



ARGONAUT GOLD INC.

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2011

March 22, 2012

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CAUTIONARY STATEMENT

This Annual Information Form (“AIF”) includes certain “forward-looking statements” within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical facts, included in this AIF that address activities, events or developments that the Corporation expects or anticipates will or may occur in the future, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Corporation’s businesses, operations, plans and other such matters are forward-looking statements.

When used in this AIF, the words “estimate”, “plan”, “anticipate”, “expect”, “intend”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Examples of such forward-looking statements include statements pertaining to, without limitation, the future price of gold, the estimation of the mineral reserves and resources, the realization of mineral reserve and resource estimates, the timing and amount of estimated future production, costs of production, expected capital expenditures, costs and timing of development of new deposits, success of exploration activities, permitting requirements, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks and hazards, title disputes or claims and limitations on insurance coverage.

Although the Corporation has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated, or intended. There can be no assurance that such statements will prove to be accurate as actual results could cause developments or events to differ materially from those anticipated include, among others, the factors described or referred to elsewhere herein, and include unanticipated and/or unusual events. Many of such factors are beyond the Corporation’s ability to predict or control.

Readers of this AIF are cautioned not to put undue reliance on forward-looking statements due to their inherent uncertainty. Argonaut Gold Inc. disclaims any intent or obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. These forward-looking statements should not be relied upon as representing management’s views as of any date subsequent to the date of this AIF.

EXCHANGE RATE INFORMATION

In this AIF, unless otherwise stated, all references to "\$" refer to U.S. dollars and all references to "CA\$" refer to Canadian dollars.

The following table sets forth, for the periods indicated, certain information with respect to exchange rates for the Canadian dollar expressed in U.S. dollars such as the highest rate, lowest rate and the exchange rate at the end of each period and the average of such exchange rates based upon the noon buying rates as reported by the Bank of Canada:

Year ended December 31			
(\$)			
	2011	2010	2009
High.....	1.0583	1.0054	0.9716
Low.....	.9430	0.9278	0.7692
Period End.....	.9833	1.0054	0.9555
Average.....	1.0110	0.9709	0.8757

The noon rate of exchange on March 22, 2012 as reported by the Bank of Canada for the conversion of Canadian dollars into U.S. dollars was CA\$1.00 equals \$.9997.

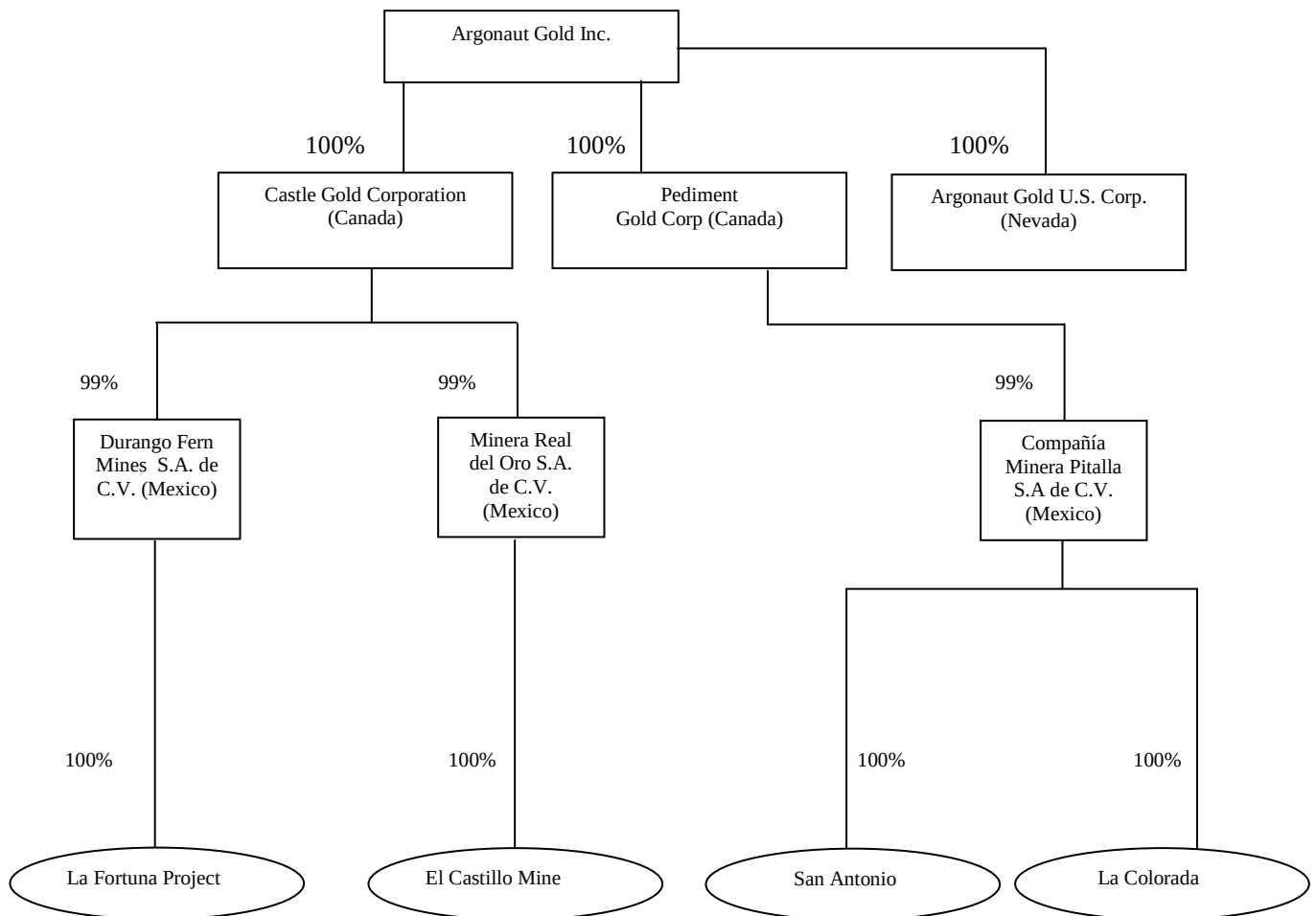
CORPORATION PROFILE AND CORPORATE STRUCTURE

Argonaut Gold Inc. ("Argonaut", "AGI" or the "Corporation") is a corporation existing under the *Business Corporations Act* (Ontario) (the "OBCA"). The registered office of the Corporation is Suite 400, Toronto-Dominion Centre, 77 King Street West, Toronto, ON, Canada, M5K 0A1. The corporate office of the Corporation is 9604 Prototype Court, Reno, NV, USA 89521.

The Corporation was incorporated under the name "Intuitivo Capital Corporation" ("Intuitivo") under the OBCA on April 3, 2007. Effective June 27, 2007, the articles of the Corporation were amended to remove the restriction on the transfer of the common shares of the Corporation. Effective December 30, 2009, the articles of the Corporation were further amended to change the name of the Corporation from "Intuitivo Capital Corporation" to "Argonaut Gold Ltd." and to consolidate each of the issued and outstanding common shares of the Corporation by changing every 30 issued and outstanding common shares into one consolidated common share of the Corporation (each a "Common Share"). On December 17, 2009, the Corporation incorporated a subsidiary, 1813214 Ontario Inc. ("Subco"), under the OBCA for the purpose of amalgamating the subsidiary with a private company existing under Ontario law, Argonaut Gold Ltd. ("AGL"). AGL and Subco amalgamated by way of articles of amalgamation under the name "Argonaut Gold Ltd." on December 30, 2009. On October 1, 2010, AGL was amalgamated with its wholly owned subsidiary Argonaut Gold Inc. and the amalgamated company was named Argonaut Gold Inc.

As at March 22, 2012, the corporate structure of Argonaut Gold Inc. was as follows: ⁽¹⁾

Figure 1:



Notes:

⁽¹⁾ The remaining 1% of the interest in the Mexican subsidiaries is held by a Mexican national as required under Mexican law.

GENERAL DEVELOPMENT OF THE BUSINESS

Argonaut is engaged in the business of gold production and related activities including the exploration and acquisition of gold-bearing properties, development and processing. The Corporation's material properties are the production-stage El Castillo Mine (the "El Castillo Mine") and the exploration-stage La Fortuna project (the "La Fortuna Project") located in the State of Durango, Mexico. Material properties acquired in the Pediment acquisition include the advanced exploration stage property San Antonio in the State of Baja California Sur, Mexico and the production stage La Colorada Project (as defined below) in the State of Sonora, Mexico.

THREE YEAR HISTORY

The Corporation was incorporated under the name Intuitivo Capital Corporation and began on April 3, 2007 as a capital pool company (“CPC”) pursuant to *Policy 2.4 – Capital Pool Companies* (“Policy 2.4”) of the TSX-V Corporate Financial Manual. As a CPC, the Corporation’s only expenditures were for costs to maintain a public company in good standing and to identify and evaluate potential business ventures or properties.

The Corporation completed its initial public offering of common shares on September 18, 2007 pursuant to a prospectus dated August 31, 2007 issuing 5,000,000 common shares of the Corporation at a price of CA\$0.10 per share for gross proceeds of CA\$500,000. The common shares of the Corporation were listed for trading on the TSX-V on September 20, 2007 under the symbol ITU.P.

The following is a summary of the key developments over the past three years.

2009

On November 24, 2009, the Corporation and AGI entered into the qualifying transaction agreement (the “Qualifying Transaction Agreement”) providing for a three-way amalgamation (the “Amalgamation”) whereby AGI would amalgamate with Subco and the shareholders of AGI would receive common shares on the basis of one common share for each share of AGI.

Prior to the completion of the Qualifying Transaction, the Corporation effected a consolidation of its outstanding common shares and options on the basis of one Common Share or option of the Corporation for every 30 pre-consolidated common shares or options, respectively, (the “Consolidation”) and changed its name from “Intuitivo Capital Corporation” to “Argonaut Gold Ltd.” The Consolidation and the name change, among other matters, were approved by the shareholders of the Corporation at an annual and special meeting of the shareholders held on December 23, 2009.

As required pursuant to the conditions of the Qualifying Transaction Agreement, on December 30, 2009, AGI acquired approximately 91.12% of the common shares of Castle Gold Corporation (“Castle” or “Castle Gold”) on a fully diluted basis, a production and exploration stage gold company with properties in Mexico, by way of an all cash take-over bid (the “Castle Gold Acquisition”).

The Qualifying Transaction of the Corporation was completed on December 30, 2009 by way of the Amalgamation. In connection with the completion of the Qualifying Transaction, the Common Shares were de-listed from the TSX-V and listed on the Toronto Stock Exchange (“TSX”) effective as of 5:01 p.m. (Toronto time) on December 30, 2009 under the symbol “AR”. The warrants of the Corporation (the “Warrants”) were listed on the TSX on January 22, 2010 under the symbol “AR.WT”.

2010

On February 18, 2010, AGI acquired the 8.88% of remaining shares of Castle Gold and delisted Castle Gold from TSX-V.

On April 30, 2010, the loan agreement on the CA\$6,193,587 loan was amended to reduce the interest rate from 12% to 12 month LIBOR plus 3%, to reset the LIBOR rate quarterly and to require the interest to be paid quarterly rather than annually. The loan agreement was further amended on September 30, 2010, to reduce the principal by CA\$1,050,000.

On September 17, 2010, AGI completed the sale of its investment in Rocas el Tambor, which was acquired with the acquisition of Castle Gold, for \$1.7 million.

On October 1, 2010, AGL was amalgamated with its wholly owned subsidiary AGI and the amalgamated company was named Argonaut Gold Inc.

On October 19, 2010, Argonaut and Pediment announced that they entered into a binding agreement to complete a transaction. Pursuant to the terms of the agreement, all of the issued and outstanding common shares of Pediment

immediately prior to consummation of the transaction shall become exchangeable into the common stock of Argonaut on the basis of 0.625 per common share of Argonaut for each one (1) Pediment common share.

2011

On January 27, 2011, the Corporation completed the business combination with Pediment (the “Pediment Arrangement”). Pursuant to the Pediment Arrangement, Argonaut acquired all of the issued and outstanding common shares of Pediment (“Pediment Shares”) on a basis of 0.625 of a common share of Argonaut for each (1) Pediment Share. Argonaut also converted all outstanding Pediment stock options to Argonaut stock options at the same ratio. Argonaut issued approximately 31.8 million Common Shares in exchange for the approximately 50.9 million Pediment Shares issued and outstanding, and converted the outstanding Pediment stock options into approximately 1.6 million Argonaut stock options. The aggregate equity consideration paid by Argonaut has an estimated fair value of approximately \$140.6 million (based on the Argonaut share price of C\$4.26 as at January 27, 2011 and the assumption used in the Black-Scholes option pricing model for the Argonaut options issued). The Pediment Arrangement added the San Antonio Project and the La Colorada Project to the existing property portfolio of Argonaut. On April 11, 2011, the Corporation filed a Form 51-102F4 “Business Acquisition Report” (restated on April 14, 2011) in respect of the Pediment Arrangement.

On December 31, 2011 Mr. Edgar Smith retired as Chief Operating Officer of the Corporation and was replaced by Mr. Richard S. Rhoades, who joined the Corporation on December 12, 2011.

Significant Acquisitions

2009 – Purchased 91% of common shares of Castle Gold

2010 – Acquired remaining common shares of Castle Gold.

2011 – Acquired all of the issued and outstanding shares of Pediment.

DESCRIPTION OF THE BUSINESS OF THE CORPORATION

AGI is a mining company engaged in exploration, development and production of gold. As of March 22, 2012 the Corporation’s primary assets are the El Castillo Mine, the San Antonio Project, the La Fortuna Project and the La Colorada Project as described below under the heading “Description of Mineral Properties”. AGI plans to achieve growth through development of its mineral properties and through acquisitions of existing properties. As at December 31, 2011, the Corporation had 10 employees and 211 personnel contracted through a services company.

Mineral Resource Estimates

The following table sets forth the gold and silver resources for the El Castillo Mine, the San Antonio Project, the La Fortuna Project and the La Colorada Project as of December 31, 2011.

Resource ⁽¹⁾	Category	Tonnes ⁽²⁾	Au Grade (g/t) ⁽²⁾	Au Ounces ⁽²⁾	Ag Grade (g/t) ⁽²⁾	Ag Ounces ⁽²⁾
Mineral Reserves						
Castillo – Oxide	Proven	71,605,000	0.37	858,100		
Castillo – Transition	Proven	19,180,000	0.37	228,000		
Sub Total Proven Castillo – Oxide & Transition		90,785,000	0.37	1,086,100		
Castillo – Oxide	Probable	772,000	0.33	8,000		
Castillo – Transition	Probable	73,000	0.35	1,000		
Sub Total Probable Castillo – Oxide & Transition		844,000	0.33	9,000		
Total Proven and Probable Reserves⁽³⁾		91,629,000	0.33	1,095,100		
Measured and Indicated Mineral Resources (Including P&P Reserves)						
Castillo – Oxide in Pit	Measured	101,400,000	0.33	1,084,200		
Castillo – Oxide in Pit	Indicated	4,900,000	0.293	45,700		

Castillo – Oxide in Pit	M&I	106,300,000	0.33	1,129,900		
Castillo – Transition in Pit	Measured	44,600,000	0.295	423,200		
Castillo – Transition in Pit	Indicated	1,900,000	0.278	17,100		
Castillo – Transition in Pit	M&I	46,500,000	0.294	439,900		
Total Castillo Oxide and Transition in Pit	Measured	158,900,000	0.322	1,645,300		
Total Castillo Oxide and Transition in Pit	Indicated	6,800,000	0.289	62,900		
Total Castillo Oxide and Transition in Pit⁽³⁾						
	M&I	152,800,000	0.32	1,569,800		
Castillo Sulphide (Global)	Measured	70,600	0.328	744,800		
Castillo Sulphide (Global)	Indicated	91,200	0.272	797,500		
Total Castillo Sulphide (Global)						
	M&I	161,800,000	0.296	1,540,000		
San Antonio, Las Colinas – Oxide and Transition	Measured	331,000	0.73	8,000		
San Antonio, Las Colinas – Oxide and Transition	Indicated	887,000	0.71	20,000		
San Antonio, Las Colinas – Sulphide	Measured	710,000	0.76	17,000		
San Antonio, Las Colinas – Sulphide	Indicated	5,097,000	0.84	138,000		
San Antonio, Los Planes – Oxide and Transition	Measured	9,594,000	0.91	281,000		
San Antonio, Los Planes – Oxide and Transition	Indicated	5,393,000	0.9	157,000		
San Antonio, Los Planes – Sulphide	Measured	7,760,000	1.21	301,000		
San Antonio, Los Planes – Sulphide	Indicated	18,272,000	1.02	596,000		
San Antonio, Intermediate – Oxide / Transition / Sulphide	Measured	388,000	1.01	13,000		
San Antonio, Intermediate – Oxide / Transition / Sulphide	Indicated	2,760,000	0.94	84,000		
All San Antonio Deposits – Intermediate – Oxide / Transition / Sulphide	Measured	18,783,000	1.03	620,000		
All San Antonio Deposits – Intermediate – Oxide / Transition / Sulphide	Indicated	32,409,000	0.96	995,000		
Total San Antonio Deposits – Oxide / Transition / Sulphide⁽⁴⁾						
	M&I	51,192,000	0.98	1,615,000		
La Colorada, Gran Central – La Colorada	Indicated	29,915,053	0.724	696,336	5.1	4,905,135
La Colorada, El Creston Deposit	Indicated	14,438,662	0.618	286,658	12.1	5,635,385
La Colorada, Veta Madre	Indicated	2,900,000	0.491	46,261	3.3	307,155
La Colorada, ROM Pad	Indicated	2,700,000	0.429	38,000	36.5	3,200,000
Total La Colorada Deposits⁽⁵⁾						
	M&I	50,000,000	0.664	1,067,255	8.7	14,047,675
La Fortuna ⁽⁶⁾	M&I	4,800,000	1.98	308,000		
Total Measured and Indicated Resources		420,592,000		6,099,800		14,047,675
Inferred Mineral Resources						
San Antonio – Oxide/ Transition / Sulphides	Inferred	2,755,000	0.62	55,000	0.62	55,000
La Colorada, Gran Central – La Colorada	Inferred	2,500,000	1.204	95,149	8.4	661,000
La Colorada, El Creston Deposit	Inferred	2,199,713	0.88	62,703	13.3	943,734
La Colorada, El Creston Deposit	Inferred	2,199,713	0.88	62,703	13.3	943,734
Sub Total Inferred La Colorada – La Colorada / Gran Central / El Creston		4,700,000	0.9	158,000	0.9	1,605,000
Total Inferred Resources		7,455,000		213,000		1,660,000

- (1) All Mineral Resources have been calculated in accordance with CIM Standards. Mineral Resources are not known with the same degree of certainty as Mineral Reserves and do not have demonstrated economic viability. Inferred Mineral Resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assured that all or part of the Inferred Mineral Resources will ever be upgraded to a higher category.
- (2) Numbers may not add up due to rounding.
- (3) The Mineral Resources for the El Castillo Mine set out in the table above have been rolled forward from the SRK NI 43-101 technical report dated November 8, 2010 less actual mine production. These amounts have been reviewed and confirmed by Thomas H. Burkhart, who is a qualified person under NI 43-101.
- (4) The Mineral Resources for the San Antonio Project set out in the table above have been estimated or reviewed and confirmed by Thomas Burkhart, who is a qualified person under NI 43-101.

- (5) The Mineral Resources for the La Colorada Project set out in the table above have been estimated or reviewed and confirmed by Thomas Burkhart, who is a qualified person under NI 43-101.
- (6) The Mineral Resources for the La Fortuna Project set out in the table above have been estimated or reviewed and confirmed by Thomas Burkhart, who is a qualified person under NI 43-101.

Description of Mineral Properties

El Castillo Mine

Unless stated otherwise, the information in the section below is based on the National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* (“NI 43-101”) compliant technical report prepared by Bart Stryhas, C.P.G., Ph.D., Bret C. Swanson, BE Mining, MAusIMM, and Eric Olin, MAusIMM (independent “Qualified Persons”, as defined in NI 43-101) of SRK Consulting (U.S.), Inc. dated February 24, 2011 (effective date November 6, 2010) entitled “NI 43-101 Technical Report on Resources and Reserves, Argonaut Gold Inc., El Castillo Mine, Durango State, Mexico” (the “El Castillo Technical Report”). Portions of the following information are based on assumptions, qualifications and procedures which are not fully described herein. Reference for certain information should be made to the full text of the El Castillo Technical Report available for review on SEDAR at www.sedar.com. The El Castillo Technical Report is not and shall not be deemed to be incorporated by reference in this AIF.

Property Description and Location

The El Castillo Mine is located in the State of Durango, Mexico approximately 100 km north of the city of Durango. The El Castillo Mine consists of four contiguous mining concessions totaling 216 hectares (“Ha”). Argonaut owns all four of these concessions outright. There is a 2.0% net smelter return royalty on one concession that covers the eastern portion of the mineral system. No ore mining has yet occurred on this concession and the royalty provision has yet to apply.

The El Castillo Mine is subject to Mexican environmental law, more specifically defined by the General Law of Ecological Balance and Protection to the Environment, effective March 1, 1988. Regulations and standards provide specific controls for environmental impact, air pollution, noise pollution, hazardous residues, and transportation of hazardous residues (April 1993). Exploration activities are currently regulated by Regulation NOM-120 establishing allowable activities, the size of areas to be affected, and specific exploration conditions to be observed.

The gold-bearing zones of the El Castillo Mine are located within altered granodiorite, argillites and hornfel units spatially correlated with the current El Castillo mining area. The known mineralization is all located within mineral concessions owned by Argonaut.

The environmental permits held by Minera Real del Oro (“MRO”) for the authorization of the “Unidad El Castillo” and “Ampliación Unidad El Castillo” projects are discussed below under the heading “Mining Operations”.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Access to the El Castillo Mine is good with total driving time from city of Durango varying between 1.5 and 2.0 hours depending on traffic. Driving distance to the property is 117 km (measured from the center of Durango). The first 111 km are paved and the final 6 km consist of well-maintained gravel road.

The El Castillo Mine is situated in a zone that is classified as semi-dry and receives an annual rain-fall of 550.5 millimetres (“mm”). The climate is temperate with an average annual temperature of 18°C and maximum temperatures of 35°C and minimum temperatures of 2°C. The region averages 17 frost events per year beginning in October and extending to April.

Argonaut also controls 1385Ha of surface rights in the El Castillo area. This is substantially larger than the area covered by Argonaut Gold’s mineral rights and overlaps onto mineral rights controlled by Compañía Minera La Parreña S.A. de C.V., a subsidiary of Industrias Peñoles. At the present time, Argonaut Gold is installing mine infrastructure (including leach pads) on ground for which they control the surface rights but not the mineral rights.

Argonaut is within their rights to do this since they control the surface, but potential conflicts could arise at a later date if the owner of the mineral rights were to discover economic quantities of gold in the area occupied by the process facilities.

All power requirements for process, crushing, laboratory, security and office facilities are provided by diesel powered generators.

Water supply is predominately for process and minor volumes for dust control, construction and potable uses and is provided by two wells with a combined capacity of 46 liters per second. One well is located 6.3 km from the site and the other is several kilometers closer to the site.

The village of Atotonilco, is located about 6km from the property and has a small supply of unskilled labor (± 73 inhabitants). The town of San Juan del Rio is located approximately 15 km from the El Castillo Mine and it has a slightly larger supply of unskilled labor ($\pm 2,500$ inhabitants) as well as a limited supply of housing. Some basic supplies are available in San Juan del Rio while most supplies and some contractors for construction and mining are available in Durango. Durango is a major regional population center with approximately $\pm 500,000$ inhabitants. There are daily flights to Durango from Mexico. Mexico City has daily air connections to major cities in North America. The local resources and infrastructure are adequate to support the current mining operation.

The current processing method is a heap leach operation and no tailings storage area is required. If the project were to convert over to a conventional milling operation, adequate tailings storage areas are available in the vicinity of the project. The mine currently has two waste disposal areas.

The El Castillo Mine is an operating mine and currently has the following facilities:

- an early stage open pit mine;
- a crushing plant;
- a cyanide heap leach pad;
- a carbon gold recovery plant;
- a waste dump;
- a truck shop and warehouse;
- a sample preparation lab and Atomic Absorption gold analysis lab;
- a mine panning office;
- a geology office; and
- various project access roads.

The El Castillo Mine area is characterized by terraced topography with relatively flat mesas dissected by strongly incised drainages. Typical relief is in the range of 300 to 500 m. Elevation at the project area averages 1,700masl. Vegetation consists of typical Mexican dessert species composed primarily of various cacti, shrubs and brush.

History

Ownership

Argonaut currently owns four mining concessions. Concession title 220073 (El Cairo I) was originally acquired from the Mexican government. Concession title 220075 (El Cairo II) was acquired from Explominerals S.A. de C.V. The El Oro (Title Number 220076) and Justicia (Title Number 220075) concessions were acquired from private individuals.

The El Castillo Mine was first optioned by Battle Mountain Gold Corporation (“Battle Mountain” or “BMG”) in 1995. Battle Mountain was acquired in 2000 by Newmont Mining Corporation which decided that the project did not meet their corporate size criteria and divested the property back to the Mexican government. Morgain Minerals Inc. (Morgain), a company then listed on the TSXV, took over ownership in 2002. In 2007, Morgain merged with Aurogin Resources to form Castle Gold Corporation. Argonaut acquired the project with the purchase of Castle in December of 2009.

Past Exploration and Development

The project, which was formerly called El Cairo, was a grass roots discovery that resulted from a regional exploration program initiated by BMG in 1995 while exploring for bulk tonnage, disseminated gold deposits. Initial regional work by Battle Mountain reportedly involved interpretation of satellite imagery, regional geophysical data, and regional geological mapping. A number of areas were selected on the basis of the regional studies, one of which was the El Castillo Mine area. Battle Mountain’s follow up work included a stream sediment geochemical survey that outlined a significant gold geochemical anomaly associated with El Castillo. Further mapping and sampling led to a successful drilling program delineating a potentially economic gold resource. Much of the initial satellite imagery, regional geophysical, geochemical,

and exploration data completed by Battle Mountain has not survived and was not available for review as part of this report.

Between 1995 and 1998 Battle Mountain completed 207 reverse circulation (RC) drill-holes and six diamond core holes (drilled as twins to six of the RC holes) within the El Castillo Mine area. Battle Mountain completed a resource estimate, scoping study, preliminary mine plan and reserve estimate that indicated the potential for a viable mining operation with operational similarities to Hecla's La Choya deposit in the northern region of the state of Sonora, Mexico.

Morgain took over the project in 2002. Their exploration work included completion of six twin diamond drill holes, and 136 RC drill holes. The core drilling was designed to test and verify the continuity, shape and thickness of gold mineralization identified by BMG with the twinning of selected RC drillholes. In addition the core samples were utilized for geotechnical studies and metallurgical testing.

Castle, as successor to Morgain began their work in 2007 and changed the project name from El Cairo to El Castillo in reference to a nearby rock monument of the same name. Castle's work included additional sampling and completion of 21 shallow, close-spaced air-track drill holes in the mining area to up-grade the near surface gold resource. Castle's work combined with previous work by Morgain and Battle Mountain was the basis for a preliminary reserve estimate by A.C.A. Howe International Limited dated January 31, 2008 and titled "Technical Report on the El Castillo Gold Project, Durango, Mexico". This report incorporated the results of an updated NI 43-101 compliant mineral resource and reserve estimate based on the additional geoscience and pre-production development work completed to date.

Historic Production

The El Castillo Mine sold its first gold in September 2007 from heap leaching begun the previous July. The El Castillo Mine completed the commissioning of commercial production in July 2008 as an open pit/heap leaching operation and has produced an estimated 98,000 oz of gold. Argonaut has produced 123,373 oz of gold since taking ownership of the mine.

Geological Setting

Regional Geology

The El Castillo Mine lies in the Altiplano Subprovince of the Sierra Madre Occidental (SMO) region of Central Mexico. The SMO represents an island arc assemblage of early Mesozoic age comprised of metamorphosed, deep-water sediments, and island arc volcanics. The Altiplano Subprovince lies on the east flank of the SMO and is comprised of Jurassic to Late Tertiary sedimentary and volcanic rocks. The oldest rocks in the El Castillo Mine area are Cretaceous flysch-sequence sediments that correspond to the upper member of the Mezcalera Group. These consist of arenites, shales, and thin bedded limestone dipping moderate to steep to the northeast with local zone of tight folding.

Regionally, the SMO is characterized by a thick sequence of lower Tertiary volcanic rocks comprised of an older andesite series overlain by younger pyroclastic dominated rhyolite series. These two series of volcanic rocks are referred to as the Lower Volcanic Series (LVS) and Upper Volcanic Series (UVS) respectively. The LVS can attain thicknesses of 1,000 m and is dominated by Paleocene to Eocene andesitic lavas with intercalated pyroclastic rocks. These rocks are not exposed in the El Castillo Mine area, but are well represented to the southwest, in the San Agustin and San Lucas mining districts, where they have been age dated at 38.8 Ma. The UVS unconformably overlies the LVS rocks and can also be up to 1,000 m thick. The LVS is typically composed of Oligocene to Miocene rhyolite-dacite pyroclastic volcanics. Within the mine area, an UVS rhyolite, ignimbrite caps the northern edge of the mineral deposit.

Within the El Castillo Mine area, Cretaceous Mezcalera Group flysch sediments are intruded by probable Oligocene porphyries of granodiorite to diorite composition. Petrographic studies indicate that most of the fine to medium grained porphyry found within the mineral system is granodiorite. This granodiorite corresponds to what was previously mapped as dacite or trachyandesite. It is thought to be of similar composition and age to the intrusive rocks mapped in the San Agustin and San Lucas mining districts located southwest of El Castillo. Similar intrusive rocks have been mapped by the Mexican Geological Survey (Consejo) to the north in the mining district of La Gotera located in the municipality of Rodeo, Durango where they were dated at 26 Ma and are hereby considered Oligocene in age. The granodiorite porphyry does not intrude the rhyolites in the mine area.

The El Castillo Mine is located within the Basin Range Province of Central Mexico which is characterized by northwest-trending basin and range extensional tectonics and related structures. Within the district, structure is dominated by a northwest striking range front fault along the west side of the mine and younger northeast striking dextral faulting throughout the district. A northeast to easterly-striking post-mineral fault system (North Fault) along the northern margin of the present pit forms the northern limit to mineralization. It appears that the North Fault has cut-off and down-dropped a northern portion of the ore zone as much as 135 m (in drill hole CA-31) as drilling in the hanging wall of the north fault has

encountered significant thicknesses of post mineral cover.

Local Geology

El Castillo is being studied as a telescoped porphyry copper-gold mineral system that is possibly related to Oligocene granodiorite porphyry and hosted in thin bedded Cretaceous sediments and the intruding granodiorite porphyry sills. Within the mine area, these rocks form an alternating sequence of variably metamorphosed sediments with intrusive sills that predominately strike to the northwest and dip moderately to the northeast. The porphyry intrusion created a prograde metamorphic aureole with a classic potassic-propylitic alteration assemblage in the upper portions of the porphyry and localized hornfels-skarn contact metamorphism in the Cretaceous sediments. Associated with prograde potassic alteration and contact metamorphism was zoned auriferous pyrite and relatively minor chalcopyrite-sphalerite-galena-arsenopyrite-tetrahedrite mineralization that is generally associated with quartz veins. Probable late-stage collapse of the magmatic-hydrothermal system resulted in structurally controlled quartz-sericite-pyrite alteration and auriferous pyrite mineralization. Later supergene oxidation of this pyrite dominated mineralization resulted in an, on average, 80 to 100 metre-thick oxide blanket and an underlying partially oxidized ("transition") zone averaging approximately 25 m thick. The combined oxide/transition mineralization is amenable to heap leach extraction and forms the current low-grade minable gold resource in the El Castillo Mine.

Local Lithology

The oldest rocks exposed on the El Castillo Mine property are thin bedded Cretaceous, flysch-sequence clastics and carbonates assigned to the upper Mezcalera Formation. The rocks generally consist of intercalations of argillites, hornfels and thin bedded limestone. The limestone appears to be more common within the deeper portions of the drilled sequence. The Mezcalera sediments have undergone at least one pre-mineral compressive event probably related to Laramide deformation in the region that resulted in tight folding. The sediments were metamorphosed by both the regional compressive event and local intrusion of Oligocene granodiorite porphyry sills.

The Cretaceous meta-sediments are intruded by probable Oligocene granodiorite to diorite porphyry that is generally altered throughout the studied area.

The El Castillo Mine provides an erosional window to the Cretaceous meta-sediments intruded by Oligocene porphyry and covered with rhyolites thought to be the upper volcanic series (UVS) of the Sierra Madre Occidental. Drilling has also identified a felsic volcanic tuff unit that occurs locally below the ignimbrite that is also post mineral. This tuff unit, where exposed in the mining operation, lies unconformably over the mineralized zone and locally contains fragmental lenses of the eroded ore zone. This unit is not exposed on surface in the mine area but occurs extensively north of the mine where it forms distinct hills and mesas protruding above the valley floor. The most distinctive of these is called El Castillo that lies five kilometres northeast of the mine. The mapped rhyolite ignimbrite, which is younger than the tuff unit is not known to be altered or mineralized within the Mine area. The ignimbrite is known from regional mapping to be as thick as 300 m, in the El Castillo areas, it is up to 87 m thick.

Overlying rhyolite ignimbrite is a continental, polymictic conglomerate that is the major valley cover to the west and south of the Property. Regionally, the conglomerate is up to 200 m thick and is up to 109 m thick in drilling.

Alteration

Late argillic alteration along with localized structurally controlled chalcedonic quartz is a characteristic alteration type within the central mined area of the El Castillo gold deposit. The Cretaceous siltstones appear to be particularly susceptible to late argillic-quartz alteration. No attempt was made to differentiate between hydrothermal clay assemblages and those associated with surface oxidation of pyrite; however, the late argillic-quartz alteration is known from drilling to extend below the zone of surface oxidation into the reduced zone of pyrite mineralization. Silicification was an important localized component along with argillization and formed in the shallow epithermal environment to deeper levels in the hydrothermal system. Shallow-formed silica was chalcedonic in nature with vuggy texture and appears to have been more massive at greater depths. Associated with much of the chalcedonic silica is fine grained crystalline hematite that is locked within the silica matrix and believed to be hydrothermal in origin. Surface oxidation of pyrite and hypogene sulphides on average occurs to depths of 80 to 100 m within the main zone of mineralization. This oxidation has resulted in replacement of the original respective sulphides by iron oxides with lesser chalcocite-covellite and malachite.

Throughout the mineralizing events, gold appears to have been largely associated with sulphides that are dominated by pyrite.

Supergene oxidation within the El Castillo resource area is of critical importance due to its relationship with heap leach

characteristics and potentialities and consisted largely of amorphous hematite to depths of 100 to 120 m of the exposed mineral system.

Structure

The El Castillo Mine is located within the Basin Range Province of Central Mexico characterized by northwest-trending basin and range extensional tectonics and related structures. Within the district, structure is dominated by a northwest striking range front fault along the west side of the mine and younger northeast striking dextral faulting throughout the district. A northeast to easterly-striking post-mineral fault system (North Fault) along the northern margin of the present pit forms the northern limit to mineralization. It appears that the North Fault has cut-off and down-dropped a northern portion of the ore zone as much as 135 m (in drill hole CA-31) as drilling in the hanging wall of the north fault has encountered significant thicknesses of post mineral cover.

Geological Model

The El Castillo Mine is thought to be a porphyry-style gold system related to Oligocene granodiorite-diorite porphyries that intrude Cretaceous clastic and carbonate sediments in an extensional tectonic setting. Gold mineralization occurs throughout the magmatic-hydrothermal system in space and time and is related to sulphide mineralization associated with early potassic, phyllic-argillic, and late argillic-quartz alteration assemblages. The main gold event is believed to be associated with late, epithermal argillic-quartz alteration. At present only oxidized or partially oxidized, transition material located relatively near surface is considered ore within the resource and reserve. The depth of oxidation has been strongly influenced by the density and depth of natural rock fracturing, total pyrite content of hypogene mineralization and the thickness of post-mineral cover.

Exploration

Surveys and Investigations

Between December 2009 and October 2010 Argonaut completed a 308-hole drilling program totaling 35,444 m. The drilling was mainly targeted south and east of the current open pit to establish the resource potential within areas known to have mineral potential. The drilling program was divided into two phases. Phase I consisted of the completion of an approximate 100 m drill-grid to define the approximate limits of the gold system. A second phase of drilling was designed to fill-in and step out from mineralization identified during Phase I. This Phase II program brought the drill spacing to an approximate 50 m spacing. The drilling was performed by Layne de Mexico, S.A. de C.V. which is a subsidiary company of Layne Christensen Company of Chandler, Arizona. Layne de Mexico (Layne) is headquartered in Hermosillo, Mexico.

During 2010, Argonaut also completed seven HQ core holes specifically to obtain samples for the metallurgical testing of transition mineralization (partially oxidized material) and sulphide material. This core was shipped to Kappes Cassiday and Associates (KCA) in Reno Nevada where it underwent a series of column tests to determine its viability for the heap-leach recovery of gold from transition and sulphide mineralization. On November 28, 2011, Argonaut announced initial findings of KCA support the potential for leach application of the sulphide material. Argonaut will complete additional testing to further define the metallurgical variability of the sulphide zones and their possible economic significance.

Procedures and Parameters

Recent and relevant exploration work at El Castillo consists of grid drilling 308 RC holes (35,444 m), seven core holes (802 m), geochemically analyzing 583 drill samples, magnetic interpretation of public domain airborne magnetics, and ongoing pit and property surface geologic mapping.

Five RC drill holes that are dispersed around the El Castillo property were analyzed over their entire length by cyanide soluble gold and multi-element geochemistry. The samples were prepared and analysed by ALS-Chemex Labs in Zacatecas, Mexico (Chemex). The assay method for gold was by cyanide leach with atomic absorption finish (Chemex internal code Au-AA13). Analysis for trace elements was by aqua regia digestion (partial extraction) and induced coupled plasma (ICP) analysis for the 35 element Chemex package (ME-ICP41).

Airborne magnetics used to model the El Castillo property were flown by the Mexican government in 1980 and are a public domain source of geophysical information that was downloaded from the government website (SGM). The specifics of the data include 800 m flight line spacings, 120 m altitude above the surface bird height, Gulf MK magnetometers for airborne survey and ground base station data reduction, and radar control for bird height and flight navigation. The direction of flight

is not known, but appears to be north-south.

Interpretation

The down-hole geochemistry was run to determine trace element zonation and gold-trace element relationships across the El Castillo Mine and as such, the data was analyzed using a comparison of element means and Pearson coefficients from each drillhole. Samples were not classified on the basis of host rock, alteration, or sulphide content, but rather all samples within each hole were given equal weight for the hole statistics. No standardization of geochemical values was performed and the relatively few gold and silver values that were below detection were set at detection values.

The El Castillo Mine is found to be associated with a relatively large intrusive source as indicated on the regional magnetic map for the San Juan del Rio 50,000 map sheet. This source has a pronounced east-west elongation with the El Castillo Mine located at its western apex. There are no high frequency sources near the Mine area possibly indicating that there are no volcanic sources associated with the mineral system which appears to be solely a function of the intrusive source. The intrusive source is consistent with the known mine geology.

SRK is of the opinion that the drilling operations were conducted by professionals, the RC chips and core were handled, logged and sampled in an acceptable manner by professional geologists, and the results are suitable for support of an NI 43-101 resource estimation.

Mineralization

Mineralized Zones

The moderately dipping granodiorite-diorite sills, siltites and argillites are the best host materials at El Castillo. Argillic-quartz alteration is often closely associated with the intrusive contacts and can be indicative of higher grade zones of mineralization.

Surrounding Rock Types

The Tertiary age, Upper Volcanic Sequence represented locally by the rhyolite ignimbrite is a continental, polymictic conglomerate. This unit is un-mineralized and unconformably overlies the mineralized units at El Castillo.

Relevant Geographical Controls

The dominant controls of gold mineralization include structural channeling along contacts between intrusive sills and metasedimentary units and a broad zone of northeast striking steeply dipping faults and fractures. Gold precipitation may be somewhat dependent on a chemically favorable environment within the sediments but does not appear to be strongly influenced by rock composition. The fluids, and their contained metals are believed to have been derived from a magmatic source and are related to a collapsing hydrothermal system possibly active during the later phases of the Laramide Orogeny.

Type, Character and Distribution of Mineralization

At El Castillo, gold is mainly associated with pyrite occurring as fracture fillings or stockworks and occurring within areas of hydrothermal brecciation. Pyrite with gold also occurs as disseminations especially within intrusive rocks. Within the mine the host environment for gold mineralization is dominated by an alternating pattern of sediments and parallel intrusive sills that strike to the northwest and dip steeply to the northeast. The sedimentary units generally vary from 20 to 40 m wide as do the intrusive sills. Many of the sills appear to have intruded along bedding planes by splitting the tabular sedimentary blocks into their present positions. This geologic event resulted in the unique alternating pattern of sediments and intrusive sills/breccias that are observed throughout the mine area. Extensive fracturing of the sedimentary blocks has created favorable secondary permeability for the deposition of gold mineralization predominately associated with pyrite. As a result, the northwest striking sediments can be better mineralized than the surrounding intrusive rocks.

There is typically a transition zone of partially oxidized mineralization that lies between the fully oxidized material and lower non-oxidized, sulphide material. The transition zone varies from 5-50 m thick and is generally influenced by degree of fracturing and level of erosion.

The sulphide zone is generally identified by the presence of pyrite mineralization. The presence of sulphides, either fracture-related or disseminated, is a good indicator of gold mineralization. The sulphide veinlets are most commonly 0.5 to 4.0 cm

wide.

There are two preferred trends to mineralization. The most obvious of these reflects the preferred mineralization contained within the sedimentary units. The favored permeability and chemistry of these rocks strongly influenced the distribution and geometry of mineralization. The second trend to mineralization is to the northeast and reflects structurally controlled zones of sulphide mineralization that may have served as feeders to the mineral system. The combination of these geologic controls resulted in a northeast elongated gold zone that measures approximately 1,600 m by 1,300 m.

Drilling

Type and Extent of Drilling

During the 2009-2010 field seasons Argonaut has drilled a total of 308 RC holes totaling 35,444 m, and seven core holes totaling 802 m. The RC holes were drilled on an approximate grid of 50 m with this drill spacing deemed adequate to define the extent of mineralization within the concession boundaries. Most of the RC holes were drilled on a -60 angle from horizontal on a 220° azimuth from true north which is generally normal to the strike and dip of Cretaceous sediments in the mine area. The core holes were drilled for metallurgical testing of the transition and sulphide mineralization and were located to test varied portions of the known mineralized system.

The RC drilling was performed by Layne de Mexico, S.A. de C.V. which is a subsidiary company of Layne Christensen Company of Chandler, Arizona. Layne de Mexico (Layne) is headquartered in Hermosillo, Mexico. Layne performed the RC drilling with a buggy-mounted RC drill and a track mounted RC drill with both machines utilizing dual-wall drill pipe and a down-hole percussion hammer. The RC method of drilling delivers a continuous sample with minimal contamination.

Procedures

A drill location is first laid out by the mine surveyors with a specified easting and northing and a drill pad is constructed if necessary. After the pad is completed, the collar point is reestablished. Typically, the overburden in the resource area is very thin and only a short section of casing is required. Drilling is conducted under dry conditions and all sample material passes through a cyclone prior to collection. There is no hole-abandonment remediation required in Mexico. Drill hole collars are covered and marked by a square concrete slab with the hole number etched in the concrete.

Results

Reputable contractors using industry standard techniques and procedures have conducted the drilling. This work has defined a large zone of anomalous gold mineralization within the sedimentary rocks and fault zones.

The mineralization is interpreted to follow several orientations controlled by fault planes, enechelon veins, vein stockworks and favored stratigraphy. Mineralization is also disseminated in certain rock types. The majority of drill-holes are angled at 60 degrees to the northeast to cross the area stratigraphy that is often preferentially mineralized. Based on the range of mineralization environments and orientations, there is no guarantee that drill sample lengths represent a true thickness of mineralization.

Interpretation

SRK is of the opinion that the drilling operations were conducted by professionals, the RC chips and core were handled, logged and sampled in an acceptable manner by professional geologists, and the results are suitable for support of an NI 43-101 compliant resource estimation.

Sampling and Analysis

All RC drill samples were collected by El Castillo Mine personnel including mine geologists and trained mine technicians. RC drill samples were collected every 1.5 metres in two 5 gallon buckets. The entire sample is then weighed (typically 125 kg). The sample is first split in half using a single Jones-type splitter. The one-half split is further reduced, again through the Jones splitter with one half of the split (one quarter of original sample) bagged for analysis with Chemex. The remaining sample is then split one more time and the remaining half (one eighth of original sample) sample bagged for storage in the project warehouse. Bagged samples for analysis are picked-up at the mine site by Chemex and transported by secured locked truck to Zacatecas, Mexico to the Chemex sample preparation facility for standard sample preparation and fire assay analysis.

The various drilling and sampling programs were conducted by professional drillers and geologists who performed to the standards of the mining industry. The sample recovery as recorded on the drill logs, shows that nearly all of the mineralized intervals produce very good recovery. Since the entire hole is sampled, all of the mineralized material is tested. Such sampling ensures that both mineralized and un-mineralized material is adequately characterized. Based on recovery, proper chain of custody, and thorough sampling methods, the factors impacting accuracy of results are positive.

The drilling, logging and sampling procedures described above combined with good recovery ensure that sample quality of the El Castillo drilling is very good. The sample length is appropriate to accurately characterize the mineralization and to distinguish any zones internal to the mineralization which may have anomalously high or low-grades.

At the Chemex sample preparation facility in Zacatecas, the samples underwent a standard sample preparation in which the samples are first weighed (reported with analytical results) and the entire sample dried. The entire sample is then crushed to at least 70% minus 10-mesh and then split with a riffle splitter to a 250 g sub-sample. The entire 250g sub-sample is then pulverized to at least 85% passing a minus 200 mesh. Approximately 150g of the pulverized sample is packaged and sent to the Chemex assay facility in Vancouver, BC, Canada via United Parcel Service for a 50 g fire assay (FA) with an Atomic Absorption (AA) finish for gold. The remaining 100 g pulverized sample is stored with Chemex in Zacatecas.

Argonaut has conducted a modern QA/QC program in conjunction with its exploration drilling program. This program includes standard reference materials, field duplicate samples and blank samples. In general, at least one and in many cases two, standard reference samples and blank samples were included with each of the 308 drillholes completed by Argonaut. During the second phase of drilling, field duplicate samples were also collected.

Security of Samples

Argonaut has included adequate QA/QC control to validate the primary laboratories analyses. The results of the QA/QC study verified the original assay analyses and indicated no assay bias. The analytical results within the current drillhole database meet current industry standards to support the Mineral resource estimation of this report.

The electronic database has been verified to original source data by several qualified personnel over the past eight years.

For the current study, the original Howe verified electronic database was augmented with the 2009 and 2010 drilling results. This database was compiled by Argonaut staff and their consultants. Argonaut's electronic database was verified by SRK against pdf copies of the original signed Chemex assay certificates. No errors were found.

Mineral Resource Estimate

The El Castillo Mineral Resource statement is presented below in the table as inclusive of Mineral Reserves. A 0.15 parts per million of gold cut-off grade was chosen for resource reporting based on the current mine plans. The results reported in the resource statement have been rounded to reflect the approximation of grade and quantity, which can be achieved at this level of resource estimation. The resources are included within a pit design based on a \$1,300 gold price and the same design parameters as the reserve pit.

Table: Mineral Resource Statement

Cut-off Grade Au (ppm)	Material Type	Resource Category	Average Au Grade (ppm)	Tonnes (M)	Ounces (k)
0.15	Oxide (in pit)	Measured	0.293	114.3	1,220.1
		Indicated	0.293	4.9	45.7
		M & I	0.331	119.2	1,268.0
0.15	Transition (in pit)	Measured	0.295	44.6	423.2
		Indicated	0.278	1.9	17.1
		M & I	0.294	46.5	439.9
0.15	Oxide & Transition (in pit)	Measured	0.322	158.9	1,645.3
		Indicated	0.289	6.8	62.9
		M & I	0.320	165.7	1,704.7
0.15	Sulfide (global)	Measured	0.328	70.6	744.8
		Indicated	0.272	91.2	797.5
		M & I	0.296	161.8	1,540.0

The mineral resources described above constitute contained metal in the ground. There are no known material issues related to environmental, permitting, legal, title, taxation, socio-economic, marketing, political or other relevant issues which may affect the mineral resources. Additionally, there are no known material issues related to mining, metallurgy, infrastructure and other relevant issues which may affect the mineral resources.

Mineral Reserve Estimate

The life of mine plans and resulting reserves are determined based on a gold price of US\$1,000/oz for the El Castillo open pit project. Reserves stated in this report are as of November 8, 2010 that correspond to the September, 2010 end-of-month topographical survey of the pit.

The ore material is converted from resource to reserve based primarily on positive cash flow pit optimization results, pit design and geological classification of measured and indicated resources. The in-situ value is derived from the estimated grade and various modifying factors.

Conversion of Mineral Resources to Mineral Reserves

Modifying Factors

Ore reserves are based on the economic balance between the value per tonne of rock and the cost to mine and process each tonne of rock. The value is based on estimated metal concentration, estimated metal value and leach recovery. The costs include development, mining, processing, and operating overhead.

To define the value per tonne of rock, the estimated concentration of gold is factored by an estimated long-term value. The long-term gold price used by SRK in the El Castillo cut-off grade calculation was \$1,000/oz. At the time this gold price was considered reasonable and appropriate for ore reserve estimation. The current higher gold price allows increased flexibility in the mining operation but an updated life of mine plan utilizing higher gold prices has not yet been completed.

The second factor is the process recovery, which is based on heap leach head grade, recovered metal and tail grade. The reserve uses a heap leach recovery value of 70% for oxide ore that is crushed, 50% for oxide that is run-of-mine and 60% for transition ore that is crushed.

In addition to cut-off calculations and pit optimization, open pit modifying factors include:

Slope angle. Directly affects stripping ratio and thus what can be considered a minable resource.

Pit design. The conversion from a theoretical pit optimization to actual pit design acts as dilution and in most cases increases overburden production.

Indicated and Inferred Classification. Inferred material is excluded from the optimization calculation, thus the classification determined by the geologist directly affects the minable reserve.

Mining Operations

Mining Method

The mining method employed at the El Castillo Mine consists of traditional drill and blast operations followed by excavator loading of rigid body haul trucks for ore transport to heap leach pad or crusher with waste transported to designated dump locations.

The mine contractor Canteras y Agregados de Monterrey, S.A. de C.V. (Contractor) drills 3.5-inch holes on a 3 m x 3.5 m pattern that are loaded by two 25-kg ANFO sacks. Argonaut pays for explosives as is common in Mexico, but the contractor is responsible for loading, priming and blasting of rock.

Drill chips are sampled and sent to the local assay lab for grade control map creation by mine engineering staff. Low grade run-of-mine ore is transported directly to the heap leach pad while higher grade material is sent to the current semi-mobile

crusher (North crusher). During 2011 a second semi-mobile crusher (East crusher) will be installed giving a planned crusher capacity of 6 million tonnes per year.

Loading is conducted using 2 Caterpillar 992 front end loaders to fill Caterpillar 777 (7), Caterpillar 740 (10) and Terex TR 100 (18) rigid body mine haul trucks. Waste material is sent to the current east waste dump and is end-tipped to a height of 50m before instability is encountered. No ARD issues are currently evident with the mining of oxide material but as the pit deepens into transition and sulphide rock this will need to be re-evaluated.

Metallurgical Process

The El Castillo Mine currently processes oxide gold ore through a conventional heap leaching operation that includes processing of both run-of-mine ore and crushing of higher grade ore, truck transport to multi-lift heap leach pads, irrigation with cyanide solution, and gold recovery through carbon-in-column (CIC) gold recovery circuits. Loaded carbon is transported offsite for further processing to a final dore.

The current cut-off grade is 0.15 grams per tonne of gold. Ore with grades from 0.15 grams per tonne of gold to 0.5 grams per tonne of gold is classified as run-of-mine ore and is delivered directly to the leach pads. Ore with grades greater than 0.5 grams per tonne of gold is classified as higher grade ore and is crushed to -3/4 inches before it is delivered to the leach pad by truck. Lime is added to all ore before delivery to the pad in order to maintain protective alkalinity and a leach solution pH of 10.0.

Heap leaching is presently conducted on the West Side heap leach pads, which provides 440,000 m² of pad area lined with 60mil High Density Polyethylene. The final two West Side leach pads were constructed in 2010. Future heap leach operations will be conducted at the East Side heap leach pads, which are presently under construction. The East Side leach pads will be divided into three stages and five cells with a total lined area of 900,000 to 1,000,000 m² and will have a total capacity of greater than 30 million tonnes.

The West Side crushing plant consists of a 30-inch x 55-inch primary jaw crusher and a single K400 cone crusher that is operated in closed circuit with a triple-deck Combo screen to produce a -3/4 inch final crushed product.

During the last quarter of 2010, the West Side crushing plant averaged 5,300 tonnes per day (162,700 tonnes per month). The East Side crushing plant, which is currently under construction, will consist of a 30-inch x 55-inch primary jaw crusher and two K400 cone crushers, each operated in closed-circuit with a triple-deck Combo screens to produce a -3/4 inch final product.

The West Side heap leach pad has limited remaining capacity, and eventually both the West and East crushing plants will be operated to provide crushed ore to the East Side heap leach pad. Crushed ore is stockpiled with radial stackers and then loaded into haul trucks for transport to the heap pads, where both run-of-mine and crushed ore are leached together in 5m high lifts. After a new lift has been completed the drip irrigation system is installed and ore is put under leach at an initial solution application rate with a reduction after two weeks for the remainder of the 60 day leach cycle.

Gold contained in the pregnant leach solution (PLS) from the West Side heap leach pads, is recovered from solution in a standard CIC circuit that consists of a train of five cascade-type carbon columns designed to handle a nominal PLS flowrate of 700m³/hr. Each carbon column has capacity for 5 tonnes of carbon. The CIC circuit for the East Side heap leach operations will be similar to the West side CIC circuit. The loaded carbon is sampled and sent to Mineral Research in Idaho for offsite stripping and gold refining.

The East Side heap leach is a functional replica of the West Side. During the fourth quarter of 2011 the crushing plants were combined for a single crushing circuit. By December 31, 2011, the West Side pads had capacity for 6-7 mm tonnes and the East Side pads had capacity for 30 mm tonnes. An additional 100 Ha were acquired in September to expand the West Side pads.

Production Forecast

The SRK production schedule was created using Chronos scheduling software with CPLEX as an optimization algorithm. Constraints on the schedule include:

- Precedence. Benches in previous phases must be mined before block can be completely mined out; based on elevation;
- Sinking Rate. Controlled max number of benches per phase per year (12 or 1/month);
- Maximum upper limit for ore ounces scheduled at 115,000 oz/y with 11 million tonnes of ore;
- Total tonnage limit set at 18 million tonnes per year, 20 million tonnes per year, 22 million tonnes per year, 22 million tonnes per year for four years then increasing to maximum 24 million tonnes per year.

The results of the SRK production schedule are presented in the table below:

Table: Life of Mine Production Schedule

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Crusher Tonnes	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Crusher Au Grade (g/t)	0.55	0.49	0.47	0.47	0.42	0.47	0.47	0.45	0.44	0.40	0.43
Crusher Au Ounces	105,634	94,272	90,132	90,517	80,983	89,858	91,330	86,755	85,242	77,404	82,879
Oxide Tonnes	5,987,877	5,560,824	5,807,469	5,849,611	5,489,753	4,571,658	2,650,376	4,349,370	3,668,292	2,562,717	249,590
Oxide Au Grade (g/t)	0.55	0.49	0.47	0.47	0.42	0.48	0.61	0.45	0.48	0.52	2.26
Oxide Au Ounces	105,463	87,257	87,004	88,602	74,631	71,035	52,090	63,171	56,060	42,437	18,149
ROM Oxide Tonnes	1,454,718	3,345,391	3,790,202	3,917,118	4,888,866	3,805,086	2,750,880	3,962,342	4,455,459	5,000,000	2,230,414
Rom Au Grade (g/t)	0.20	0.19	0.20	0.19	0.20	0.21	0.21	0.20	0.21	0.21	0.18
Rom Au Ounces	9,366	20,729	24,869	24,486	31,151	25,147	18,666	25,855	29,765	33,017	13,209
Transition Tonnes	12,123	439,176	192,531	150,389	510,247	1,428,342	3,349,624	1,650,630	2,331,708	3,437,283	5,750,410
Transition Au Grade (g/t)	0.44	0.50	0.51	0.40	0.39	0.41	0.36	0.44	0.39	0.32	0.35
Transition Au Ounces	171	7,015	3,128	1,915	6,352	18,824	39,239	23,584	29,181	34,967	64,730
Total Tonnes	18,000,000	19,560,466	19,222,021	22,061,826	21,754,099	17,838,570	12,806,056	18,549,025	17,467,035	17,807,725	13,655,412
Ore Tonnes	7,454,718	9,238,693	9,790,202	9,917,118	10,888,866	9,805,086	8,750,880	9,962,342	10,455,459	11,000,000	8,230,414
Au Grade (g/t)	0.48	0.39	0.37	0.36	0.32	0.36	0.39	0.35	0.34	0.31	0.36
Au Ounces	115,000	115,000	115,000	115,000	112,131	115,000	110,000	112,609	115,000	110,415	96,082

Markets

Gold markets are mature, global markets with reputable smelters and refiners located throughout the world. Demand is presently high with prices for gold showing a remarkable increase during the past year. Markets for doré are readily available. El Castillo ships loaded carbon to Metals Research Corporation in Kimberly, Idaho for gold extraction and refining.

Environmental Conditions

Minera Real del Oro has authorizations necessary to carry on its activities at its projects “Unidad El Castillo” and “Ampliacion Unidad El Castillo”:

Reclamation and closure plans have been prepared for both projects “Undidad el Castillo” and “Ampliacion El Castillo” with cost estimates for each.

Taxes and Royalties

The El Castillo Mine operates with a gross tax burden of 31% inclusive of all taxing entities.

Argonaut owns all four of the mining concessions outright. The smaller of the two El Cairo concessions, (title number 220073) was originally acquired from the Mexican government in a lottery. The larger El Cairo II concession (title number 220075) was acquired on June 12, 2004 from Explominerals S.A. de C.V. for a one-time payment of US\$ 20,000, 500,000 shares in Castle Gold and a 2.0% Net Smelter Royalty. This concession covers the eastern portion of the mineral system. To date no mining has occurred on the El Cairo II concession and the royalty has yet to apply.

The El Oro and Justicia concessions were originally acquired on November 5, 2004 from a group of private individuals. Argonaut reports that all concessions are owned outright, subject to the 2% NSR on the El Cairo II concession (title number 220075).

Mine Life

The final pit design is approximately 1.5km wide (east-west) by 1.3km long (north-south) and up to 170m deep. The pit contains approximately 106 million tonnes of ore and 93 million tonnes of waste for an overall strip ratio of 0.88 (waste:ore). Production is expected to be limited to 11 million tonnes for ore and 24M million tonnes in total over the course of the mine life. As a result, it is expected that 115,000 oz will be placed on the heap leach pad per year from 2011 through the end of 2022 for a mine life of 11 years.

Exploration and Development

Between December 2009 and October 2010 Argonaut completed a 308-hole drilling program totaling 35,238 m. The drilling was mainly targeted south and east of the current open pit to establish the resource potential within areas known to have mineral potential. The drilling program adequately defines the zone of gold mineralization to support the resource estimation.

Mining operations at the El Castillo Mine are undergoing a significant production ramp up from 2010 productions levels through 2011. With the infrastructure upgrades to the crushing plant and heap leach circuits, the proposed mining cost, process recovery and production rates should be achievable. As a result, 115,000 oz of gold can be placed on the heap leach pads per year within the 24 million tonnes production limit.

San Antonio Gold Project (the “San Antonio Project”)

Unless otherwise stated, the information in the section below is based on the NI 43-101 compliant technical report prepared by Edward Orbock III, M.AusIMM, Scott Long M.AusIMM and Dr. Lynton Gormely, P. Eng. (independent “Qualified Persons”, as defined in NI 43-101) of AMEC E&C Services Inc. with an effective date of June 20, 2011 entitled “San Antonio Gold Project, Baja California Sur, Mexico, NI 43-101 Technical Report” (the “San Antonio Technical Report”). Portions of the following information are based on assumptions, qualifications and procedures which are not fully described herein. Reference for certain information should be made to the full text of the San Antonio Technical Report available for review on SEDAR at WWW.SEDAR.COM. The San Antonio Technical Report is not and shall not be deemed to be incorporated by reference in this AIF.

Property Description and Location

The San Antonio Project is adjacent to the historic mining town of San Antonio, Mexico, about 40 km southeast by paved Highway No.1 from the port city of La Paz, and about 160 km north of the resort town of Cabo San Lucas.

The San Antonio Project contains three gold deposits, at Los Planes, Intermediate (between Los Planes and Las Colinas) and Las Colinas, and a number of exploration targets. The mineral concessions comprising the San Antonio Project were acquired in four stages. There are 15 concessions held on the San Antonio Project which have a total area of 46,328 Ha.

A number of third-parties hold contiguous tenure in the San Antonio Project area. An excised area, El Wincho, held by a third-party, occurs within the Trini concession Fracc. 1. An overlap in tenure may exist in the Triunfo area, where a third-party concession, Las Misiones Fracc. II (T. 218018), may overlap with an Argonaut concession. The potential for overlap will be verified by survey.

All concessions were granted for a duration of 50 years. The concessions are held in the name of Compañía Minera Pitalla SA de CV, which is a wholly-owned indirect subsidiary of Argonaut. As per Mexican requirements for grant of tenure, the concessions comprising the San Antonio Project have been surveyed on the ground by a licensed surveyor. AMEC was advised by Argonaut that duty payments for the concessions have been made, as required. These typically increase by year, based on a scale determined by the Mexican Government.

Argonaut has purchased 888 Ha of surface rights in the San Antonio Project area. In addition to 260 Ha previously acquired by Pediment Gold, Argonaut acquired 500 Ha in December 2010 from Ejido San Luis, through a contract for temporary occupation for 30 years. In June 2011, the company acquired an additional 128 Ha under contract from Ejido San Antonio with a temporary occupation permit for 15 years.

The Mexican government retains a sliding scale (variable) 1–3% net smelter production royalty on the four claims of the El

Triunfo concession group. The sliding scale is based on fluctuations in gold price. No other royalties are payable on any other concession, including the concessions on which the deposits are located.

Surface access agreements with the Procuraduria Agraria office in Baja California Sur, (paid on an annual basis to the local ejidos) allow for either “low impact” exploration i.e. prospecting, soil and rock sampling and hand trenching, or “transition”, i.e. road building, mechanical trenching, drilling, with higher cash payments.

There are no work commitments and all types of exploration are permitted except mining. Exploration companies are encouraged to use ejido workers whenever possible. Argonaut has endeavoured to hire all local staff from the ejidos and have consulted with the local village councils on all aspects of exploration; jobs are relatively high-paying for the local communities and are thus sought after.

Mexican Geological Survey Agreement

In July 2008, Pediment Gold acquired the El Triunfo–Valle Perdido concessions from the Mexican Geological Survey and committed to a variable 1% to 3% net smelter return (NSR); payable to the Mexican Geological Survey.

As a guarantee for the payment of NSR, Argonaut has to provide a bond to the Mexican Geological Survey for the amount of MXN506,853; which the Mexican Geological Survey could cash should Argonaut produce and not make its NSR payment. The bond is renewed annually, so the amount of the bond is held in trust for as long as the Mexican Geological Survey has its NSR active. Pitalla will remain responsible for payment of royalties on this material to the Mexican Geological Survey, as non-payment of the royalty will result in concession cancellation.

Environmental Liabilities

Argonaut has informed AMEC that current project environmental liabilities are restricted to exploration site activities and access roads constructed to service exploration programs.

Location of Mineralized Zones

Mineralization has currently been identified along a 1.8 km strike length, from UTM coordinates (NAD 27 datum) 2,638,300 mN to 2,640,100 mN. The mineralization is divided into three fault-bounded blocks, which have been named Las Colinas, Intermediate, and Los Planes, from south to north. Los Planes is the largest, and best-explored of the deposits to date.

Permits

Argonaut has informed AMEC that work completed to date, which consists of exploration-level activities, has been performed in accordance with Mexican regulatory requirements. A number of additional permits would be required to construct and operate the San Antonio Project:

- Environmental Impact Authorization
- Forestry Land Use Change Authorization
- Concession for the Occupation of National Assets
- Wastewater Discharge Permit
- Hazardous Waste Register
- Land Use License
- Permit for the Use of Explosives

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The San Antonio Project is within the San Antonio–Triunfo mining district located about 40 km southeast of La Paz (area pop. 200,000), the principal sea port and the capital city of the state of Baja California Sur, Mexico. The closest towns are San Antonio, 8 km west of the San Antonio Project, Triunfo, 10 km northwest of the San Antonio Project, and Los Planes, 15 km east of the San Antonio Project. Travel time from San Antonio is about 10 minutes.

Highway 1, a bitumen highway, passes through the San Antonio Project. Access within the San Antonio Project area is provided by good gravel and dirt roads.

La Paz is served by the Manuel Márquez de León International Airport that has flights to the most important cities of Mexico such as Mexico City, Guadalajara, and Monterrey, and has direct flights to Los Angeles in the United States.

The climate is normally arid and hot, with an average temperature of 23°C, and average lows of 12°C and highs of 35°C. The warmest months are typically July – September, and can be humid; winters, occurring from about December to February, are typically much cooler, and dry. Annual precipitation averages 175 mm, much of it associated with the hurricane systems that are most likely to occur during August and September. It is expected that any future mining operations will be able to be conducted year-round. Minor interruptions may occur to activities if hurricane conditions develop.

There is no existing project infrastructure. Exploration crews stay in San Antonio and travel to site as required. Cell coverage in the area is available. Roads and powerlines pass directly through the San Antonio Project area.

Argonaut has purchased 888 Ha of surface rights in the San Antonio Project area. In addition to 260 Ha previously acquired by Pediment Gold, Argonaut acquired 500 Ha in December 2010 from Ejido San Luis, through a contract for temporary occupation for 30 years. In June 2011, the company acquired an additional 128 Ha under contract from Ejido San Antonio with a temporary occupation permit for 15 years. It is a reasonable expectation that any additional surface rights that may be required to support any planned infrastructure locations can be obtained.

Power for any mining operation would be available from an upgraded 34.5 kV line that crosses over the San Antonio Project, originating from the Triunfo substation, which is located approximately 10 km northwest of the San Antonio Project area. The current route of the powerline will require relocation, as it intersects a portion of the area planned for the Los Planes open pit. About 3.2 km of line will need to be moved to the proposed road corridor.

The San Antonio Project is located within the Los Planes hydrologic basin that is bounded by the Gulf of California to the north, the Sierra La Salecita to the south, the Sierra La Gata to the east and the Sierra La Trinchera to the west. The basin has an approximate area of 930 km². Water resources within this basin and San Antonio Project area include washes with intermittent flows during the year and a generally unconfined aquifer.

Groundwater has been detected in drill holes at the site as shallow as 30 m from surface. Wells in the area have been tested in the past by the National Water Commission responsible for managing Mexico's water resources (Conagua). Groundwater quality in the Los Planes basin has historically been degraded by agricultural runoff containing nitrate, naturally-occurring arsenic in the mineralized zones, and geothermal activity.

The Company has acquired 730,000m³ of water rights from private individuals within the Los Planes basin and is completing processes to have those rights formally registered to the Company.

Mexico has sufficient experienced and skilled professionals to run the proposed San Antonio operation. The mining centres of San Antonio and Triunfo have inhabitants who have previously been involved in mining, although the operations are primarily closed. AMEC is of the opinion that workforce for any future mining activity could be sourced from the local area; however, the workforce would require dedicated training programs.

The northern part of the San Antonio Project is characterized by rounded hills rising from the pediment with elevations ranging from 200 m to 250 m above sea level (ASL). The southern part is more rugged with elevations from 400 m to 600 m ASL.

Vegetation consists of numerous varieties of thorny desert cacti, small shrubs and bushes, including manzanilla, mesquite, and palo verde.

The closest floral reserve is the Sierra La Laguna Biosphere Reserve. The San Antonio Project is situated 19 km from the nearest border of the buffer zone of the reserve, and approximately 25 km from the nearest border of the core of the reserve. AMEC notes that a major highway and the village of San Antonio are located between the reserve and the San Antonio Project, as is the semi-active La Testera mining/milling operation that is conducted by third-parties. The San Antonio Project site and the reserve are also separated by a major divide, and so surface drainage in the San Antonio Project area flows north–northeast towards the Gulf of California, opposite from the waters draining into the reserve.

History

Historic Production

Gold and silver mineralization was reportedly discovered in the Triunfo area around 1748, with limited small scale production occurring mainly in the Triunfo area and south of San Antonio.

A long period of inactivity followed until about 1862 when 25 mines were reported as working (CRM Baja California Sur Monograph, 2000). These mines produced steadily until 1895 when due to a large cyclone-hurricane, water problems and prices lead to a steady decline to 1915, after which the district was no longer active. Total production is estimated at over 3,580 kg of gold (115,000 oz) and 661 tons of silver (21,250,000 oz Ag), plus lead and zinc.

Legacy Exploration Activities

The government geological branch, Consejo De Recursos Minerales (CRM), carried out work in the 1970s, consisting of mapping, trenching and limited magnetic and induced polarization (IP) surveys which covered portions of the San Antonio Project.

A Canadian-based company, Viceroy Resource Corp., (Viceroy) began investigation of the San Antonio district which led to acquisition of the Paredones Amarillos area, 20 km south of the San Antonio Project, in about 1990. Echo Bay Exploration Inc. (Echo Bay) acquired the Paredones Amarillos area from Viceroy through joint venture (JV) and expanded concession holdings in the district to cover a large area outside the JV in the mid-1990s. This area included the San Antonio Project area.

During the approximate period from 1993 to 1998 Echo Bay carried out detailed geological mapping, stream sediment, soil and rock chip sampling, trenching, ground electromagnetics, airborne radiometrics, magnetic and very-low frequency electromagnetic (VLFEM) surveys, RC and core drilling, a first-time mineral resource estimate in 1996, and metallurgical studies.

The radiometric survey is reported to have indicated a weakly anomalous potassium and K/Th ratio response associated with the Las Colinas mineralization within the San Antonio Project (Brown, Reynolds, and Hauck, 1998). The Los Planes zone however was not recognized due to sand and gravel cover although several Echo Bay drill holes were completed in the deposit area.

Argonaut and Pediment Gold Activities

Exploration work by Pediment Gold staff in the area commenced in 2005. Activities to 2010 included data review, rock chip and grab sampling of old trenches and workings, soil sampling, reconnaissance IP geophysical surveys, RC and core drilling, mineral resource estimation, and metallurgical testwork. Third-party studies in relation to socio-economics, hydrogeology and geotechnical data have commenced.

A Preliminary Assessment (PA) was commissioned from AMEC in 2010, and indicated positive San Antonio Project economics were likely from the mine plan envisaged in the PA.

In March 2011, Argonaut commenced RC drilling a 10,000 m drill program that will consist of approximately 30 RC drill holes in the Intermediate Zone and 40 RC drill holes in Las Colinas. The primary focus of this program is to support potential upgrades in Mineral Resource confidence categories.

Geological Setting

Regional Geology

The basement of the Baja Sur comprises a chain of Mesozoic granitic bodies and accompanying metasedimentary roof pendants structurally sutured by the La Paz fault to a western belt of oceanic crustal rocks. The crystalline complex west of the La Paz fault that includes the San Antonio district is composed of two separate intrusive complexes hosted in sediment-derived schists and gneisses. A hornblende-rich intrusive complex ranges in composition from gabbro to quartz-diorite, locally shows foliation, and typically hosts mineralization in the San Antonio area. The biotite granodiorite batholith that

hosts mineralization at the Concordia (Paredones Amarillo) gold deposit (held by third parties) is considered to be a younger intrusive event.

Cretaceous marine sedimentary rocks of the Eugenia and Valle Formations overlie the basement assemblage. In turn, the Cretaceous rocks are overlain by lower Tertiary marine sediments of the Tepetate Formation. Possibly contemporaneous volcanism represented by tuffs and sandstones of the Salto Formation may have accompanied deposition of the shales, sandstones and tuffs of the Oligocene San Gregorio Formation that overlies the Tepetate Formation. The San Gregorio Formation is in turn overlain by tuffs, conglomerates, siltstones and sandstones of the earliest Miocene Isidro Formation. The widespread early to middle Miocene Comondu Formation, a series of interbedded volcanic sandstones, siltstones, rhyolite ash-fall tuffs, and andesitic lahars and flows, overlies the Isidro Formation. Unconformably overlying the Comondu Formation is a series of mid-Miocene to Holocene basalt flows.

Project Geology

Lithologies

Due to the paucity of outcrop within the San Antonio Project, geological interpretations are primarily based on drill data. The primary rock units within the San Antonio Project belong to the basement of the Baja Sur, and include:

- Diorites and gabbros: usually coarse grained, contain abundant hornblende or augite and are dark-coloured. Common in the southern portion of the Colinas area, and near the historic La Colpa mine. Minor fine-grained variants were noted in the La Colpa area.
- Biotite–hornblende quartz diorites: abundant hornblende and minor quantities of magnetite; commonly have ilmenite as the dominant opaque mineral. Quartz diorite is common in both the hanging-wall and footwall of the Planes deposit, and coarse-grained biotite–hornblende quartz diorite is the most common rock type present in the Planes deposit. Las Colinas has a mix of diorite and quartz diorite.
- Biotite granodiorite–granite: The intrusion has a weakly porphyritic character with fine grained biotite of a brownish coffee color. It is present as a medium-grained quartz-rich intrusive beneath the Planes deposit and is seen mainly in the drill holes which penetrate deeper into the hanging-wall of the large thrust fault shear zone. Rocks of similar texture crop out south of the Colinas deposit and adjacent to the southeast of the La Colpa mine zone.

Post-mineralization northwest-trending andesite dykes were noted in the Colinas area and the Arroyo Fandango.

Overlying the basement material are poorly consolidated arkosic sands to gravels attributed to the locally important Pliocene to Pleistocene Salada Formation. The sediments appear to be a deltaic deposit formed in a relatively rapidly subsiding basin.

A thin mantling along the top planar alluvial surface of the pediment contains numerous scattered exotic cobbles and occasional boulders of schist and gneiss. The same schist and gneiss rock units are more common in the adjacent ridges and mountains located immediately to the west and these fragments were probably carried down by erosion.

Metamorphism and Alteration

The biotite granodiorite–granite intrusive rocks may display a weak pervasive sericitic alteration.

Surface oxidation of the sulphide-bearing deposits has progressed to about 100 m in the Los Planes deposit and about 25–30 m in the Las Colinas deposit.

Structure

The San Antonio Project deposits are contained in a large mega-shear structure, possibly a Mesozoic-age thrust fault, which is dipping at about 45° to the west. This mega-shear appears to be regional in extent, with strands and splays that may have been more favourable loci for mineralization.

Drilling at Los Planes and Las Colinas shows the thickness of the shear zone to be more than 200 m, and to be hosted in mid-level intrusive rocks of similar age to the shearing episode. The presence of the structure for 40 km to the south, suggest the shear zone is a thrust fault-related structure.

Drilling has also revealed that a small northwest trending graben basin, probably Pleistocene age, with true listric faulting drops the northeastern part of the Los Planes deposit in domino like fault segments to sequentially more than 200 m deeper to the northeast. These listric faults range from 20 m of movement up to 100 m of movement dropping the blocks down on the northeast side along N40W-trending faults. The movement appears sequential with older faults to the southwest that have been planed by pediment erosion on both sides of the faults, with the more northeastern blocks having gravel-sand filling only on the northeast side of the fault.

Exploration

Exploration has been undertaken by Argonaut, predecessor companies such as Pediment Gold and Echo Bay, or by contractors (e.g. geophysical surveys).

Exploration activities on the San Antonio Project have included regional and detailed geological mapping, rock, grab, and soil sampling, trenching, RC and core drilling, ground magnetic and IP geophysical surveys, mineralization characterization studies, and metallurgical testing of samples. Petrographic studies and density measurements on the different lithologies have also been carried out.

During 2008, Pediment Gold performed prospect-scale geological mapping along the strike from Las Colinas to Intermediate, and at the Fandango prospect.

During 2010 Pediment undertook prospect-scale mapping over the La Colpa zone and the Triunfo area, at a scale of 1:2,000. The program focused on the northeast end of the Triunfo trend and identified general areas of alteration, structure, and mineralization at outcrop level.

Geochemical sampling performed by Echo Bay and CRM included rock chip, grab, and soil sampling. Rock and trench samples were collected by qualified Mexican geologists/prospectors with data, including UTM coordinates, lithology and mineralization recorded in field books.

Soil samples were collected mainly in 2007 and the results are not contoured. A total of 3,600 samples were collected.

The surveys identified two gold anomalous trends that were related to the northern extent of the Las Colinas trend and the northern trend from Mina La Colpa. A large western zone, Fandango, showed anomalous gold values. The La Virgen zone, also returned a broad low-level gold anomaly.

Anomalous As, Ag, Pb, and Sb, characteristic of the El Triunfo mineralization, occurred in a zone with no outcrop, called the 602 anomaly, near the east side of the Trini concession.

A small number of trial pits were reportedly dug in some areas.

During the mid-1990s, Echo Bay completed an IP survey over the Las Colinas deposit. Additional lines to the north were also run. Results of the survey indicated continuation of the Las Colinas mineralization to the north of the then-existing drilling.

Reconnaissance IP was completed by Minera Pitella in 2006. Results of the survey showed two large polarization anomalous areas which extended off the Cirio concession north and east. The central RIP anomaly was concluded to probably connect to the Las Colinas deposit area, while the eastern chargeable anomaly was located out east of the concession. The Los Planes zone could be traced in the IP data a distance of 600 m further north.

Argonaut commissioned a controlled source audio-frequency magneto tellurics (CSAMT) geophysical survey, which was completed during July 2011. Zonge Engineering performed the work under subcontract to Schlumberger Water Services (SWS).

In 2006 Pitalla completed a resampling program of four Echo Bay trenches and widespread rock chip sampling and results confirmed gold mineralization in the trenches.

Two additional trenches of about 40 m length each were dug and bulk sampled in 2008 to provide samples of gold mineralization averaging about 1 g/t Au for leach testing.

Golder Associates Inc. was contracted in July 2010 to complete a final feasibility-level pit slope study. Field work was conducted including the drilling and logging of six oriented drill core holes to better characterize the type of rock and existence of geologic structures such as faults and formations. The final report on this work was completed during the third quarter of 2011.

AMEC used the initial pit slope recommendations from the Golder studies when considering reasonable prospects of economic extraction.

In May 2010, a hydrologic consulting firm, Schlumberger Water Services (SWS), was contracted to perform an initial investigation into issues related to water supply and usage for the San Antonio Project. SWS completed field work and literature reviews over a four-month period and in September 2010 provided a Phase 1 hydrologic report.

Phase 2 was initiated in December 2010 to continue key areas of the Phase 1 work including the development of monitoring and production water wells and an assessment of the general effect of the San Antonio operation on other users in the Los Planes groundwater basin. The report was completed during the fourth quarter of 2011.

Mineralization

Two separate, Mesozoic-age intrusive complexes hosted in sediment-derived schists and gneisses form the basement to the deposits. The granitic bodies and accompanying metasedimentary roof pendants are structurally sutured by the La Paz fault to a western belt of oceanic crustal rocks. A mega-shear of regional extent, possibly part of the La Paz fault system, hosts the San Antonio Project deposits. Mineralization has preferentially developed in zones of stockworking, cataclasite and mylonite within fault strands and splays off the main shear zone. The deposits are considered to be typical of mineralization developed in shear-zone lode gold deposits. Alteration typically progresses from chlorite-dominant around the cataclasite units (distal) and to sericite-dominant within the cataclasite units (proximal). Gold mineralization is interpreted to consist of two stages, the first being disseminated gold–arsenic deposition during mylonitization, and a second-stage gold–silver–bismuth mineralization hosted by crosscutting, high-angle, northeast-trending structures. Chemically, the system has low silver relative to gold, having Ag/Au ratios of approximately 0.4.

Deposits

Potentially economic gold mineralization on the San Antonio Project has been identified along a 1.8 km strike length, from UTM coordinates (NAD 27 datum) 2,638,300 mN to 2,640,100 mN. The mineralization is divided into three fault-bounded mineralized blocks, which have been named Las Colinas, Intermediate, and The North Zone (also called Los Planes). Los Planes is the largest, and best explored of the deposits to date and forms the northern most of the three mineralized zones.

Los Planes

Mineralization at Los Planes extends on strike for about 800 m, from UTM coordinates (NAD 27 datum) 2,639,300 mN to 2,640,100 mN. Drilling has encountered continuous mineralization to 380 m depth. In the southern portion of Los Planes mineralization is around 15 m in thickness but increases in width to the north where mineralized zones coalesce and reach up to 120 m in thickness. The current geological model for Los Planes consists of two main units based on differences in structure, alteration and mineralization. The units are separated by a west-dipping gouge zone and consist of a hanging wall unit and a footwall unit. Mineralization is hosted mainly within the sub-units coded as —hanging wall 1 (HW1) and —stockwork. The former contains the most deformed rocks in the geological model, varying from foliated intrusive to levels of microbreccia, cataclasite, or pseudotachylite. This unit varies in dip from sub-vertical (in the west end) to sub-horizontal (towards the east) and has strong sericite–chlorite alteration. Mineralization is closely associated with arsenopyrite and pyrite which occurs as disseminations and/or small fractures and veinlets. The stockwork sub-unit is composed of breccia zones of variable dip (from -75° to the west to sub-horizontal) that are on average 15 m thick, and are cemented by pervasive arsenopyrite and pyrite. These zones typically contain higher gold grades and are interpreted as feeder zones for HW1. The sub-zone coded —hanging wall 2 (HW2) is a structural transition from hanging wall 1 to the

west and has similar characteristics to those of HW1. However, HW2 is less deformed overall as deformation tends to occur in more localized zones, and has less alteration and fewer sulphides. In some areas the contact between HW1 and HW2 is a fault contact locally characterized as gouge. The rock in the footwall unit is much less deformed than in the hanging wall unit and is typically un-mineralized. Although mineralization is intimately associated with the presence of sulphides, the Los Planes zone also contains areas of strong oxidation. Between the sulphides and oxides there is also a zone of transition material of varied thickness. The oxidized zone can reach up to 100 m in depth from surface and appears to be related to Quaternary faulting. Oxidation at Los Planes is much stronger and deeper than in the Intermediate and Las Colinas zones. When the stockwork sub-zone appears oxidized it has a physical appearance of hematite-rich rubble. Several intrusive types have been logged including, quartz diorite, granodiorite and granite; however, recent petrographic studies suggest that the intrusive body at Los Planes-Las Colinas is more homogeneous and ranges in composition from granodiorite to tonalite. It is possible that all the mineralization is actually hosted within a granodiorite unit that displays local variations resulting from mixed alteration and different degrees of deformation and therefore logged differently. Alteration is zoned, progressing from chlorite-dominant around the cataclasite margins to sericite-dominant within the cataclasite units.

Las Colinas

The geology of the Las Colinas and Intermediate zones are very similar to that of Los Planes; however at Las Colinas, the stockwork sub-zone is absent and the width of HW1 varies from 18 m to 40 m. The mineralized zone has a roughly north-south strike and dips at about 45° to the west. Mineralization extends along strike for about 500 m from UTM coordinates (NAD 27 datum) 2,638,300 mN to 2,638,800 mN. Drilling has intercepted continuous mineralization to about 210 m depths. Mineralization at Las Colinas is truncated by the tenement boundary to the south at coordinate 638,300 mN. The deposit remains open at depth, but is limited to the north, where it is truncated by a northwest-trending fault. The main shear zone is a dense, competent rock composed of fragments of potassium feldspar and quartz in a matrix of sericite, chlorite, and quartz. Alteration is zoned, from chlorite-dominant around the cataclasite margins to sericite dominant within the cataclasite unit. The level of oxidation at Las Colinas extends only a few metres vertically from surface.

Intermediate Zone

The main mineralized body at the Intermediate deposit is developed within a shear zone that strikes approximately north-south and dips at near 60° to the west. Mineralization extends along strike for approximately 500 m, starting at UTM coordinates (NAD 27 datum) 2,638,800 mN to 2,639,300 mN. Mineralization is strongest on the north end where the ore zone measures up to 50 meters wide. The system narrows somewhat to the south toward Las Colinas and grades are generally lower. Drilling has intercepted continuous mineralization to about 210 m depth. As noted at Los Planes, the better gold grades in the Intermediate zone are hosted in breccia and stockworks that contain strong sulphides (arsenopyrite > pyrite). Oxidation depths are similar to those at Las Colinas. Mineralization is truncated to the north and south by west-northwest-trending faults that separate this middle zone from the Los Planes to the north and Las Colinas to the south. Although limited on strike, the Intermediate zone remains open down dip to the west with this area remaining a drill target.

La Colpa

The historic La Colpa mine, which is south and outside the San Antonio Project boundary, is reported to have produced —high-grade gold ore from a north-south-trending shear zone that had an approximate 45° west dip and a 4 m to 8 m width. Workings consist of at least one main adit and a westerly-inclined shaft that are believed to be at least 100 years old. Pyrite and arsenopyrite have been observed in grab samples collected from surface dumps near the shaft that run upwards of 10 g/t Au. No drilling has been performed near these workings since they are located south of the Argonaut concession boundary; however Argonaut's drill program has focused on the projection of this trend to the north into the Company's concession. This mineralization forms part of a separate mineral trend that lies about 200 m east of the Las Colinas zone. Drill holes from the 2010 drill program at La Colpa indicate that up to four parallel bands of mineralization are hosted by cataclastic units that strike approximately north-south and dip west between 10° to 20°. Minor chlorite-sericite alteration has been noted in drill logs. Mineralization extends along strike for about 300 m from UTM coordinates (NAD 27 datum) 2,638,325 mN and 2,638,625 mN. Mineralization in La Colpa is hosted in sub-horizontal shear bands dominated by disseminated pyrite and pyrite veinlets. These parallel mineralized bands varying from 8 m to 25 m in width. Drilling has intercepted continuous mineralization to about 140 m depth. Currently, the mineralization remains open in all directions. Oxidation depths are similar to those at Las Colinas and extend only a few metres vertically from surface. The transition zone is somewhat more extensive than that at Las Colinas. Argonaut continues to expand and geologically model the potential at La Colpa through their ongoing drilling program.

Deposit Types

The deposits that make up the current San Antonio resource base are considered to be typical of mesothermal vein-style, or orogenic-style gold deposits. Orogenic deposits have many synonyms, including mesozonal and hypozonal deposits, lode gold, shear zone-related deposits, or gold-only deposits. Orogenic gold deposits occur in variably deformed metamorphic terranes formed during Middle Archaean to younger Precambrian, and continuously throughout the Phanerozoic. The host geological environments are typically volcano-plutonic or clastic sedimentary terranes, but gold deposits can be hosted by any rock type. There is a consistent spatial and temporal association with granitoids of a variety of compositions. Host rocks are metamorphosed to greenschist facies, but locally can achieve amphibolite or granulite facies conditions. Gold deposition occurs adjacent to first-order, deep-crustal fault zones. These first-order faults, which can be hundreds of kilometers long and kilometers wide, show complex structural histories. Economic mineralization typically formed as vein fill of second- and third-order shears and faults, particularly at jogs or changes in strike along the crustal fault zones. Mineralization styles vary from stockworks and breccias in shallow, brittle regimes, through laminated crack-seal veins and sigmoidal vein arrays in brittle-ductile crustal regions, to replacement- and disseminated-type orebodies in deeper, ductile environments. Mineralization can be disseminated, or vein hosted, and displays a timing that is structurally late, and is syn- to post-peak metamorphic. Quartz is the primary constituent of veins, with lesser carbonate and sulphide minerals. In volcano-plutonic settings, pyrite and pyrrhotite are the most common sulphide minerals in greenschist and amphibolite grade host rocks, respectively. Gold is usually associated with sulphide minerals, but can occur as free gold. Gold to silver ratios typically range from 5:1 to 10:1 and, less commonly, the ratios can reach 1:1. Alteration intensity is related to distance from the hydrothermal fluid source, and typically displays a zoned pattern. Scale, intensity, and mineralogy of the alteration are functions of wall rock composition and crustal level. The main alteration minerals can include carbonate (calcite, dolomite, and ankerite), sulphides (pyrite, pyrrhotite or arsenopyrite), alkali-rich silicate minerals (sericite, fuchsite, albite, and less commonly, K-feldspar, biotite, paragonite), chlorite, and quartz.

Drilling

Drilling completed to December 2010 on the San Antonio Project comprised 448 drill holes (120,481.9 m), in 349 RC drill holes (63,989.4 m) and 100 core holes (15,345.2 m). There is limited information available for the Echo Bay drill programs. Echo Bay completed 31 RC holes totalling 6,187.0 m, but no record of the drill contractors, chip trays, logging methods or other data are available. From 2005 to 2010, Pediment completed 317 RC holes (57,802.4 m), and 100 core holes (15,345.2 m). Geotechnical logs were completed in sequence prior to the geological logging. Geological logging used standard procedures, and was subsequently transferred to a Microsoft Access database. Standardized logging forms and geological legends have been developed for the San Antonio Project. All drill hole collars have been surveyed by contracted professional surveyors using either a global positioning system (GPS) total station instrument or a Z-Max surveying system from Thales Navigation. Down-hole surveys were carried out for dip and deviation using a Reflex Easy Shot system by a contractor. Core drilling recovery measurements within consolidated lithologies range from zero to 100% with a median measurement of 91%, indicating that the recovery is high and acceptable for resource estimation.

Subsequent to Argonaut acquiring the property in early 2011, drilling continued throughout the year with the completion of 19,655 meters of drilling. This work further explored the La Colpa zone, which had been drilled by Pediment in 2008 and 2010. Additional condemnation holes were completed and exploration continued on the rollover zone and the North Zone (See drill map below). In addition, Exploration worked with the Development Department to contract and supervise drill holes for installing vibrating wire piezometers and monitor wells. This work was designed and mainly supervised by Schlumberger Water Services. Considering the drilling for hydrology studies, the total drilled during 2011 was 17,483 metres, of which 12,242 metres were RC, 4,216 metres were core and the rest were Becker Hammer and mud rotary drilling.

Five of the core holes completed in the North Zone and six core holes at La Colpa were utilized to obtain samples for additional metallurgical studies which are currently ongoing.

The table below shows the breakdown of drilling by type and area.

<u>RIG/Type</u>	<u>AREA/Objective</u>	<u>No. Holes</u>	<u>Metres</u>
RC	North Zone	28	3,452.141
	La Colpa	45	5,964.956
	Intermedia	3	411.784
	Condemnation	7	962.876
	Monitoreo	6	1,449.932
CORE	North Zone	9	2,182.900
	La Colpa	5	424.550
	Condemnation	6	1,608.770
HAMMER	Monitoreo	4	538.590
MUD ROTARY	Monitoreo	3	487.000

The total metres for hydrology studies are shown in the table below.

<u>Monitor</u>	<u>RC</u>	<u>HAMMER</u>	<u>MUD ROTARY</u>	<u>TOTAL</u>
Total DH			3	13
Metros	1,449.932	538.590	487.000	2,475.522

Sampling and Analysis & Security of Samples

Sampling and Assays

RC cuttings were sampled in 5 ft (1.52 m) increments regardless of lithology, alteration, or mineralization. All core sampling is carried out at 2.00 m intervals. In a few areas of poor recovery, core samples can be combined into lengths greater than 2.00 m or could be shorter if the geologist identified a particular geologic unit that needed to be sampled separately; however the RC 1.52 m sample intervals are not tied to lithology, alteration or structure. Specific gravity data are based on water displacement methods of measurement on drill core specimens. Additional tests are recommended to support more detailed studies. Assays were completed for the Echo Bay programs by Cone Laboratories in Denver using standard fire assay techniques. Limited additional information is available on the program. Argonaut and Pediment core and RC chips were submitted to ALS Chemex, Vancouver, Canada. Samples were typically dried, crushed, and pulverized to >85% passing through a 75 µm screen. Analyses comprised gold via fire assay with atomic absorption (AA) finish as well as by aqua regia digestion and inductively-coupled plasma (ICP) analysis to quantify trace elements. When needed, over-range Au analysis (>10 g/t Au) is made by fire assay and gravimetric finish. Argonaut maintains a quality assurance and quality control (QA/QC) program for the San Antonio Project. This comprised submission of analytical certified reference materials (CRMs), duplicate and blank samples. Sample security has relied upon the fact that the samples were always attended or locked in the logging facility. Chain-of-custody procedures consisted of filling out sample submittal forms that were sent to the laboratory with sample shipments to make certain that all samples were received by the laboratory.

A total of 199 pieces of drill core from the Los Planes and Las Colinas domains were submitted to Oestec de Mexico S.A. de C.V. in Hermosillo, Mexico for specific gravity tests. Samples were coated in wax and weighed both dry and in water.

Data Verification

The San Antonio Project data are stored in a Microsoft Access database. All geological and geotechnical data for drill programs were entered electronically directly into the system following paper logging in the field or at the core shack. Assays for Argonaut and Pediment drill programs were received electronically from the laboratory and imported directly into the database. Drill hole collar and down hole survey data were manually entered into the database. Data are verified by means of in-built program triggers within the mining estimation software. Checks are performed on surveys, collar coordinates, lithology data, and assay data. Paper records were kept for all assay and downhole, and collar coordinate surveys. A number of data verification programs and audits have been performed over the project history, primarily by independent consultants in support of compilation of technical reports on the San Antonio Project. In addition, AMEC performed a database review in support of the PA and Technical Report and also reviewed the analytical results of the 2010 drill program.

Mineral Resource and Mineral Reserve Estimates

Mineral Resource Estimation

To support declaration of Mineral Resources for purposes of the PA, AMEC reviewed and audited Argonaut Gold's grade shell domains, developed a resource model and a resource classification. A total of 430 drill holes were available with a combined 48,018 gold assays. Argonaut Gold constructed four mineralized grade shell zones of ≥ 0.1 g/t Au. The composite data base was tagged with a domain code based on the four geologic solids; Las Colinas, Los Planes, Intermediate, and La Colpa. All composites outside these four solids were coded as waste. A block model with dimensions of 6 m x 6 m x 6 m was built to encompass all four mineralized domains. AMEC developed new capping strategies based on results from decile analysis and Monte Carlo simulation, which indicates that an appropriate capping level, for Las Colinas, Intermediate, and La Colpa, is about 5 g/t Au. Los Planes showed two capping domains, a low-sulphide domain capped at 5 g/t Au and a high sulphide domain capped at 9 g/t Au. Capping of high grades was implemented beyond a distance of 15 m from the composite. Uniform down-hole composites, 6 m in length, were formed to honour the domain boundaries. Composite lengths of less than 3 m due to honoring mineralized solids were stitched to the previous composite. Variograms were produced for use in grade estimation and to determine the direction of maximum continuity. Gold grades, for all blocks with a minimum of 50% inside the four mineralized domain solids, were interpolated using ordinary kriging (OK). The kriging procedure was completed in a series of passes with the search ellipse for each pass a function of the variogram range. The search ellipse was aligned along the three principal variogram directions. The block model was verified using visual inspection, statistical comparisons of raw data, composite data and block estimates. AMEC is of the opinion that the grades and tonnes in the resource model are sufficiently well-estimated to support mine planning within the framework of a PA. Resource classifications were based on an overall evaluation consisting of drill hole spacing analysis, variogram results, continuity of grade and geologic domains, density models and recovery models. In summary, drill hole spacing for Measured Resources would broadly correspond to a nominal 25 m grid. Drill hole spacing for Indicated Resources would correspond to a nominal 50 m grid. Based on gold variography and visual reviews, mineralized blocks within 80 m from a drill hole are sufficiently known as to be classified as Inferred Resource. Resources at La Colpa are classified as Inferred until additional in-fill drill holes, density and metallurgical recovery studies are completed. AMEC determined the extent of resources that might have reasonable expectation for economic extraction by applying a Lerchs-Grossmann (LG) pit outline to the Mineral Resources. Subsequent to their work AMEC was of the opinion that there is a reasonable expectation for economic extraction for the mineralized material that displays geological and grade continuity within this LG pit shell.

In May of 2011, based on resource calculations completed by AMEC, the Company announced that the overall Measured & Indicated gold resource at San Antonio was increased from 1,216,000 to 1,615,000 ounces. The updated mineral resource for San Antonio follows a 36,000 meter drill program completed in the Fall of 2010, immediately prior to the acquisition by Argonaut Gold. The resource has been estimated at 1,615,000 ounces of gold, represented by more than 51 million tonnes at 0.98 g/t. This is a 33% increase over the previous technical reports' Measured and Indicated resources of 1,216,000 ounces.

Updated Mineral Resource Summary of the San Antonio property as of April, 2011

Class	Tonnes	AU (g/t) Grade	Contained Au Metal
Measured & Indicated	51,192,000	0.978	1,615,000
Inferred	2,765,000	0.62	55,000
*Please see following spreadsheet for the full resource table			

Deposit	Class	Au Cut-off	Tonnes (x 1,000)	(Au g/t)	Total Au grams (x 1,000)	Au ounces (x 1,000)
Las Colinas	<i>Oxide/Transition</i>					
	Measured	0.23	331	0.73	242	8
	Indicated	0.23	887	0.71	633	20
	<i>Sulphide</i>					
	Measured	0.26	710	0.76	542	17
	Indicated	0.26	5,097	0.84	4,287	138
	<i>Oxide/Transition</i>					
	Inferred	0.23	25	0.48	12	0.4
Los Planes	<i>Oxide/Transition</i>					
	Measured	0.13	9,594	0.91	8,754	281
	Indicated	0.13	5,393	0.90	4,880	157
	<i>Sulphide</i>					
	Measured	0.19	7,760	1.21	9,361	301
	Indicated	0.19	18,272	1.02	18,545	596
	<i>Oxide/Transition</i>					
	Inferred	0.13	407	0.92	375	12
	<i>Sulphide</i>					
	Inferred	0.19	464	0.94	436	14
Intermedia	<i>Oxide/Transition/Sulphides</i>					
	Measured	0.21	388	1.01	390	13
	Indicated	0.21	2,760	0.94	2,599	84
	<i>Oxide/Transition/Sulphides</i>					
	Inferred	0.21	9	0.56	5	0.2
La Colpa	<i>Oxide/Transition</i>					
	Inferred	0.18	1,109	0.43	473	15
	<i>Sulphide</i>					
	Inferred	0.22	741	0.53	395	13
All Deposits	<i>Oxide/Transition/Sulphides</i>					
	Measured	Various	18,783	1.03	19,289	620
	Indicated	Various	32,409	0.96	30,943	995
	<i>Oxide/Transition/Sulphides</i>					
	Measured+Indicated	Various	51,192	0.98	50,232	1,615
	<i>Oxide/Transition/Sulphides</i>					
	Inferred	Various	2,755	0.62	1,696	55

Notes to Accompany Mineral Resources Table:

- Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability
- Mineral Resources are reported at various cut-off grades for oxide, transition, and sulphide material.
- Mineral Resources are reported as undiluted.
- Mineral Resources are reported within a conceptual pit shell
- Mineral Resources are reported using a long-term gold price of US\$1,200/oz, variable mining and processing costs and variable recoveries that are based on the oxidation state of the sulphides in the deposit.
- Totals tonnes and grade values may be rounded.
- The AMEC resource estimation is based on information from 430 drill holes totalling 74,453 meters. The average drillhole spacing is approximately 50m.

Mineral Resource Statement

Mineral Resources take into account geologic, mining, processing, and economic constraints, and have been confined within appropriate Lerchs–Grossmann (LG) pit shells, and therefore are classified in accordance with the 2010 CIM Definition Standards for Mineral Resources and Mineral Reserves. Mineral Resources are reported at a gold price of US\$1,200 per ounce and have an effective date of 29 April, 2011. The drilling completed by Argonaut during 2011 has not been utilized to update the San Antonio resource that is base only on drilling completed through 2010. The stated Mineral Resources have been prepared in accordance with Canada's National Instrument 43-101 Standards of Disclosure for Mineral Projects. The Qualified Person for the mineral resource update, is Principal Geologist, Edward Orbock, M.AusIMM, of AMEC E & C Services.

In addition to completing work on gold targets similar to those making up the San Antonio resource estimates, the Company expects to complete targeting programs on the Triunfo area which was acquired by Pediment from the Mexican government prior to the Argonaut acquisition. Targets at Triunfo include mesothermal vein type mineralization. Future programs in the Triunfo silver camp will establish the potential for gold-silver-base metals mineralization adjacent to historic underground workings. Past mining efforts at Triunfo focused on the upper oxidized portion of this vein system in a seven km long mineralized shear zone. Argonaut's program would include investigating both shallow stockwork oxidized mineralization and sulphide mineralization below the oxide boundary. The higher grade veins are reported to average 3-8 g/t gold and 200-600 g/t silver plus associated lead and zinc. Reported vein widths vary from 0.6 to 5 metres and have been mined to depths of over 300 metres. Argonaut has not confirmed these historic reports. The Triunfo holdings also contain broad zones of anomalous gold and silver hosted within areas of shearing and alteration similar to the San Antonio resource. These large target areas represent important future upside and will be further evaluated for bulk tonnage mineralization.

Mining Operations

Metallurgical Testing

Beginning in 2008, Pediment completed bottle roll tests for Los Planes material, including mineralized rock from the oxide, mixed and sulphide zones. Samples were of unprocessed RC drill cuttings of up to 3/8 inch size. These tests were performed by SGS labs in Durango, Mexico and results were positive with recoveries of up to 88.63% in oxide after a 96-hour test. Sulphide material also had significant recoveries with up to 73.61% recovery after 96 hours.

In April 2009, Pediment also reported results from column leach testing of oxidized material from Los Planes. These column leach tests were performed on gold mineralized oxide material retained from portions of eight HQ core drill holes that were shipped as a composite sample to Metcon Research Laboratories. This work reported recovery ranges from 50-85% .Total test leach cycle of 100 days, indicates overall average leach cycle of 90 days. See following table:

Zone	Recovery Range
Los Planes Oxide	80-85%
Los Planes Sulphides	55-60%
Las Colinas	45-50%
Intermediate	50-55%

During Fiscal 2010 Pediment engaged METCON Research ("METCON") of Tucson, Arizona to conduct a comprehensive metallurgical test program for the San Antonio Gold Project. METCON developed a specific set of procedures for evaluating heap leach gold ores through a systematic, sequential test work culminating in column leach tests. The program for San Antonio has clear objectives for each phase of the metallurgical test program. Key procedures are as follows:

- 1) Sample Preparation and Head Screen Assays from 20 PQ core drill holes representing approximately 17.5 tonnes of gold bearing material which is representative of 3 ore types (oxide, transitional oxidesulphide and sulphide).
- 2) Agitated Leach tests with Cyanidation Bottle Rolls on 4 Grind Calibrations and 3 ore types.
- 3) Sample Characterization tests on ore types focused on Assaying for gold and silver, ICP 30 element chemistry on ore zones, Crusher Bond Work Index, Abrasion Index, Bulk Density, Specific Gravity and Acid Base Analysis ("ABA") test work.

- 4) Closed Cycle Column Leach Studies will be conducted on approximately 30 column leach tests with composite samples at crush sizes of 80 percent minus 2 inch, 3/4 inch, 3/8 inch and 1/4 inch inside columns 20 ft. by 12 and 6 inches in diameter. Various flow rates will also be run to observe leach kinetics.
- 5) Geo-Technical testing on leach residue from column test material will be sub-contracted to Golder Associates Inc. in Tucson, Arizona. This work is being conducted to gain a clear understanding of the physical properties of the leached ore for determination of height of the heap leach pad design as well as verify solution flow and application rate for leaching.

The final results of the test work was delivered in September 2011. The results were as follows :

Starter Pit Oxide-Mixed composite sample

- Crush size did impact gold and silver extractions on the Oxide-Mixed and Sulphide Composite Samples.
- Gold extraction on the Oxide-Mixed Composite Sample ranged from approximately 91 percent to 75 percent.
- The highest gold extraction of approximately 91 percent was observed on the sample crushed at approximately 80 percent passing 3/8 inch.
- Low silver extraction was observed and it ranged from approximately 19 percent to 11 percent.
- Moderate sodium cyanide consumption was observed on the Oxide-Mixed Composite Sample and ranged from 32 kg/t to 0.47 kg/t. Calcium oxide consumption ranged from 1.18 kg/t to 1.30 kg/t.

Starter Pit Sulphide composite sample

- Crush size did impact gold and silver extractions on the Sulphide Composite Sample.
- Gold extraction on the Sulphide Composite Sample ranged from approximately 52 percent to 18 percent. The highest gold extraction of approximately 52 percent was observed on the sample crushed at approximately 80 percent passing 3/8 inch.
- A crush size of approximately 80 percent passing 1/4 inch may be required to increase gold and silver extraction.
- Low silver extraction was observed on the Sulphide Composite Samples. It ranged from approximately 25 percent to 8 percent.
- Moderate sodium cyanide consumption was observed on the Sulphide Composite Sample and ranged from 0.35 kg/t to 0.65 kg/t. Calcium oxide consumption ranged from 0.54 kg/t to 0.79 kg/t.

Colinas Oxide-Mixed Composite Sample.

- Crush size did impact gold and silver extractions on the Oxide-Mixed Composite Sample.
- Gold extraction on the Oxide-Mixed Composite Sample ranged from approximately 58 percent to 36 percent. The highest gold extraction of approximately 58 percent was observed on the sample crushed at approximately 80 percent passing 3/8 inch.
- Low silver extraction was observed on the Oxide-Mixed Composite Sample and it ranged from approximately 17 percent to 7 percent.
- Moderate sodium cyanide consumption was observed on the Oxide-Mixed Composite Sample and ranged from 0.42 kg/t to 0.78 kg/t. Calcium oxide consumption ranged from 1.85 kg/t to 2.08 kg/t.

Las Colinas Sulphide Composite Sample.

- Crush size did impact gold and silver extractions on the Sulphide Composite Sample.
- Gold extraction on the Sulphide Composite Sample ranged from approximately 47 percent to 13 percent. The highest gold extraction of approximately 47 percent was observed on the sample crushed at approximately 80 percent passing 3/8 inch.
- Low silver extraction was observed on the Sulphide Composite Sample and ranged from approximately 14 percent to 4 percent.
- A crush size of approximately 80 percent passing 1/4 inch may be required to increase gold and silver extraction.
- Moderate sodium cyanide consumption was observed on the Sulphide Composite Sample and ranged from 0.46 kg/t to 0.58 kg/t. Calcium oxide consumption ranged from 0.54 kg/t to 2.25 kg/t.

Los Planes Oxide-Mixed Composite Sample.

- Crush size did impact gold and silver extractions on the Oxide-Mixed Composite Sample.
- Gold extraction on the Oxide-Mixed Composite Sample ranged from approximately 87 percent to 55 percent. The highest gold extraction of approximately 87 percent was observed on the samples crushed at approximately 80 percent passing 3/4 inch and 3/8 inch.

- Low silver extraction was observed on the Oxide-Mixed Composite Sample and ranged from approximately 21 percent to 12 percent.
- Moderate sodium cyanide consumption was observed on the Oxide-Mixed Composite Sample and ranged from 0.34 kg/t to 0.51 kg/t. Calcium oxide consumption ranged from 1.26 kg/t to 1.29 kg/t.

Los Planes Sulphide Composite Sample.

- Crush size did impact gold and silver extractions on the Oxide-Mixed and Sulphide Composite Samples.
- Gold extraction on the Sulphide Composite Sample ranged from approximately 73 percent to 64 percent. The highest gold extraction of approximately 73 percent was observed on the sample crushed at approximately 80 percent passing 3/8 inch.
- Low silver extraction was observed on the Sulphide Composite Samples and it ranged from approximately 19 percent to 17 percent.
- A crush size of approximately 80 percent passing 1/4 inch may be required to increase gold and silver extraction.
- Moderate sodium cyanide consumption was observed on the Sulphide Composite Sample and ranged from 0.41 kg/t to 0.49 kg/t. Calcium oxide consumption of 1.28 kg/t was observed at both crushed sizes studied.

Intermediate Oxide-Mixed-Sulphide composite sample.

- Crush size did impact gold and silver extractions on the Intermediate Oxide-Mixed-Sulphide Composite Sample.
- Gold extraction on the Intermediate Oxide-Mixed-Sulphide Composite Sample ranged from approximately 57 percent to 23 percent. The highest gold extraction of approximately 57 percent was observed on the samples crushed at approximately 80 percent passing 3/8 inch.
- Low silver extraction was observed on the Oxide-Mixed-Sulphide Composite Sample. It ranged from approximately 25 percent to 14 percent.
- A crush size of approximately 80 percent passing 1/4 inch may be required to increase gold and silver extraction.
- Moderate sodium cyanide consumption was observed on the Oxide-Mixed-Sulphide Composite Sample and ranged from 0.41 kg/t to 0.46 kg/t. Calcium oxide consumption ranged from 0.61 kg/t to 0.76 kg/t.

During 2011 Argonaut completed five HQ sized core holes into the north zone to obtain samples of deeper sulphide material. A total of 178 meters of sulphide mineralized core weighing 666 kilograms was sent to Metcon for metallurgical testing. A total of seven sulphide composites were prepared and are currently undergoing column testing.

Preliminary metallurgical studies are also being conducted on the La Colpa deposit. For oxide and transition testing, a total of 100 meters of core weighing 591 kilograms was obtained from six holes. Also at La Colpa, sulphide material totaling 91 meters and weighing 670 kilograms was obtained from three drill holes. Metallurgical testing on these samples is also currently ongoing at Metcom.

Exploration and Development

Future Exploration

The Company expects to complete a minimum of 10,500 meters of drilling at the San Antonio Project during 2012. Currently one RVC drill is in operation and will focus on multiple targets including the La Colpa zone, the connecting zones located between the resource areas and additional condemnation drilling.

Environmental Permits Required for Future Development

Federal permits that could be required for San Antonio Project development include either a Preventative Notice (Informe Preventivo, or IP), or an Environmental Impact Assessment (Manifestación de Impacto Ambiental, or "MIA"), and in addition, a Risk Study (Estudio de Riesgo, or ER), and a Permit for Change of Land Use in Forested Area issued by SEMARNAT. Argonaut submitted an MIA in December 2011 along with the associated Risk Study. State authorities may be involved through the State Delegations of SEMARNAT, which assist in the execution of federal requirements in the review of the Permit for Change of Land Use in Forested Area; however, authorizations are issued by the Federal Government. Local authorities are involved in the permitting process in the issuance of Land Use, Construction and Municipal Solid Waste Generator permits, which are granted at the municipal level. A *Licencia Ambiental Unica (LAU)* must be granted for San Antonio Project development by SEMARNAT. The LAU incorporates evaluation, approval and monitoring of all environmental obligations of industrial facilities under federal jurisdiction; these cover all procedures for

environmental impact and risk, emissions to the atmosphere and the generation and handling of hazardous wastes administered by the General Office of Integrated Pollutant Management of SEMARNAT as well as water services. As part of this license, the following documents have been or will need to be submitted for approval:

- MIA (Environmental Impact Analysis). A comprehensive review of the significant and potential environmental impacts associated with all phases of the project, from construction through operation phases, based on scientific and technical baseline studies. The MIA should also describe the measures for avoiding/mitigating these environmental impacts. Submitted December 2011
- ER (Risk Analysis). A detailed review covering the potential risks posed by the construction of the mining project, and is required of all projects involving activities or substances designated as hazardous in LGEEPA. Should include at a minimum consideration of probability of occurrence of accidents involving explosions, fire or spills of pollutants, the area likely to be affected, the impact of the event, and any mitigation plan. Submitted December 2011.
- ETJ (Change of Land Use in Forested Areas). Is complementary to the MIA, and must be filed with it. The ETJ must be prepared by a forest engineer registered in the National Forest Inventory. SEMARNAT requires proof of land ownership or right to perform a forest land use change. To be submitted in Q1 2012.
- PPA (Accident Prevention Program). a specialized plan based on the results of the ER that includes organizational, human and material resources, plans, procedures, and planning and preventative measures involving emergencies with pollutants to protect workers, surrounding communities, the environment and natural resources. The plan must be approved by SEMARNAT, the Secretariat of Energy, the Secretariat of Economy, and the Secretariat of the Interior. To be submitted prior to initiation of operations.

Other federal, state and municipal authorizations would also need to be obtained, and at a minimum would include:

- Explosive use permit (Secretaría de la Defensa Nacional)
- Water use permit (Comisión Nacional del Agua)
- Archaeological land 'liberation', based on authorization by the Instituto Nacional de Antropología e Historia
- Notice to the state and municipal authorities (i.e., local construction permits, land use change, etc.).

La Colorada Gold-Silver Project (the "La Colorada Project")

The La Colorada Project was acquired by Argonaut through the acquisition of Pediment in early 2011. Unless stated otherwise, the information in the section below is based on the NI 43-101 compliant technical report prepared by Bart Stryhas, Ph.D., C.P.G., Bret Swanson, BE Mining, MMSA and Mark Allan Willow, M. Sc., C.E.M. of SRK Consulting (U.S.), Inc. and Richard J. Taylor, P.E. of Kappes, Cassiday & Associates dated December 30, 2011 (effective October 15, 2011) entitled "NI 43-101 Preliminary Economic Assessment La Colorada Project Sonora, Mexico" (the "La Colorada Technical Report"). Portions of the following information are based on assumptions, qualifications and procedures which are not fully described herein. Reference should be made to the full text of the La Colorada Technical Report which is available for review on SEDAR at www.sedar.com. The La Colorada Technical Report is not and shall not be deemed to be incorporated by reference in this AIF.

Property Description and Location

The Project consists of an historic, open pit, heap leach gold mine. The mine consists of two main pits, La Colorada/Gran Central and El Crestón, a partially reclaimed heap leach pad and several office and support buildings. The pits and facilities are located within 37 titled mineral concessions totaling 21,412.03 ha. The project is located in northwestern Mexico, in the town of La Colorada, Sonora State, 53 km southeast of the city of Hermosillo, the State Capital. The mineralization is centered about UTM coordinates 541,665m E and 3,185,795m N.

The following information on the mineral titles was provided by Argonaut Gold Inc. as compiled by Mr. Alberto Orozco, Argonaut's Mexico Exploration Manager. Additionally, a legal opinion from Mexico City law firm Vazquez & Associates was compiled in October of 2011 (Vazquez, 2011). The results of this work conclude that all 37 of Argonaut's concessions are valid in full force and effect.

The La Colorada property consists of 37 titled concessions in three irregular blocks separated by ground held by other interests. The total land package aggregates 21,412.03 ha. The Ext. Sonora IV concession was one of 19 concessions optioned from Exploraciones La Colorada S.A. de C.V. The option purchase was subsequently exercised on 18 of these concessions; however, Ext. Sonora IV concession was cancelled by the Direction of Mines. Exploraciones La Colorada

believes it has a case for the removal of such cancellation and is appealing the decision. For this reason Pediment signed a second option agreement with Exploraciones La Colorada establishing that, should they win the case against the Direction of Mines, they would transfer the concession to Compañía Minera Pitalla S.A. de C.V. for a payment of Pediment stock. This agreement has since expired. As of this moment a decision by the courts is still pending. Although the concession has been cancelled it has not yet been declared “free”. Until that time, the concession is not available for others to claim.

All mineral titles are held through Argonaut’s wholly owned Mexican subsidiary, Compañía Minera Pitalla S.A. de C.V. (Minera Pitalla). Under Mexican mining regulations, it is necessary to pay a tax for the “Mining Rights” twice annually (first and second semester). This tax is calculated based on the surface area of a concession and does increase over time. The company has informed the report authors that all payments have been made for 2011. The next payments are due before the end of December 2011. Argonaut holds the surface rights and legal access to 1,048 ha of the concession package. The Company has returned the project to production on existing ground and re-processing of material on pads. The Company has submitted an MIA on the remainder of the project in order to support fresh mining and processing activities.

Certain claims held by Argonaut have a royalty payment and are more fully described in the table below.

Concession	Title No.	Surface (ha)	Valid		Acquired By	Associated Royalties
			From	To		
Sonora II	187663	8.8206	17-Sep-1990	16-Sep-2040	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Sonora VI	199425	19.6494	19-Apr-1994	18-Apr-2044	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
El Crestón	199424	0.1300	19-Apr-1994	18-Apr-2044	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
LULU	198975	5.8738	11-Feb-1994	10-Feb-2044	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Demasiás del Crestón	199929	0.7715	17-Jun-1994	16-Jun-2044	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Sonora V	211758	280.9564	30-Jun-2000	29-Jun-2050	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Sonora III	211974	51.0269	18-Aug-2000	17-Aug-2050	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Sonora I	211856	157.9862	28-Jul-2000	27-Jul-2050	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Fracción Sonora III	211958	37.7795	28-Jul-2000	27-Jul-2050	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
La Muculufa	211945	24.0000	28-Jul-2000	27-Jul-2050	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Sonora IV	211788	554.4622	28-Jul-2000	27-Jul-2050	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Vicenza	211757	1.4686	30-Jun-2000	28-Jun-2050	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
La Cruz	217502	1.5488	16-Jul-2002	15-Jul-2052	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Crestón Dos Fracc.III	218680	109.7378	3-Dec-2002	2-Dec-2052	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Crestón Dos Fracc.II	218679	4.4918	3-Dec-2002	2-Dec-2052	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Crestón Dos Fracc. I	218678	344.5873	3-Dec-2002	2-Dec-2052	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Crestón Tres	218869	466.5758	23-Jan-2003	22-Jan-2053	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Neri	232307	0.2275	18-Jul-2008	17-Jul-2058	Contract with Exploraciones La Colorada	Yes ⁽¹⁾
Ext Sonora IV	207597	443.0047	Pending	Pending	Pending	Pending
Sandra Luz	199219	12.9455	16-Mar-1994	15-Mar-2044	Contract with Peñoles	No
Las Tinajitas	206409	140.0000	16-Jan-1998	15-Jan-2048	Contract with Peñoles	No
Vicky	206407	24.0000	16-Jan-1998	15-Jan-2048	Contract with Peñoles	No
Rosalía	213745	7.9760	12-Jun-2001	11-Jun-2051	Contract with Peñoles	No
Claudia	213214	32.7380	6-Apr-2001	5-Apr-2051	Contract with Peñoles	No
Sandra Luz Fracc.1	216046	0.3766	2-Apr-2002	1-Apr-2052	Contract with Peñoles	No
Sandra Luz Fracc.2	216047	0.0173	2-Apr-2002	1-Apr-2052	Contract with Peñoles	No
Carmelita	214065	150.0000	10-Aug-2001	9-Aug-2051	Contract with Minera Recami, S. A. de C.V.	No
Los Pilares	214187	249.0328	10-Aug-2001	9-Aug-2051	Contract with Minera Recami, S. A. de C.V.	No
El Crestoncito	231252	1.1693	25-Jan-2008	24-Jan-2058	Contract with Minera Recami, S. A. de C.V.	No
LCA	231232	13233.3690	25-Jan-2008	24-Jan-2058	Staking	No
LCA2	232278	2000.0000	16-Jul-2008	15-Jul-2058	Staking	No
Dos Fracc.I	231247	117.8470	25-Jan-2008	24-Jan-2058	Staking	No
Dos Fracc.II	231248	5.2974	25-Jan-2008	24-Jan-2058	Staking	No
Dos Fracc. III	231249	22.7623	25-Jan-2008	24-Jan-2058	Staking	No
Noria	235259	18.2630	4-Nov-2009	3-Nov-2059	Staking	No
Red Norte 1	237088	3325.9782	29-Oct-2010	28-Oct-2060	Staking	No
Mabelina	237242	0.1600	26-Nov-2010	25-Nov-2060	Staking	No

- (1) Royalties with Exploraciones La Colorada, S. A. de C. V.
- a. 2% NSR for underground-mining production
 - b. 3% NSR for open-pit production
 - c. Buy-out clause only exists for underground production royalty. The 2%NSR can be bought out for single cash payment of USD\$300,000.00
 - d. There is no buy-out clause for open-pit mining royalty.

Exploration activities at La Colorada operate under the NORMA-120 issued by the Federal environmental agency SEMARNAT. The NORMA-120 is not an issued permit, but rather a set of regulations that allow exploration to take place. To work under the NORMA, a Company can present a report of initiation of exploration activities and then carry out its exploration staying under a percentage of affectation and observing a set of rules that include, road and pad dimensions, disposal of waste, etc.

Much of the exploration activities at La Colorada, however; occur in areas which have already received a change of use in soils for mining activities.

Permits relating to the initiation of mining activities are addressed under the heading “Mining Operations” below.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The project is located in the basin-and-range geological province which is dominated by alternating ranges and valleys bound by normal faults. This general geomorphology predominates in the district of La Colorada with the hills being easily identifiable by Tertiary volcanic rocks that have been tilted about 15° to the west. Elevations at La Colorada range between 400 and 650 meters above sea level. The pit areas and the current exploration zones of Veta Madre and La Verde are located in rather smooth-topography zones. Argonaut completed a flight and photogrammetric reconstitution during 2011 that covers a total area of 3,343 hectares with the main historic production areas at its center. Vegetation consists of extensive mesquite and palo verde trees, cactus and sparse grass cover.

The La Colorada property lies within the Sonora Desert climatic region. It has an arid climate, with summer temperatures sometimes exceeding 47 °C. Winter temperatures vary from mild to cool in January and February. Rainfall is affected by the North American Monsoon, with over two-thirds of the average, 19.3 cm of rain falling between the months of July and September. The weather at the project allows for operation during the entire year.

Since 2008, Pediment Gold Corp. acquired the main surface rights for the La Colorada mine and the La Primavera Ranch that cover an area of 1,046.8 ha. The surface rights are adequate for disposal of waste. The full exploitation of the La Colorada/Gran Central pit and expansion of heap leach pads will require additional surface rights. It is expected that as studies continue, the location and trade-offs governing the purchase of additional land will become clearly defined.

The village of La Colorada and the La Colorada Property are located 40 km southeast of Hermosillo city, in the State of Sonora, Mexico. Access is via paved Highway 16, which continues east to the town of Yécora and the city of Chihuahua.

Due to the extensive mining history at the site and regional proximity to established cities and country infrastructure, the mine is unlikely to suffer any adverse logistical or consumable supply constraints based on mine location.

The site currently (2011) has mine site buildings, water supply, heap pads, leach ponds, power supply, access roads and plant foundations that are being upgraded and improved.

Equipment or reagents that are not available in Hermosillo can be accessed by the port of Guaymas, an industrial sized port on the located in Sonora on the California Gulf Coast. Travel from Guaymas to Hermosillo is 138 km on Federal Highway 15, with an approximate travel time of 1.5 to 2 hours.

La Colorada has a dedicated 33 KV power line and 10 MVA substation which were built by Eldorado in 1997. The main transmission line is 23 km from the community of Estacion Torres to the Mine site. La Colorada’s operations plan calls for a peak power load of 2.5 MVA for ADR plant, 1000 KVA for crushing and 1500 KVA for conveying. Therefore, no upgrade to the power infrastructure is expected at this time.

The water supply used during production by Eldorado Gold Ltd. (1994-2000) and Grupo Minero FG (2000-2003) came from the dewatering of underground workings, the Wyman shaft and Open pit dewatering.

With regards to water rights, any water taken from open pit operations either ground water or surface run-off can be used without a special permit. Water from the underground workings requires a permit and is defined by the CNA (National Water Commission).

It is estimated that the combined water storage of El Crestón and Gran Central total at least 1 million cubic meters of water. Dewatering will likely use an 8 inch pipe pumping a head of 150 m when prestrip operations encounter the water level.

The mine site structures are composed of:

- A main office building built with masonry walls and metal insulated sheet roof which is big enough for geology and site administration personnel;
- A laboratory built with metal sheeting and a three unit office trailer;
- A Warehouse comprised of two 48 ft containers;
- A Lunch room built with a metal frame and combo sheet walls with capacity for 120 people, including a cooking area;
- A process ADR plant foundation covering 800 m², with a 10 tonne capacity to process material; and
- A 500 m² metal framework undergoing refurbishment.

Domestic waste from offices and lunch rooms is sent to the municipality sanitary landfill located 2 km from the site. This landfill has enough capacity for both the town La Colorada and waste generated during mine operations.

History

The original La Colorada concessions were staked by Jesuit missionaries in 1740. By 1790, Spanish miners had taken ownership. In 1860, an English company installed pumps and worked the concessions until 1877 when they sold out to the Creston-Colorado Company. In 1888 the property was sold to the Pan American Company. In 1895, the London Exploration Company purchased the concessions. In 1902, the Mines Company of America took ownership. During the Mexican Revolution in 1916, the mine closed and the facility was eventually dismantled. In the mid 1980's Minerales de Sotula S.A. de C.V. and Industrias Peñoles, S.A.B. de C.V. began reacquiring the mineral concessions. In 1991 Cia. Minera Las Cuevas S.A. de C.V a Mexican Subsidiary of Noranda acquired an option on the project. Later that same year, HRC Development Corp and Rotor International S.A. formed a joint venture ownership of the project called Exploraciones Eldorado S.A. de C.V. (EESA). EESA held the project until 2000 when it sold out to Grupo Minero FG S.A. de C.V. In 2001, ownership was transferred to Exploraciones La Colorada, S.A. de C.V. In 2007, Pediment Gold Corp. optioned and eventually, purchased the key concessions, surface ownership and infrastructure mine from Exploraciones La Colorada. Further key concessions were also acquired in 2008 and 2010 by Pediment. In 2010, Argonaut Gold acquired Pediment Gold Corp. including the La Colorada project held under Pediment's wholly owned Mexican subsidiary, Compañía Minera Pitalla S.A. de C.V. (Minera Pitalla).

In the early nineties, Compañía Minera Las Cuevas invested \$350,000 in exploration at La Colorada, including reverse-circulation drilling. Later, EESA carried out systematic exploration on the Project, focusing mostly in the El Crestón-Minas Prietas zone, but with great detail also in the La Colorada/Gran Central zones. During the 1990's, EESA continued its exploration program and explored other zones such as Veta Madre, La Verde and Los Duendes. EESA conducted geological mapping, surface sampling of rock and soils, geophysical programs, trenching and core and reverse circulation drilling. Other studies were also conducted by request of EESA, such as geotechnical studies for pit-slope stability, metallurgical tests and mineralogical and petrographical studies. EESA operated an open-pit, heap-leach operation starting in the El Crestón pit and in later years in the La Colorada/Gran Central areas. Small-scale production also took place in the Los Duendes area, southeast of the El Crestón pit.

In 2007, Pediment Gold Corp. optioned the project from Exploraciones La Colorada, S.A. de C.V. and began compiling the previous work accompanied by an exploration program that included surface sampling and mapping. A drill program commenced in 2008 focusing in the known mineralization zones of El Crestón, La Colorada/Gran Central, Veta Madre and La Verde. The results were followed up by the +10,000 m drill program of 2009 which combined diamond and RC drilling and had a greater focus on the Veta Madre zone.

Various historical resource estimations have been completed on the project including; Nordin 1992, Giroux and Charbonneau 1992 and Giroux 1999. All of the “historical” estimations are superseded by the current NI 43-101 compliant resource estimation completed by Argonaut and discussed under the heading “Mineral Resource Estimate” below.

Mining activity in the district dates as far back as the mid 1700’s when Jesuit missionaries discovered and later began mining the Minas Prietas zone. In the mid 1800’s an English company installed pumps which allowed them to reach deeper levels and expanded the mining capacity at La Colorada. The Pan American Company of New York began the first cyanidation process at La Colorada by the late 1800’s. Several foregoing companies conducted underground mining from the Minas Prietas, La Verde, Gran Central and Amarillas zones from this time until the early 1900’s; however, political unrest related to the Mexican revolution caused mining to stop as the facilities had to be evacuated. Only small-scale gambusino activity continued after that until exploration activity resumed in 1991.

In 1993, Mr. Chester Millar successfully undertook a pilot heap leach test of 30,760 t of run-of mine (RoM) material, producing approximately 1,500 oz of gold. Following this, a positive feasibility study resulted in mine construction beginning in the same year. The industrial scale phase started successfully as a conventional open pit, RoM, cyanide heap leach operation with an activated carbon recovery process. Mine construction started in September of 1993, with the first gold poured in January 1994. During the second year of operations the recovery process was replaced with a conventional Merrill-Crowe (MC) circuit. Next, a two stage crushing circuit was implemented to treat potentially mineable resource coming from the La Colorada/Gran Central pit – this was required to achieve economical recovery levels. Construction started during 1996 and the crushing facility became operational in 1997. Approximately 30% of the ore was treated as RoM and dumped directly onto the pads, with the rest being crushed in the two stage crushing plant to a size of -3/4”. The leaching-MC circuit had a processing capacity of approximately 8,000 t of ore daily at its peak capacity. The mine operated an average of 315 days/yr. During commercial production between 1994 and 2000, EESA produced approximately 290,000 oz of gold and about 1 million oz of silver. EESA sold the mine and plant to a local Hermosillo mine contractor, Grupo Minero FG S.A. de C.V. (FG), who continued limited production and decommissioning for a year or so after 2000, and is estimated to have produced approximately 70,000 additional oz of gold. EESA and FG production statistics cited from Diaz, 2007 and Herdrick, 2007.

Geological Setting

The following is cited directly from McMillian et al (2009) with minor modifications of text and formatting.

Physiographically, the La Colorada Property is located in the western foothills of the Sierra Madre Occidental mountain chain, 110 km east of the Gulf of California. Tectonically the property is located at the boundary between the Sonoran Basin and Range Province and the Sierra Madre Occidental Province. These intrusive rocks are contiguous with the broad batholithic belt extending along the western margin of North America. West-directed folding and thrust faulting occurred during the Late Cretaceous Laramide Orogeny. Basin and Range faulting, followed in the Tertiary, and constitutes the dominant structural event in the area.

Bedrock ranges in age from Proterozoic through Cenozoic and includes high-grade metamorphic gneisses, shelf facies sedimentary strata, extensive andesitic to rhyolitic volcanic deposits and dioritic to granitic intrusive rocks. Basement rocks consisting of gneisses, schists and quartzites cut by plutons dated at 1,710 and 1,750 million years are some of the oldest rocks exposed in Mexico and reach their southernmost limit just north of La Colorada property – these rocks are considered the cratonic basement of North America (Zawada et al, 2001). Upper Triassic clastic sedimentary strata (conglomerate, sandstone and siltstone) of the Barranca Group unconformably overlie the metamorphic basement rocks in scattered locations throughout east-central and southern Sonora. Late-Cretaceous to Tertiary volcanic rocks and associated continental clastic rocks unconformably overlie the Triassic and older rocks. These units thicken considerably eastward, where they form extensive sequences underlying the high plateau of the Sierra Madre Occidental Mountains. There, two distinct divisions are apparent. A lower 100-45 Ma Lower Volcanic Complex composed mainly of andesite with interstratified rhyolitic ignimbrites and minor interstratified basalt. The overlying Upper Volcanic Complex has been dated at 34-27 My and is composed of extensive rhyolite and rhyodacite ignimbrites with minor interstratified basalt. It constitutes the largest ignimbrite field in the world. The upper sequence unconformably overlies on the older sequence and infills deeply incised paleotopography in the older rocks. Late Cretaceous to Early Tertiary plutonic rocks (diorite, granodiorite to granite) of the Sonoran Batholith outcrop throughout the region and have been dated from 90-40 Ma.

The area of La Colorada is covered by Mid-Cambrian to lower Ordovician quartzites and metalimestones; carboniferous

limestones and sandstones; Triassic oligomictic conglomerate, limestones and shales; and Upper Cretaceous volcanic tuffs ranging in composition from andesite to rhyolite. The previous units are intruded by Paleocene to Oligocene age intrusives that include granite, granodiorite, diorite and andesitic porphyry. These intrusives are interpreted to be the result of the active continental margin stage of this region with the subduction of the Farallon Plate beneath the North American plate. This was followed by a continental extension stage and continental rifting of the Basin and Range province during the Tertiary which generated the youngest lithological units represented in the area. The base of this tectonic stage is represented in the area by the Early Miocene Báucarit formation, which is composed of continental conglomerates and sandstones interbedded with basaltic to andesitic volcanic rocks. This is overlain by the Late Miocene Lista Blanca formation composed by bimodal volcanism of rhyolitic tuff and andesite. The youngest unit during the Tertiary is an extension-related olivine basalt unit.

Alteration can be seen in the older metamorphic and intrusive units mostly as silicification, hematization and argillic alteration. The Tertiary volcanic rocks in the district are clearly post-mineral and are unaltered.

On a regional scale, basin and range faults are characterized by north-northwest striking normal faults. Crustal blocks formed by the Basin and Range faults have moderate to steep regional dips. Steeply-dipping east-northeast trending regional faults transverse to the main trend are also common throughout Sonora.

Exploration

Argonaut has conducted surface exploration consisting of rock chip and soil sampling.

Selected surface rock samples were collected by qualified Mexican geologists together with appropriate geological-technical data, including UTM coordinates, lithology and mineralization recorded in field books. The samples are placed in standard plastic rock sample bags, tagged and the locations recorded in a master database. The plastic bags are sealed using plastic pull ties. All samples are taken to the office facilities within the La Colorada project. During 2011, Argonaut's regional exploration program at La Colorada included soil sampling from the Sombreretillo and the Los Duendes areas. Sampling was made over a spacing array of 50 m by 100 m, and nearly all samples consisted of material from the B and C horizons, with depths ranging from 20 to 45 cm. Detailed information for all samples was recorded in paper and later included in the Surface Database. All samples were placed mainly in cloth bags, and were shipped to the laboratory. So far, Argonaut's geologists have taken 99 samples in the Los Duendes area, to the south of El Creston open pit; as well as 61 soil samples from Sombreretillo, located to the Northeast of the Veta Madre area.

Small outcrops of Qtz+Ox mineralized structures with anomalous Au values were sampled at the Sombreretillo area, to the northeast of Veta Madre; these structures are hosted by dacitic rocks with strong presence of Qtz veinlets, and they are parallel to the mineralization trend of the Veta Madre area. Recently received assay results of around 50 rock samples from the Sombreretillo area, have helped Argonaut's exploration personnel to design a new drill program, which is currently under review and it is programmed to be implemented in the near future.

In addition, a siltstone-hosted mineralized structure trending to the northwest was sampled at the Los Duendes area, from where several rock samples with anomalous Au assays were found; turning the area into a possible further exploration target.

General reconnaissance of two new properties, Red Norte and Red Sur, located to the south of the La Colorada mine, has been carried out; results from that work shows presence of several North- South trending veins and structures, which are accompanied of anomalous values of Au and Ag that may lead to more aggressive exploration in the near future.

Soil sampling results in both areas have been positive; and, as mentioned before, a new drilling program, partially based on surface sampling and intended to expand the resource has been already made.

Mineralization

The significant mineralized zone of the La Colorada Technical Report include the El Crestón, La Colorada/Gran Central, and Veta Madre Zones. The following descriptions are cited directly from McMillian et al (2009) with minor modifications of text and formatting.

El Crestón

The El Crestón and Minas Prietas veins constitute the largest vein system on the La Colorada Property and were originally mined as separate orebodies; however they are now recognized as being part of the same mineralized zone. El Crestón refers to the current open pit area, while Minas Prietas is located to the east of the pit. The following description is paraphrased from Ball (1911), quoted in Lewis (1995): The veins generally strike east to east-northeast, dipping an average of 75° N. The veins have well-defined walls and below the 100 m level are simple with few “spurs” and parallel veins. Apparently the best values are found where the veins were thickest. The veins of El Crestón Mine are from north to south: New Vein, North Vein, Perry Vein, South Middle Vein and South Vein. Although the veins are separate entities, they coalesce and bifurcate in a subparallel series of veins. The veins are all fault controlled, with the faulting preceding the veining, but small post-ore fault offsets of a few meters is common. Again, the following descriptions are paraphrased from Ball (1911), quoted in Lewis (1995): New Vein apparently averaged 3 to 4 m in thickness, approximately 250 m in length and more than 225 m deep. Its surface exposure was low grade, and had “particularly rich” grades at depths of 100 to 225 m. The North Vein was traced for more than 1,100 m. It averages 2.5 m in width, with poor grades except near surface, where it was stope for a length of 325 m. Ball (1911), described the South Vein as being 850 m long with an average north dip of 820, although it locally flattens to about 400 north. The vein averages 2.5 m in width and is higher grade near surface for a length of 525 m, but only for 170 m in the deeper levels of the mine. The Perky (or North Middle Vein) is a splay from the west end of the South Vein. It was about 180 m long, with a maximum width of 1 m. According to Ball (1911) the mineralized zone was wider near the surface because the veins converge towards each other and because there is a vein stockwork – these two factors allowed for mining by “open cut methods”. Ball (1911) states that the greater widths and higher grades near the surface were due to a combination of greater fracturing and secondary (supergene) enrichment. Lithologies in the El Crestón-Minas Prietas deposit include siltstone, shale and chert of the Paleozoic Mine Sequence; diorite, monzonite and quartz feldspar porphyry of the intrusive suite as well as hornfels and skarn derived from the sedimentary sequence and andesite (Lewis, 1995). Alteration styles include hematization, manganese oxides, silicification, argillic, potassic, sericitic and chloritic affecting all rock types. Deep red hematite is a prominent and obvious feature. Manganese oxides are apparently associated with some of the higher gold values. Structurally, the Colorada Sur Fault is the main controlling feature. It has a variable strike which averages 60°E and dips vertically to steeply north. Although the underground mines selectively mined individual veins over narrow widths as described above, EESA’s open pit extracted larger scale stockwork zones and areas of multiple veining over cumulative thickness of up to 90 m (Lewis, 1995).

Gran Central Deposit

Gran Central is geologically similar to El Crestón-Minas Prietas, and again is composed of quartz veins and stockworks localized in the Gran Central Fault. It is hosted in a diorite stock which contains roof pendants of siltstone and lesser calc-silicate hornfels. Quartz feldspar porphyry dykes up to 2 m in width cut the diorite. The youngest rocks are a few small pre-mineral mafic dikes up to 2 m in thickness. At the eastern end of the deposit, the diorite is in fault contact with and covered by an andesite “cap”. The andesite is less altered and oxidized than the underlying diorite and devoid of gold values (Lewis, 1995). EESA tested the zone over a length of 450 m and a depth of 150 m, but the old underground extends 200 to 300 m further to the west and to a depth of 300 m. The east-west trending Gran Central Fault is the controlling structure and has a north dip averaging 50°. The Gran Central Fault consists of a number of sub-parallel splays, where quartz veins, stockworks and breccias zones are associated with clay-chlorite gouge. Alteration minerals are similar to those found at El Crestón-Minas Prietas; however calcite is a common gangue mineral, and siderite veins as well local amethyst are present (Lewis, 1995). Footwall rocks tend to be more heavily altered than hanging wall rocks. Fine native gold is present in the deposit and some areas with visible gold posed a minor “nugget effect” problem for EESA at Gran Central (Lewis, 1995). Sulphide minerals ranging between 1 and 3% by volume are characteristic in the unoxidized portion of the deposit. In the sulphide portion of the deposit, the minerals include galena, sphalerite, lesser chalcopyrite, minor tetrahedrite and traces of chalcocite and covellite.

La Colorada Deposit

Gold-bearing quartz veins and stockworks at La Colorada are hosted in an east-west striking fault with a north dip averaging 45°. It is hosted by rhyolite porphyry and diorite. It is within and adjacent to the same dioritic stock which hosts the Gran Central Deposit. EESA traced the mineralization for 500 m along strike and for 100 m down dip. The zone is an average of 20 m thick. Lewis (1995) state that according to historical records, mineralization is terminated at a depth of approximately 200 m by a flat fault, below which non-mineralized granite is present. Mineralogy and alteration are similar to El Crestón-Minas Prietas.

Veta Madre Zone

Veta Madre is located 1.5 km. east of El Crestón-Minas Prietas Pit. It consists of a zone of extensive alteration associated with the Colorada Sureste Fault. Historical miners sunk three deep sub-vertical shafts. Rock types include siltstone, diorite, monzonite, granite, rhyolite feldspar porphyry and dacite. EESA completed 11 trenches of different lengths and 1,566 samples were taken which returned gold values of between 0.15 and 0.8 ppm with sporadic higher values of between 1.5 and 5.0 ppm Au. Anomalous zinc values were encountered at one location with one 4 m section grading 1.5% Zn. EESA drilled twenty one reverse-circulation drillholes totaling 2,372 m. A single diamond hole was drilled in the area (249.9 m). These holes intersected mineralization along an east northeast trending structure, with a strike length of close to 500 m. Pediment has since completed 25 RC drillholes (2,098 m) in 2008- 2009, with follow-up drilling.

Deposit Type

The following descriptions of deposit types are cited directly from McMillian et al (2009) with minor modifications of text and formatting.

Mineral Deposit

La Colorada Gold District has many of the characteristics of a low sulfidization epithermal-vein type gold-silver deposit. Although there are differences, such as the more sheared and deformed nature of the La Colorada deposits, the authors (McMillian et al, 2009) believe that La Colorada could be an outlier of the prolific Sierra Madre Occidental trend of gold-silver deposits that traverses much of central Mexico. Zawada et al (2001) from fluid inclusion studies, state that “La Colorada district underwent a complex hydrothermal history related to Cretaceous plutonic activity, later higher level plutonic events, and finally a mid-Tertiary vein system which shares characteristics in common with both a deep epithermal environment and a high-level mesothermal system.” Zawada et al (2001) go on to state that “features indicative of a deep epithermal environment include abundant multistage coarse and fine grained crystalline quartz bands, with gold deposition more abundant in the finer grained stages; abundant primary growth zones indicative of open-space filling under hydrostatic pressure conditions; and the absence of low temperature silica phases such as chalcedony or recrystallized amorphous silica, which are typically present within the mineralized zones of higher epithermal systems” .

The current authors (McMillan et al) believe that the deposits are epithermal in nature and of the low-sulfidization type in particular. The La Colorada deposits however have been subject to burial and as a consequence to shearing and elevated temperatures prior to being exhumed and re-exposed. These suppositions are not merely academic, and are believed to have exploration implications – in particular in tracing the key structural-stratigraphic traps for mineralization down-dip in the relevant fault blocks generally west from the known mineral deposits below the Tertiary volcanic cover.

According to Herdrick (2007), the La Colorada project area contains at least three parallel vein trends on which underground and open pit mining has been conducted. Targeting of drillholes is based on structural analysis and vertical zoning recognized in the district, as well as fluid inclusion and alteration studies which indicate that gold mineralization exposed in the pits resulted from boiling in the epithermal system. The upper parts of a boiling system are typically recognized as barren alteration zones, overlying potentially gold bearing parts of the vein structure at depth. Veins are focused along east-west and northeast-southwest trending structures that dip moderately to the north and northwest, and cut across local skarn alteration and intrusive bodies. Surface mining was focused along three structures, the upper parts of which flare out into stockwork zones. Eight different structures in the La Colorada mine area appear to have older underground workings in gold bearing quartz veins.

Age dating was undertaken on three hydrothermal sericite samples. Two are from the La Colorada Pit and one from the Gran Central Pit (Zawada et al, 2001). The samples were subject to $^{40}\text{Ar}/^{39}\text{Ar}$ analyses at the New Mexico Institute of Science and Technology Geochronology Research Lab in Socorro, New Mexico, yielding respectively: 27.1 $\pm$ 2.0 Ma, 22.45 $\pm$ 0.19 Ma and 23.83 $\pm$ 1.6 Ma. Two biotite samples collected from dioritic intrusions from the Gran Central Pit yielded ages of 70.4 $\pm$ 0.2 Ma and 69.9 $\pm$ 2.2 Ma. These dates suggest that the hydrothermal alteration and associated gold mineralizing event was Miocene in age and probably related to the Tertiary volcanic event. The Cretaceous age for the biotite in the diorite suggests the intrusive event for the granitic plutonic rocks was much earlier and not associated with the hydrothermal gold mineralizing event.

Drilling

The majority of the drilling which supports the current resource estimation was conducted by the three most recent owners of the project including; EESA, Pediment and Argonaut.

EESA completed 874 drillholes on the project during their ownership.

Pediment completed 133 drillholes on the project during their ownership.

Argonaut has completed 245 drillholes on the project to date.

Pediment, Reverse Circulation (RC) Drilling

Pediment used Layne de México and Globexplore Drilling S.A. de C.V., both of Hermosillo, for the reverse circulation drilling. Drillholes were generally oriented on azimuths 180° and 160° and inclined with dips between -45° and -90° to the south because of the predominant north dip to the veins and stockwork zones. Brunton compass was used for marking the direction of drilling on the pads. All drillholes contained a systematic code numbering, using a prefix indicating the year and type of drilling and had continuous numbering. Initial pads were located by handheld GPS. Upon completion, further surveying with precision instruments was completed to obtain the exact drillhole coordinates. RC pipe diameter was 5 1/8 inch for Lyne RC or 5.0 inch for Globexplore RC. RC cuttings were logged coincidentally with drilling using hand lens and binocular field microscope. RC samples were taken every 5 ft (1.52 m) regardless of lithology, alteration or mineralization. Chip trays were set up at this sample interval. After completion of a drillhole, the site was monumented by a marker composed of down-hole PVC pipe encased in a cement block which was labeled with the drillhole number.

Pediment Core Drilling

Pediment used Layne de Mexico of Hermosillo for its core drilling. Layne drilled with a skid mounted Cummins B-20 diamond drill rig. This equipment was used to drill five new holes, and two existing holes were re-entered. All holes were drilled using HQ diameter bits. The entire hole was sampled. In the mineralized zones samples were collected at regular 1.0 m or less, intervals. In zones with no obvious mineralization, samples were collected at 3.0 m intervals.

Argonaut Reverse Circulation (RC) Drilling

Argonaut used Layne de México and Major Drilling de Mexico S.A. de C.V., both of Hermosillo, for its RC drilling. Drillholes were oriented on azimuth 180° and inclined with dips between -45° and -90° to the south following Pediment's drill scheme. The drill plan design was to infill at 25 m spacing. Brunton compass was used for marking the direction of drilling on the pads. All drillholes contained a systematic code numbering, using a prefix indicating the year and type of drilling and had continuous numbering follow the system of Pediment. Initial pads were located by handheld GPS. Upon completion, further surveying with precision instruments was completed to obtain the exact drillhole coordinates. RC pipe diameter was 5.0 in for Lyne RC or 5 1/8 in for Major RC. RC cuttings were logged coincidentally with drilling using hand lens and binocular field microscope. RC samples were taken every 5 ft (1.52 m) regardless of lithology, alteration or mineralization. Chip trays were set up this sample interval. After completion of a drillhole, the site was monumented by a marker composed of down-hole PVC pipe encased in a cement block which was labeled with the drillhole number.

Argonaut Core Drilling

Argonaut used Landdrill International Mexico S.A. de C.V. and Falcon Perforaciones de Mexico S.A. de C.V. both of Hermosillo and GDA Servicios Mineros S.A. de C.V. of Chihuahua for its core drilling. Two drills were skid-mounted and two were buggy-mounted diamond drill rigs. Some of the holes were drilled using PQ diameter bits in order to obtain metallurgical samples, others used HQ diameter bits to obtain exploration samples. Sampling procedures followed the protocols established by Pediment as described above.

Argonaut ROM Pad Drilling

A Becker-Hammer rig contracted from Layne de Mexico was used to drill test the ROM leach pad and Waste dumps at La Colorada. This type of drilling drives casing with a percussion hammer without the necessity of rotation. The casing is a

double wall drive pipe with a large center opening which allows even large cobbles to be lifted without prior crushing. Since drilling and casing are combined in one operation, this method provides a continuous and generally, more accurate sample of the geological formation being drilled. Since the ROM pad and waste dumps consist of uncrushed rock, the Becker was chosen to get as much recovery in the coarse size as possible. The Becker hammer used at La Colorada had a 9-in outer diameter and 6-in inner diameter with dual tube drill pipe. Layne reported the rig being able to commonly lift 4-in cobbles. All Becker hammer drillholes were drilled at a -90° angle and were drilled without introducing water. The sampling procedure on this type of drilling was similar to the one used in RC samples, with the exception that none of the sample portions were discarded. Routinely, the sample was discharged and split by half; 50% of the sample was bagged and stored at the storage house and the other 50% was split again to obtain two 25% portions of the total; one of which was bagged and stored as a lab sample witness and the other 25% was bagged, marked and shipped to the preparation laboratory. Whenever a duplicate sample was needed, both 25% portions were split again, so four 12.5% splits were obtained, two of which were shipped to the preparation lab and the other two were stored at the storage house.

Reputable contractors using industry standard techniques and procedures have conducted the La Colorada drilling. The historic drilling was conducted to the industry best practices of the time. This work has defined several large zone of anomalous gold mineralization within the El Crestón, La Colorada/Gran Central, and Veta Madre Zones. The drillholes are generally located in a wide range of spacing and orientations. They typically bear to the south, inclined steep to moderately. This orientation provides an oblique angle of intersection between the predominate plane of mineralization and the drillhole. Based on the wide range of drillhole orientations most of the sample lengths do not represent true thickness of mineralization. In general, the drillhole intercept length is greater than the true thickness of mineralization.

SRK is of the opinion that the drilling operations were conducted by professionals, the RC chips and core were handled and logged in an acceptable manner by professional geologists, and the results are suitable for support of an NI 43-101 compliant resource estimation.

Sampling and Analysis

Sample Preparation, Analysis and Security

Methods

Reverse Circulation Drill Samples

RC samples were collected every 5 ft or 1.52 m using a splitter to obtain two samples. One of the final splits is weighed and collected for assay, while the other reject is stored. QA/QC samples containing blanks and standards are utilized.

Diamond Drill Core Samples

Samples were first marked by the geologist after geological logging, RQD and photography was then completed under the supervision of Argonaut's qualified geologist. Core boxes are stored at a warehouse and marked with drillhole number and intervals contained in meters.

All drill and surface samples taken at the Project were stored and secured in the Project's office. Sample transfer to the assay lab were regularly scheduled at the site for deliveries to the preparation laboratory in Hermosillo and processed pulps for assay in their laboratories in the U.S.

All of Argonauts samples were prepared and analyzed by Inspectorate Labs, Hermosillo, Mexico. Inspectorate is fully independent of Argonaut; it is not an ISO certified laboratory but does follow the "Bureau Veritas" code of ethics.

Argonaut's practice is to insert one control sample (standards, blanks and duplicates) at 10-sample intervals through an entire drillhole.

Argonaut does not include any analytical batch results in its final database that have not passed the QA/QC procedure satisfactorily.

SRK is of the opinion that the analytical work performed by Inspectorate is valid and suitable for use in resource estimation. The fire assay method is an industry accepted analytical technique to determine Au and Ag content in exploration samples.

The QA/QC program employed by Argonaut meets current industry standards and the results of this work indicate good precision and accuracy of the analytical results.

Two data verification procedures have been employed to verify the data in this technical report. The first involves the collection of 11 character samples and the second is verification of the electronic data base completed by SRK. All drill collar locations from the Pediment and Argonaut drilling were verified to the original sources. No errors were found. Three percent of the hole orientation/down-hole surveys were verified to original data, no errors were found.

SRK is of the opinion that appropriate scientific methods and best professional judgment were utilized in the collection and interpretation of the data used in this report.

It is SRK's opinion that the drillhole data is adequate to support to resource estimation of this report.

Mineral Resource and Reserve Estimates

Mineral Resource Estimate

The resource estimation is based on the current drillhole database, digitized as-built topography of open pits, interpreted fault structures, geologic controls and current topographic data. The estimation of mineral resource was completed utilizing a computerized resource block model by VULCAN® modeling software.

The drillhole database was compiled by Argonaut and is determined to be of good quality. The database consists of four, Microsoft Excel® spreadsheets containing collar locations surveyed in UTM grid coordinates, drillhole orientations with some down hole deviation surveys, assay intervals with gold and silver analyses by fire assay and geologic intervals with rock types.

The resource estimation is supported by 1,319 drillholes, totaling 154,918 m. The drillhole database has 80,187 samples. The drillholes are generally located in a wide range of spacing and orientations. The maximum drillhole depth is 479 m and the average is 117 m. The historic drillholes are generally short and lack down-hole surveys. Nearly all of the modern, longer holes do have down-hole surveys. The appropriate codes for missing samples and no recovery were used during the modeling procedures.

The resource estimation is based on a generalized geologic model consisting of a single rock type. The mineralization is hosted all lithologies, primarily controlled by the fault and vein development. The principal mineralization occurs as quartz veinlets and silica replacement within the La Colorada, Gran Central, El Crestón and Veta Madre fault/vein zones. The Intermediate Zone is defined as diffuse zone of mineralization located parallel, and midway between the Gran Central and La Colorada structures.

Overall, the resource area has a deep level of oxidation controlled primarily by the fault/vein development. The bedrock is typically well oxidized within the mineralized zones and less oxidized in the barren zones. All material within the current resource models is considered oxidized or transitional.

Four block models were used to estimate the current resources. 5 m x 5 m x 5 m block size was chosen as an appropriate dimension based on the current drillhole spacing and a potential open pit, smallest mining unit.

Compositing

The raw assay from each of the resource estimation domains was plotted on histograms and cumulative distribution plots to assess appropriate capping and compositing parameters. For the modeling, these were composited into 5.0 m down-hole lengths. This length was chosen mainly so that at least two average samples would be composited together and the composites would comprise each 5 m block diameter.

Density

Density determinations were made on 136 samples collected from a wide range of locations and rock types. The average density from the Argonaut test work was 2.694 g/cm³. The ROM pad and all waste dump material was assigned a standard

density of 2.0 g/cm³.

Four unique block models were used to generate the total resource estimation.

El Crestón

The El Crestón grade estimation was conducted within a single estimation domain. This was defined by a wireframe grade shell generated by Argonaut at a 0.1 ppm grade threshold.

Veta Madre

The Veta Madre grade estimation was conducted within a single estimation domain. This was defined by a wireframe grade shell generated by Argonaut at a 0.1 ppm grade threshold.

ROM Pad

The RoM Pad grade estimation was conducted within a single estimation domain. This was defined by a wireframe solid generated by SRK. The solid is based on surveyed topography of the existing ROM Pad assuming a planer base. This material represents previously mined and partially leached ROM potentially mineable resource.

Resource Classification

Mineral Resources are classified under the categories of Measured, Indicated and Inferred according to CIM guidelines. Classification of the mineral resources reflects the relative confidence of the grade estimates and the continuity of the mineralization. This classification is based on several factors including; sample spacing relative to geological and geo-statistical observations regarding the continuity of mineralization, data verification to original sources, specific gravity determinations, accuracy of drill collar locations, accuracy of topographic surface, quality of the assay data and many other factors, which influence the confidence of the mineral estimation. No single factor controls the mineral resource classification rather each factor influences the end result.

The mineral resources have been classified as Indicated and Inferred based primarily on sample support. The RoM Pad is all classified as indicated mineral resource.

Mineral Resource Statement

The La Colorada Mineral Resources are reported below in table 12.11.1 based on a 0.1 g/t Au cut-off grade. The cut-off is supported by a mining cost of US\$1.20/t, a processing cost of US\$2.70/t, Au and Ag recoveries of 60% and 30% respectively, G&A cost of \$0.20/t, a no NSR and Au, Ag prices of US\$1,500/oz, US\$20.00/oz respectively. The mineral resources are confined within a conceptual whittle pit design based on the same parameters used for the cut-off grade and a 50° pit slope.

Deposit	Class	Au Cut-off	Tonnes (000s)	Au (g/t)	Au oz (000s)	Ag (g/t)	Ag oz (000s)
La Colorada	Indicated	0.10	29,900	0.724	696	5.1	4,905
	Inferred	0.10	2,500	1.204	95	8.4	661
El Crestón	Indicated	0.10	14,400	0.618	287	12.1	5,635
	Inferred	0.10	2,200	0.887	63	13.3	944
Veta Madre	Indicated	0.10	2,900	0.491	46	3.3	307
	Inferred	0.10	0	0.665	0.2	2.4	0.7
RoM Pad	Indicated	0.10	2,700	0.429	38	36.5	3,200
	Inferred	0.10	-	-	-	-	-
All Deposits	Indicated	0.10	50,000	0.664	1,067	8.7	14,047
	Inferred	0.10	4,700	1.044	158	10.6	1,605

Source: SRK

Effective Date: October 15, 2011

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mineral resource estimates do not account for mineability, selectivity, mining loss and dilution. These mineral resource estimates include inferred mineral

resources that are normally considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves. There is also no certainty that these inferred mineral resources will be converted to Measured and Indicated categories through further drilling, or into mineral reserves, once economic considerations are applied.

Mining Operations

Mineral Processing and Metallurgical Testing

All information contained within this section was provided by Kappes, Cassiday & Associates (KCA) in Reno, Nevada.

Metallurgical test work has been completed and ongoing during 2011 on material drilled from the existing RoM Leach Pad at La Colorada as well as on new PQ and HQ core drilled from the La Colorada, La Colorada West, Gran Central and Gran Central West pit designations.

In both cases, the amount of drilling completed for the test programs completed by KCA in 2011 would appear to be representative of the areas being examined.

Testing and Procedures

For the RoM Leach Pad sample a group of 19 buckets of material were received at KCA in Reno, Nevada. The received material was crushed for head characterization, bottle roll leach test work, agglomeration test work and column leach test work.

For the metallurgical core drillholes developed at La Colorada, KCA core intervals received were prepared and assayed by Inspectorate in Sparks, Nevada for gold and silver.

An additional group of core samples were received from the Gran Central West area.

A total of 206 intervals were received from four separate areas of the La Colorada project. The intervals received were representative of 13 drillholes developed from across these areas.

A total of four core composites were developed for head characterization, bottle roll leach test work, preliminary agglomeration and column leach test work. These composites were representative of the La Colorada, La Colorada West, Gran Central and Gran Central West areas.

Column leach tests were conducted on each of the four composites utilizing crushed material.

Relevant Results

The column leach tests were completed on crushed material.

The feed material for both column leach tests were agglomerated with cement prior to leaching.

Although some additional recovery could possibly be obtained with longer leaching it is believed that the crushed size of the material is the most important factor with regard to metal recovery.

The general recovery trend does indicate that both gold and silver recoveries do improve with finer crushing.

For the Gran Central core composite gold recoveries ranged from 30% for material crushed to minus 25 mm to 55% on material crushed to minus 8 mm. Silver recoveries ranged from 19 to 45%.

For the Gran Central West core composite gold recoveries ranged from 41% for material crushed to minus 25 mm to 48% on material crushed to minus 12.5 mm. Silver recoveries ranged from 24 to 40%.

For the La Colorada core composite gold recoveries ranged from 44% for material crushed to minus 25 mm to 70% on material crushed to minus 8 mm. Silver recoveries ranged from 17 to 47%.

For the La Colorada West core composite gold recoveries ranged from 32% for material crushed to minus 25 mm to 46% on material crushed to minus 12.5 mm. Silver recoveries ranged from 30 to 47%.

From KCA's field experience, cyanide consumption in production heaps is usually 25 to 33% of the laboratory column test consumption.

It has not been determined that cement agglomeration is actually required. Additional testwork is to be conducted to determine cement requirements (if any) for each of the mining areas.

When examining the results from laboratory column test work and projecting this to estimated field recoveries the recoveries obtained from laboratory columns are typically reduced by 3 percentage points. In a similar manner, silver recoveries are typically adjusted by up to 5 percentage points.

After review of historical processing data from La Colorada it was determined that no reduction from laboratory column test work was needed as the recovery curves indicate relatively slow leaching, it is almost certain that several percent more gold recovery would be realized with a 120 day leach cycle.

Gold recovery in the field from RoM Pad Leach material crushed to 100% passing 25 mm with a p80 size of 10.5 mm would be estimated to be 43%.

Review of historical reports and production records show that overall gold recovery during operations achieved a combined recovery of 67.3% between RoM and 25 mm crush size from all mining areas. It is believed that using a 9.5mm crush size, a scoping-level tentative gold recovery of 60% may be reasonably assumed for El Creston and Veta Madre mining areas until column testing of these areas is complete. Similarly, during historical operations the silver recovery achieved was 14%. It should be noted that the KCA testwork has shown considerably higher silver recovery in La Colorada and Gran Central. A reasonable scoping-level tentative silver recovery of 28% may be reasonably assumed for El Creston and Veta Madre mining areas until column testing of these areas is complete.

Additional column test work is being completed by KCA at the present time on core material from the Project.

The use of High Pressure Grinding Rolls (HPGR) is being investigated as an option for crushing material for heap leaching by many projects at the present time and is an option that can be considered for further downstream finer crushing at La Colorada.

Mining Methods

Golder Associates have completed a heap leach design plan within the current site footprint. Tonnages have been estimated using a 1.7 density.

Production at the Project is expected to begin with re-leaching of historical RoM pads thus allowing room for additional heap leach pad space. By mid- to late 2012, it is expected that the necessary permits will be in place for open pit mining at the Gran Central pit followed by El Crestón and Veta Madre.

An economic model was constructed to internally test the economics of the complete resource through achieving a positive NPV. This confirmed Argonaut's resources detailed in the SRK report "NI 43-101 Technical Report on Resources La Colorada Project Sonora, Mexico" are valid producing a NPV 5% of over \$120 million.

For the PEA, an ultimate pit for La Colorada was constructed by SRK with three possible phases. El Creston and Veta Madre were designed to meet mining width limitations. The resultant pit design defined 32.8 Mt of potentially minable resource with an average grade of 0.72 g/t Au and average strip ratio of 3.7:1 (W:O). At a 4 Mt production rate, it is expected the potential mine life of to be in excess of 9 years. The production schedule targeted a consistent total mine tonnage of 24Mt/y from year 3 onwards and any resources mined above 4 Mt/y was stockpiled for use in years where not

enough direct ROM feed was possible.

Final dimensions of the proposed open pits detail the potential magnitude of operations and have not been limited to infrastructure restrictions. Potential restrictions may include additional required permitted space for future heap leach pads and partial relocation of the La Colorada Township. As detailed engineering continues the effect of these restrictions or the elimination of the restriction resulting from further land negotiations will be addressed during reserve estimation.

As part of the resource evaluation, Whittle® pit optimizations were carried out on La Colorada mine region, in particular, areas defined as Gran Central, Veta Madre and El Crestón. As part of the PEA, the pit optimization results have been used as a guide for pit and waste dump construction. Inputs used for the optimization do not necessarily conform with those quoted in the final preliminary economic model. In all cases, measured, indicated and inferred resources have been considered during pit optimization.

Both the La Colorada/Gran Central and El Crestón deposits have been previously worked by both open pit and underground methods. They both contain areas where the pit has been backfilled and, as such, the slope angles that intersect old waste have been considered during the optimization process. Underground voids have been depleted from the resource model for both La Colorada/Gran Central and El Crestón.

Whittle® Results and Analysis

As a result of the pit optimization, the relationship of potential pit shells is based on stripping ratio variability and subject to a revenue of \$1,500/oz Au and \$20/oz Ag, respectively. By looking at the relationship of potentially mineable resource to waste and the associated best case and worst case cash flows generated at each incremental pit, the risk profile and revenue generating potential of the deposit can be estimated. For illustration purposes, pit 36 represents the maximum possible cash flow at \$1,500/oz Au, pit 86 represents a pit constructed using \$3,000/oz Au gold (But dependent on \$1,500/oz Au revenue) and pit 1 represents a pit constructed using \$420/oz Au.

Open Pit Design

The El Crestón and La Colorada/Gran Central pit design combine current site access, mining width requirements and generalized geotechnical parameters to explore the possible extraction of the resources through open pit techniques in a practical manner. As such, no restrictions were placed on either pit. However, during the PEA process the following issues were identified and will need to be resolved moving forward:

- La Colorada/Gran Central pit wall may be limited by La Colorada township if land purchases cannot be made;
- Heap leach pad sequencing may be modified to account for overlap between pit crests and heap footprint;
- Geotechnical buffers between pit crest, dump and heap toe must be defined; and
- Geotechnical zones updated based on pit depth and ground water level.

There is historical geotechnical information for both La Colorada/Gran Central and El Crestón open pits.

Pit Design Parameters and Construction

For all three pits, the ramp width has been sized at 27 m (truck factor of 4) which can safely support Cat 777 (or equivalent) sized mining trucks. While this ramp size penalizes the stripping ratio, the operational savings in using the larger equipment during stripping campaigns will be vital especially given that El Crestón and Gran Central are both waste bound. One way access of 15 m has been applied at the pit bottom after stripping requirements have been met.

Phase designs for both pits are largely driven by the effective mining widths and its influence on access to the resource. The same design parameters used in the final pit design have been incorporated into the phase designs.

Production Schedule

The production schedule is used as the basis of the economic model and comprises of predicted waste, resource tonnes, silver and gold grade. The bench scale inventory for each phase design within each pit was accumulated and the life of mine

schedule performed with the Chronos scheduling package.

Two scheduling passes were performed to ensure the mine will run with a consistent tonnage profile and manage the variation in stripping ratios from the various phases ensuring a consistent crusher feed. As such, the first or “ROM” schedule provided the feedstock for a second “Crusher” schedule.

The ROM schedule mined Gran Central followed by El Creston and finally Veta Madre using a total tonnage limit of 24 Mt from year 3 onwards. When mined resources above 4 Mt/y are excavated, it is assumed that 4 Mt is fed directly to the crusher and excess is stockpiled. The first schedule determined the quantity of high grade (Au above 0.4), mid-grade (Au between 0.2 and 0.4) and low grade (Au between 0.1 and 0.2). The crusher schedule balances material mined in the RoM schedule to a flat 4 Mt after year 3 using the different grade classifications in the year they were produced. If there is an excess, high grade is sent to the crusher first, followed by mid-grade and a proportion of low grade is sent to a stockpile. Where there is not enough mined material, stockpile material from previous periods is added to the high grade and mid-grade mined in a particular year. No stockpiled material is added to the crusher schedule before it has been mined as defined in the RoM schedule.

Both La Colorada/Gran Central and El Crestón are subject to a 3% NSR royalty on gold and silver ounces mined on the deposit.

The block model is based on 5 m x 5 m x 5 m blocks and represents the Selective Mining Unit (SMU) in relation to cut-off grade and subsequent dilution.

Development Requirements

The current development plan (November 2011) calls for in-situ mining to commence late 2012 when the appropriate permits are in place. Before that time, Argonaut is working under permit which allows for site disturbance within the current site footprint. The main aim of the development is to open up heap leach pad space by relocating the old RoM stockpile while generating cash-flow during this period.

Two primary waste dumps have been located to store waste from La Colorada/Gran Central and El Crestón and are located on land owned by Argonaut.

Underground voids are evident in the highwalls of both La Colorada/Gran Central and El Crestón pits and SRK understands that there are extensive historical workings.

Eldorado attempted to digitize the underground workings from historical plan maps. SRK is of the opinion that a concerted effort should be made to accurately locate and estimate where potential mining voids exist for both pits.

A detailed mine fleet estimation has not been completed for La Colorada given the status of potential development plans, level of study and understanding that owner operations will be unlikely given the strong contractor base within the town of Hermosillo. SRK is of the opinion that the strength of contractors within the local area, the ability to raise capital for fleet expansions by potential contractors should not be a problem going forward.

As mining will be conducted by contractors, the mine operating cost will follow the standard Mexican model where costs are quoted for drilling, load, haul and ancillary operations. For the purposes of this PEA and founded on initial contractor discussions, a \$1.10/t-mined estimate has been included. Explosives and diesel are traditionally supplied by the mine owner and are added to the basic contractor cost. This has been estimated at \$0.40/t, giving a total mining cost of \$1.50/t.

Costs are linked to haul distance under 1 km and usually a \$0.15 c/km hauling costs are added if hauls are over 1 km.

Mobilization and demobilization are frequently under US\$500 k and are not a risk in Mexican mine operations.

The RoM re-handle cost has been quoted by Sinergia at \$0.60/t.

Manpower

Due to the proximity of potential mining operations to the La Colorada village, Argonaut will focus on hiring as many unskilled positions locally as possible. For skilled operators, La Colorada is only a 40 min drive from the town of Hermosillo which is generally considered the center for mine personnel within the Sonoran region.

Recovery Methods

Processing Methods

The first portion of processed potentially mineable resource will consist of previously leached mine run material currently residing on the leach pad which will be removed, crushed to P100 19 mm, and placed back on the existing leach pad supplemented with newly constructed leach pads. Once this reprocessing step is complete (during the first year of operation), new potentially mineable resource mined from the nearby pits will be treated by crushing to P100 9.5mm, agglomerated with cement as required, and conveyor stacked on the leach pads.

During the Phase 1 the ROM potentially mineable resource will be mined and delivered to a centrally located crushing system and crushed with a primary jaw crusher. The potentially mineable resource will then be conveyed to a triple deck screen. All material not passing the 19 mm aperture will be conveyed to a cone crusher with a closed side setting of 19 mm and crushed. The material will then be conveyed back to the screen to remove the P100 19 mm material product. The potentially mineable resource product passing the 19 mm aperture will be conveyed to the leach pad with portable field conveyors and stacked with a radial stacker in 8 m lifts. The total crushing and stacking processing rate for the previously leached mine run potentially mineable resources on the leach pad will be 8,400 t/d.

Before mining fresh material from the pits, an additional two cone crushers and two triple deck screens in a closed circuit configuration will be added to the crushing circuit allowing the new potentially mineable resource to be processed at a rate of 11,206 t/d at a 100% passing 9.5 mm crush size. The secondary cone crusher will operate at a 25 mm closed side setting and the tertiary crushers will operate at a 9.5 mm closed side setting. Lime or cement, as needed, will be added to the potentially mineable resource at approximately 2 kg/t on a conveyor for binding and protective alkalinity for cyanide leaching. Conveyor stacking will continue to be used to stack the potentially mineable resource on the leach pads during new potentially mineable resource processing.

After stacking the potentially mineable resource will be irrigated with a dilute cyanide solution. The solution will be applied utilizing drip tubing to minimize evaporation. Gold bearing leach solutions, now “pregnant”, draining from the leach pad will be directed to the pregnant pond. The pregnant solution will be pumped from the pond to carbon columns. The carbon will absorb the gold and silver from the pregnant solution. The solution will drain from the carbon columns to a barren tank where it will be refortified with cyanide and pumped back to the leach pad.

The carbon will be removed from the first column and pumped to a tank for acid washing with a dilute hydrochloric acid solution. Carbon from the subsequent columns in series will be advanced to replace the carbon removed. After acid washing the carbon will be pumped to a pressure vessel with a capacity of 5 t of carbon where the gold and silver will be stripped from the carbon and placed back into solution. The gold and silver bearing solutions will be pumped through electrowinning cells where the precious metals will be electroplated onto stainless steel-wool cathodes. After stripping, the carbon will be placed back into the carbon column train in the last column in series. Periodically the carbon will be thermally regenerated to maintain desired activity levels.

The gold and silver will be removed from the stainless steel cathodes by high pressure washing then dried, mixed with flux reagents and smelted on-site to doré bullion. The doré bullion will be shipped off-site for further refinement and sale.

Plant Design and Equipment Characteristics

Preliminary designs, equipment characteristics and sizes have been established based upon site specific metallurgical data from La Colorada and industry norms for typical heap leach circuits of this size.

The consumable requirements are estimated based upon a 4,000,000 t/y operation.

Environmental Studies, Permitting and Social or Community Impact

Through the Mining Law, approved on June 26, 1992 and amended by decree on December 24, 1996, Article 27 of the Mexican Constitution was regulated.

General Environmental Laws and Regulations

Mexico's environmental protection system is based on the General Environmental Law known as Ley General del Equilibrio Ecológico y la Protección al Ambiente – LGEEPA (General Law of Ecological Equilibrium and the Protection of the Environment), approved on January 28, 1988 and updated December 13, 1996.

SIGA

Many companies in Mexico adopt the corporate policy, Sistema Integral de Gestión Ambiental (SIGA) (Integral System of Environmental Management), for the protection of the environment and prevention of adverse environmental impacts. SIGA emphasizes a commitment to environmental protection along with sustainable development, as well as a commitment to strict adherence to environmental legislation and regulation and a process of continuous review and improvement of company policies and programs. The companies continue to improve their commitments to environmental stewardship through the use of the latest technologies that are proven, available, and economically viable.

Regulations Specific to Mining Projects

All aspects related to Mine Safety and Occupational Health are regulated in Mexico by the Secretariat of Labor.

New tailings dams are subject to the requirements of a Standard that Establishes the Requirements for the Design, Construction and Operation of Mine Tailings Dams. Under this regulation, studies of hydrogeology, hydrology, geology and climate must be completed for sites considered for new tailings impoundments. If tailings are classified as hazardous under the amount of seepage from the impoundment must be controlled if the facility has the potential to affect groundwater. Environmental monitoring of groundwater and tailings pond water quality and revegetation requirements is specified in the regulations. This regulation is still under review.

Specific environmental protection measures for mining explorations activities in temperate and dry climate zones that would affect xerophytic brushwood (matorral xerofilo), tropical (caducifolio) forests, or conifer or oak (encinos) forests exist. Development and implementation of a Supervision Program for environmental protection and consultation with CONAGUA is required if aquifers may be affected. Environmental protection measures are specified in the regulations.

Expropriation of ejido and communal properties is subject to the provisions of agrarian laws.

No Detailed post closure and operating plans have been developed for La Colorada at this time. A \$4,000,000 provision has been included in the economic model for rehabilitation and mine closure expenses starting two years before the mine schedule ends.

Permitting Process

Environmental permits are required from various federal and state agencies.

Environmental permits are required in Mexico for exploration activities and road construction as well as mining activities and infrastructure development.

Environmental Impact Permit

The most important environmental permit is the Environmental Impact Permit. The LGEEPA environmental impact assessment regulation, revised on May 30, 2000, outlines the procedure for obtaining the permit. All mining projects and certain exploration projects must prepare an environmental impact assessment. The type of study required depends on the characteristics of the project.

Other Permits and Licenses

Other permits and licenses are also required such as:

- a) Operating License (and Air Quality Permit)
- b) Land Use Permit
- c) Wastewater Discharge Permit
- d) Stream Diversions
- e) Hazardous Waste Registration
- f) Mine Closure Regulations

La Colorada Environmental and Permitting Status

Environmental Baseline Data

Environmental baseline data collection at La Colorada was initiated in 2011 in support of an application for the expansion of the La Colorada and Gran Central open pits, and construction of new heap leaching facilities and includes:

- a) Fauna
- b) Flora
- c) Surface Water
- d) Groundwater
- e) Geochemistry

Environmental Permitting

Informe Preventivo

Permitting of La Colorada has essentially been divided into two phases. First, the existing facilities and operations are being restarted through the expedited Preventative Notice (Informe Preventivo, or IP). The IP is intended to provide a preliminary presentation of the project, its location and potential environmental impacts. The purpose of the IP is to provide the SEMARNAT with general information on the project to determine what will be required and on what basis—regional or specific (particular). In certain instances, projects may be exempted from filing.

An Impact Permit (IP) was submitted by Minera Pitalla to SEMARNAT in September 2011 as part of the restart of the La Colorada existing operations on previously disturbed ground. Approval was issued by SEMARNAT on October 20, 2011 to authorize the construction of new process water ponds, a new heap leach pad onto which the previous RoM leach pad material will be relocated, and new plant site. The original ponds and pad are known to have leaked in the past, as is demonstrated through groundwater monitoring and the detection of cyanide in the down-gradient wells. The expedited IP approval process is allowing Minera Pitalla to proceed with reconstruction of these facilities, including the complete refurbishment of the ADR Plant site, and relining of the ponds to ensure safe operations.

Manifestación de Impacto Ambiental

The second phase of the La Colorada restart will involve the mining of additional material of the open pits. This will result in the construction of new heap leach pads as well as new crushing system and expanded waste rock disposal areas. In addition, the La Colorada open pit will be expanded. This action will result in the encroachment of the mine on the town, and the relocation and resettlement of several residences and public plaza.

These new facilities/activities will require approval by SEMARNAT. The anticipated submittal date of this document is January 2012. Approval is anticipated in four to six months; approval is needed by October 2012 as the activities under the IP will be coming to an end.

Land Use Change

As with the environmental impact assessment, the land use change for the Project was also separated into two phases. Land use change authorization for the relocated RoM heap leach pad and new process ponds was granted by SEMARNAT on September 15, 2011.

Social and Community

Social Management Planning

Minera Pitalla is in the process of implementing a social management plan (SMP) to “identify, prevent, control and mitigate the possible impacts that might come with the La Colorada project and could affect the social, economic and environmental dynamics of the project’s area of influence.” The proposed SMP, prepared by Dinámica S de RL de CV, has been formulated according to the environmental policies of Argonaut Gold Inc. (AGI), as well as the international guidelines and standards regarding social impacts management.

In order to comply with the SMP objectives, Minera Pitalla has a Community Relations office located in the town of La Colorada. This office is in charge of maintaining open dialogue and relations with the locals while coordinating with the mine environmental and human resources departments. The current SMP is fairly general in its approach, but does include descriptions of activities to be carried out in the areas of:

- Community communication and dialogue;
- Contribution program for financial assistance;
- Local labor hiring program;
- Community development program; and
- Social and environmental programs.

With the expansion of the La Colorada open pit during the next phase of mining at the site, a detailed resettlement plan will be needed for those residence and businesses impacted. This plan does not currently exist and will need to be in accordance with IFC Performance Standard 5 – Land Acquisition and Involuntary Resettlement (January 1, 2011), as well as Mexican regulations governing forced relocation. Preliminary discussions have taken place with local and state government officials regarding the relocation.

Exploration Stage Projects

The Corporation also has interests in the exploration stage projects: noted below. With the exception of the El Compa Project, Argonaut did not complete any significant exploration work on these projects in 2011. All necessary land payments and filings have been completed and all the claims are up to date. The Corporation expects to complete preliminary evaluations on all of its currently held exploration projects during 2012. The objective is to prioritize the land blocks and identify specific targets that may warrant more detailed evaluations, including drilling.

Caborca Project

The Caborca Project, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The silver/copper/gold project was originally staked at 600 hectares covering exposures of oxidized copper mineralization in replacement and skarn zones. Based on recent work, the project has been expanded to almost 14,000 hectares to contain areas prospective for discovery of porphyry mineralization.

Cochis Gold Project

The Cochis Gold Project, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The gold project consists of a single concession, El Toro, 250 hectares in size.

Daniel Project

The Daniel Project, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The gold project consists of four concessions totaling 2,350 hectares.

El Compa Project

The El Compa Project which was acquired through the acquisition of Castle Gold, consists of exploration concessions totaling 5,558 hectares in the State of Sonora, Mexico. During 2011 a detailed geologic map was completed and 200 rock chip samples were taken. The objective of the program was to determine the extent of mineralization in wall rocks that surround known veins on the project. Results of the Corporation's sampling largely determined that mineralization was confined mainly to narrow veins. For this reason, the Corporation will be seeking a joint venture partner to take the project forward.

Glor Project

The Glor Project concession, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The gold project is 5,000 hectares in size.

La Cien Project

The La Cien Project concession, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The gold project is 400 hectares in size.

Llano Colorado Project

The Llano Colorado Project, which was acquired through the acquisition of Castle Gold, consists of exploration concessions totaling 2,309 hectares in the State of Sonora, Mexico.

Manuel & Mel Project

The Manuel & Mel Project, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The gold project consists of two concessions totaling 2,879 acres in size.

Texson Project

The Texson Project, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The gold project consists of three concessions totaling 7,207 acres in size.

Valenzuela Project

The Valenzuela Project, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The concessions for the gold/silver project have not been finalized.

Nopal Project

The Nopal Project, which was acquired through the acquisition of Pediment, is located in the State of Sonora, Mexico. The gold project is 4,700 hectares in size.

RISK FACTORS

An investment in Argonaut should be considered highly speculative due to the nature of Argonaut's business and operations. In addition to the other information in this AIF, an investor should carefully consider each of, and the cumulative effect of, the following factors.

Commodity Price Volatility

The profitability of the Corporation's operations will be dependent upon the market price of mineral commodities. Mineral prices, including the price of gold, fluctuate widely and are affected by numerous factors beyond the control of the Corporation. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities, including the price of gold, has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Corporation's business, financial condition and results of operations.

Furthermore, reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Corporation's investment in mining properties and increased amortization, reclamation and closure charges.

In addition to adversely affecting the Corporation's reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Uncertainty of Exploration and Development

Exploration and development projects are uncertain and consequently, it is possible that actual cash operating costs and economic returns will differ significantly from those estimated for a project prior to production. Since mines have limited lives based on Proven and Probable Mineral Reserves, the Corporation will be required to continually replace and expand its Mineral Reserves as its mines continue to produce gold. The life-of-mine estimates may not be correct. The Corporation's ability to maintain or increase its annual production of gold in the future will be dependent in significant part on its ability to identify and acquire additional commercially viable mineral properties, bring new mines into production and to expand Mineral Reserves at existing mines. Mineral Resource exploration and development is a highly speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. There can be no assurance that the Corporation will successfully acquire additional mineral rights. While discovery of additional ore bearing structures may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration and development programs of the Corporation will result in profitable commercial mining operations. The profitability of the Corporation's operations will be, in part, directly related to the cost and success of its exploration and development programs which may be affected by a number of factors. Development projects are subject to the completion of successful feasibility studies and environmental assessments, issuance of necessary governmental permits and receipt of adequate financing. They typically require a number of years and significant expenditures during the development phase before production is possible. The economic feasibility of development projects is based on many factors such as: estimation of reserves; anticipated metallurgical recoveries; environmental considerations and permitting; future gold prices; and anticipated capital and operating costs.

Any of the following events, among others, could affect the profitability or economic feasibility of a project: unanticipated changes in grade and tonnage of ore to be mined and processed; unanticipated adverse geotechnical conditions; incorrect data on which engineering assumptions are made; costs of constructing and operating a mine in a specific environment; availability and costs of processing and refining facilities; availability of economic sources of power; adequacy of water supply; adequate access to the site, including competing land uses (such as agriculture); unanticipated transportation costs;

government regulations (including regulations regarding prices, royalties, duties, taxes, permitting, restrictions on production, quotas on exportation of minerals, as well as the costs of protection of the environment and agricultural lands); title claims, including aboriginal land claims; fluctuations in prices of precious metals; and accidents, labour actions and force majeure events. Anticipated capital and operating costs, production and economic returns, and other estimates contained in feasibility studies, if prepared, may differ significantly from the Corporation's actual capital and operating costs. In addition, delays to construction schedules may negatively impact the net present value and internal rates of return of the Corporation's mining properties as set forth in the applicable feasibility studies. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Corporation not receiving an adequate return on invested capital. There is no certainty that the expenditures made by the Corporation towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of ore.

The future development of the Corporation's properties that are found to be economically feasible will require the expansion and improvement of existing mining operations, as well as the construction and operation of additional mines, processing plants and related infrastructure. As a result, the Corporation is subject to all of the risks associated with establishing and expanding mining operations and business enterprises including: the timing and cost, which will be considerable, of the construction of additional mining and processing facilities; the availability and costs of skilled labour, power, water, transportation and mining equipment; the availability and cost of appropriate smelting and/or refining arrangements; the need to obtain necessary environmental and other governmental approvals and permits, and the timing of those approvals and permits; and the availability of funds to finance construction and development activities. The costs, timing and complexities of mine construction and development are increased by the remote location of some of the Corporation's mining properties. It is not unusual in new mining operations to experience unexpected problems and delays during the construction and development of a mine. In addition, delays in the commencement or expansion of mineral production often occur and, once commenced or expanded, the production of a mine may not meet expectations or estimates set forth in feasibility or other studies. Accordingly, there are no assurances that the Corporation will successfully develop and expand mining operations or profitably produce precious metals at its properties.

Uncertainty in the Estimation of Mineral Reserves and Mineral Resources

To extend the lives of its mines and projects, ensure the continued operation of the business and realize its growth strategy, it is essential that the Corporation continues to realize its existing identified reserves, convert resources into reserves, develop its resource base through the realization of identified mineralized potential, and/or undertake successful exploration or acquire new resources.

The figures for Mineral Reserves and Mineral Resources are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realized or that Mineral Reserves could be mined or processed profitably. Actual reserves may not conform to geological, metallurgical or other expectations, and the volume and grade of ore recovered may be below the estimated levels. There are numerous uncertainties inherent in estimating Mineral Reserves and Mineral Resources, including many factors beyond the Corporation's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Short-term operating factors relating to the Mineral Reserves, such as the need for orderly development of the ore bodies or the processing of new or different ore grades, may cause the mining operation to be unprofitable in any particular accounting period. In addition, there can be no assurance that gold recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. Lower market prices, increased production costs, reduced recovery rates and other factors may result in a revision of its reserve estimates from time to time or may render the Corporation's reserves uneconomic to exploit. Reserve data are not indicative of future results of operations. If Argonaut's actual Mineral Reserves and Resources are less than current estimates or if Argonaut fails to develop its resource base through the realization of identified mineralized potential, its results of operations or financial condition may be materially and adversely affected. Evaluation of reserves and resources occurs from time to time and they may change depending on further geological interpretation, drilling results and metal prices. The category of inferred resource is often the least reliable resource category and is subject to the most variability. The Corporation will regularly evaluate its resources and reserves and will determine the merits of increasing the reliability of its overall resources.

Competition for Exploration, Development and Operation Rights

The mining industry is intensely competitive in all of its phases and Argonaut competes with many companies possessing greater financial and technical resources than Argonaut. Competition in the precious metals mining industry is primarily for: mineral rich properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a global basis. Such competition may result in Argonaut being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect Argonaut's prospects for mineral exploration and success in the future.

Recent increases in gold prices have encouraged increases in mining exploration, development and construction activities, which have resulted in increased demand for, and cost of, exploration, development and construction services and equipment. Increased demand for services and equipment could cause project costs to increase materially, resulting in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, or at all, and increase potential scheduling difficulties and cost increases due to the need to coordinate the availability of services or equipment, any of which could materially increase project exploration, development or construction costs, result in project delays or both.

Recent Global Financial Conditions

Recent global financial conditions have been characterized by increased volatility. Access to public financing has been negatively impacted. These factors may impact the ability of the Corporation to obtain equity or debt financing in the future on terms favourable to it, if at all. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses as well as lead to an increase in liquidity risk. Liquidity risk is the risk that the Corporation will be unable to meet its financial obligations as they become due. The Corporation will manage this risk through regular monitoring of its cash flow requirements to support ongoing operations and expansionary plans. The Corporation will ensure that there are sufficient committed loan facilities to meet its business. If such increased levels of volatility and market turmoil continue, the operations of the Corporation could be adversely impacted and the price of the Common Shares may be adversely affected.

Financing Requirements

The exploration, development and continued operations of the Corporation's properties, including continuing exploration and development projects at the La Fortuna Project, the San Antonio Project and the La Colorada Project in Mexico, the construction and commencement of mining facilities and operations and continued operations at the El Castillo Mine in Mexico, may require substantial additional financing. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any or all of the Corporation's properties or even a loss of a property interest. When such additional capital is required, the Corporation plans to pursue sources of such capital through various financing transactions or arrangements, including joint venturing of projects, debt financing, equity financing or other means. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Corporation and might involve substantial dilution to existing shareholders. Argonaut may not be successful in locating suitable financing transactions in the time period required or at all, may not obtain the capital required by other means and failure to raise capital when needed would have a material adverse effect on the Corporation's business, financial condition and results of operations. If the Corporation does succeed in raising additional capital, future financings are likely to be dilutive to shareholders, as additional Common Shares or other equity will most likely be issued to investors in future financing transactions. In addition, debt and other mezzanine financing may involve a pledge of assets and may be senior to interests of equity holders. The Corporation may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. The ability to obtain needed financing may be impaired by such factors as the capital markets (both generally and in the gold industry in particular), Argonaut's status as a new enterprise with a limited history, the location of the Corporation's gold properties in Mexico and price of gold on the commodities markets (which will impact the amount of asset-based financing available) and/or the loss of key management. Further, if gold price on the commodities markets decreases, then revenues will likely decrease, and such decreased revenues may increase the requirements for capital. Some of the contractual arrangements governing the Corporation's exploration activity

may require commitment to certain capital expenditures, and the Corporation may lose contract rights if it does not have the required capital to fulfill these commitments. If the amount of capital raised from financing activities, together with cash flow from operations, is not sufficient to satisfy capital needs (even to the extent that operations are reduced), the Corporation may be required to cease operations.

Construction and Start-up of New Mines

The success of construction projects and the start-up of new mines by the Corporation is subject to a number of factors including the availability and performance of engineering and construction contractors, mining contractors, suppliers and consultants, the receipt of required governmental approvals and permits in connection with the construction of mining facilities and the conduct of mining operations (including environmental permits), an ADR plant, the conveyors to move the ore, mining equipment and other operational elements that have to be factored in. Any delay in the performance of any one or more of the contractors, suppliers, consultants or other persons on which the Corporation is dependent in connection with its construction activities, a delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay in or failure in connection with the completion and successful operation of the operational elements in connection with new mines could delay or prevent the construction and start-up of new mines as planned. There can be no assurance that current or future construction and start-up plans implemented by the Corporation will be successful; that the Corporation will be able to obtain sufficient funds to finance construction and start-up activities; that available personnel and equipment will be available in a timely manner or on reasonable terms to successfully complete construction projects; that the Corporation will be able to obtain all necessary governmental approvals and permits; and that the completion of the construction, the start-up costs and the ongoing operating costs associated with the development of new mines will not be significantly higher than anticipated by the Corporation. Any of the foregoing factors could adversely impact the operations and financial condition of the Corporation.

Operational Risks

In addition, mining operations generally involve a high degree of risk. Argonaut's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of gold including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding, pit wall failure and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, operations are subject to hazards such as fire, equipment failure or failure of retaining mechanisms areas which may result in environmental pollution and consequent liability.

The Corporation May Not Achieve its Production Estimates

The Corporation prepares estimates of future gold production for its operating mines. The Corporation cannot give any assurance that it will achieve its production estimates. The failure of the Corporation to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, profitability, results of operations and financial condition. These production estimates are dependent on, among other things, the accuracy of mineral reserve estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions, physical characteristics of ores, such as hardness and the presence or absence of particular metallurgical characteristics and the accuracy of estimated rates and costs of mining and processing.

The Corporation's actual production may vary from its estimates for a variety of reasons, including: actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades from those planned; mine failures, slope failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; labour shortages or strikes; civil disobedience and protests; and restrictions or regulations imposed by government agencies or other changes in the regulatory environments. Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property of the Corporation or others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable, forcing the Corporation to cease production. It is not unusual in new mining operations to experience unexpected problems during the start-up phase.

Depending on the price of gold or other minerals, the Corporation may determine that it is impractical to commence or, if commenced, to continue commercial production at a particular site.

Increase in Production Costs

Changes in the Corporation's production costs could have a major impact on its profitability. Its main production expenses are contractor costs, materials, personnel costs and energy. Changes in costs of the Corporation's mining and processing operations could occur as a result of unforeseen events, including international and local economic and political events, a change in commodity prices, increased costs and scarcity of labour, and could result in changes in profitability or reserve estimates. Many of these factors may be beyond the Corporation's control.

The Corporation relies on third party suppliers for a number of raw materials. Any material increase in the cost of raw materials, or the inability by the Corporation to source third party suppliers for the supply of its raw materials, could have a material adverse effect on the Corporation's results of operations or financial condition.

Environmental Risks and Hazards

All phases of the Corporation's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing or future environmental regulation will not materially adversely affect the Corporation's business, financial condition and results of operations.

Government environmental approvals and permits are currently, or may in the future be, required in connection with the Corporation's operations. To the extent such approvals are required and not obtained, the Corporation may be curtailed or prohibited from proceeding with planned exploration, development or operation of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, including the Corporation, may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Corporation and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

Write-downs and Impairments

Mining interests are the most significant assets of the Corporation and represent capitalized expenditures related to the development of mining properties and related plant and equipment and the value assigned to exploration potential on acquisition. The costs associated with mining properties are separately allocated to exploration potential, reserves and resources and include acquired interests in production, development and exploration-stage properties representing the fair value at the time they were acquired. The values of such mineral properties are primarily driven by the nature and amount of material interests believed to be contained or potentially contained, in properties to which they relate.

The Corporation will review and evaluate its mining interests for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable, which becomes more of a risk in the global economic conditions that exist currently. An impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs. There are numerous uncertainties inherent in estimating mineral reserves and

mineral resources. Differences between management's assumptions and market conditions could have a material effect in the future on the Corporation's financial position and results of operation.

In addition, with a weaker global economy, there is a larger risk surrounding inventory levels. The assumptions used in the valuation of work-in process inventories by the Corporation include estimates of gold contained in the ore stacked on leach pads, assumptions of the amount of gold stacked that is expected to be recovered from the leach pads, assumptions of the amount, if any, of by-products that will be crushed for concentrate, assumptions of the amount of gold and by-products in these circuits and an assumption of the gold and by-products price expected to be realized when the gold and by-products is recovered. If these estimates or assumptions prove to be inaccurate, the Corporation could be required to write-down the recorded value of its work-in-process inventories, which would reduce the Corporation's earnings and working capital.

Local Legal, Political and Economic Factors

The Corporation's operations will be conducted in foreign jurisdictions, including Mexico and, as such, the Corporation's operations will be exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to: terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licences, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Political instability could result in new governments or the adoption of new policies, laws or regulations that might assume a substantially more hostile attitude toward foreign investment, including the imposition of additional taxes. In an extreme case, such a change could result in the termination of contract rights and expropriation of foreign-owned assets. Any changes in gold or investment regulations and policies or a shift in political attitudes in Mexico or other countries in which the Corporation intends to operate will be beyond the Corporation's control and may significantly hamper the ability to expand operations or operate the business at a profit. Examples of such changes are changes in laws in the jurisdictions in which the Corporation will operate into which it will expand that have the effect of favouring local enterprises, and changes in political views regarding the exploration, development and operation of mineral properties and economic pressures that may make it more difficult to negotiate agreements on favourable terms, obtain required licenses and permits, comply with regulations or effectively adapt to adverse economic changes, such as increased taxes, higher costs, inflationary pressure and currency fluctuations.

Governmental Regulation of the Mining Industry

The mineral exploration activities of the Corporation are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although the Corporation believes that the current exploration and operational activities at its properties are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Corporation's properties. Amendments to current laws and regulations governing the operations and activities of the Corporation or more stringent implementation thereof could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Permitting Risk

The Corporation's operations are subject to receiving and maintaining permits from appropriate governmental authorities. There is no assurance that delays will not occur in connection with obtaining all necessary renewals of permits for the existing operations, additional permits for any possible future changes to operations, or additional permits associated with new legislation. Prior to any development or operations on any of its properties, the Corporation must receive permits from appropriate governmental authorities. There can be no assurance that the Corporation will continue to hold all permits necessary to develop or continue operating at any particular property.

Local Legal and Regulatory Systems

The Corporation intends to conduct exploration, development and production activities in Mexico and possibly other countries outside of Canada or the United States that may have different or less developed legal systems than in Canada or the United States, which may result in risks such as (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or, in an ownership dispute, being more difficult to obtain, (ii) a higher degree of discretion on the part of governmental authorities, (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations, (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions, and (v) relative inexperience of the judiciary and courts in such matters. Other risks may include decisions of local governments leading to restrictions on production, price controls, export controls, currency remittance, income and other taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses, permits and agreements for business. These licenses, permits and agreements may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. Property right transfers, joint ventures, licenses, license applications or other legal arrangements pursuant to which the Corporation will operate may be adversely affected by the actions of government authorities and the effectiveness of and enforcement of rights under such arrangements in these jurisdictions may be impaired. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Corporation's operations or profitability.

Foreign Subsidiaries

The Corporation is a holding company that conducts operations through foreign subsidiaries and substantially all of its assets are held in such entities. Accordingly, any limitation on the transfer of cash or other assets between the parent Corporation and such entities, or among such entities, could restrict the Corporation's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist now or in the future, could have an adverse impact on the Corporation's valuation and stock price.

Operations in Mexico

The Corporation's Mexican property interests and operations are subject to the political risks and uncertainties associated with investment in a foreign country.

The Corporation's property interests located in Mexico are subject to Mexican federal and state laws and regulations. As a result the Corporation's mining investments are subject to the risks normally associated with the conduct of business in foreign countries. The present attitude of the government of Mexico and of the State of Durango, where the El Castillo Mine and La Fortuna Project are located, and the States of Baja California Sur and Sonora, where the San Antonio and La Colorada Projects are located respectively, to foreign investment and mining appears to be favourable; however, investors should assess the political risks of investing in a foreign country. Any variation from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Corporation. In addition, the enforcement by the Corporation of its legal rights to exploit its properties may not be recognized by the government of Mexico or by its court system. These risks may limit or disrupt the Corporation's operations, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization or expropriation without fair compensation.

Foreign Currency Exchange Rate Fluctuation

Currency fluctuations may affect the Corporation's capital costs and the costs that the Corporation incurs at its operations. Gold is sold throughout the world based principally on a United States Dollar price, but a portion of the Corporation's operating expenses are incurred in, amongst others, Mexican pesos. The appreciation of foreign currencies, particularly the

Mexican peso against the United States Dollar, would increase the costs of gold production at properties located in those jurisdictions, which could materially and adversely affect the Corporation's earnings and financial condition.

Exchange Controls

Foreign operations may require funding if their cash requirements exceed operating cash flow. To the extent that funding is required, there may be exchange controls limiting such funding or adverse tax consequences associated with such funding. In addition, taxes and exchange controls may affect the dividends received from foreign subsidiaries. Exchange controls may prevent transferring funds abroad.

Safety and Security

The Corporation owns properties in the states of Durango, Sonora and Baja California Sur, Mexico. Risks associated with conducting business in these regions include risks related to personnel safety and asset security. Risks may include, but are not limited to: kidnappings of employees and contractors, exposure of employees and contractors to local crime related activity and disturbances, exposure of employees and contractors to drug trade activity, and damage or theft of Corporate or personal assets including future gold shipments. These risks may result in serious adverse consequences including personal injuries or death, in property damage or theft, all of which may expose the Corporation to costs as well as potential liability. Although the Corporation has developed policies regarding these risks, due to the unpredictable nature of criminal activities, there is no assurance that the Corporation's efforts are able to effectively mitigate risks and safeguard personnel and Corporate property effectively.

As the Corporation places a high priority on the safety of its employees, contractors and affiliates, these risks may at times have impacts such as limiting or disrupting the Corporation's operations, or restricting the movement of personnel for safety reasons. The Corporation is committed to controlling security risks and activity in this regard includes the completion of security assessments by experienced security experts and the hiring of security professionals to assess and respond to both personal and property safe-guarding issues which may arise in connection with the Corporation's activity in the region.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Corporation's business, financial condition and results of operations.

Community Relations

The Corporation's relationship with the communities in which it operates is critical to the successful development, construction and operation of its properties. The Corporation is committed to operating in a socially responsible manner. However, there is no guarantee it projects will be accepted by the communities in which they are located.

Contractors

A significant amount of the construction and operations is performed by contractors. As a result the Corporation is subject to a number of risks such as negotiating contracts with acceptable terms; failure of the contractor to comply with the terms of the contract or to following regulatory requirements; or inability to replace the contractor in a timely manner if either party cancels the contract.

Labour and Employment Matters

While the Corporation has good relations with its employees, production at its mining operations is dependent upon the efforts of the Corporation's employees. In addition, relations between the Corporation and its employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in whose jurisdictions the Corporation carries on business. Changes in such legislation or in the relationship between the Corporation

and its employees may have a material adverse effect on the Corporation's business, results of operations and financial condition.

Attracting and Retaining Talented Personnel

The Corporation's success will depend in large measure on the abilities, expertise, judgment, discretion, integrity and good faith of management and other personnel in conducting the business of the Corporation. The Corporation has a small management team and the loss of any of these individuals or the inability to attract suitably qualified staff could materially adversely impact the business. The Corporation's ability to manage its operating, development, exploration and financing activities will depend in large part on the efforts of these individuals. The Corporation may also experience difficulties in certain jurisdictions in efforts to obtain suitably qualified staff and retaining staff who are willing to work in that jurisdiction. The Corporation's success will depend on the ability of management and employees to interpret market and geological data successfully and to interpret and respond to economic, market and other business conditions in order to locate and adopt appropriate investment opportunities, monitor such investments and ultimately, if required, successfully divest such investments. Further, key personnel may not continue their association or employment with the Corporation, which may not be able to find replacement personnel with comparable skills. The Corporation has sought to and will continue to ensure that management and any key employees are appropriately compensated; however, their services cannot be guaranteed. If the Corporation is unable to attract and retain key personnel, business may be adversely affected. The Corporation faces intense competition for qualified personnel, and there can be no assurance that the Corporation will be able to attract and retain such personnel.

In addition, the Corporation anticipates that, as it expands its existing production and brings additional properties into production, and as the Corporation acquires additional mineral rights, the Corporation will experience significant growth in its operations. The Corporation expects this growth to create new positions and responsibilities for management personnel and to increase demands on its operating and financial systems, as well as to require the hiring of a significant number of additional operations personnel. There can be no assurance that the Corporation will successfully meet these demands and effectively attract and retain additional qualified personnel to manage its anticipated growth and hire enough additional operations personnel. The failure to attract such qualified personnel to manage growth effectively could have a material adverse effect on the Corporation's business, financial condition or results of operations.

Contract Renegotiation

The Corporation has contracts that provide access to projects and construction and operation of the mine. Although the contacts may be binding a party to the contract may request to renegotiate terms of the contract. A risk exists that the cost of the contract may rise or the parties may not reach acceptable terms causing a interruption to the access to or operation of the project.

Title to Properties

Argonaut presently holds all necessary licenses and permits required to carry on with activities in relation El Castillo and the reprocessing of run of mine ore at La Colorada. The Corporation is compliant under applicable laws and regulations in all material respects with the terms of such licenses and permits. Title reviews have been performed with respect to the Corporation's other properties. Although title reviews are often done according to industry standards prior to the purchase of a mining property, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Corporation which could result in a reduction of the revenue received by the Corporation. Third parties may have valid claims underlying portions of the interest in certain Projects, including prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Corporation may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

The mining concessions may be terminated in certain circumstances. Under the laws of the jurisdictions where the Corporation's operations, development projects and prospects are located, mineral resources belong to the state and governmental concessions are required to explore for, exploit, and extract, mineral reserves. The concessions held by the Corporation in respect of its operations and development projects may be terminated under certain circumstances, including where minimum production levels are not achieved by the Corporation (or a corresponding penalty is not paid), if certain fees are not paid or if environmental and safety standards are not met. Termination of any one or more of the Corporation's

mining, exploration or other concessions could have a material adverse effect on the Corporation's financial condition or results of operations.

Volatility of Market for Common Shares

The market price of the Common Shares may be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond the Corporation's control, including: (i) dilution caused by issuance of additional Common Shares and other forms of equity securities, which the Corporation expects to make in connection with future capital financings to fund operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies, (ii) announcements of new acquisitions, reserve discoveries or other business initiatives by competitors, (iii) fluctuations in revenue from gold operations as new reserves come to market, (iv) changes in the market for gold and/or in the capital markets generally, (v) changes in the demand for gold; and (vi) changes in the social, political and/or legal climate in the regions in which the Corporation operates. In addition, the market price of the Common Shares could be subject to wide fluctuations in response to: (a) quarterly variations in revenues and operating expenses, (b) changes in the valuation of similarly situated companies, both in the gold industry and in other industries, (c) changes in analysts' estimates affecting the Corporation, competitors and/or the industry, (d) changes in the accounting methods used in or otherwise affecting the industry, (e) additions and departures of key personnel, (f) fluctuations in interest rates, exchange rates and the availability of capital in the capital markets, and (i) significant sales of the Corporation's common stock, including sales by future investors in future offerings which may be made to raise additional capital. These and other factors will be largely beyond the Corporation's control, and the impact of these risks, singularly or in the aggregate, may result in material adverse changes to the market price of the Common Shares and/or results of operations and financial condition.

Fluctuations in Operating Results can cause Share Price Decline

The Corporation's operating results will likely vary in the future primarily from fluctuations in revenues and operating expenses, including the ability to produce gold, expenses that are incurred, the price of gold in the commodities markets and other factors. If the results of operations do not meet the expectations of current or potential investors, the price of the Common Shares may decline.

Foreign Private Issuer Status

The Corporation, as successor to Pediment's registration with the U.S. Securities and Exchange Commission, was considered a "foreign private issuer" under both the U.S. Securities Act of 1933, as amended, and the U.S. Securities Exchange Act of 1934, as amended, and met the eligibility requirements to file continuous reporting documents and registration statements with the SEC under the Multi-Jurisdictional Disclosure System ("MJDS") adopted by the United States and Canada. Subsequently, in 2011 the Corporation deregistered with the Securities and Exchange Commission.

The Corporation may cease to qualify as a foreign private issuer in the future. To the extent that the Corporation ceases to qualify as a foreign private issuer it may be subject to registration requirements in the United States which will increase its annual cost and may be subject to more restrictive capital raising provisions which may increase costs of, or limit the ability of the Corporation to access capital markets in the future.

Lack of Hedging

The Corporation does not currently intend to enter into forward sales arrangements to reduce the risk of exposure to volatility in commodity prices. Accordingly, the Corporation's future operations are exposed to the impact of any significant decrease in commodity prices. If such prices decrease significantly at a time when the Corporation is producing, the Corporation would realize reduced revenues. While it is currently not the Corporation's current intention to enter into forward sales arrangements, the Corporation is not restricted from entering into forward sales arrangements at a future date.

Internal Control over Financial Reporting

No evaluation can provide complete assurance that the Corporation's internal control over financial reporting will detect or uncover all failures of persons within the Corporation to disclose material information required to be reported. The

effectiveness of the Corporation's control and procedures could also be limited by simple errors or faulty judgments. In addition, as the Corporation continues to expand, the challenges involved in implementing appropriate internal control over financial reporting will increase and will require that the Corporation continue to improve its internal control over financial reporting. Although the Corporation intends to devote substantial time and incur substantial costs, as necessary, to ensure ongoing compliance, the Corporation cannot be certain that it will be successful in complying with Section 404 of SOX.

Acquisitions and Integration

The Corporation's business plan focuses on international exploration and production opportunities, currently in Mexico, and later in other parts of the world. In the event that the Corporation does not succeed in negotiating additional property acquisitions, future prospects in the long-term will likely be substantially limited, and the Corporation's financial condition and results of operations may deteriorate.

Any acquisition that the Corporation may choose to complete may be of a significant size, may change the scale of the Corporation's business and operations, and may expose the Corporation to new geographic, political, operating, financial and geological risks. The Corporation's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, negotiate acceptable terms for any such acquisition, and integrate the acquired operations successfully with those of the Corporation. Any acquisitions would be accompanied by risks. For example, there may be a significant change in commodity prices after the Corporation has committed to complete the transaction and established the purchase price or exchange ratio; a material ore body may prove to be below expectations; the Corporation may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt the Corporation's ongoing business and its relationships with employees, customers, suppliers and contractors; and the acquired business or assets may have unknown liabilities which may be significant. In the event that the Corporation chooses to raise debt capital to finance any such acquisition, the Corporation's leverage will be increased. If the Corporation chooses to use equity as consideration for such acquisition, existing shareholders may suffer dilution. Alternatively, the Corporation may choose to finance any such acquisition with its existing resources. There can be no assurance that the Corporation would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

Risk Management

Gold exploration and development companies face many and varied kinds of risks that have been mentioned or alluded to throughout this document. While risk management cannot eliminate the impact of all potential risks, the Corporation will strive to manage such risks to the extent possible and practical.

Insurance and Uninsured Risks

Argonaut's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, catastrophic equipment failures, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to Argonaut's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although Argonaut will maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all the potential risks associated with a mining company's operations. The Corporation may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Corporation or to other companies in the mining industry on acceptable terms. The Corporation might also become subject to liability for pollution or other hazards that may not be insured against or that the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Dilution Risk

In order to finance future operations and development efforts, the Corporation may raise funds through the issue of Common Shares or securities convertible into Common Shares. The constituting documents of the Corporation will allow it to issue, among other things, an unlimited number of Common Shares for such consideration and on such terms and conditions as may be established by the directors of the Corporation, in many cases, without the approval of shareholders. The size of future issues of Common Shares or securities convertible into Common Shares or the effect, if any, that future issues and sales of the Common Shares will have on the price of the Common Shares cannot be predicted at this time. Any transaction involving the issue of previously authorized but unissued Common Shares or securities convertible into Common Shares would result in dilution, possibly substantial, to present and prospective shareholders of the Corporation.

Possible Conflicts of Interest of Directors and Officers of the Corporation

Certain of the directors and officers of the Corporation may also serve as directors and/or officers of other companies involved in natural resource exploration and development and, consequently, there exists the possibility for such directors and officers to be in a position of conflict. The Corporation expects that any decision made by any of such directors and officers involving the Corporation will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Corporation and its shareholders, but there can be no assurance in this regard.

Dividends

The Corporation does not intend to declare dividends for the foreseeable future, as the Corporation anticipates that any future earnings will be re-invested in the development and growth of the business. Therefore, investors will not receive any funds unless they sell their Common Shares, and shareholders may be unable to sell their shares on favourable terms or at all. Investors cannot be assured of a positive return on investment or that they will not lose the entire amount of their investment in Common Shares.

Enforcement of Civil Liabilities in the United States

The Corporation is incorporated under the laws of the Province of Ontario, Canada. Some of its directors and officers are residents of Canada. Also, almost all of the Corporation's assets and the assets of these persons are located outside of the United States. As a result, it may be difficult for shareholders to initiate a lawsuit within the United States against these non-United States residents, or to enforce judgments in the United States against the Corporation or these persons which are obtained in a United States court and that are predicated upon civil liabilities under the United States federal securities laws or the securities or "blue sky" laws of any state within the United States.

DIVIDENDS

There are no restrictions in Argonaut's constituting documents that would restrict or prevent Argonaut from paying dividends. However, it is not contemplated that any dividends will be paid on the Common Shares in the immediate future as it is anticipated that all available funds will be reinvested in the Corporation to finance the growth of its business. Any decision to pay dividends on the Common Shares in the future will be made by the Board of Directors of Argonaut (the "Board") on the basis of the earnings, financial requirements and other conditions existing at such time.

CAPITAL STRUCTURE

Argonaut is authorized to issue an unlimited number of Common Shares. As at December 31, 2011, the Corporation had 92,406,226 Common Shares, 24,916,498 Warrants, and 637,004 options issued and outstanding under the Argonaut Gold Share Incentive Plan. Upon acquiring Pediment, the Corporation's Common Shares increased by 31,830,982 for the conversion of Pediment Shares to Common Shares and the Corporation's options increased by 1,634,375 for the conversion of Pediment options. Subsequent to the acquisition, 1,484,375 of these options have been exercised and 150,000 options remain outstanding and exercisable. During 2011, the Board also approved for grant, awards of 223,349 restricted common shares and 399,496 options to employees, directors and consultants of the Corporation. As at March 22, 2012, the Corporation had 92,528,126 Common Shares, 24,916,498 Warrants, and 974,151 options issued and outstanding, of the options, 150,000 are the remaining converted Pediment options.

Common Shares

Each Common Share of the Corporation entitles the holder thereof to receive notice of any meetings of the shareholders of Argonaut and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all of the directors standing for election. Holders of Common Shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Board at its discretion from funds legally available therefore and, upon the liquidation, dissolution or winding up of Argonaut, are entitled to receive on a pro rata basis the net assets of the Corporation after payment of debts and liabilities. The Common Shares do not carry any pre-emptive, subscription, redemption, retraction or conversion rights, nor do they contain any sinking or purchase fund provisions.

Warrants

Each of the outstanding Warrants entitles the holder thereof to purchase one common share for an exercise price of CA\$4.50 until December 29, 2012. During 2011, 833,500 warrants were exercised.

Options

1,500,000 options were granted to GMP Securities L.P. (the “Broker Options”) on November 20, 2009 in connection with a private placement of subscription receipts of AGI. Each Broker Option entitles the holder thereof to purchase one common share at a price of CA\$4.50. The Broker Options were exercised in the third quarter of 2011. As at December 31, 2011, the Corporation also had a total of 637,004 options outstanding under the Argonaut Share Incentive Plan. The options are exercisable for up to 10 years from the dates of grant at prices ranging from CA\$2.90 to CA\$6.63. As at December 31, 2011, there were 150,000 converted Pediment options outstanding at grant prices ranging from CA\$0.96 to CA\$2.56. During 2011, 254,652 options (the “2011 Options”) were granted to certain officers and directors under the share incentive plan.

MARKET FOR SECURITIES

Price Range and Trading Volume of Common Shares and Warrants

The Common Shares and Warrants of Argonaut are traded on the TSX under the symbols “AR” and “AR.WT”, respectively. The following tables set out the market price ranges in Canadian dollars per Common Share and Warrant of Argonaut and aggregate trading volumes on a monthly basis as reported by the TSX for the 12 month period prior to the date of this AIF, respectively.

Common Shares

The pre-consolidated common shares of the Corporation commenced trading on the TSX-V on September 20, 2007 under the trading symbol “ITU.P”. The common shares were de-listed from the TSX-V and listed on the TSX under the symbol “AR” on December 30, 2009. The following table sets forth the volume of trading and price ranges for each month for the common shares on the TSX during the period from January 1, 2011 to March 22, 2012. The pre-consolidated common shares of the Corporation were halted from trading on November 17, 2009 upon the announcement of the Qualifying Transaction. The Common Shares closed at CA\$8.37 on March 22, 2012.

	High	Low	Volume
	CA\$	CA\$	#
2011			
January	5.48	4.21	8,434,900
February	5.20	4.28	7,796,600
March	5.18	4.43	7,741,900
April	5.47	4.58	6,438,200
May	5.43	4.51	6,098,900
June	5.55	4.90	11,159,900
July	6.32	5.25	9,262,600
August	6.65	5.09	13,035,200
September	6.50	5.02	14,532,000
October	6.45	4.58	12,277,900
November	6.91	5.81	9,892,300
December	7.28	6.02	8,889,100
2012			
January	8.74	6.95	18,665,100
February	10.20	8.21	14,639,500
March 1 to 22	9.95	7.77	20,109,400

Price Range and Trading Volume of Warrants

The Warrants of Argonaut commenced trading on the TSX on January 22, 2010. The Warrants closed at CA\$4.04 on March 22, 2012.

The following table sets forth the volume of trading and price ranges of the Warrants on the TSX during the period from January 1, 2011 to March 22, 2012.

	High	Low	Volume
	CA\$	CA\$	#
2011			
January.....	1.70	1.20	129,225
February	1.85	1.25	812,550
March	1.73	0.91	357,070
April.....	2.00	1.36	192,270
May	2.20	1.49	47,450
June	1.98	1.35	3,617,690
July	2.14	1.50	3,894,650
August	2.39	1.28	488,633
September	2.44	1.45	3,307,443
October	2.34	1.07	1,164,163
November	2.77	1.90	1,080,259
December	3.06	2.10	762,212
2012			
January.....	4.38	2.94	5,103,814
February	5.84	3.91	1,660,110
March 1 to 22.....	5.52	3.45	682,788

Prior Sales

The following table sets forth the date and consideration per security for all securities of the Corporation issued during the most recently completed financial year:

<u>Date of Grant/Issuance</u>	<u>Price per Security (CA\$)</u>	<u>Number of Securities Issued</u>
Stock options granted:		
January 12, 2011	5.28	7,500
February 1, 2011	4.37	17,500
February 10, 2011	4.48	283,467
March 1, 2011	4.88	23,466
April 1, 2011	4.73	17,000
August 17, 2011	6.07	15,000
November 16, 2011	6.63	12,563
November 22, 2011	6.15	23,000
Common shares issued on exercise of stock options:		
February 15, 2011	3.10	16,666

Securities Subject to Contractual Restriction on Transfer

The following table sets forth the number of securities of the Corporation subject to contractual restriction on transfer during the most recently completed financial year:

Designation of class	Number of securities subject to contractual restriction on transfer	Percent of class	Date issued⁽¹⁾
Restricted Common Shares	79,906 ⁽²⁾	.09	December 30, 2009
Restricted Common Shares	29,524 ⁽³⁾	.03	January 25, 2010
Restricted Common Shares	28,572 ⁽⁴⁾	.03	March 17, 2010
Restricted Common Shares	170,238 ⁽⁵⁾	.18	February 10, 2011
Restricted Common Shares	10,055 ⁽⁶⁾	.01	November 16, 2011

Note:

- (1) The restricted shares vest one-third per year over three years.
- (2) Restriction on transfer ends on December 30, 2012.
- (3) Restriction on 1/2 of Common Shares ends on January 25, 2012 and ½ ends on January 25, 2013.
- (4) Restriction on 1/2 of Common Shares ends on March 17, 2012 and ½ ends on March 17, 2013.
- (5) Restriction on 1/3 of Common Shares ends on February 10, 2012, 2013 and 2014 respectively.
- (6) Restriction on 1/3 of Common Shares ends on November 16, 2012, 2013 and 2014 respectively.

DIRECTORS AND OFFICERS

The following table sets forth for each of the directors and executive officers of the Corporation as at March 22, 2012 the person's name, municipality of residence, position with the Corporation, principal occupation during the last five years and, if a director, the date on which the person became a director. Each of the directors of the Corporation has been appointed to serve until the next annual meeting of the shareholders of the Corporation.

Name and Municipality of Residence	Position	Principal Occupation During the Past 5 Years	Since
Brian J. Kennedy ⁽¹⁾ Reno, Nevada United States	Director (Chair)	President & CEO Argonaut LLC; President & CEO, Meridian Gold Inc.	December 30, 2009
James E. Kofman ⁽²⁾ Toronto, Ontario Canada	Director	Vice-Chairman of Cormark Securities Inc.; President, JEK Capital Advice; Vice Chair, UBS Securities Canada Inc.	January 13, 2010
Christopher R. Lattanzi Toronto, Ontario Canada	Director	Mining Engineer, Consultant	December 30, 2009
Peter Mordaunt ⁽³⁾ Tucson, Arizona United States	Director	Chairman & CEO, Stingray Copper Inc; Professional GeoScientist	January 27, 2011
Dale C. Peniuk West Vancouver, British Columbia Canada	Director	Chartered Accountant; Corporate Director; Formerly Assurance Partner, KPMG LLP	December 30, 2009
Peter C. Dougherty Reno, Nevada United States	President & Chief Executive Officer and Director	President and Chief Executive Officer, Argonaut; Vice-President Finance, CFO, and Corporate Secretary of Meridian Gold Inc.	December 30, 2009
Barry L. Dahl Reno, Nevada United States	Chief Financial Officer and Corporate Secretary	Chief Financial Officer, Argonaut; Corporate Controller, Andean Resources Inc.; Corporate Controller and CFO, Hettinger Welding LLC; Director of External Reporting and Internal Controls, Meridian Gold Inc.	January 25, 2010
Thomas H. Burkhart Reno, Nevada United States	Vice President Exploration	Vice President, Exploration, The Northair Group, Vice President, Exploration, Pegasus Gold Corp.	March 17, 2010
Richard S. Rhoades Reno, Nevada United States	Chief Operating Officer	Chief Operating Officer, Argonaut; General Manager Mission Complex, Asarco LLC.	December 12, 2011
Edgar A. Smith ⁽⁴⁾ Reno, Nevada United States	Former Chief Operating Officer	Chief Operating Officer and Corporate Secretary, Argonaut; Vice-President of Operations, Meridian Gold Inc.	December 30, 2009
Curtis K. Turner Reno, Nevada United States	Corporate Development Officer	Corporate Development Officer, Argonaut; CFO of Argonaut; CFO of Cyanco ; Director of Finance of Yamana Gold Inc.; Corporate Controller for Meridian Gold Inc.	December 30, 2009

Note:

- (1) Mr. Kennedy's principal occupation is President and CEO of Argonaut LLC, an investment company.
- (2) Mr. Kofman's principal occupation is Vice-Chairman of Cormark Securities, an investment dealer.
- (3) Mr. Mordaunt was appointed to the Board after the acquisition of Pediment on January 27, 2011.
- (4) Mr. Smith retired from the Corporation effective December 31, 2011 and was replaced by Mr. Rhoades.

As of March 22, 2012, the Board's standing committees are the Compensation and Governance Committee and the Audit Committee. The Compensation and Governance Committee is comprised of Messrs. Kofman, Lattanzi (Chair), Mordaunt and Peniuk. The Audit Committee is comprised of Messrs. Kennedy, Lattanzi and Peniuk (Chair).

As at December 31, 2011, the directors and officers of the Corporation as a group, beneficially owned, directly or indirectly, or exercised control or direction over an aggregate of 4,540,249 common shares, representing approximately 4.9% of the then outstanding common shares.

As of March 22, 2012, the directors and officers of the Corporation as a group, beneficially owned, directly or indirectly, or exercised control or direction over an aggregate 3,566,790 common shares representing approximately 3.9% of the then outstanding common shares. This number decreased from the year end as a result of Mr. Smith's retirement from the Corporation as of December 31, 2011.

Corporate Cease Trade Orders or Bankruptcies

None of the directors or executive officers of Argonaut is, or within the ten years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company, that: (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as a director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

None of the directors or executive officers of Argonaut or a shareholder holding a sufficient number of securities of Argonaut to materially affect the control of Argonaut: (a) is, as at the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Conflicts of Interest

The directors of the Corporation supervise the management of the business and affairs of the Corporation in accordance with the provisions of the OBCA. The directors and officers of the Corporation will in all cases be required by law to act honestly and in good faith with a view to the best interest of the Corporation.

To the knowledge of the Corporation, after reasonable inquiry, except as described herein, there are no existing or potential material conflicts of interest between the Corporation and any director or officer of the Corporation. Certain of the directors and officers of the Corporation serve as directors, officers or members of management or are otherwise insiders of other companies engaged in the business of mineral exploration or other related businesses, and therefore it is possible that a conflict may arise as a result of being a director, officer, member of management or insider of such other companies.

PROMOTERS

Other than as disclosed in this section, no person or company is a promoter of the Corporation, or has been within the two years immediately preceding the date of this AIF a promoter of the Corporation or a subsidiary of the Corporation, as applicable.

Mr. Peter C. Dougherty, Mr. Brian J. Kennedy and Mr. Edgar A. Smith may be considered to have been promoters of the Corporation in that they took the initiative in founding the business of Argonaut. As of the date hereof, Mr. Dougherty holds or has direction or control over 1,653,894 common shares of the Corporation, Mr. Kennedy holds or has direction or control over 1,566,988 common shares of the Corporation and Mr. Smith holds 1,120,359 common shares of the Corporation. Mr. Smith retired from the Corporation as of December 31, 2011, but remains an insider through March 31, 2012. Except as set forth elsewhere in this AIF, no assets, services or other consideration has been received or are presently contemplated to be received by Messrs. Dougherty, Kennedy or Smith from the Corporation other than for consideration for their positions as Directors or Officers of the Corporation.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Corporation is not, and during the last financial year of the Corporation, was not, a party to any legal proceeding. No property of the Corporation is, or during the last financial year of the Corporation was, the subject of any legal proceedings. To the knowledge of the Corporation, no such legal proceedings are contemplated. There have not been any penalties or

sanctions imposed against the Corporation by, or settlement agreement entered into by the Corporation before, a court or a regulatory body, including any securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Peter Mordaunt is a former director and shareholder of Pediment and was appointed to the Board upon completion of the Pediment Arrangement.

Except as otherwise disclosed in this AIF, no director, executive officer or insider of the Corporation, or any associate or affiliate of a director, executive officer or insider of the Corporation, has or had any material interest, direct or indirect within the three most recently completed financial years or during the current financial year, in any transaction or any proposed transaction which has materially affected or will materially affect the Corporation.

TRANSFER AGENT, REGISTRAR AND AUDITORS

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc., located at 100 University Avenue, 9th floor, Toronto, ON, M5J 2Y1.

The warrant agent for the Warrants is Computershare Trust Company of Canada, located at 100 University Avenue, 9th floor, Toronto, ON, M5J 2Y1.

The auditors of Argonaut are PricewaterhouseCoopers LLP of Vancouver, British Columbia.

MATERIAL CONTRACTS

Material Contracts

The following material contracts have been entered into by Argonaut:

1. the Qualifying Transaction Agreement;
2. the amalgamation agreement dated December 30, 2009 between the Corporation, AGI and Subco;
3. the amended and restated warrant indenture dated December 30, 2009 among the Corporation Argonaut Gold Inc. and Computershare Trust Company of Canada in connection with the issuance of the Warrants; and
4. the acquisition agreement dated October 19, 2010, between the Corporation and Pediment.

INTEREST OF EXPERTS

The following persons and companies are names as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made by the Corporation under National Instrument 51-102 – *Continuous Disclosure Obligations* during, or relating to, the most recently completed financial year and whose profession or business gives authority to the statement, report or valuation made by the person, firm or company:

- Daniel C. Leroux, B.Sc., P.Geo., Gordon Watts, P.Eng., W.D. Roy, M.A.Sc., P.Eng. of A.C.A. Howe International Limited (“Howe”) as authors of the “Technical Report on the El Castillo Gold Project, Durango, Mexico”.
- Toren K. Olson, P.Geo. of Toren Olson Consulting author of the “La Fortuna, Durango, Mexico, Technical Report”.
- Bart Stryhaus, C.P.G., Ph.D., Bret C. Swanson, BE Mining, MAusIMM, Eric Olin, MAusIMM of SRK Consulting (U.S.), Inc. (“SRK”) “NI 43-101 Technical Report on Resources and Reserves, Argonaut Gold Inc. El Castillo Mine Durango State, Mexico”.
- Bart Stryhaus, C.P.G., Ph.D., of SRK Consulting (U.S.), Inc., Richard J. Taylor, P.E., of Kappes, Cassiday & Associates “NI 43-101 Technical Report on Resources La Colorada Project, Sonora, Mexico”.

- Edward Orbock III, M.AusIMM, Scott Long M.AusIMM. & Dr Lynton Gormely, P.Eng. “San Antonio Gold Project Baja California Sur, Mexico NI 43-101 Technical Report”.
- Ian S. Thompson, P.Eng. of Derry, Michener, Booth and Wahl Limited, and Dave Laudrum, P. Geo of Ashloo Consultants Ltd., “Technical Report and Mineral Resource Estimate, San Antonio Gold Project, Baja California Sur, Mexico”.
- Gary H. Giroux, M.A.Sc., P.Eng., “Technical Report and Resource Update, San Antonio Gold Project, Baja California Sur”.
- Kirk Hanson, P.E, Edward Orbock III, M.AusIMM, Scott Long, M.AusIMM, and Dr. Lynton Gormely, P.Eng. of AMEC E&C Services (“AMEC”), “San Antonio Project, Baja California Sur, Mexico, NI 43-101 Technical Report on Preliminary Assessment”.
- R.H. McMillan, Ph.D., P.Geo., J.M. Dawson, M.Sc., P.Eng., Gary H. Giroux, M.A.Sc., P.Eng., “Geological Report on the La Colorada Property with a Resource Estimate on La Colorada and El Creston Mineralized Zones, Sonora, Mexico”.

To the knowledge of the Corporation, after reasonable enquiry, none of the foregoing persons, beneficially owns, directly or indirectly, or exercises control or direction over any securities of the Corporation representing more than one per cent of the outstanding Common Shares.

- The Corporation’s auditors, PricewaterhouseCoopers LLP report that they are independent of the Corporation in accordance with the rules of professional conduct of the Institute of Chartered Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com and www.ArgonautGoldInc.com. Further, information with respect to the Corporation, including directors' and officers' remuneration and indebtedness, principal holders of securities of the Corporation and securities authorized for issuance under equity compensation plans is contained in the management information circular of the Corporation for its most recent annual meeting of shareholders (the “Information Circular”) that involved the election of directors. Additional financial information is provided in the comparative consolidated financial statements and the management's discussion and analysis of the Corporation for its most recently completed financial year. A copy of this AIF and the Information Circular may be obtained upon request from the Secretary of the Corporation.