations Committee ("IFRIC") interpretations issued and effective as of December 31, 2017. The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by financial assets and financial liabilities carried at fair value through profit or loss ("FVTPL").

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

These consolidated financial statements include the accounts of Argonaut Gold Inc. and its subsidiaries. Subsidiaries are entities over which the Company has control. The Company controls a subsidiary when it is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Inter-company transactions, balances, and unrealized gains or losses on transactions between the Company's subsidiaries are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Company's accounting policies.

The financial statements were authorized for issue by the Company's board of directors on February 22, 2018.

b) Segment reporting

Operating segments are determined in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The Company's operating segments, before aggregation, have been identified as the Company's individual operating mines. Aggregation of one or more operating segments into a single operating segment is permitted if aggregation is consistent with the core principle of the standard, the operating segments have similar economic characteristics, and the operating segments have a number of other similarities, including similarities in the nature of their products, production processes, and regulatory environment.

c) 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"). The consolidated financial statements are presented in United States ("US") dollars, which is the Company's presentation currency.

Foreign currency transactions are translated into the functional currency using the average monthly exchange rates, where this is a reasonable approximation of the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at period-end exchange rates. Non-monetary assets and liabilities denominated in foreign currencies are translated using the historical rate on the date of the transaction. Revenue and expenses are translated using the average monthly exchange rates, with the exception of depletion, depreciation, and amortization which is translated using the historical rate on the date of the transaction. Foreign currency exchange gains and losses are presented in the statement of income within other income (expense).

Assets and liabilities of entities that have a functional currency different from the presentation currency are translated into the presentation currency at the period-end rates of exchange and the results of their operations are translated into the presentation currency at average rates of exchange for the period. The resulting exchange differences are recognized in accumulated other comprehensive loss in shareholders' equity.

d) Cash and cash equivalents

Cash and cash equivalents are unrestricted as to use and consist of cash on hand, demand deposits and short term interest bearing investments with maturities of 90 days or less from the original date of acquisition and which can readily be liquidated to known amounts of cash and are subject to an insignificant risk of change in value. Restricted cash balances are excluded from cash and cash equivalents, and are classified as either current or non-current assets, based upon the expiration date of the restriction.

Redeemable interest bearing investments with maturities of up to one year are considered cash equivalents if they can readily be liquidated at any point in time to known amounts of cash, the initial period subject to an interest penalty on redemption is less than 90 days, and they are redeemable thereafter until maturity for invested value plus accrued interest.

e) Receivables and accounts payable

Receivables and accounts payable are non-interest bearing and are recognized initially at fair value and subsequently measured at amortized cost. When necessary, receivables include allowances for uncollectable amounts.

f) Inventories

Inventories are stated at the lower of average cost and net realizable value. Cost of supplies inventory includes acquisition, freight and other directly attributable costs. Work-in-process inventory includes ore in the leaching process, stockpiled ore at mining operations, and gold on carbon. Finished goods include gold in dore or bullion. For work-in-process and finished goods inventories, cost includes all direct costs incurred in production including direct labor and materials, freight, depreciation and amortization of plant and equipment used in the production process, depletion of acquisition cost and directly attributable overhead costs. If the net realizable value is lower than the expected cost of the finished product, the inventory is written down to estimated selling price less cost of completion and disposal. The write down may be reversed if circumstances change.

g) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as assets held for sale ("HFS") if it is highly probable that the value of these assets will be recovered primarily through sale rather than through continuing use. They are recorded at the lower of carrying amount and fair value less direct costs of disposal ("FVLCD"). Impairment losses on initial classification as HFS and subsequent gains and losses on remeasurement are recognized in the statement of income. Once classified as HFS, mineral properties, plant and equipment are no longer amortized. The assets and liabilities are presented as HFS in the consolidated statements of financial position when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and management is committed to the sale, which should be expected to be completed within one year from the date of classification.

h) Mineral properties, plant and equipment

i) Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation and impairment charges. The cost 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, resources or other relevant metric. 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) Assets under construction

Mineral property development commences when approved by management and the Company has obtained all regulatory permissions to proceed. During development, plant and equipment expenditures are capitalized and classified as assets under construction. Assets under construction are not amortized until construction of the asset has been completed. 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 costs of acquiring, exploring and developing mineral properties or property rights, and to increase future output by providing access to additional sources of reserves or resources, are capitalized. 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.

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

During the production phase, mining expenditures (exploration or development costs) incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized to mineral properties. Stripping costs incurred in the production phase are accounted for as variable production costs. However, stripping costs will be capitalized and recorded on the statement of financial position as deferred stripping, a component of mineral properties, when the stripping activity provides access to sources of reserves or resources that will be produced in future periods that would not have otherwise been accessible in the absence of this activity. The deferred stripping will be depleted on a unit-of-production basis over the reserves or resources that directly benefited from the stripping activity.

iv) Exploration and evaluation assets

Exploration and evaluation expenditures relate to properties where the Company has valid ownership and exploration rights, and comprise costs that are directly attributable to:

- researching and analyzing 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 one of the following conditions is met:

- such costs are expected to be recouped in full through successful exploration and development of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves or resources, and active and significant operations in relation to the area are continuing, or planned for the future.

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

The carrying values of capitalized amounts are reviewed at each reporting date, or when indicators of impairment are present. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on the Company’s intentions for development of such a project. If a project does not prove viable, all unrecoverable costs associated with the project are charged to the statement of income.

v) Amortization of mineral properties, plant and equipment

The carrying amounts of mineral properties, plant and equipment are depreciated, depleted or amortized to their estimated residual value over the estimated economic life of the specific assets to which they relate, or using the straight-line method over their estimated useful lives indicated below:

- Plant and equipment - 1 to 10 years straight-line or based on a unit-of-production basis over estimated proven and probable reserves, resources or other relevant metric;
- Assets under construction - not amortized;
- Exploration and evaluation assets - not amortized;
- Mineral properties - based on a unit-of-production basis over estimated proven and probable reserves, resources or other relevant metric;
- Mine development - based on a unit-of-production basis over estimated proven and probable reserves, resources or other relevant metric; and
- Deferred stripping - based on a unit-of-production basis over estimated proven and probable reserves or resources of the related area.

Estimates of residual values, useful lives, and proven and probable reserves, resources or other relevant metrics are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation, depletion or amortization charges. Depreciation, depletion or amortization commences on the date the asset is available for use as intended by management.

vi) Borrowing costs

Interest and other financing costs relating to the construction of mineral properties, plant and equipment or development of mineral properties are capitalized as assets under construction or in mineral properties until they are complete and available for use, at which time they are transferred to plant and equipment or to depletable mineral properties. Interest costs incurred after the asset has been placed into service are charged to the statement of income.

i) Debt

Debt is initially recorded at fair value, net of transaction costs incurred. Debt is subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the debt using the effective interest method. Finance leases are classified as debt in the statement of financial position.

Financing and transaction costs paid on the establishment of debt facilities are recognized as transaction costs of the debt to the extent that it is probable that some or all of the facility will be drawn down. In this case, the costs are deferred until the draw-down occurs. To the extent there is no evidence on the establishment of the debt that it is probable that some or all of the facility will be drawn down, the costs are capitalized as a pre-payment for liquidity services and amortized over the period of the loan to which it relates.

j) Provisions

Reclamation provision

Provision is made for close down, reclamation and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the date of the statement of financial position. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated 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 accretion of the discount is included in finance expenses.

The provision is reviewed at each reporting date 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 depreciated prospectively.

Other provisions

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

k) Impairment of non-current assets

At each reporting date, the Company reviews its non-current 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" or "CGUs") to which the asset belongs. The recoverable amount is determined as the higher of FVLCD and the asset's value in use. FVLCD is the amount that would be obtained from the sale of an asset or CGU in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. For mineral assets, when a binding sale agreement is not readily available, FVLCD is often estimated using a discounted cash flow approach using a post-tax discount rate. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. Estimated future cash flows are calculated using estimated recoverable reserves or resources, future commodity prices and future operating, capital and reclamation costs. The 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. Determining the discount rate includes appropriate adjustments for the risk profile of the countries in which the individual CGUs operate. 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. An impairment loss is recognized as an expense in the statement of income.

Non-financial 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. Where an impairment charge 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, or amortization) had no impairment loss been recognized for the asset in prior years. A reversal of impairment is recognized as a gain in the statement of income.

l) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. 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 and risk of loss passes to the customer.

m) Share-based compensation

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 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 stock options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

n) Income taxes

Current tax for each taxable entity of the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the date of the statement of financial position, and includes adjustments to tax payable or recoverable in respect of previous years.

Deferred tax is accounted for using the liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is expected to be settled or the asset is expected to be realized, based on tax rates and tax laws enacted or substantively enacted at the date of the statement of financial position. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Current and deferred taxes relating to items recognized directly in equity are recognized in equity and not in the statement of income.

Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for items comprising temporary differences.

o) Financial instruments

Financial instruments are recognized when the Company becomes party to a contractual obligation. On initial recognition, financial instruments are measured at fair value, net of the attributable transaction costs, except for financial assets and liabilities classified as FVTPL. The transaction costs attributable to assets and liabilities classified as FVTPL are expensed in the period in which they are incurred. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when, and only when, the Company's obligations are discharged, cancelled or they expire.

Measurement of financial instruments depends on whether the financial instrument has been classified as FVTPL "available-for-sale", "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 financial liabilities at FVTPL or "other financial liabilities".

Financial assets at FVTPL are financial assets held for trading or are designated as such on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Financial assets and financial liabilities classified as FVTPL are measured at fair value with changes in those fair values recognized in the statement of income. Dividend income from financial assets at FVTPL is recognized in the statement of income as part of other income (expense) when the Company's right to receive payments is established.

"Available-for-sale" financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets classified as "available-for-sale" are measured at fair value, with changes in those fair values recognized in other comprehensive income ("OCI"). When securities classified as "available-for-sale" are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of income.

Financial instruments classified as "loans and receivables" and "other financial liabilities" are measured at amortized cost.

The Company has classified cash and cash equivalents, restricted cash and receivables as "loans and receivables", accounts payable and accrued liabilities, debt and other liabilities as "other financial liabilities" and foreign exchange derivative liabilities as financial liabilities at FVTPL.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting period to determine whether there is objective evidence that a financial asset or group of financial assets, other than those classified as FVTPL, may be impaired. Objective evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the estimated recoverable amount of the 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 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 for the period. When an "available-for-sale" financial asset is considered to be

impaired, cumulative losses previously recognized in accumulated other comprehensive loss are reclassified to the statement of income.

p) Share capital

The proceeds from the issuance of common shares and the exercise of stock options together with amounts previously recorded over the vesting period are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair value on the date of grant. Incremental costs directly attributable to the issue of common shares are charged to share capital.

q) Flow-through common shares

The Company may, from time to time, issue flow-through common shares (as defined in the *Income Tax Act* (Canada)) to finance a portion of its Canadian exploration programs. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the proceeds received from flow-through shares into: i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. The Company derecognizes the flow-through share premium liability when the qualifying resource expenditures are made and recognizes a deferred tax liability or recovery for the amount of the tax reduction renounced to the shareholders that relates to the qualifying expenditures made.

r) Earnings per share

Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method. In order to determine diluted earnings per share, the weighted average number of common shares outstanding are adjusted to include the effects of restricted share units (“RSUs” or “RSU”) granted but not yet vested and dilutive stock options, whereby proceeds from the exercise of dilutive stock options would be used to repurchase common shares at the average market price during the period. The diluted earnings per share calculation excludes any potential conversion of RSUs or stock options 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.

s) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. Leases in which substantially all of the risks and rewards of ownership are transferred to the Company are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognized in the statement of financial position.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the term of the lease. Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3 SIGNIFICANT ESTIMATES AND JUDGMENTS

a) Significant areas where judgment is applied, apart from those involving estimations, are:

Functional currency

The functional currency for each of the Company's entities is the currency of the primary economic environment in which the entity operates. The determination of the functional currency may involve judgments to determine the primary economic environment, if the functional currency is not or may not be clear. The Company reconsiders the functional currency if there is a change in conditions used to determine the economic environment. The Company has determined the functional currency of its parent company and Prodigy Gold Inc. ("Prodigy") to be Canadian dollars ("CA$") and its other subsidiaries to be the US dollar.

Acquisition accounting

The acquisition of a company may result in the reporting of the acquisition as a business combination or an asset acquisition as defined within IFRS. Judgment is required to determine the basis of accounting for the acquisition.

Deferred income taxes

The determination of deferred income tax requires management to make judgments related to the probability that future taxable profit will be sufficient to allow the recognition of deferred income tax assets and the likelihood that tax positions taken will be sustained upon assessments by applicable tax authorities.

Tax judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or the entire carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to statement of income. Deferred tax assets, including those arising from tax losses, capital losses and temporary differences, are recognized only where it is probable that taxable earnings will be available against which the losses or deductible temporary differences can be utilized. Assumptions about the generation of future taxable earnings and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, resources, operating costs, closure and decommissioning costs, capital expenditures, dividends and other capital management transactions.

Stripping costs

The Company incurs waste removal costs (stripping costs) during the pre-production and production phases of its surface mining operations. During the production phase, stripping costs (production stripping costs) can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of production costs, while the latter are capitalized as deferred stripping, where certain criteria are met. Significant judgment is required to distinguish between pre-production stripping and production stripping and to distinguish between production stripping that relates to the extraction of inventory and that which relates to the creation of a deferred stripping asset.

Once the Company has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgment is required to identify and define these components, and also to determine the expected volumes (e.g. in tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan.

Judgment is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any deferred stripping asset for each component. The Company considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the ore body is the most suitable production measure.

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

Fair value of assets and liabilities acquired through an acquisition

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

Work-in-process inventory / Production costs

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

During the years ended December 31, 2017 and 2016, the Company recognized a non-cash impairment reversal on work-in-process inventory of nil and $3,551, respectively (see note 7).

Mineral properties

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

Impairment of non-current assets

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

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

Indicators of impairment

As at December 31, 2017, management of the Company determined the continued weakness in the Company's share price during 2017, resulting in the Company's market capitalization being below the carrying value of net assets, constituted an impairment indicator. Therefore, the Company completed an impairment assessment for each of the Company's CGUs whereby the carrying value of the CGU, including acquisition cost, was compared to its recoverable amount. The recoverable amount was determined as the FVLCD for each CGU. FVLCD was determined using a discounted future cash flow valuation model. The determination of FVLCD for each CGU uses Level 3 valuation techniques. Management assessed the Company's CGUs impaired during 2015 for possible indications of impairment reversal and determined there were no indicators of impairment reversal as at December 31, 2017.

Management's impairment evaluation did not result in the identification of an impairment loss as at December 31, 2017. Although management believes the estimates applied in these impairment assessments are reasonable, such estimates are subject to significant uncertainties and judgments.

Key assumptions

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

- Gold price per ounce: $1,250 in 2018 and beyond (December 31, 2016 - $1,200 in 2017 and beyond)
- Operating and capital costs based on historical costs incurred and estimated forecasts
- Production volume and recoveries as indicated in the life-of-mine plan
- After-tax discount rates between 5% and 8% based on the stage and associated risk of each project

Sensitivities

As at December 31, 2017, the Company has performed a sensitivity analysis on CGUs. The table below indicates the long-term gold price assumption which would cause a CGU's carrying value to equal the recoverable amount while holding all other assumptions constant.

El Castillo	$	1,250
San Agustin	$	1,129
La Colorada	$	1,217
San Antonio	$	1,039
Magino	$	1,245

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

Deferred income taxes

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

Reclamation provision

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

4 RECENT ACCOUNTING PRONOUNCEMENTS

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, Financial Instruments ("IFRS 9"), addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in International Accounting Standard ("IAS") 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and FVTPL. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated as FVTPL. The standard is effective for accounting periods beginning on or after January 1, 2018. The Company has determined that adoption of this standard will have no significant impact on the consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 was issued in May 2014 by the IASB. Under IFRS 15, revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has determined that adoption of this standard will have no significant impact on the consolidated financial statements.

IFRS 16, Leases ("IFRS 16"), was issued in January 2016 by the IASB. According to the new standard, all leases will be on the statement of financial position of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has yet to assess the full impact of IFRS 16.

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

5 PROPERTY ACQUISITIONS

a) On November 24, 2017, the Company completed the acquisition of the Cerro del Gallo project through the purchase of all the issued and outstanding shares of San Anton Resource Corporation, a wholly-owned subsidiary of Primero Mining Corp. ("Primero") for total consideration of $15,194. Cash of $15,000 was paid to Primero on closing. The transaction was accounted for as an asset acquisition. The purchase consideration was as follows:

Cash consideration	$	15,000
Transaction costs		194
Consideration given	$	15,194

The allocation of the purchase price to the assets acquired and liabilities assumed is based upon estimated fair values at the date of acquisition as set out below:

Cash and cash equivalents	$	131
Mexican value added tax receivable		1,540
Prepaid expenses and other		12
Mineral properties, plant and equipment		13,514
Accounts payable and accrued liabilities		(3)
Net assets acquired	$	15,194

b) On February 23, 2017, the Company acquired the San Juan mineral concession adjacent to the El Castillo mine from a wholly-owned subsidiary of Fresnillo plc ("El Aguila") pursuant to a purchase and sale agreement dated February 23, 2017 between El Aguila and Minera Real del Oro S.A. de C.V., a wholly-owned subsidiary of Argonaut, for total consideration of $25,490. Cash of $13,000, plus 16% value added tax (“VAT”), was paid at the execution of the agreement. Additionally, deferred cash consideration of $13,000, plus 16% VAT, was paid on December 15, 2017. At the date of acquisition, an amount of $12,490 was included in the purchase price, representing the estimated net present value of the deferred cash consideration. Accretion of the deferred cash consideration from date of acquisition to December 15, 2017 is included in finance expenses. The transaction has been accounted for as an asset acquisition. The purchase price has been allocated to mineral properties based upon the estimated fair value of the assets acquired at the date of acquisition.

6 RECEIVABLES

		2017		2016
Mexican value added tax receivable	$	19,179	$	13,436
Due from customer		196		-
Other receivables		74		230
	$	19,449	$	13,666

7 INVENTORIES

		2017		2016
Supplies	$	8,854	$	7,484
Work-in-process		59,720		53,432
Finished goods		337		254
	$	68,911	$	61,170

Cost of inventories recognized as expense in cost of sales for the year ended December 31, 2017 totalled $123,792 (2016 - $114,178). During the year ended December 31, 2016, the Company recorded a non-cash impairment reversal of $3,551 related to net realizable value of the work-in-process inventory at the El Castillo mine, as a result of an increase in the price of gold as at the statement of financial position date. The reversal of inventory write down has been presented in a separate component of cost of sales in the statement of income.

8 MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Mineral properties[2]	Exploration and evaluation assets	Plant and equipment[2]	Total[3]
Cost				
Balance at January 1, 2017	$ 413,009	$ 345,114	$ 117,845	$ 875,968
Acquisitions (Note 5)	25,490	13,431	83	39,004
Additions	35,534	8,980	24,050	68,564
Disposals	-	-	(2,834)	(2,834)
Adjustment on currency translation	-	16,641	58	16,699
Balance at December 31, 2017	474,033	384,166	139,202	997,401
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2017	297,408	-	94,466	391,874
Additions	21,604	-	6,764	28,368
Disposals	-	-	(2,236)	(2,236)
Balance at December 31, 2017	319,012	-	98,994	418,006
Net book value at December 31, 2017	$ 155,021	$ 384,166	$ 40,208	$ 579,395
Cost				
Balance at January 1, 2016	$ 310,589	$ 406,274	$ 113,557	$ 830,420
Additions	23,042	11,517	8,038	42,597
Disposals	-	-	(3,752)	(3,752)
Reclassification[1]	79,378	(79,378)	-	-
Adjustment on currency translation	-	6,701	2	6,703
Balance at December 31, 2016	413,009	345,114	117,845	875,968
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2016	284,195	-	92,460	376,655
Additions	13,213	-	5,464	18,677
Disposals	-	-	(3,458)	(3,458)
Balance at December 31, 2016	297,408	-	94,466	391,874
Net book value at December 31, 2016	$ 115,601	$ 345,114	$ 23,379	$ 484,094

[1] Exploration and evaluation assets related to the San Agustin project, which obtained all regulatory permissions to proceed with development in 2016, were reclassified to mineral properties.

[2] As at December 31, 2017, plant and equipment includes $1,754 and mineral properties includes $1,575 of assets under construction primarily related to the El Castillo mining complex (December 31, 2016 - $1,966 and $82,294, respectively, primarily related to the San Agustin project), which were not subject to depreciation and depletion at the statement of financial position date.

[3] Certain mineral properties, plant and equipment are held as security on the Company's Revolving Facility (see note 11).

In October 2013, the Company signed a surface and mining rights exchange agreement with Richmont Mines Inc. (“Richmont”). Pursuant to this agreement, as amended, Argonaut will expand its surface and mining rights associated with its Magino project. The terms of this agreement provide for a CA$2,000 ($1,490 as at December 31, 2016) payment from Argonaut to Richmont that was made to escrow upon execution of the agreement and is included in restricted cash as at December 31, 2016. During 2017, the Company received the conditional consents and approvals required from certain persons or governmental bodies and

the escrow funds were released to Richmont. Accordingly, the Company reclassified the CA$2,000 from restricted cash to exploration and evaluation assets during the year.

9 INCOME TAXES

(a) Income tax expense (recovery) included in the statement of income is as follows:

	2017	2016
Current income tax expense	$ 1,180	$ 2,554
Deferred income tax expense (recovery)	(4,014)	7,489
	$ (2,834)	$ 10,043

(b) The income tax expense (recovery) differs from that computed by applying the applicable Canadian federal and provincial statutory rates before taxes as follows:

	2017	2016
Income before income taxes	$ 21,018	$ 14,374
Canadian federal and provincial income tax rate	26.5%	26.5%
Income tax expense based on Canadian federal and provincial income tax rates	5,570	3,809
Increase (decrease) attributable to:		
Change in unrecognized deferred tax assets	(5,194)	(2,401)
Effects of different foreign statutory tax rates on earnings of subsidiaries	861	224
Impact of Mexican inflation on tax values	(2,088)	(1,200)
Impact of Mexican Special Mining Duty	(546)	(876)
Impact of tax rate changes [1]	576	-
Non-taxable portion of foreign exchange	979	313
Impact of foreign exchange on deferred income taxes	(4,155)	8,791
Foreign withholding taxes	320	381
Flow-through share renunciation	-	300
Non-deductible expenses	707	939
Adjustments related to prior periods	187	(180)
Other	(51)	(57)
Income tax expense (recovery)	$ (2,834)	$ 10,043

[1] On December 22, 2017, the Tax Cuts and Jobs Act of 2017 came into effect in the US, which created a single US Federal income tax rate of 21%. This decline in income tax rate from 35% to 21% has resulted in a reduction of deferred income tax assets and a deferred income tax expense for the period.

(c) The significant components of the Company's deferred income tax assets (liabilities), without taking into consideration the offsetting of balances within the same tax jurisdiction, as at December 31 are as follows:

		2017		2016
Deferred income tax assets				
Unused non-capital losses	$	7,508	$	2,652
Reclamation provision		1,554		2,017
Share-based compensation		1,090		2,122
Mexican Special Mining Duty deduction		2,353		2,483
Inventories		-		1,121
Other		2,757		1,987
		15,262		12,382
Deferred income tax liabilities				
Mineral properties, plant and equipment		(22,010)		(23,518)
Inventories		(374)		-
		(22,384)		(23,518)
Deferred income tax liabilities, net	$	(7,122)	$	(11,136)

On the statement of financial position, deferred tax assets and liabilities have been offset where they relate to income taxes within the same taxation jurisdiction and where the Company has the legal right and intent to offset. Deferred tax assets (liabilities) per the statement of financial position as at December 31 are as follows:

		2017		2016
Deferred income tax assets	$	5,911	$	5,225
Deferred income tax liabilities		(13,033)		(16,361)
Deferred income tax liabilities, net	$	(7,122)	$	(11,136)

(d) In 2017, the Company recognized a deferred tax asset of $6,763 related to the net operating losses ("NOLs") from prior years of its subsidiary, Minera Real del Oro S.A. de C.V., which were not previously recognized as the utilization of the NOLs became probable with the declaration of commercial production at the San Agustin mine effective October 1, 2017.

Management believes that sufficient uncertainty exists regarding the realization of certain deferred tax assets such that they have not been recognized. The tax benefits not recognized reflect management's assessment regarding the future realization of Canadian and foreign tax assets and estimates of future earnings and taxable income in these jurisdictions as of December 31, 2017. As at December 31, 2017, the Company and its subsidiaries had unrecognized Canadian operating loss carryforwards of $61,264 which expire between the years 2018 and 2037 and unrecognized Canadian preproduction investment tax credits of $5,519 which expire between 2024 and 2033. Deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax assets are recognized in the statement of financial position as at December 31 are as follows:

	2017	2016
Unused tax losses	$ 61,264	$ 74,164
Preproduction investment tax credits	5,519	5,157
Cumulative eligible capital	1,950	1,822
Mineral properties, plant and equipment	50,507	56,779
Net capital losses[1]	1,769	1,547
Financing costs	-	56
Intercompany balances	3,477	1,699
Reclamation provision	6,545	6,185
	$ 131,031	$ 147,409

[1] Capital losses have no expiry date.

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Trade accounts payable	$ 14,351	$ 12,157
Accrued liabilities	8,530	7,799
	$ 22,881	$ 19,956

11 DEBT

	2017	2016
Revolving facility	$ 8,000	$ -
Other debt	-	916
Total debt	8,000	916
Less: current portion	-	916
Long term portion	$ 8,000	$ -

The borrowing arrangement classified as Other debt matured in April 2017.

Revolving Facility

In April 2016, the Company signed a credit agreement with a syndicate of Canadian banks for a revolving credit facility ("Revolving Facility") for an aggregate amount of $30,000 with a three year term. The Revolving Facility bears interest at the London Inter-bank Offered Rate ("LIBOR") plus 2.25% to 3.25% on drawn amounts and 0.51% to 0.73% on undrawn amounts, based on the Company's consolidated leverage ratio, as defined in the agreement. During the fourth quarter of 2017, $8,000 was drawn on the Revolving Facility, reducing the undrawn amount to $22,000 as at December 31, 2017.

The Company incurred $794 in transaction costs and upfront fees on closing of the Revolving Facility, which are being amortized over the term of the Revolving Facility. The Revolving Facility is secured by all of the Company's assets and is subject to covenants that require the Company to maintain certain net tangible worth and ratios for leverage and interest coverage. As at December 31, 2017, the Company was in compliance with these covenants.

12 RECLAMATION PROVISION

The Company's reclamation provision relates to the restoration and closure of its mineral properties, plant and equipment, primarily related to the Company's operating mines. The reclamation provision has been recorded as a long-term liability at net present value. The Company reviews and adjusts provisions at each reporting date. The total provision for reclamation at December 31, 2017 is $9,434 (December 31, 2016 - $10,376). The undiscounted value of this obligation is $10,880 (December 31, 2016 - $11,243), calculated using an inflation rate of 2.0% (December 31, 2016 - 2.0%). Accretion expense of $160 has been charged to the statement of income for the year ended December 31, 2017 (2016 - $132) to reflect an increase in the carrying amount of the reclamation provision, which has been determined using discount rates specific to the liabilities of 2.0% to 2.3% (December 31, 2016 - 1.3% to 2.0%).

The following table summarizes changes to the Company's reclamation provision:

	2017	2016
Balance at the beginning of the year	$ 10,376	$ 8,529
Accretion expense	160	132
Adjustment on currency translation	18	5
Revisions in estimates and obligations incurred[1]	(1,120)	1,710
Balance at the end of the year	$ 9,434	$ 10,376

[1] The revisions in estimates and obligations incurred for the year ended December 31, 2017 is comprised of an increase of $242 at the El Castillo mining complex (2016 - $550 increase), a decrease of $1,362 at La Colorada (2016 - $1,092 increase) and nil at Magino (2016 - $68 increase).

13 SHAREHOLDERS' EQUITY

(a) Authorized share capital: Unlimited common shares without par value

(b) Issued and outstanding share capital

	Number of shares		Amount
Balance at January 1, 2016	155,347,110	$	746,259
Restricted shares issued to directors	196,396		176
Restricted shares issued to employees - vested[1]	-		1,365
Restricted shares issued to employees - unvested	1,639,957		-
Restricted shares issued to consultants - vested[1]	-		42
Issuance of flow-through shares	1,280,000		2,579
Stock options exercised (Note 13(c))	24,604		51
Forfeiture of restricted shares previously issued to employees (Note 13(c))	(324,930)		-
Balance at December 31, 2016	158,163,137		750,472
Issuance of common shares by way of public offering	18,750,000		31,509
Restricted share units issued to directors	87,915		164
Restricted shares issued to employees - vested[1]	-		1,448
Restricted share units issued to employees - vested	19,899		42
Stock options exercised (Note 13(c))	479,676		812
Forfeiture of restricted shares previously issued to employees (Note 13(c))	(272,854)		-
Balance at December 31, 2017	177,227,773	$	784,447

[1] During the year ended December 31, 2017, 889,668 and nil restricted shares granted to employees and consultants, respectively, vested (year ended December 31, 2016 - 395,834 and 32,847, respectively). All of these restricted shares were issued in prior years.

Flow-through common shares

In May 2016, the Company issued 1,280,000 flow-through common shares at a price of CA$3.55 per share by way of a private placement for net proceeds of $3,212 (CA$4,173). Share issuance costs of $286 (CA$371) were incurred in relation to the offering. The net proceeds were bifurcated between share capital of $2,579 and flow-through share premium of $633. Under the terms of the flow-through share agreements, the Company agreed to incur CA$4,544 of qualified Canadian resource expenditures by December 31, 2017 and renounce those expenditures to the investors effective December 31, 2016. During 2016, the gross proceeds were fully utilized to fund exploration expenditures at the Magino project.

Public offering

In February 2017, the Company entered into an agreement with a syndicate of underwriters, under which the underwriters agreed to buy on a bought deal basis 16,700,000 common shares of the Company at a price of CA$2.40 per share for gross proceeds of $29,771 (CA$40,080). The Company granted the underwriters an option, exercisable at the offering price for a period of 30 days following the closing of the offering, to purchase up to an additional 15% of the offering to cover over-allotments, if any. The initial offering closed on March 15, 2017. On March 21, 2017, the syndicate of underwriters partially exercised the over-allotment option to acquire an additional 2,050,000 common shares of the Company at a price of CA$2.40 per share for additional gross proceeds of $3,686 (CA$4,920). After general offering costs and a 5% underwriting fee, the net proceeds to the Company totaled $31,509.

(c) Share-based compensation

The Company has established the Share Incentive Plan, as amended, which was adopted by the Board of Directors on February 12, 2010, was approved by shareholders in 2010 and was re-approved by shareholders on May 3, 2016. The Share Incentive Plan provides that the maximum number of common shares available to be granted by the Board of Directors as stock options, restricted shares, RSUs and any other stock-based compensation arrangements is 7.25% of the total common shares issued and outstanding.

Stock options

Stock options are granted to directors, selected employees and consultants. The options vest one-third per year for three years and have a contractual option term of ten years. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2017:

	Exercise price per share (CA$)	Number outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price (CA$)	Options exercisable		Weighted average exercise price (CA$)
$	1.10 - 1.31	1,424,432	8.10	$	1.10	474,808	$	1.10
	1.32 - 2.52	912,009	9.03		2.42	39,166		1.87
	2.53 - 3.49	635,989	7.15		2.60	403,691		2.59
	3.50 - 5.00	467,748	4.81		4.44	459,656		4.46
	5.01 - 7.50	86,154	4.82		6.90	86,154		6.90
	7.51 - 10.35	390,653	4.85		8.98	390,653		8.98
$	1.10 - 10.35	3,916,985	7.37	$	2.96	1,854,128	$	4.20

The following table summarizes stock option activity for the Company:

	Options	Weighted average exercise price (CA$)
Outstanding at January 1, 2016	2,627,948	$ 4.96
Granted	2,598,731	1.17
Exercised	(24,604)	1.75
Forfeited	(589,496)	2.69
Outstanding at December 31, 2016	4,612,579	3.13
Granted	904,799	2.45
Exercised	(479,676)	1.42
Forfeited	(1,120,717)	3.91
Outstanding at December 31, 2017	3,916,985	$ 2.96

The weighted average share price at the time of option exercise for the year ended December 31, 2017 was CA$2.55 per share (2016 - CA$3.35). The total share-based compensation expense related to stock options granted by the Company for the year ended December 31, 2017 was $853 (2016 - $909). As at December 31, 2017, there was $494 of unamortized stock-based compensation expense related to stock options granted (December 31, 2016 - $575).

The following weighted average assumptions were used in computing the fair value of stock options granted during the years ended December 31:

		2017		2016
Weighted average share price	CA$	2.45	CA$	1.17
Expected dividend yield		Nil		Nil
Expected volatility		64.0%		58.4%
Risk-free interest rate		1.2%		0.7%
Estimated forfeiture rate		8.2%		5.9%
Expected life		6 years		6 years
Weighted average fair value per stock option granted	CA$	1.43	CA$	0.63

The Company uses its historical volatility as the basis for the expected volatility assumption in the Black-Scholes option pricing model.

Restricted shares and RSUs

The following table summarizes the restricted share and RSU activity for the Company:

	Shares		Weighted average exercise price (CA$)
Outstanding at January 1, 2016	1,022,653	$	3.26
Granted[1]	1,860,887		1.17
Vested[2]	(625,077)		2.99
Forfeited[3]	(324,930)		1.60
Outstanding at December 31, 2016	1,933,533		1.62
Granted[1]	751,355		2.45
Vested[2]	(997,482)		1.91
Forfeited[3]	(299,584)		1.39
Outstanding at December 31, 2017	1,387,822	$	1.91

(1) The restricted shares and RSUs granted during the year ended December 31, 2017 includes 663,440 RSUs granted to employees that will be issued once the shares vest according to the terms below (year ended December 31, 2016 - 24,534).
(2) The restricted shares and RSUs vested during the year ended December 31, 2017 includes 19,899 RSUs granted to employees (year ended December 31, 2016 - nil).
(3) The restricted shares and RSUs forfeited during the year ended December 31, 2017 includes 26,730 RSUs (year ended December 31, 2016 - nil).

Restricted shares and RSUs granted to directors are immediately vested and are restricted for the shorter of two years after the grant date or six months after a director retires from the board. Restricted shares and RSUs granted to employees vest one-third per year for three years. Restricted shares granted to consultants vest one-half immediately and one-half in one year following the grant date. The references to outstanding restricted shares and RSUs in the above table refer to restricted shares and RSUs granted but not yet vested. The total share-based compensation expense related to restricted shares and RSUs for the year ended December 31, 2017 was $1,532 (2016 - $1,525). As at December 31, 2017, there was $633 of unamortized stock-based compensation expense related to restricted shares and RSUs (December 31, 2016 - $868).

(d) Stock options and warrants issued on acquisition of Prodigy

As at December 31, 2016 and 2015, in addition to the options outstanding that were granted by the Company, the Company had 674,749 and 1,029,582 outstanding stock options, respectively, with a weighted average exercise price of CA$7.32 and CA$6.70, respectively, for the purchase of common shares by former holders of Prodigy stock options issued under the former Prodigy share incentive plan. On December 11, 2012, when the Company completed the acquisition of Prodigy, each issued and outstanding option and warrant of Prodigy was exchanged for 0.1042 of an option or warrant of Argonaut, respectively. During the year ended December 31, 2016, 354,833 Prodigy stock options expired with a weighted average exercise price of CA$5.53 and the remaining outstanding Prodigy stock options expired unexercised in 2017. All outstanding warrants of Prodigy that were exchanged into warrants of Argonaut on completion of the acquisition of Prodigy were either exercised or expired in prior years.

14 SHARES OUTSTANDING

	2017	2016
Basic weighted average shares outstanding	173,183,225	157,626,147
Weighted average shares dilution adjustments:[1]		
Stock options	868,699	1,092,849
Restricted share units	342,044	-
Diluted weighted average shares outstanding	174,393,968	158,718,996

[1] Impact of dilutive stock options and RSUs was determined using the Company's average share price for the year ended December 31, 2017 of CA$2.38 (2016 - CA$2.63). During the years ended December 31, 2017 and 2016, certain stock options and RSUs were excluded from the calculation of diluted earnings per share due to the assumed exercise prices being greater than the average market price.

15 PRODUCTION COSTS BY NATURE

	2017	2016
Mining	$ 45,659	$ 51,183
Crushing	19,472	16,987
Processing	26,263	23,990
Mine general and administrative and royalties	8,115	8,487
Refining and desorption	2,619	2,490
Change in inventories	(3,363)	(8,900)
	$ 98,765	$ 94,237

16 FINANCE EXPENSES

	2017	2016
Interest	$ (36)	$ (125)
Loss on extinguishment of debt	-	(43)
Accretion on deferred cash consideration	(510)	-
Accretion on other liabilities	(198)	-
Accretion on reclamation provision	(160)	(132)
Amortization of debt financing and transaction costs	(278)	(178)
Other finance expenses	(152)	(114)
	$ (1,334)	$ (592)

17 OTHER INCOME (EXPENSE)

		2017		2016
Foreign exchange gain (loss)	$	802	$	(5,010)
Other income		989		246
	$	1,791	$	(4,764)

18 SUPPLEMENTAL CASH FLOW INFORMATION

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

		2017		2016
Increase (decrease) in expenditures on mineral properties for change in estimate of reclamation provision (Note 12)	$	1,120	$	(1,710)
Increase (decrease) in expenditures on mineral properties, plant and equipment related to a decrease (increase) in accounts payable and accrued liabilities and other liabilities	$	634	$	(2,797)
Fair value of restricted shares and restricted share units allocated from contributed surplus to share capital upon issuance	$	1,654	$	1,583

19 SEGMENT INFORMATION

Operating 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 segments and assess their performance, provided those operations pass certain quantitative thresholds. In order to determine if operating segments shall be aggregated, management reviews various factors, including economic characteristics, nature of their products, production process, regulatory environment, geographical location and managerial structure. After aggregation criteria have been considered, operations whose revenues, earnings or assets exceed 10% of the total consolidated revenues, earnings or assets are considered to be reportable segments. Early-stage exploration and other operations are reported in the Corporate and other segment. The producing El Castillo and San Agustin mines have been aggregated into the El Castillo mining complex reportable segment. The Company operates in the mining industry and its principal product is gold. During the year ended December 31, 2017, sales were to three customers (2016 - four customers). The Company's revenue is generated on the sale of product originating from Mexico. The Company's mineral properties are located in Canada (Magino) and Mexico (the El Castillo mining complex, La Colorada, and San Antonio). The following tables summarize segment information of the Company:

	El Castillo mining complex	La Colorada	San Antonio	Magino	Corporate and other	Total
Year ended December 31, 2017						
Revenue	$ 89,804	$ 65,285	$ -	$ -	$ -	$ 155,089
Production costs	61,503	37,262	-	-	-	98,765
Depreciation, depletion and amortization	9,884	15,143	-	-	-	25,027
Total cost of sales	71,387	52,405	-	-	-	123,792
Gross profit	18,417	12,880	-	-	-	31,297
Exploration expenses	-	410	-	17	9	436
General and administrative expenses	1,696	1,580	-	-	8,391	11,667
Other operating expenses	587	36	-	-	157	780
Income (loss) from operations	$ 16,134	$ 10,854	$ -	$ (17)	$ (8,557)	$ 18,414
Capital expenditures	$ 63,118	$ 18,830	$ 1,410	$ 7,520	$ 16,690	$ 107,568
December 31, 2017						
Mineral properties, plant and equipment	$ 144,285	$ 39,859	$ 112,424	$ 258,063	$ 24,764	$ 579,395
Total assets	$ 213,143	$ 68,911	$ 112,759	$ 258,665	$ 36,382	$ 689,860
Year ended December 31, 2016						
Revenue	$ 72,033	$ 72,747	$ -	$ -	$ -	$ 144,780
Production costs	51,655	42,582	-	-	-	94,237
Depreciation, depletion and amortization	11,180	12,312	-	-	-	23,492
Reversal of inventory write down	(3,551)	-	-	-	-	(3,551)
Total cost of sales	59,284	54,894	-	-	-	114,178
Gross profit	12,749	17,853	-	-	-	30,602
Exploration expenses	-	423	-	12	38	473
General and administrative expenses	650	945	-	41	8,958	10,594
Income (loss) from operations	$ 12,099	$ 16,485	$ -	$ (53)	$ (8,996)	$ 19,535
Capital expenditures	$ 14,244	$ 16,208	$ 1,473	$ 6,877	$ 3,795	$ 42,597
December 31, 2016						
Mineral properties, plant and equipment	$ 91,782	$ 36,214	$ 111,014	$ 233,928	$ 11,156	$ 484,094
Total assets	$ 150,540	$ 72,781	$ 111,459	$ 238,100	$ 37,020	$ 609,900

20 RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

(a) Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length.

The details of the Company's entities and ownership interests are:

	Location	Ownership	Status
Pediment Gold Corp.	Canada	100%	Consolidated
Castle Gold Corporation	Canada	100%	Consolidated
Prodigy Gold Inc.	Canada	100%	Consolidated
San Anton Resource Corporation	Canada	100%	Consolidated
Argonaut Gold (U.S.) Corp.	USA	100%	Consolidated
Minera Real del Oro S.A. de C.V.	México	100%	Consolidated
Durango Fern Mines S.A. de C.V.	México	100%	Consolidated
Compania Minera Pitalla S.A. de C.V.	México	100%	Consolidated
Pediment Exploration Mexico S. de R.L. de C.V.	México	100%	Consolidated
Minexson S.A. de C.V.	México	100%	Consolidated
Megashear Mining-Exploration S.A. de C.V.	México	100%	Consolidated
Castle Gold Services S.A. de C.V.	México	100%	Consolidated
Minera Sud California S.A. de C.V.	México	100%	Consolidated
Kings-San Anton S.A. de C.V.	México	100%	Consolidated
San Anton de las Minas S.A. de C.V.	México	100%	Consolidated
San Anton del Oro S.A. de C.V.	México	100%	Consolidated

(b) The compensation of the Company's directors and other key management personnel is detailed in the following table:

	2017	2016
Salaries and other short-term employee benefits	$ 2,619	$ 2,575
Post-employment benefits	112	130
Share-based compensation	2,375	3,146
	$ 5,106	$ 5,851

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and consist of directors and certain senior officers.

21 CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition, exploration and development of mineral properties. The capital of the Company consists of share capital, contributed surplus and debt (including the undrawn amount of $22,000 on the Revolving Facility), net of cash and cash equivalents. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's objectives in managing capital are to safeguard its ability to operate as a going concern and to generate a superior return to shareholders. The Company may finance acquisition and exploration activity through cash flows from operations, joint ventures and by raising additional debt or share capital when market conditions are suitable.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

22 COMMITMENTS AND CONTINGENCIES

At December 31, 2017, the Company has the following commitments:

	2018	2019	2020	2021	2022	Thereafter	Total
Operating lease obligations	$ 43	$ 2	$ -	$ -	$ -	$ -	$ 45
Land agreement obligations[(1)(3)]	1,928	1,972	1,190	1,135	1,199	10,806	18,230
Purchase obligations[(2)(3)]	12,126	779	-	-	-	-	12,905
Debt	-	8,000	-	-	-	-	8,000
Reclamation provision	-	-	-	-	-	10,880	10,880
	$ 14,097	$ 10,753	$ 1,190	$ 1,135	$ 1,199	$ 21,686	$ 50,060

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

(2) The Company has entered into commitments for supplies totaling $12,905.

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

Various tax and legal matters are outstanding from time to time. Judgments and assumptions regarding these matters are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in the consolidated financial statements on the date such changes occur.

23 FINANCIAL INSTRUMENTS AND RISKS

Overview

The Company's activities expose it to risks, including financial and operational risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks related to financial instruments to which the Company is exposed are credit risk, foreign exchange risk, liquidity risk and interest rate risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(a) Credit risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company maintains substantially all of its cash with major financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. The Company manages credit risk for trade and other receivables through

established credit monitoring activities. To reduce credit risk, the Company regularly reviews the collectability of its amounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. The Company currently transacts with highly rated counterparties for the sale of gold. Management believes that the credit risk concentration with respect to these financial instruments is remote.

(b) Foreign exchange risk

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

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

	US dollar value of Canadian dollar balances		US dollar value of Mexican peso balances	
	2017	2016	2017	2016
Cash and cash equivalents	$ 645	$ 4,693	$ 1,238	$ 1,467
Restricted cash	-	1,490	-	-
Accounts payable and accrued liabilities	(1,083)	(2,602)	(13,074)	(10,711)
Other liabilities	-	-	(1,593)	-
	$ (438)	$ 3,581	$ (13,429)	$ (9,244)

Based on the above net exposures at December 31, 2017, a 10% appreciation in the Canadian dollar would result in a $44 decrease (December 31, 2016 - $358 increase) in the Company's OCI. A 10% appreciation in the Mexican peso would result in a $1,343 decrease (December 31, 2016 - $924 decrease) in the Company's income before income taxes.

Foreign exchange derivative contracts

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

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

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

The resulting fair values of the outstanding contracts at December 31, 2017 have been recognized, on a net basis, in foreign exchange derivative liabilities on the statement of financial position. These derivative instruments were not designated as hedges by the Company and are marked-to-market at the end of each reporting period with the mark-to-market adjustment recorded in the statement of income. Details are as follows:

	2017
2017 foreign exchange contracts	
Realized gains	$ 2,546
2018 foreign exchange contracts	
Unrealized losses	(552)
Net gains on foreign exchange derivatives	$ 1,994

(c) Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and credit facilities. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities. As at December 31, 2017, the Company had a cash balance of $14,060 (December 31, 2016 - $42,098), an undrawn Revolving Facility of $22,000 (December 31, 2016 - $30,000) and current liabilities of $24,191 (December 31, 2016 - $23,152).

(d) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Company has interest bearing cash balances, which are subject to fluctuations in the interest rate. A 10% increase or decrease in the interest earned from financial institutions on deposits held would result in a nominal increase or decrease in the Company's income before income taxes. The Company has additional exposure to interest rate risk on the Revolving Facility, which is subject to a floating interest rate. Floating interest rates are based on the LIBOR plus a fixed margin. The Company does not enter into derivative contracts to manage this risk. Based on the utilized Revolving Facility balance of $8,000 at December 31, 2017, a 0.1% increase in LIBOR rates (10 basis point increase) would result in a nominal decrease in the Company's income before income taxes.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities, debt, other liabilities and foreign exchange derivative liabilities.

The fair value hierarchy that reflects the significance of the inputs used in making the measurements has the following levels:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The following table shows the carrying amounts of financial assets and financial liabilities by category as at December 31:

		2017		2016
Loans and receivables at amortized cost[1]	$	14,263	$	43,588
Other financial liabilities at amortized cost[2]	$	(31,944)	$	(22,402)
Liabilities at FVTPL[3]	$	(552)	$	-

[1] Loans and receivables at amortized cost include cash and cash equivalents, restricted cash and receivables.

[2] Other financial liabilities at amortized cost include accounts payable and accrued liabilities, debt and other liabilities.

[3] Liabilities at FVTPL include foreign exchange derivative liabilities.

As at December 31, 2017 and 2016, the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at December 31, 2016, the carrying amount of restricted cash is considered to be a reasonable approximation of its fair value. As at December 31, 2017 and 2016, the carrying amounts of other liabilities and debt are considered to be reasonable approximations of their fair values as the interest rates at inception are comparable to current market interest rates.

24 EVENTS AFTER THE REPORTING PERIOD

In February 2018, the Company entered into an amended and restated credit agreement (the "Amended Revolving Facility" or "ARF") for an aggregate amount of $50,000, representing a $20,000 increase from the principal amount of $30,000 under its existing Revolving Facility. The ARF encompasses an extension of maturity through March 31, 2021 and a $25,000 accordion feature, providing for total availability of up to $75,000. The ARF is subject to eight commitment reductions of $3,125 per quarter, plus the ratable amount of any incremental commitment derived from the accordion, with reductions to commence on June 30, 2019 and extend through maturity.