ARGONAUT GOLD INC.

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

The following Management's Discussion and Analysis ("MD&A") of Argonaut Gold Inc. (the "Company" or "Argonaut") and its subsidiaries has been prepared as at August 11, 2020. All dollar amounts are expressed in United States ("US") dollars unless otherwise stated (CA$ represents Canadian dollars). This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the three and six months ended June 30, 2020. The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and as applicable to interim financial statements. Additional information relating to the Company, including its Annual Information Form, is available under the Company's profile on the SEDAR website at www.sedar.com.

This MD&A contains forward looking information as further described in the "Cautionary Statement" at the end of this MD&A. Reference to the risk factors described in the "Cautionary Statement" and to the other cautionary language under the heading "Technical Information and Qualified Person" at the end of this MD&A is advised.

SECOND QUARTER FINANCIAL HIGHLIGHTS

- Revenue of $58.0 million in the second quarter of 2020 (second quarter of 2019 - $56.0 million). Revenue of $124.5 million in the first half of 2020 (first half of 2019 – 129.9 million).
- Sales of 32,707 ounces of gold in the second quarter of 2020 (second quarter of 2019 - 41,647 ounces of gold). Sales of 72,876 ounces of gold in the first half of 2020 (first half of 2019 – 96,426 ounces of gold).
- Net loss of $7.7 million or $0.04 per share in the second quarter of 2020 (second quarter of 2019 - net income of $5.4 million or $0.03 per basic share). Net loss of $17.2 million or $0.10 per share in the first half of 2020 (first half of 2019 – net income of $9.5 million or $0.05 per basic share).
- Adjusted net income of $8.5 million or $0.05 per basic share in the second quarter of 2020 (second quarter of 2019 - $1.4 million or $0.01 per basic share). See "Non-IFRS Measures" section. Adjusted net income of $16.9 million or $0.09 per basic share in the first half of 2020 (first half of 2019 - $3.8 million or $0.02 per basic share).
- Cash flows from operating activities before changes in non-cash operating working capital and other items were $11.8 million in the second quarter of 2020 (second quarter of 2019 - $11.3 million). Cash flows from operating activities before changes in non-cash operating working capital and other items were $26.5 million in the first half of 2020 (first half of 2019 - $29.4 million).
- Production of 31,531 gold equivalent ounces ("GEO" or "GEOs") (based on a silver to gold ratio of 80:1) in the second quarter of 2020 (second quarter of 2019 - 40,213 GEOs (based on a silver to gold ratio of 75:1)). Production of 73,067 GEOs (based on a silver to gold ratio of 80:1) in the first half of 2020 (first half of 2019 – 94,382 GEO's (based on a silver to gold ratio of 75:1)).
- Cash cost per gold ounce sold of $885 in the second quarter of 2020 (second quarter of 2019 - $931). See "Non-IFRS Measures" section. Cash cost per gold ounce sold of $929 in the first half of 2020 (first half of 2019 - $909).
- All-in sustaining cost per gold ounce sold of $1,080 in the second quarter of 2020 (second quarter of 2019 - $1,264). See "Non-IFRS Measures" section. All-in sustaining cost per gold ounce sold of $1,213 in the first half of 2020 (first half of 2019 - $1,184).
- Cash and cash equivalents were $65.2 million as at June 30, 2020 (March 31, 2020 - $41.8 million; December 31, 2019 - $38.8 million).
- Net cash was $58.2 million as at June 30, 2020 (March 31, 2020 – $34.8 million; December 31, 2019 - $28.8 million). See "Non-IFRS Measures" section.

SECOND QUARTER 2020 AND RECENT COMPANY HIGHLIGHTS

Corporate

- Closed Alio Gold Inc. transaction on July 1, 2020 to create a North American, diversified, intermediate gold producer.
- In July, the Company completed an equity financing for gross proceeds of C$126.5 million.

El Castillo Complex

- Second quarter production of 23,662 GEOs.
  - El Castillo production of 9,394 GEOs.
  - San Agustin production of 14,268 GEOs.
- Completed construction of LV North and East Crusher leach pads at El Castillo.

La Colorada

- Second quarter production of 7,869 GEOs.
- Completed construction of 4B leach pad and overflow ponds.

Florida Canyon

- In early July, the Company completed and filed a technical report that included an updated life-of-mine plan demonstrating mine site after-tax free cash flow of approximately $131 million at $1,350 gold, $214 million at $1,500 gold, $326 million at $1,700 gold and $491 million at $2,000 gold.

Magino

- Received approval of Schedule 2 process from Canadian Federal government.
- In late July, the Company provided a drill results updated from the Elbow Zone. These results showed high-grade continuity below the proposed pit (see press release dated July 28, 2020).

Cerro del Gallo

- At the end of June, the Company submitted a Unified Technical Document that includes an Environmental Impact Assessment, an Environmental Risk Assessment and the Justified Technical Study for a Change of Soil Use.

Social Responsibility

- Zero lost time accidents during the second quarter 2020.
- Received nationally awarded Environmental Socially Responsible Company recognition at the El Castillo Complex for the eighth consecutive year.
- Provided COVID-19 support to communities in Mexico by providing food baskets, sanitization of public spaces and streets, donation of masks, sanitizer and thermometers and hosted public health information sessions.
- Participated in municipal meetings with health officials at La Colorada and the El Castillo Complex in sessions relating to “Safe Return to Work” procedures.
- Provided equipment for the cleaning of dams for water harvesting in the communities of the Ejidos of Otilio Montaño and Atotonilco, near the El Castillo Complex.

DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Argonaut is a Canadian public company listed on the Toronto Stock Exchange ("TSX") and engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in North America. As at the date of this MD&A, the Company owned the producing El Castillo and San Agustin mines (which together form the El Castillo mining complex) in the State of Durango, Mexico, the producing La Colorada mine in the State of Sonora, Mexico, the producing Florida Canyon mine in Nevada, USA, the advanced exploration stage Cerro del Gallo project in the State of Guanajuato, Mexico, the advanced exploration stage Ana Paula project in the State of Guerrero, Mexico and the advanced exploration stage Magino project in the Province of Ontario, Canada. The Company continues to hold several other exploration stage projects all of which are located in North America.

On March 30, 2020, the Company and Alio Gold Inc. ("Alio") jointly announced that they entered into a definitive arrangement agreement (the "Arrangement Agreement") whereby the Company would acquire all the issued and outstanding shares of Alio (the "Transaction"). The Transaction was completed on July 1, 2020 (see events after the reporting period). Alio's principal assets are the Florida Canyon mine and the Ana Paula project.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected unaudited quarterly financial information for each of the eight most recent quarters:

	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4[(1)]	2018 Q3[(1)]
Revenue ($000s)	$ 57,956	$ 66,550	$ 72,130	$ 66,845	$ 55,993	$ 73,917	$ 51,629	$ 41,310
Inventory (write down) reversal ($000s)	$ (602)	$ 80	$ (32,161)	$ 267	$ 3,904	$ 526	$ (14,614)	$ (6,868)
Impairment of mineral properties, plant and equipment ($000s)	$ -	$ -	$ (111,291)	$ -	$ -	$ -	$ (2,011)	$ -
Net (loss) income ($000s)	$ (7,702)	$ (9,529)	$ (107,459)	$ 4,864	$ 5,440	$ 4,063	$ (17,545)	$ (2,686)
(Loss) earnings per share - basic and diluted	$ (0.04)	$ (0.05)	$ (0.60)	$ 0.03	$ 0.03	$ 0.02	$ (0.10)	$ (0.02)
Gold ounces sold	32,707	40,169	47,073	44,303	41,647	54,779	41,030	33,179
Average realized gold price per ounce	$ 1,713	$ 1,585	$ 1,484	$ 1,474	$ 1,303	$ 1,309	$ 1,226	$ 1,212
Cash cost per gold ounce sold[(2)]	$ 885	$ 967	$ 1,441	$ 901	$ 931	$ 892	$ 945	$ 867

(1) The Company adopted IFRS 16, Leases in the annual period commencing January 1, 2019. The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, 2018 comparative amounts were not restated.

(2) See "Non-IFRS Measures" section.

Quarterly results are predominantly influenced by the number of gold ounces sold, the average realized price per ounce of gold sold, the cash cost per gold ounce sold (see "Non-IFRS Measures" section) and any unusual matters. The quarterly year-over-year increase in revenue for the second quarter of 2020 was primarily due to a higher average realized gold price ($17.1 million) partially offset by a decrease in gold ounces sold ($15.3 million).

The decrease in net income in the second quarter of 2020 compared to the second quarter of 2019 was principally due to a decrease in gold ounces sold, an increase in unrealized loss on derivatives, an increase in care and maintenance expenses related to the temporary suspension of mining, crushing and stacking activities in response to the Mexican Federal Government decree related to COVID-19 and an inventory write down (see "Discussion of operations" section), partially offset by a higher average realized gold price in the second quarter of 2020 and a slightly lower cash cost per gold ounce sold. During the second quarter of 2020, the Company recognized a loss on derivatives of $12.4 million of which $12.0 million was due to unrealized mark-to-market losses on the Company's outstanding zero-cost collar commodity contracts entered into in August 2019 (see "Financial Instruments and Risks - Commodity derivative contracts" section) and recorded $8.2 million of care and maintenance expenses associated with the temporary suspension.

In the fourth quarter of 2019, a non-cash impairment of mineral properties, plant and equipment of $111.3 million was recorded primarily due to the denial of the permit application for the San Antonio project in the fourth quarter of 2019. Additionally, an impairment write down of work-in-process inventory of $20.1 million at the El Castillo mining complex and $12.1 million at the La Colorada mine was recorded primarily related to changes in the expected recovery of gold ounces.

In the fourth quarter of 2018, a non-cash impairment write-down of $12.8 million was recorded related to the net realizable value of non-current work-in-process inventory at the El Castillo mine. Additionally, in the fourth quarter of 2018, a negative inventory adjustment of $4.0 million at the El Castillo mining complex and $1.3 million at the La Colorada mine was recorded related to finished goods inventory currently part of an ongoing bankruptcy filing and related legal process (see "Commitments and Contingencies" section). The adjustments and non-cash impairments of inventory referenced above for the fourth quarter of 2018 were partially offset by a non-cash impairment reversal of $2.6 million at the El Castillo mine and $0.9 million at the La Colorada mine related to the net realizable value of work-in-process inventory, as a result of an increase in the price of gold as at December 31, 2018 compared to September 30, 2018.

The Company recognized a non-cash impairment write down in the third quarter of 2018 of $4.4 million at the El Castillo mine and $2.5 million at the La Colorada mine related to the net realizable value of work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018. Additionally, the Company recognized a non-cash impairment reversal at the El Castillo mine related to the net realizable value of the work-in-process inventory in the second and third quarters of 2019.

DISCUSSION OF OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
Unaudited and expressed in $000s	2020	2019	2020	2019
Revenue	$ 57,956	$ 55,993	$ 124,506	$ 129,910
Cost of sales				
Production costs	30,884	40,481	72,516	91,537
Depreciation, depletion and amortization	8,801	10,212	19,914	22,077
Inventory write down (reversal)	602	(3,904)	522	(4,430)
Total cost of sales	40,287	46,789	92,952	109,184
Gross profit	17,669	9,204	31,554	20,726
Exploration expenses	116	174	379	306
General and administrative expenses	3,108	3,375	7,170	7,151
Care and maintenance expenses	8,201	-	8,201	-
Profit from operations	6,244	5,655	15,804	13,269
Finance income	18	5	46	13
Finance expenses	(268)	(423)	(560)	(904)
(Loss) gain in derivatives	(12,441)	233	(14,235)	459
Other income (expense)	982	1,276	(4,878)	1,908
Income (loss) before income taxes	(5,465)	6,746	(3,823)	14,745
Current income tax expense	4,566	1,981	7,358	4,144
Deferred income tax expense (recovery)	(2,329)	(675)	6,050	1,098
Net (loss) income for the period	$ (7,702)	$ 5,440	$ (17,231)	$ 9,503

For the three months ended June 30, 2020, as compared to the three months ended June 30, 2019

Revenue for the three months ended June 30, 2020 was $58.0 million, an increase from $56.0 million for the three months ended June 30, 2019. During the second quarter of 2020, gold ounces sold totaled 32,707 at an average realized price per ounce of $1,713, compared to 41,647 gold ounces sold at an average realized price per ounce of $1,303 during the same period of 2019. Gold ounces sold for the three months ended June 30, 2020 decreased compared to the same period in 2019 primarily due to a decrease in gold ounces produced at the El Castillo and La Colorada mines mostly related to a large decrease in ore tonnes to leach pads as a result of the COVID-19 related suspension of mining, crushing and stacking activities in response to the Mexican Federal Government decree. As of June 1, 2020, all mining, crushing and stacking activities had resumed at all Mexican operations.

Production costs for the second quarter of 2020 were $30.9 million, a decrease from $40.5 million in the second quarter of 2019, primarily due to a decrease in gold ounces sold. Cash cost per gold ounce sold (see "Non-IFRS Measures" section) was $885 in the second quarter of 2020, a decrease from $931 in the same period of 2019, primarily due to a decrease in cash cost per gold ounce sold at the El Castillo and San Agustin mines as discussed further in the discussion of operations for the respective mine. The DD&A expense included in cost of sales for the second quarter of 2020 totaled $8.8 million, a decrease from $10.2 million in the second quarter of 2019, primarily due to a decrease in gold ounces sold, as many of the mining assets are amortized on a unit-of-production basis, partially offset by an increase in the average DD&A expense per ounce in work-in-process inventory, primarily due to significant capital additions during the second, third and fourth quarters of 2019.

General and administrative expenses for the second quarter of 2020 were $3.1 million, comparable to $3.4 million for the same period of 2019.

Losses on commodity derivatives for the second quarter of 2020 were $12.4 million, compared to gains of $0.2 million in the second quarter of 2019, primarily due to the large increase in unrealized losses on the Company's zero-cost collar contracts (see "Financial Instruments and Risks - Commodity derivative contracts" section of this MD&A).

Care and maintenance expenses for the three months ended June 30, 2020 were $8.2 million compared to nil for the comparative period of 2019. On April 1, 2020, the Company temporarily suspended all mining, crushing, and stacking activities in Mexico due to COVID-19 in response to the Mexican Federal Government decree. All activities resumed on June 1, 2020. Costs incurred during the temporary suspension associated with the suspended activities that did not generate additional inventory have been separately identified and accounted for as care and maintenance expenses within operating income in the interim condensed consolidated statements of (loss) income.

Other income for the second quarter of 2020 was $1.0 million, a decrease from $1.3 million in the second quarter of 2019, primarily related to differences in foreign currency translation effects.

Income tax expense for the second quarter of 2020 was $2.2 million, compared to $1.3 million in the same period of 2019, primarily due to higher forecasted taxable income related to the increase in the price of gold, offset by a deferred income tax asset related to the unrealized loss on derivatives.

Net loss for the second quarter of 2020 was $7.7 million or $0.04 per share, a decrease from net income of $5.4 million or $0.03 per share for the second quarter of 2019.

For the six months ended June 30, 2020, as compared to the six months ended June 30, 2019

Revenue for the six months ended June 30, 2020 was $124.5 million, a decrease from $129.9 million for the six months ended June 30, 2019. During the first half of 2020, gold ounces sold totaled 72,876 at an average realized price per ounce of $1,642, compared to 96,426 gold ounces sold at an average realized price per ounce of $1,306 during the same period of 2019. Gold ounces sold for the six months ended June 30, 2020 decreased compared to the same period in 2019 primarily due to a decrease in gold ounces sold at the El Castillo and La Colorada mines due to a large decrease in ore tonnes to leach pads as a result of the temporary suspension of mining, crushing and stacking activities in response to the Mexican Federal Government decree related to COVID-19.

Production costs for the six months ended June 30, 2020 were $72.5 million, a decrease from $91.5 million in the first half of 2019 primarily due to a large decrease in gold ounces sold partially offset by a slight increase in cash cost per gold ounce sold. Cash cost per gold ounce sold (see "Non-IFRS Measures" section) was $929 in the first half of 2020, an increase from $909 in the same period of 2019, primarily due to an increase in cash cost per gold ounce sold at the El Castillo and La Colorada mines, as disclosed further in the discussion of operations for the respective mine. DD&A expense included in cost of sales for the six months ended June 30, 2020 totaled $19.9 million, a decrease from $22.1 million in the six months ended June 30, 2019, due to the decrease in gold ounces sold, as many of the mining assets are amortized on a unit-of-production basis.

General and administrative expenses for the six months ended June 30, 2020 were $7.2 million, comparable to $7.2 million in the same period of 2019.

Care and maintenance expenses for the six months ended June 30, 2020 were $8.2 million compared to nil for the comparative period of 2019. On April 1, 2020, the Company temporary suspended all mining, crushing, and stacking activities in Mexico due to COVID-19 in response to the Mexican Federal Government decree. All activities resumed on June 1, 2020. Costs incurred during the temporary suspension associated with the suspended activities did not generate additional inventory have been separately identified and accounted for as care and maintenance expenses within operating income in the interim condensed consolidated statements of (loss) income.

Losses on commodity derivatives during the first half of 2020 were $14.2 million, compared to gains of $0.5 million in the first half of 2019, primarily due to the large increase in unrealized losses on the Company's zero-cost collar contracts (see "Financial Instruments and Risks - Commodity derivative contracts" section of this MD&A).

Other expenses for the six months ended June 30, 2020 was $4.9 million, a decrease from other income of $1.9 million in the same period of 2019, primarily related to differences in foreign currency translation effects.

Income tax expense for the six months ended June 30, 2020 was $13.4 million, compared to $5.2 million in the same period of 2019. The change is primarily due to the foreign exchange effects of the weakening Mexican peso on the calculation of deferred taxes during the first half of 2020 and to higher forecasted taxable income related to the increase in the price of gold, offset by a deferred income tax asset related to the unrealized loss on derivatives.

Net loss for the six months ended June 30, 2020 was $17.2 million or $0.10 per share, a decrease from net income of $9.5 million or $0.05 per basic share for the six months ended June 30, 2019.

El Castillo Mining Complex

Operating Statistics for the El Castillo Mine	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Tonnes ore (000s)	902	2,300	2,824	4,588
Tonnes waste (000s)	770	3,489	4,184	7,294
Tonnes mined (000s)	1,672	5,789	7,008	11,882
Waste/ore ratio	0.85	1.52	1.48	1.59
Tonnes ore direct to leach pads (000s)	903	0	2,635	0
Tonnes crushed (000s)	64	2,276	281	4,606
Gold grade to leach pads (grams per tonne)	0.43	0.39	0.51	0.39
Contained gold ounces to leach pads	13,386	28,225	47,857	57,569
Gold ounces produced	9,151	14,361	23,586	37,248
Gold ounces sold	11,008	16,094	24,634	38,884
Cash cost per gold ounce sold (see “Non-IFRS Measures” section)	$ 862	$ 976	$ 988	$ 942

During the second quarter of 2020, the Company mined 1.7 million tonnes including 0.9 million tonnes of ore from the El Castillo mine. During the same period, El Castillo loaded 1.0 million tonnes to the leach pads, which resulted in an estimated 13,386 contained gold ounces. The decrease in tonnes crushed and the increase in tonnes direct to the leach pad for the second quarter 2020 as compared to the second quarter 2019, is due to the change from crushing ore in 2019 to placing run of mine ore direct to the leach pads in 2020. During the second quarter of 2020, El Castillo produced 9,151 gold ounces, compared to 14,361 for the second quarter of 2019. Lower tonnes mined and production during the second quarter of 2020 as compared to the second quarter of 2019 was driven mostly as a result of the temporary suspension of mining, crushing and stacking activities in response to the Mexican Federal Government decree related to COVID-19. El Castillo sold 11,008 gold ounces during the second quarter of 2020, compared to 16,094 gold ounces during the second quarter of 2019. Cash cost per gold ounce sold for the second quarter of 2020 was $862, a decrease from $976 for the second quarter of 2019 (see “Non-IFRS Measures” section) primarily due to a lower strip ratio and the weakening of the Mexican peso.

During the six months ended June 30, 2020, the Company mined 7.0 million tonnes including 2.8 million tonnes of ore from the El Castillo mine. The El Castillo mine loaded 2.9 million tonnes to the leach pad during the first half of the year, which resulted in an estimated 47,857 contained gold ounces to the leach pads. The decrease in tonnes crushed and the increase in tonnes direct to the leach pad for the six months ended June 30, 2020 as compared to the six months ended June 30, 2019, is due to the change from crushing ore in 2019 to placing run of mine ore direct to the leach pads in 2020. During the six months ended June 30, 2020, the El Castillo mine produced 23,586 gold ounces, compared to 37,248 for the six months ended June 30, 2019. Lower tonnes mined and production during the first half of 2020 as compared to the first half of 2019 was driven mostly as a result of the temporary suspension of mining, crushing and stacking activities in response to the Mexican Federal Government decree related to COVID-19. El Castillo sold 24,634 gold ounces during the six months ended June 30, 2020 at a cash cost per gold ounce sold of $988 (see “Non-IFRS Measures” section), compared to 38,884 gold ounces at a cash cost per gold ounce sold of $942 for the six months ended June 30, 2019. The increase in cash cost per gold ounce sold over the comparable period of 2019 is primarily related to a decrease in recoverable ounces placed in the first half of 2020 over the comparable period of the prior year.

Capital expenditures associated with the El Castillo mine during the three and six months ended June 30, 2020 were $1.3 million and $6.0 million, respectively, primarily related to leach pad construction. In addition to the above capital expenditures, during the three and six months ended June 30, 2020, there were $0.1 million and $0.6 million, respectively, in capital expenditures by another subsidiary of the Company that is primarily related to mining equipment currently being used at the El Castillo mine.

Operating Statistics for the San Agustin Mine	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Tonnes ore (000s)	1,172	1,961	3,881	3,622
Tonnes waste (000s)	584	1,408	2,453	2,725
Tonnes mined (000s)	1,756	3,369	6,334	6,347
Waste/ore ratio	0.50	0.72	0.63	0.75
Tonnes rehandled (000s)	0	0	0	0
Tonnes ore direct to leach pads (000s)	0	0	0	0
Tonnes crushed (000s)	1,191	1,931	3,924	3,622
Gold grade to leach pads (grams per tonne)	0.33	0.39	0.35	0.43
Contained gold ounces to leach pads	12,609	24,458	43,864	50,163
Gold ounces produced	13,403	12,684	26,238	26,768
Gold ounces sold	14,293	14,181	27,754	30,087
Silver ounces produced	69,242	43,097	144,746	97,127
Silver ounces sold	71,042	50,786	156,179	107,420
GEOs produced (2020 - 80:1 ratio; 2019 - 75:1 ratio)	14,268	13,259	28,047	28,063
GEOs sold (2020 - 80:1 ratio; 2019 - 75:1 ratio)	15,181	14,858	29,706	31,519
Cash cost per gold ounce sold (see "Non-IFRS Measures" section)	$ 756	$ 910	$ 769	$ 849

During the second quarter of 2020, the Company mined 1.8 million tonnes including 1.2 million tonnes of ore from the San Agustin mine. During the same period, San Agustin loaded 1.2 million tonnes, which resulted in an estimated 12,609 contained gold ounces to the leach pads. Ore tonnes mined and crushed decreased during the second quarter of 2020 as compared to the second quarter of 2019 mostly as a result of the temporary suspension of mining, crushing and stacking activities in response to the Mexican Federal Government decree related to COVID-19. During the second quarter 2020, San Agustin produced 13,403 gold ounces and 69,242 silver ounces or 14,268 GEOs, compared to 12,684 gold ounces and 43,097 silver ounces or 13,259 GEOs for the three months ended June 30, 2019. San Agustin sold 14,293 gold ounces during the second quarter of 2020, compared to 14,181 gold ounces sold during the second quarter of 2019. Cash cost per gold ounce sold for the second quarter of 2020 was $756, a decrease from $910 for the second quarter of 2019 (see "Non-IFRS Measures" section) primarily due to a lower strip ratio, increased silver by product credit and the weakening of the Mexican peso.

During the six months ended June 30, 2020, the Company mined 6.3 million tonnes including 3.9 million tonnes of ore from the San Agustin mine. During the same period, San Agustin loaded 3.9 million tonnes on the leach pads, which resulted in an estimated 43,864 contained gold ounces to the leach pads. During the first half of 2020, San Agustin produced 26,238 gold ounces and 144,746 silver ounces or 28,047 GEOs. Ore tonnes mined and crushed during the first half of 2020 were comparable to the first half of 2019 mostly as a result of planned mining and crushing production increases offset by the suspension of operations in response to the Mexican Federal Government decree related to COVID-19. San Agustin sold 27,754 gold ounces during the first half of 2020 at a cash cost per gold ounce sold of $769 (see "Non-IFRS Measures" section), compared to 30,087 gold ounces at a cash cost per gold ounce sold of $849 for the first half of 2019. The reduction in cash cost per gold ounce sold was primarily due to increased silver by-product credits and the weakening of the Mexican peso.

Capital expenditures associated with the San Agustin mine during the three and six months ended June 30, 2020 were $0.3 million and $1.1 million, respectively, primarily related to power capacity improvements.

La Colorada Mine

Operating Statistics	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Tonnes ore (000s)	506	1,187	1,453	2,059
Tonnes waste (000s)	1,737	5,934	6,420	11,900
Tonnes mined (000s)	2,243	7,121	7,873	13,959
Waste/ore ratio	3.43	5.00	4.42	5.78
Tonnes ore direct to leach pads (000s)	0	0	0	89
Tonnes crushed (000s)	518	1,213	1,484	2,006
Gold grade to leach pads (grams per tonne)	0.42	0.46	0.38	0.45
Contained gold ounces to leach pads	7,048	18,078	18,070	30,511
Gold ounces produced	7,537	11,723	19,886	27,095
Gold ounces sold	7,406	11,372	20,488	27,455
Silver ounces produced	26,554	35,485	80,869	90,258
Silver ounces sold	28,410	34,788	82,608	92,090
GEOs produced (2020 - 80:1 ratio; 2019 - 75:1 ratio)	7,869	12,196	20,897	28,298
GEOs sold (2020 - 80:1 ratio; 2019 - 75:1 ratio)	7,762	11,836	21,521	28,683
Cash cost per gold ounce sold (see “Non-IFRS Measures” section)	$ 1,169	$ 894	$ 1,074	$ 928

During the second quarter of 2020, the Company mined 2.2 million tonnes including 0.5 million tonnes of ore from the La Colorada mine. During the same period, La Colorada loaded 0.5 million tonnes to the leach pads, which resulted in an estimated 7,048 contained gold ounces. La Colorada produced 7,537 gold ounces and 26,554 silver ounces or 7,869 GEOs, compared to 11,723 gold ounces and 35,485 silver ounces or 12,196 GEOs during the second quarter of 2019. Lower tonnes mined and production during the second quarter of 2020 as compared to the second quarter of 2019 was primarily as a result of the temporary suspension of mining, crushing and stacking activities in response to the Mexican Federal Government decree related to COVID-19. La Colorada sold 7,406 gold ounces during the second quarter of 2020, compared to 11,372 gold ounces sold during the second quarter of 2019. Cash cost per gold ounce sold for the second quarter of 2020 was $1,169, an increase from $894 for the second quarter of 2019 (see “Non-IFRS Measures” section). The increase in cash cost per gold ounce sold over the comparable period of 2019 is primarily related to lower gold grades and a decrease in recoverable ounces placed in the second quarter of 2020 over the comparable period of the prior year and the effect of spreading the site costs over fewer gold ounces.

During the six months ended June 30, 2020, La Colorada mined 7.9 million tonnes containing 1.5 million tonnes of ore. La Colorada loaded 1.5 million tonnes on the leach pads during the first half of the year, which resulted in an estimated 18,070 contained gold ounces to the leach pads. La Colorada produced 19,886 gold ounces and 80,869 silver ounces during the six months ended June 30, 2020 or 20,897 GEOs. Lower tonnes mined and production during the first half of 2020 as compared to the first half of 2019 was primarily as a result of the temporary suspension of mining, crushing and stacking activities in response to the Mexican Federal Government decree related to COVID-19. La Colorada sold 20,488 gold ounces in the six months ended June 30, 2020 at a cash cost per gold ounce sold of $1,074 (see “Non-IFRS Measures” section), compared to 27,455 gold ounces sold at a cash cost per gold ounce sold of $928 for the six months ended June 30, 2019. The increase in cash cost per gold ounce sold over the comparable period of 2019 is primarily due to a lower gold grade in 2020.

Capital expenditures at La Colorada during the three and six months ended June 30, 2020 were $1.3 million and $5.0 million, respectively, primarily for deferred stripping and leach pad construction.

Advanced Exploration Projects

Magino project

Capital expenditures for the Magino project were as follows:

Expressed in $ millions	Three months ended June 30, 2020		Three months ended June 30, 2019		Six months ended June 30, 2020		Six months ended June 30, 2019
Assays and geochemistry	$	0.2	$	-	$	0.4	$ -
Camp costs, land costs and other		0.3		0.2		1.4	0.6
Technical services and personnel costs		1.4		1.0		3.2	1.7
Drilling and geology		1.2		-		1.9	-
	$	3.1	$	1.2	$	6.9	$ 2.3

During the second quarter of 2020, the Company announced the conclusion of Schedule 2 amendment by the Canadian federal government. The completion of the amendment to Schedule 2 of the Metals and Diamond Mining Effluent Regulations is a significant permitting milestone for the Magino project. This regulatory process was completed following extensive consultations with Indigenous communities and the public.

The Company also continued its on-going drill program that is targeting high-grade, deep mineralization. The Company completed the first phase of the program (20,000 metres) during the first quarter of 2020 and announced a phase two program consisting of an additional 20,000 metres of drilling on the high-grade targets at Magino as well as 5,000 metres of first pass scout drilling on newly defined district targets. The phase two program commenced in April 2020. At June 30, 2020, the Company had completed over 32,000 total metres of drilling, including over 12,000 metres from its phase two program.

During the second quarter of 2020, the Company continued detailed design and engineering work on the project.

Cerro del Gallo project

Capital expenditures for the Cerro del Gallo project were as follows:

Expressed in $ millions	Three months ended June 30, 2020		Three months ended June 30, 2019		Six months ended June 30, 2020		Six months ended June 30, 2019
Assays and geochemistry	$	-	$	-	$	-	$ 0.1
Camp costs, land costs and other		-		-		0.2	0.2
Technical services and personnel costs		0.1		0.3		0.2	0.6
	$	0.1	$	0.3	$	0.4	$ 0.9

Near the end of the second quarter of 2020, the Company submitted a revised Unified Technical Document that includes an Environmental Impact Statement (“MIA”), an Environmental Risk Assessment and the Justified Technical Study for a Change of Soil Use. The Company expects to receive a decision from the Secretariat of Environment and Natural Resources (“SEMARNAT”) on the revised application before the end of 2020.

LIQUIDITY AND CAPITAL RESOURCES

The Company’s cash and cash equivalents balance as at June 30, 2020 was $65.2 million, as compared to $38.8 million as at December 31, 2019 and $41.8 million at March 31, 2020.

The Company signed an amended and restated credit agreement (the “Revolving Credit Facility” or “RCF”) with a syndicate of Canadian banks for an aggregate amount of $50.0 million upon execution of the RCF in February 2018. The RCF matures on March 31, 2021 and has a $25.0 million accordion feature, which provided for total availability of up to $75.0 million upon execution of the RCF in February 2018. The RCF is subject to eight commitment reductions of $3.1 million per quarter, plus the ratable amount of any incremental commitment derived from the accordion, with reductions to commence on June 30, 2019 and extend through maturity. As at June 30, 2020, the aggregate amount available to draw on the RCF was $34.4 million and the available accordion feature was $9.4

million. The RCF bears interest at the London Inter-bank Offered Rate ("LIBOR") plus 2.25% to 3.25% on drawn amounts and 0.51% to 0.73% on undrawn amounts, based on the Company's consolidated leverage ratio, as defined in the agreement.

The RCF is secured by all of the Company's assets and is subject to various covenants including those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage. As at June 30, 2020, the Company was in compliance with these covenants.

As at June 30, 2020, the Company had utilized $7.0 million of the RCF, as compared to $10.0 million as at December 31, 2019. Net cash was $58.2 million as at June 30, 2020, as compared to $28.8 million as at December 31, 2019 and $34.8 million as at March 31, 2020 (see "Non-IFRS Measures" section).

Cash Flows

	Three months ended June 30,		Six months ended June 30,	
Unaudited and expressed in $000s	2020	2019	2020	2019
Operating activities				
Cash flows from operating activities before changes in non-cash operating working capital and other items	$ 11,763	$ 11,332	$ 26,519	$ 29,369
Changes in non-cash operating working capital and other items	18,460	(1,649)	22,329	8,216
Net cash provided by operating activities	30,223	9,683	48,848	37,585
Investing activities				
Expenditures on mineral properties, plant and equipment	(6,411)	(13,980)	(18,939)	(29,863)
Other	(184)	241	(184)	242
Net cash used in investing activities	(6,595)	(13,739)	(19,123)	(29,621)
Financing activities				
Proceeds from issuance of common shares, net of share issuance costs	-	-	-	1,000
Repayment of debt	-	-	(3,000)	-
Other	(340)	141	(522)	63
Net cash (used in) provided by financing activities	(340)	141	(3,522)	1,063
Effects of exchange rate changes on cash and cash equivalents	66	(291)	179	(553)
Increase (decrease) in cash and cash equivalents	23,354	(4,206)	26,382	8,474
Cash and cash equivalents, beginning of period	41,815	28,058	38,787	15,378
Cash and cash equivalents, end of period	$ 65,169	$ 23,852	$ 65,169	$ 23,852

For the three months ended June 30, 2020, as compared to the three months ended June 30, 2019

During the second quarter of 2020, cash increased by $23.4 million due primarily to $30.2 million of cash flows from operations, offset by $6.4 million of capital expenditures incurred, as compared to the second quarter of 2019 in which cash decreased by $4.2 million due primarily to $14.0 million of capital expenditures incurred, offset by $9.7 million of cash flows from operations.

Cash provided by operating activities totaled $30.2 million in the second quarter of 2020, as compared to $9.7 million in the second quarter of 2019. The increase in cash provided by operations is primarily related to a higher net increase in non-cash operating working capital in the second quarter of 2020, compared to the same period last year, primarily related to a decrease in inventory in the second quarter of 2020. The decrease in inventory was due to the temporary suspension of mining, crushing, and stacking activities while we continued to recover and produce gold and silver.

Cash used in investing activities totaled $6.6 million in the second quarter of 2020, versus $13.7 million in the second quarter of 2019. The cash used in investing activities in the second quarter of 2020 relates to capital expenditures including $3.0 million for exploration and development activities, $2.5 million for leach pad construction, $0.5 million for equipment, $0.2 million for power capacity improvements and $0.2 million for other capital at the Company's properties. The cash used in investing activities in the second quarter of 2019 relates to capital expenditures including $4.4 million for deferred stripping at the La Colorada and El Castillo mines, $3.9 million for leach pad construction, $3.6 million for crushing and conveying circuit improvements and mining equipment, $1.9 million for exploration and development activities and $0.2 for other capital at the Company's properties.

Cash used in financing activities totaled $0.3 million in the second quarter of 2020, as compared to cash provided by financing activities of $0.1 million in the second quarter of 2019.

For the six months ended June 30, 2020, as compared to the six months ended June 30, 2019

During the six months ended June 30, 2020 cash increased by $26.4 million due primarily to $48.8 million of cash flows from operations, offset mostly by $18.9 million of capital expenditures incurred, as compared to the six months ended June 30, 2019 in which cash increased by $8.5 million due primarily to $37.6 million of cash flows from operations, offset by $29.9 million of capital expenditures incurred.

Cash provided by operating activities totaled $48.8 million in the six months ended June 30, 2020, as compared to $37.6 million in the six months ended June 30, 2019. The increase in cash provided by operations is primarily related to a higher net increase in non-cash operating working capital in the first half of 2020, compared to the comparable period of the prior year, primarily related to a decrease in inventory and an increase in income taxes payable, offset by a decrease in accounts payable and accrued liabilities in the first half of 2019. The decrease in inventory was primarily due to the temporary suspension of mining, crushing, and stacking activities while we continued to recover and produce gold and silver.

Cash used in investing activities totaled $19.1 million in the six months ended June 30, 2020, versus $29.6 million in the six months ended June 30, 2019. The cash used in investing activities in the six months ended June 30, 2020 relates to capital expenditures including $5.0 million for deferred stripping at the La Colorada and El Castillo mines, $5.8 million for exploration and development activities, $5.2 million for leach pad construction, $1.6 million for crushing and conveying circuit improvements and mining equipment, $1.0 million for power capacity improvements and $0.3 million for other capital at the Company's properties. The cash used in investing activities in the six months ended June 30, 2019 relates to capital expenditures including $9.8 million for deferred stripping at the La Colorada and El Castillo mines, $7.4 million for leach pad construction, $7.1million for crushing and conveying circuit improvements and mining equipment, $4.7 million for exploration and development activities and $0.9 for other capital at the Company's properties.

Cash used in financing activities totaled $3.5 million in the six months ended June 30, 2020, as compared to cash provided by financing activities of $1.1 million in the six months ended June 30, 2019. During the six months ended June 30, 2020, the Company repaid $3.0 million on the RCF. During the six months ended June 30, 2019, the Company received proceeds of $1.0 million related to a drawdown on the RCF.

Total assets decreased to $588.3 million as at June 30, 2020, as compared to $606.6 million as at December 31, 2019, primarily due to a decrease in mineral properties, plant and equipment, deferred tax assets, inventories, and receivables. Total liabilities increased to $83.6 million as at June 30, 2020, as compared to $75.7 million as at December 31, 2019, primarily due to an increase in derivative liability offset by a decrease in accounts payable and accrued liabilities. Total shareholders' equity decreased to $504.7 million as at June 30, 2020, as compared to $530.9 million as at December 31, 2019, primarily due a net loss of $17.2 million and foreign currency translation effects of $10.9 million. The foreign currency translation effects and decrease in mineral properties, plant and equipment are primarily due to the weakening of the Canadian dollar against the US dollar during the six months ended June 30, 2020.

Liquidity Outlook

Since resuming mining, crushing and stacking activities on June 1, 2020, the Company has not experienced significant disruptions to production or its supply chain due to COVID-19. However, the Company cautions that the global effects of COVID-19 are continuing to evolve and given the uncertainty of the duration and magnitude of the impact of COVID-19, the Company's production and cash cost estimates are subject to a higher than normal degree of uncertainty. The guidance discussed below does not reflect any potential for additional suspensions or other significant disruption to operations due to COVID-19.

The Company expects to produce between 186,000 and 206,000 GEOs in 2020 (based on the three-year historical average silver to gold ratio of 80:1) (previously 175,000 to 185,000 GEOs). This revised production guidance includes the addition of the Florida Canyon mine as of July 1, 2020. Cash cost per gold ounce sold (see "Non-IFRS measures" section) in 2020 is expected to be between $925 and $1,025 (previously $900 to $1,000) primarily due to the addition of the Florida Canyon mine as of July 1, 2020. All-in sustaining cost per gold ounce sold (see "Non-IFRS measures" section) in 2020 is expected to be between $1,225 and $1,350 (previously $1,150 to $1,250).

The Company expects to invest $64 million to $72 million on capital expenditures and exploration initiatives in 2020 (previously $40 million to $50 million). This revised guidance for capital expenditure and exploration initiatives includes the addition of the Florida Canyon mine and the Ana Paula project as of July 1, 2020. Major capital expenditures in 2020 are expected to include $12 million to $13 million at the El Castillo mining complex (previously $12 million to $16 million), $10 million to $11 million at the La Colorada mine (previously $17 million to $20 million), $25 million to $30 million at the Florida Canyon mine and $17 million to $18 million on Magino, Ana Paula and Cerro del Gallo (previously $11 million to $14 million for the Magino and Cerro del Gallo portions).

On July 23, 2020, the Company closed a public offering ("Offering") with a syndicate of underwriters who agreed to buy 49,608,700 common shares of the Company. The net proceeds to the Company totaled approximately CA$120.3 million (see "Events after the reporting period" section).

The profitability and operating cash flow of Argonaut are affected by various factors, including the amount of gold produced at the mines, the market price of gold, operating costs, interest rates, regulatory and environmental compliance, the level of exploration activity and capital expenditures, general and administrative costs and other discretionary costs and activities. Argonaut is also exposed to fluctuations in currency exchange rates, interest rates, regulatory, licensing and political risks and varying levels of taxation that can impact profitability and cash flow. Argonaut seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control.

The Company's financial performance, including its profitability and cash flow from operations, is tied to the price of gold and cost of inputs to its gold production. The price of gold itself is the greatest factor in profitability and cash flow from operations and should be expected to continue to be impacted by market factors. The price of gold is volatile and subject to price movements which can take place over short periods of time and are affected by multiple macroeconomic and industry factors that are beyond the control of the Company. Some of the major recent factors influencing the price of gold include currency exchange rates, the relative value of the US dollar, supply and demand for gold and more general economic results and projections such as interest rate and inflation projections and assumptions.

Commodity prices in general continue to see volatility. Volatility in the price of gold may impact the Company's revenue, while volatility in the price of other commodities, such as oil, may have an impact on the Company's operating costs and capital expenditure deployment.

COMMITMENTS AND CONTINGENCIES

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

The Company understands that refiner Republic Metals Corporation ("Republic") filed for protection under chapter 11 of the United States Bankruptcy Code on November 2, 2018 (the "Petition Date") in the United States Bankruptcy Court for the Southern District of New York (the "Court"). Republic processed material from certain of the Company's properties in the past and, as of the Petition Date, had in its possession approximately 4,600 and 13,600 ounces of the Company's gold and silver, respectively. The Company engaged counsel to assert its legal right for the return of its material and otherwise protect its rights in Republic's bankruptcy case. In August 2019, the Company reached an agreement with Republic, which was approved by the Court in September 2019. To June 30, 2020, the Company received $1.0 million pursuant to the agreement and continues to have allowed claims pending. It is not possible at this time to accurately assess the size of the recovery on the Company's allowed claims nor the length of time it will take to receive such recovery. As at June 30, 2020, the Company has no receivable recorded in relation to the allowed claims.

In September 2019, the Company issued 1,176,500 flow-through common shares at a price of CA$3.40 per share by way of a private placement for net proceeds of $2.8 million (CA$3.7 million). Under the terms of the flow-through share agreement, the Company agreed to incur CA$4.0 million of qualified Canadian resource expenditures by December 31, 2020 and renounce those expenditures to the investors effective December 31, 2019. Management used the proceeds to fund exploration expenditures at the Magino project and incurred the remainder of the required expenditures during the second quarter of 2020.

Alio received a notice of civil claim in 2019 from a former shareholder of Rye Patch Gold Corp.. The Company and its counsel have reviewed the claim and the amendments to the claim and the outcome is not determinable at this time.

EVENTS AFTER THE REPORTING PERIOD

Alio acquisition

On July 1, 2020, the Company completed the acquisition of Alio and its Florida Canyon operation, an open-pit operating gold mine located in Nevada, USA. Under the Arrangement Agreement, the Company acquired all of the issued and outstanding common shares of Alio for consideration of 0.67 common shares of the Company (the "Exchange Ratio") for each common share of Alio. Outstanding Alio restricted share units (RSUs), performance share units (PSUs) and deferred share units (DSUs) were settled through a combination of cash and common shares of the Company. Outstanding Alio warrants and options were converted into warrants and options to acquire the Company's common shares based on the Exchange Ratio.

On closing of the acquisition of Alio, the Company issued 58,128,302 common shares and paid $2.1 million in cash in exchange for all of Alio's issued and outstanding common shares, RSUs, PSUs and DSUs, exchanged 3,121,352 Alio options into Argonaut options, and entitled Alio warrant holders to purchase 1,544,892 Argonaut common shares upon exercise of their Alio warrants. On the closing date, existing Argonaut and Alio shareholders owned approximately 76% and 24% of the combined company, respectively. The Company has determined that this transaction represents a business combination with Argonaut identified as the acquirer. Based on the June 30, 2020 closing share price of Common Shares, the total consideration of the acquisition was approximately $114.7 million. The Company began consolidating the operating results, cash flows and net assets of Alio from July 1, 2020 onwards.

The following table shows the preliminary allocation of the purchase consideration:

Argonaut purchase consideration:	$ millions
Argonaut shares issued to Alio shareholders	108.2
Argonaut shares issued in exchange for Alio's PSUs, RSUs and DSUs	1.0
Argonaut options exchanged for Alio options	3.0
Alio warrants deemed to be exchanged for Argonaut warrants	0.4
Cash consideration paid to Alio PSU, RSU and DSU holders	2.1
	114.7

As the transaction closed on July 1, 2020, the initial allocation of the purchase price to the assets acquired and liabilities assumed is not complete. The main areas under consideration are the fair values attributable to the assets acquired and liabilities assumed. The Company will disclose a preliminary purchase price allocation in the third quarter 2020 condensed consolidated interim financial statements. For the three and six months ending June 30, 2020, acquisition costs in the form of advisory, legal and other professional fees of $0.2 million and $0.8 million, respectively, were expensed as incurred and are included in general and administrative expenses in the interim condensed consolidated statements of (loss) income.

Public offering

On July 23, 2020, the Company completed a bought deal public Offering with a syndicate of underwriters, under which the underwriters purchased a total of 49,608,700 common shares of the Company at a price of CA$2.55 per common share for gross proceeds of CA$126.5 million. Transaction costs related to the Offering (including the underwriter's fee) were approximately CA$6.2 million and the net proceeds to the Company totaled approximately CA$120.3 million.

FINANCIAL INSTRUMENTS AND RISKS

Overview

The Company's activities expose it to risks, including financial and operational risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks related to financial instruments to which the Company is exposed are credit risk, foreign exchange risk, liquidity risk, interest rate risk and commodity price risk. In 2020, the Company's exposure to financial risks related to financial instruments is consistent with as described in the MD&A for the year ended December 31, 2019.

Emerging infectious diseases or the threat of outbreaks of viruses or other contagions, including the COVID-19 outbreak, could have a material adverse effect on the Company by causing operational and supply chain delays and disruptions, labour shortages and shutdowns, breach of material contracts, the inability to transport or sell gold dore, volatility in the price of precious metals, delays in permitting or approvals, governmental disruptions or other unknown but potentially significant impacts. Global pandemics could cause a temporary suspension of operations in regions that are significantly impacted by the health crises, or cause governments to impose strict emergency measures in response to the threat or existence of an infectious disease.

The full extent and impact of the ongoing COVID-19 pandemic is unknown and to date has caused extreme volatility in financial markets and has raised the prospect of a global recession. The full impact of the effects of the COVID-19 pandemic on mining operations or financial results may vary significantly due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease and the duration of the outbreak. It is unknown whether and how the Company may be affected if a pandemic, such as COVID-19, persists for an extended period of time.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. Readers are encouraged to read and consider the "Cautionary Statement" section of this MD&A and the "Risk Factors" described in the Company's Annual Information Form for the year ended December 31, 2019. The risk factors could materially impact future operating results of the Company and cause events to differ materially from those described in forward-looking information of the Company.

Financial instruments

As at June 30, 2020 and December 31, 2019, the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at June 30, 2020 and December 31, 2019, the carrying amounts of other liabilities and debt are considered to be reasonable approximations of their fair values as either there have been no significant changes in market interest rates since inception or the liability bears interest at a floating rate.

Foreign exchange derivative contracts

On November 13, 2018, the Company entered into zero-cost collar contracts whereby it purchased a series of foreign exchange call option contracts and sold a series of foreign exchange put option contracts with equal and offsetting values at inception (referred to as the "foreign exchange contracts"). These contracts were entered into to normalize operating expenses and capital expenditures to be incurred by the Company's Mexican operations as expressed in US dollar terms. The foreign exchange contracts were classified as Level 2 in the fair value hierarchy.

The details of the foreign exchange contracts were as follows:

Foreign exchange contracts at inception	Amount ($000s)	Term	Strike price Mexican pesos per US dollar
Foreign exchange call options - purchased	$ 24,000	January 2019 - December 2019	20.00
Foreign exchange put options - sold	$ 24,000	January 2019 - December 2019	23.56

These derivative instruments were not designated as hedges by the Company and were marked-to-market at the end of each reporting period with the mark-to-market adjustment recorded in the statement of (loss) income. Details were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Unrealized gains	$ -	$ 120	$ -	$ 268
Reversal of unrealized gains from prior period	-	(181)	-	(325)
Realized gains	-	294	-	516
Net gains on foreign exchange derivatives	$ -	$ 233	$ -	$ 459

As at June 30, 2020, all foreign exchange contracts have expired and the Company has no foreign exchange contracts outstanding.

Commodity derivative contracts

On August 23, 2019, the Company entered into zero-cost collar contracts whereby it purchased a series of gold put option contracts and sold a series of gold call option contracts with equal and offsetting values at inception (referred to as the "commodity contracts"). The Company's strategy is to remain unhedged on gold production; however, by initiating this price protection program for these ounces over this term and at these prices, the Company is able to ensure it can profitably extend operations at the El Castillo mine.

The details of the commodity contracts open and outstanding as at June 30, 2020 are as follows:

Commodity contracts at inception	Quantity[2] (Ounces)	Term	Strike price per ounce[1][2]
Gold put options - purchased	29,400	July 2020 - December 2020	$1,450
Gold call options - sold	22,050	July 2020 - December 2020	$1,672
Gold call options - sold	7,350	July 2020 - December 2020	$1,755
Gold put options - purchased	51,600	January 2021 - December 2021	$1,450
Gold call options - sold	38,700	January 2021 - December 2021	$1,709
Gold call options - sold	12,900	January 2021 - December 2021	$1,785
Gold put options - purchased	18,000	January 2022 - June 2022	$1,450
Gold call options - sold	13,500	January 2022 - June 2022	$1,745
Gold call options - sold	4,500	January 2022 - June 2022	$1,816

(1) Contracts are exercisable based on the average price for the month being below the strike price of the put or above the strike price of the call.

(2) Quantities and strike prices do not fluctuate by month within each calendar year.

The resulting fair values of the outstanding commodity contracts at June 30, 2020 have been recognized, on a net basis, in derivative liabilities on the statement of financial position. These derivative instruments were not designated as hedges by the Company and are marked-to-market at the end of each reporting period with the mark-to-market adjustment recorded in the statement of (loss) income. The commodity contracts are marked-to-market using a Levy two moment valuation model which uses quoted observable inputs and are classified as Level 2 in the fair value hierarchy. During the three and six months ended June 30, 2020, unrealized losses of $12.0 million and $13.8 million, respectively, were recognized in the statement of (loss) income on the fair value of the commodity contracts. During the three and six months ended June 30, 2020, realized losses on the commodity contracts of $0.4 million and $0.4 million, respectively, were recognized in the statement of (loss) income.

OUTSTANDING SHARE DATA

As at June 30, 2020, the Company had 180,705,531 common shares issued and outstanding and 4,579,601 stock options, 2,257,540 RSUs and 2,297,701 PSUs granted and outstanding.

Subsequent to June 30, 2020,

- 58,128,302 common shares were issued to Alio shareholders and holders of RSUs, PSUs, and DSUs.
- 404,932 common shares were issued to Alio management regarding the change of control
- 49,608,700 common shares were issued in connection with the Offering.
- 3,121,352 options were issued in exchange for Alio option.
- 1,544,892 warrants entitling Alio warrant holders to purchase Argonaut shares upon exercise were deemed to be issued.
- 1,095,743 and 11,904 stock options were exercised and forfeited respectively.

As at August 11, 2020, the Company had 289,943,208 common shares issued and outstanding and 6,593,306 stock options, 1,544,892 warrants, 2,257,540 RSUs and 2,297,701 PSUs granted and outstanding.

The Company's shares trade on the TSX under the symbol AR.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may vary from those estimates due to inherent uncertainty or other factors. The Company regularly reviews its estimates. Revisions to estimates and the resulting effects on the carrying amounts of the assets and liabilities are accounted for prospectively. Key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities applied in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those applied and disclosed in the annual consolidated financial statements for the year ended December 31, 2019.

Impairment of non-current assets

At each reporting date, the Company reviews its non-current assets to determine whether there are any indications of impairment. Non-current assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. As at June 30, 2020, management of the Company determined the continued weakness in the Company's share price during 2020, resulting in the Company's market capitalization being below the carrying value of net assets, constituted an impairment indicator. Therefore, the Company completed an impairment assessment for each of the Company's cash generating units ("CGUs" or "CGU") whereby the carrying value of the CGU, including acquisition cost, was compared to its recoverable amount using assumptions consistent with those used at December 31, 2019. Management's impairment evaluation did not result in the identification or reversal of an impairment loss as at June 30, 2020.

Future gold prices, exchange rates, discount rates and other key assumptions used in the Company's impairment assessment are subject to greater uncertainty given the current economic environment. Changes in these assumptions could significantly impact the valuation of the Company's assets in the future.

Work-in-process inventory / Production costs

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

Coronavirus update

On March 11, 2020, the World Health Organization declared the coronavirus disease ("COVID-19") a pandemic. During the remainder of March 2020 and the current interim financial reporting period, the COVID-19 pandemic has negatively impacted global economic and financial markets. Most industries have been impacted by the COVID-19 pandemic and are facing operating challenges associated with the regulations and guidelines resulting from efforts to contain it.

As a direct result of the COVID-19 pandemic, the Company temporary suspended all mining, crushing and stacking activities in response to the Mexican Federal Government decree on April 1, 2020. Given that the Company operates heap leach mines in Mexico, the Company continued to process pregnant solution coming from the leach pads for the safety of the environment. Therefore, gold and silver production and sales have continued during the temporary suspension of mining activities. Costs incurred during the temporary suspension associated with the suspended activities that did not generate additional inventory have been separately identified and accounted for as care and maintenance expenses within operating income in the interim condensed consolidated statements of (loss) income. By June 1, 2020, the Company had resumed all operations in Mexico.

RECENT ACCOUNTING PRONOUNCEMENTS

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2020 and have not been applied in preparing these consolidated financial statements. There are no IFRSs or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the consolidated financial statements of the Company.

DISCLOSURE CONTROLS AND PROCEDURES

The Canadian Securities Administrators have issued National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109") which requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the disclosure controls and procedures that are in use at the Company. The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, to enable this information to be reviewed and discussed so that appropriate decisions can be made regarding the timely public disclosure of the information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

NI 52-109 also requires public companies in Canada to submit interim and annual certificates relating to the design of internal control over financial reporting ("ICFR") and an annual certificate that includes evaluating the effectiveness of ICFR. The Company's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining ICFR. The Company used the 2013 Commission of Sponsoring Organizations of the Treadway Commission ("COSO") framework as the basis for designing its ICFR. Due to its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes to Internal Control over Financial Reporting

NI 52-109 also requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. There were no changes in ICFR during the quarter ended June 30, 2020 that materially affected or are reasonably likely to materially affect the Company's ICFR.

NON-IFRS MEASURES

The Company has included certain non-IFRS measures including "Cash cost per gold ounce sold", "All-in sustaining cost per gold ounce sold", "Adjusted net income", "Adjusted earnings per share - basic" and "Net cash" in this MD&A to supplement its financial statements which are presented in accordance with IFRS. The Company believes that these measures provide investors with an alternate view to evaluate the performance of the Company by providing information on control of production costs, trends in cash costs of the Company and the underlying operating performance of the core mining business. Management also uses these measures to monitor internal performance. Non-IFRS measures do not have any standardized meaning prescribed under IFRS. Therefore, they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The following table provides a reconciliation of production costs per the financial statements to cash cost per gold ounce sold:

El Castillo	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
Production costs, as reported ($000s)	$	9,800	$	16,156	$	25,076	$	37,522
Plus impact of non-cash impairment write downs related to the net realizable value of								
Less silver sales ($000s)		313		444		731		890
Net cost of sales ($000s)	$	9,487	$	15,712	$	24,345	$	36,632
Gold ounces sold		11,008		16,094		24,634		38,884
Cash cost per gold ounce sold	$	862	$	976	$	988	$	942

San Agustin	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
Production costs, as reported ($000s)	$	11,971	$	13,668	$	24,004	$	27,179
Less silver sales ($000s)		1,168		759		2,675		1,646
Net cost of sales ($000s)	$	10,803	$	12,909	$	21,329	$	25,533
Gold ounces sold		14,293		14,181		27,754		30,087
Cash cost per gold ounce sold	$	756	$	910	$	769	$	849

La Colorada	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
Production costs, as reported ($000s)	$	9,113	$	10,688	$	23,436	$	26,892
Less silver sales ($000s)		455		520		1,423		1,413
Net cost of sales ($000s)	$	8,658	$	10,168	$	22,013	$	25,479
Gold ounces sold		7,406		11,372		20,488		27,455
Cash cost per gold ounce sold	$	1,169	$	894	$	1,074	$	928

All Mines	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
Production costs, as reported ($000s)	$	30,884	$	40,512	$	72,516	$	91,593
Plus impact of non-cash impairment write downs related to the net realizable value of								
Less silver sales ($000s)		1,936		1,723		4,829		3,949
Net cost of sales ($000s)	$	28,948	$	38,789	$	67,687	$	87,644
Gold ounces sold		32,707		41,647		72,876		96,426
Cash cost per gold ounce sold	$	885	$	931	$	929	$	909

All-in sustaining costs include net cost of sales at the Company's mining operations, which forms the basis of the Company's cash cost per gold ounce sold. Additionally, the Company includes general and administrative, exploration, accretion and other expenses and sustaining capital expenditures. Sustaining capital expenditures exclude all expenditures at the Company's pre-production, development stage and advanced exploration stage projects and certain expenditures at the Company's operating sites that are deemed expansionary in nature.

The following table provides a reconciliation of all-in sustaining costs per gold ounce sold to the consolidated financial statements:

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
Net cost of sales ($000s)	$	28,948	$	38,789	$	67,687	$	87,644
General and administrative expenses ($000s)		3,108		3,375		7,170		7,151
Exploration expenses ($000s)		116		174		379		306
Accretion and other expenses ($000s)		157		176		327		325
Sustaining capital expenditures ($000s)		3,009		10,146		12,804		18,725
All-in sustaining cost ($000s)	$	35,338	$	52,660	$	88,367	$	114,151
Gold ounces sold		32,707		41,647		72,876		96,426
All-in sustaining cost per gold ounce sold	$	1,080	$	1,264	$	1,213	$	1,184

Adjusted net income and adjusted earnings per share - basic excludes foreign exchange impacts on deferred income taxes, foreign exchange (gains) losses, non-cash impairment write down (reversal) of work-in-process inventory, unrealized (gains) losses on commodity derivatives and care and maintenance expenses. The following table provides a reconciliation of adjusted net income to the consolidated financial statements:

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
Net income (loss), as reported ($000s)	$	(7,702)	$	5,440	$	(17,231)	$	9,503
Impact of foreign exchange on deferred income taxes ($000s)		(661)		(706)		10,060		(1,636)
Foreign exchange losses (gains), net of tax ($000s)		(984)		(770)		4,486		(1,162)
Reversal of inventory write down, net of tax ($000s)		(537)		(2,542)		(590)		(2,888)
Unrealized losses on commodity derivatives ($000s)		10,223		-		12,017		-
Care and maintenance expense ($000s)		8,201		-		8,201		-
Adjusted net income ($000s)	$	8,540	$	1,422	$	16,943	$	3,817
Weighted average number of common shares outstanding, as reported		180,697,053		178,217,990		180,495,707		178,135,927
Adjusted earnings per share - basic	$	0.05	$	0.01	$	0.09	$	0.02

Net cash is calculated as the sum of the cash and cash equivalents balance net of debt as at the statement of financial position date.

A reconciliation of net cash is provided below:

	June 30, 2020		March 31, 2020		December 31, 2019	
Cash and cash equivalents ($000s)	$	65,169	$	41,815	$	38,787
Debt ($000s)		(7,000)		(7,000)		(10,000)
Net cash ($000s)	$	58,169	$	34,815	$	28,787

CAUTIONARY STATEMENT

Readers of this MD&A are encouraged to read the "Risk Factors" as more fully described in the Company's filings with the Canadian Securities Administrators, including its Annual Information Form for the year ended December 31, 2019, available on SEDAR at www.sedar.com. The following, while not exhaustive, are important Risk Factors to consider: Pandemic Virus Outbreak and government, regulatory and market responses thereto; Commodity Price Volatility; Uncertainty of Exploration and Development; Uncertainty in the Estimation of Mineral Reserves and Mineral Resources; Permitting Risk; Mineral and Surface Rights; Undisclosed risks and liabilities relating to the Alio business combination; Risks that the anticipated benefits of the Alio business combination will not be realized or fully realized; Financing Requirements; Use of Derivatives; The Revolving Credit Facility may present certain risks to the Corporation; Operational Risks; The Corporation may not achieve its Production Estimates; Increase in Production Costs; Uncertainty Relating to Mineral Resources; Environmental Risks and Hazards; Fluctuations in Operating Results can cause Common Share Price Decline; Local Legal, Political and Economic Factors; Changes in Climate Conditions; Unsettled First Nations Rights; Governmental Regulation of the Mining Industry; Foreign Subsidiaries; Operations in Mexico; Use of Ejido-owned Land; Competition for Explorations, Development and Operation Rights; Foreign Currency Exchange Rate Fluctuation; Rights, Licenses, Permits and Concessions; Safety and Security; Infrastructure; Community Relations; Contractors; Labour and Employment Matters; Work Stoppages or Labour Disputes; Attracting and Retaining Talented Personnel; Contract Renegotiation; Construction and Start-up of New Mines; Volatility of Market for Common Shares; Foreign Private Issuer Status; Internal Control over Financial Reporting and Disclosure Controls and Procedures; Acquisitions and Integration; Risk Management; Insurance and Uninsured Risks; Dilution Risk; Asset Impairment Charges; Write-downs and Impairments; Exchange Controls; Possible Conflicts of Interest of Directors and Officers of the Corporation; Enforcement of Civil Liabilities in the United States; Cybersecurity Risks; Security and Privacy Breaches; Liquidity and Counterparty Risk; Recent Global Financial Conditions; and Foreign Corrupt Practices and Anti-Bribery Legislation.

This MD&A includes certain "forward-looking information" within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical facts, included in this MD&A that address activities, events, or developments that the Company expects or anticipates will or may occur in the future, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Company's business, operations, plans and other such matters are forward-looking information.

When used in this MD&A, the words "estimate", "plan", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking information. This information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information.

Examples of such forward-looking information include statements pertaining to, without limitation, the future price of gold and silver, the estimation of the mineral reserves and resources, the realization of mineral reserve and resource estimates, the resumption and continuance of operations in relation to pandemic measures; the ability to realize synergies of recent M&A activity; possible exposure to undisclosed risks of liabilities arising in relation to recent transactions; the timing and amount of estimated future production at the El Castillo mining complex and La Colorada mine, costs of production (including cash cost per ounce of gold sold, see "Non-IFRS Measures" section), expected capital expenditures, costs and timing of development of new deposits, success of exploration activities, permitting requirements, currency fluctuations, the ability to take advantage of forward sales agreements profitably, the ability to recover property potentially impaired by third party insolvency proceedings, requirements for additional capital, government regulation of mining operations, environmental risks and hazards, title disputes or claims and limitations on insurance coverage.

Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated, or intended. There can be no assurance that such information will prove to be accurate as actual results may differ materially from those anticipated. Many factors are beyond the Company's ability to predict or control.

Readers of this MD&A are cautioned not to put undue reliance on forward-looking information due to its inherent uncertainty. Argonaut disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise, except as and when required by applicable securities laws. This forward-looking information should not be relied upon as representing management's views as of any date subsequent to the date of this MD&A.

TECHNICAL INFORMATION AND QUALIFIED PERSON

The technical information contained in this document has been prepared under the supervision of, and has been reviewed and approved by, Mr. Brian Arkell, Argonaut's Vice President of Exploration, a qualified person as defined by NI 43-101.

For further information on the Company's properties please see the reports as listed below on the Company's website www.argonautgold.com or on www.sedar.com:

El Castillo Complex	NI 43-101 Technical Report on Resources and Reserves, El Castillo Complex, Durango, Mexico dated March 27, 2018 and with an effective date of March 7, 2018
La Colorada Mine	NI 43-101 Technical Report on Resources and Reserves, La Colorada Gold/Silver Mine, Hermosillo, Mexico dated March 27, 2018 and with an effective date of December 8, 2017
Magino Gold Project	Feasibility Study Technical Report on the Magino Project, Ontario, Canada dated December 21, 2017 and with an effective date of November 8, 2017
Cerro del Gallo Project	Pre-Feasibility Study NI 43-101 Technical Report, Cerro del Gallo Heap Leach Project, Guanajuato, Mexico dated January 31, 2020 and with an effective date of October 24, 2019
Florida Canyon Gold Mine	NI 43-101 Technical Report on Resources, Florida Canyon Gold Mine, Pershing County, Nevada, USA dated July 8, 2020 and with an effective date of June 1, 2020

Mineral Resources referenced herein are not Mineral Reserves and do not have demonstrated economic viability. Mineral Resource estimates do not account for mineability, selectivity, mining loss and dilution. The 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.