



LEAGOLD MINING

Consolidated Financial Statements

For the years ended December 31, 2018 and December 31, 2017

(expressed in thousands of United States dollars)

Independent Auditor's Report

To the Shareholders of Leagold Mining Corporation

Opinion

We have audited the consolidated financial statements of Leagold Mining Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of net income/(loss) and comprehensive income/(loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Joanna Pearson.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia
March 13, 2019

Leagold Mining Corporation

Consolidated Statements of Financial Position

(expressed in thousands of United States dollars)

	As at December 31, 2018	As at December 31, 2017
Assets		
Current assets		
Cash	\$ 53,021	\$ 54,039
Trade and other receivables (Note 8)	33,770	29,517
Inventories (Note 9)	111,794	55,566
Prepaid expenses and other	16,125	9,795
	214,710	148,917
Mining interests (Note 10)	772,759	288,857
Long-term inventories (Note 9)	1,506	2,410
Deferred income tax assets (Note 21)	86,681	80,916
Other long-term receivables (Note 8)	7,229	-
Total assets	\$ 1,082,885	\$ 521,100
Liabilities		
Current liabilities		
Trade and other payables (Note 11)	\$ 101,121	\$ 51,760
Deferred revenue (Note 12)	23,382	-
Reclamation and closure costs (Note 13)	2,873	1,523
Other current financial liabilities (Note 14)	10,702	-
Current portion of debt (Note 15)	144,642	-
	282,720	53,283
Reclamation and closure costs (Note 13)	83,633	51,070
Other long-term financial liabilities (Note 14)	5,502	4,455
Long term debt (Note 15)	99,821	143,933
Deferred income tax liabilities (Note 21)	13,619	-
Other long-term liabilities (Note 16)	13,551	-
Total liabilities	\$ 498,846	\$ 252,741
Equity		
Share capital (Note 17)	\$ 578,351	\$ 268,777
Reserves	11,530	11,312
Hedging reserves (Note 14)	(6,176)	-
Share purchase reserve (Note 17)	(3,221)	-
Retained earnings/(deficit)	3,555	(11,730)
Total equity	584,039	268,359
Total liabilities and equity	\$ 1,082,885	\$ 521,100

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 27)

Approved by the Board of Directors and authorized for issue on March 13, 2019:

"Neil Woodyer" Director

"Miguel Rodriguez" Director

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

Leagold Mining Corporation

Consolidated Statements of Net Income/(Loss) and Comprehensive Income/(Loss)

(expressed in thousands of United States dollars, except per share and share information)

	Year ended December 31,	
	2018	2017
Revenues (Note 18)	\$ 376,511	\$ 193,694
Cost of sales		
Operating expenses (Note 19)	267,178	148,330
Depreciation and depletion (Note 10)	46,862	16,859
Royalties	4,136	994
	318,176	166,183
Earnings from mine operations	58,335	27,511
Exploration costs	674	119
Share-based payments (Note 17(b))	30	10,181
Acquisition and restructuring costs (Notes 6, 7)	8,038	7,636
General and administration costs	11,304	8,178
Brazil regional office costs	3,375	-
Other expenses/(income)	4,902	(553)
Earnings from operations	30,012	1,950
Foreign exchange loss	2,733	260
Finance and accretion expense (Note 20)	6,314	11,961
Earnings/(loss) before taxes	20,965	(10,271)
Current income and other tax expense (Note 21)	7,797	2,326
Deferred income recovery (Note 21)	(2,117)	(5,072)
Net income/(loss)	15,285	(7,525)
Change in fair value of hedging instruments (Note 14(a))	(6,176)	-
Net comprehensive income/(loss)	\$ 9,109	\$ (7,525)
Basic and diluted earnings/(loss) per share (Note 17(c))	0.07	(0.07)
Basic and diluted earnings/(loss) before taxes per share (Note 17(c))	0.09	(0.09)
Weighted average common shares outstanding		
Basic (Note 17(c))	232,127,862	114,588,828
Diluted (Note 17(c))	232,363,478	114,588,828

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

Leagold Mining Corporation

Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

	Year ended December 31,	
	2018	2017
Operating activities		
Net income/(loss) for the year	\$ 15,285	\$ (7,525)
Adjust for:		
Depreciation and depletion (Note 10)	46,862	16,859
Share-based payments (Note 17(b))	30	10,181
Finance expense (Note 20)	6,314	11,961
Current income and other tax expense (Note 21)	7,797	2,326
Deferred income tax recovery (Note 21)	(2,117)	(5,072)
Unrealized foreign exchange loss/(gain)	2,081	(83)
Inventory adjustments (Note 9)	530	3,661
Other non-cash expenses	1,231	(793)
Cash spent on reclamation (Note 23(b))	(1,627)	(1,199)
Income taxes paid	(4,818)	(737)
Operating cash flows before working capital	\$ 71,568	\$ 29,579
Changes in working capital items:		
Trade and other receivables	2,774	(26,340)
Deferred revenue (Note 12)	23,382	-
Inventories	(28,271)	(6,267)
Prepaid expenses and other	1,326	4,255
Trade and other payables	(5,047)	3,945
Payment of acquisition-related payables assumed on Brio Acquisition (Note 6)	(18,105)	-
Cash provided by operating activities	\$ 47,627	\$ 5,172
Investing activities		
Expenditures on mining interests (Note 23(a))	(82,387)	(23,736)
Cash acquired through acquisitions (Note 6, 7)	5,423	20,547
Bridge loan issued on Brio Acquisition (Note 6)	(13,069)	-
Cash paid to Goldcorp for Los Filos Acquisition (Note 7)	-	(279,000)
Interest received	399	441
Other	-	101
Cash used in investing activities	\$ (89,634)	\$ (281,647)
Financing activities		
Private placement proceeds (Note 6)	45,000	174,288
Loan facility proceeds, net of issue costs (Note 6)	97,546	142,288
Repayment of loan facility assumed on Brio Acquisition (Note 6)	(75,000)	-
Share issue costs paid (Note 6)	(497)	(908)
Interest paid on loan facility (Note 15)	(13,078)	(9,858)
Repayment of short-term loans and interest (Note 15)	(14,501)	-
Other	1,625	11
Cash provided by financing activities	\$ 41,095	\$ 305,821
Foreign exchange (loss)/gain on cash	(106)	43
(Decrease)/increase in cash	(1,018)	29,389
Cash, beginning of year	54,039	24,650
Cash, end of year	\$ 53,021	\$ 54,039
Supplemental cash flow information (Note 22)		

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

Leagold Mining Corporation

Consolidated Statements of Changes in Equity

(expressed in thousands of United States dollars, except share information)

Share Capital							
Common Shares							
	Number	Amount	Reserve	Hedging Reserves	Share Purchase Reserve	Deficit	Total
Balance at December 31, 2016	27,130,958	\$ 26,119	\$ 2,235	\$ -	\$ -	\$ (4,205)	\$ 24,149
Shares issued pursuant to the private placement	75,384,182	154,463	-	-	-	-	154,463
Share issue costs	-	(10,083)	-	-	-	-	(10,083)
Shares issued during the Los Filos Acquisition (Note 7)	34,635,091	71,000	-	-	-	-	71,000
Common shares issued to Orion (Note 7)	14,146,728	27,266	-	-	-	-	27,266
Share-based compensation	-	-	9,078	-	-	-	9,078
Shares issued on exercised of stock options	20,000	12	(1)	-	-	-	11
Net loss and comprehensive loss	-	-	-	-	-	(7,525)	(7,525)
Balance at December 31, 2017	151,316,959	\$ 268,777	\$ 11,312	\$ -	\$ -	\$ (11,730)	\$ 268,359
Share-based compensation (Note 17(b))	-	-	91	-	-	-	91
Share issue costs (Notes 6, 17)	-	(497)	-	-	-	-	(497)
Shares issued pursuant to the Brio Acquisition (Note 6)	110,876,166	264,052	-	-	-	-	264,052
Share options granted during the Brio Acquisition (Note 6)	-	-	930	-	-	-	930
Shares issued pursuant to the private placement (Notes 6, 17)	21,317,098	43,800	-	-	-	-	43,800
Shares issued on exercise of stock options (Note 17(b))	1,232,152	2,217	(803)	-	-	-	1,414
Warrants exercised (Note 17(b))	772	2	-	-	-	-	2
Issuance of treasury shares (Note 17)	-	-	-	-	(3,626)	-	(3,626)
Settlement of treasury shares (Note 17)	-	-	-	-	405	-	405
Change in fair value of hedging instruments (Note 14(a))	-	-	-	(6,176)	-	-	(6,176)
Net income and comprehensive income	-	-	-	-	-	15,285	15,285
Balance at December 31, 2018	284,743,147	\$ 578,351	\$ 11,530	\$ (6,176)	\$ (3,221)	\$ 3,555	\$ 584,039

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

Leagold Mining Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in thousands of United States dollars, except as otherwise stated)

1. NATURE AND CONTINUANCE OF OPERATIONS

Leagold Mining Corporation (Leagold) is a Canadian-based corporation and its common shares are listed on the Toronto Stock Exchange (symbol: LMC) and quoted in the United States on the OTCQX International (symbol: LMCNF). The address of the Company's registered and records office is 2900 – 550 Burrard Street, Vancouver, British Columbia, V6C 0A3 and its executive office is 3043 - 595 Burrard Street, Vancouver, British Columbia, V7X 1J1.

Leagold is a Canadian based gold producer with four operating mines: the Los Filos mine in Mexico, which was acquired from Goldcorp Inc. (Goldcorp) on April 7, 2017 (the Los Filos Acquisition) (Note 7), and the RDM, Fazenda, and Pilar mines in Brazil, which were acquired from Brio Gold Inc. (Brio) on May 24, 2018 (the Closing Date, the acquisition is referred to herein as the Brio Acquisition) (Note 6). Leagold also has two near-term growth projects: the expansion of the Los Filos mine and the restart of the Santa Luz mine, which was also acquired on the Closing Date. Leagold's long-term growth strategy includes acquiring operating gold mines and projects nearing construction where the acquired assets complement its existing operations and provide further operational diversification.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements were approved by the Board of Directors of the Company on March 13, 2019.

b) Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis, except certain financial instruments that are measured at fair value at the end of each reporting period and the assets acquired as part of the Brio Acquisition (Note 6) at the Closing Date, as explained in the accounting policies below. The Company's accounting policies have been applied consistently to all periods in the preparation of these consolidated financial statements.

c) Basis of consolidation

The accounts of the subsidiaries controlled by the Company are included in the consolidated financial statements from the date that control commenced until the date that control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The principal subsidiaries of the Company and their geographic locations at December 31, 2018 are as follows:

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For the years ended December 31, 2018 and 2017

(expressed in thousands of United States dollars, except as otherwise stated)

Direct parent company	Location	Ownership
Leagold Acquisition Corp.	Canada	100%
Leagold Acquisition Corp. II	Canada	100%
Leagold (BC) Holding Corp.	Canada	100%
Brio (Barbados) Holdings Ltd.	Barbados	100%
MXN Silver Corp.	Barbados	100%
Leagold Luxembourg S.à.r.l.	Luxembourg	100%
Brazil Holdings BV	Netherlands	100%
Riacho Dos Machados Holdings BV	Netherlands	100%
Fazenda Holdings BV	Netherlands	100%
C1 Holdings BV	Netherlands	100%
Pilar Holdings BV	Netherlands	100%
Brio Finance II BV	Netherlands	100%
Leagold Mexico S.A.P.I. de C.V.	Mexico	100%
Mina Leagold Los Filos, S.A.P.I. de C.V.	Mexico	100%
Administración Los Filos, S.A.P.I. de C.V.	Mexico	100%
Desarrollos Mineros San Luis S.A. de C.V.	Mexico	100%
Exploradora de Yacimientos Los Filos S.A. de C.V.	Mexico	100%
Minera Thesalia, S.A. de C.V.	Mexico	100%
Mineracao Riacho Dos Machados Ltda	Brazil	100%
Fazenda Brasileiro Desenvolvimento Mineral Ltda	Brazil	100%
Santa Luz Desenvolvimento Mineral Ltda	Brazil	100%
Pilar de Goias Desenvolvimento Mineral S/A	Brazil	100%

Intercompany balances, transactions, income and expenses arising from intercompany transactions are eliminated in full on consolidation.

d) Foreign currency translation

The presentation and functional currency of the Company is the US dollar. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities in foreign currencies other than the functional currency are translated using the historical rate. All gains and losses on translation of these foreign currency transactions are included in the consolidated statements of net income/(loss) and comprehensive income/(loss).

e) Derivative instruments and hedging

On initial designation of a derivative as a hedge, the Company documents the relationship between the hedging instrument and hedged item and assesses the effectiveness of the hedging instrument in offsetting the changes in the cash flows attributable to the hedged risk and whether the forecast transaction is highly probable. Subsequent assessment will be performed on an ongoing basis to determine that the hedging instruments have been highly effective throughout the reporting periods for which they were designated. The changes in the fair value of derivatives that are designated and determined to be effective in offsetting forecasted cash flows is recognized in other comprehensive income/(loss) (OCI). The gain or loss relating to the ineffective portion is recognized immediately as a gain or loss on derivatives, net, in the consolidated statements of net income/(loss) and comprehensive income/(loss).

f) Operating segments

The Company's senior management team performs planning, reviews operating results, assesses performance and makes resource allocation decisions based on the segment structure described in Note 22 at an operational level on a number of measures, which include mine operating earnings. Segment results that are reported to the Company's

Leagold Mining Corporation

Notes to the Consolidated Financial Statements

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(expressed in thousands of United States dollars, except as otherwise stated)

senior management team include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

g) Business combinations

A business combination is defined as an acquisition of assets and liabilities that constitute a business. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return to the Company and its shareholders in the form of dividends, lower costs or other economic benefits. A business consists of inputs, including non-current assets, and processes, including operational processes, that when applied to those inputs, have the ability to create outputs that provide a return to the Company and its shareholders. A business also includes those assets and liabilities that do not necessarily have all the inputs and processes required to produce outputs, but can be integrated with the inputs and processes of the Company to create outputs. When acquiring a set of activities or assets in the exploration and development stage, which may not have outputs, the Company considers other factors to determine whether the set of activities or assets is a business.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, the liabilities, including contingent consideration, incurred and payable by the Company to former owners of the acquiree and the equity interests issued by the Company. The measurement date for equity interests issued by the Company is the acquisition date, which is the date the Company obtains control over the acquiree, which is generally the date that consideration is transferred, and the Company acquires the assets and assumes the liabilities of the acquiree. The Company considers all relevant facts and circumstances in determining the acquisition date.

Acquisition-related costs, other than costs to issue debt or equity securities of the Company, are expensed as incurred. The costs to issue equity securities of the Company as consideration for the acquisition are reduced from share capital as share issue costs. The costs to issue debt to finance the acquisition are reduced from the value of the debt as debt issue costs.

It generally requires time to obtain the information necessary to complete the purchase price accounting following an acquisition. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts in its financial statements for the items for which the accounting is incomplete. During the measurement period, the Company will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Company will also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable and shall not exceed one year from the acquisition date.

h) Cash

Cash consists of cash on hand and cash balances held with banks.

i) Inventories

Finished goods, work-in-process, and stockpiled ore are valued at the lower of average operating expenses and net realizable value (NRV). Operating expenses include the cost of raw materials, direct labour, mine-site overhead expenses and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing metal prices less estimated future operating expenses to convert the inventories into saleable form.

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(expressed in thousands of United States dollars, except as otherwise stated)

Ore extracted from the mines is placed on the heap leach pads and subsequently processed into finished goods in the form of doré bars. Operating expenses are capitalized and included in work-in-process inventory based on the current mining costs incurred up to the point prior to the refining process, including applicable overhead, depreciation and depletion relating to mining interests, and removed at the average production cost per recoverable ounce of gold. Operating expenses associated with heap leach inventory which is being reprocessed are recognized in the period in which they are incurred as the costs relate directly to the current production. The average operating expenses of finished goods represent the average costs of work-in-process inventories and operating expenses of reprocessed heap leach incurred prior to the refining process, plus applicable refining costs and associated royalties. Ore on the heap leach pads is segregated between current and non-current inventories in the consolidated statement of financial position based on the period of planned usage.

Supplies are valued at the lower of average cost and net realizable value. Write-downs of supplies inventory are recognized in profit or loss

j) Mining interests

Mining interests include interests in mining properties and related plant and equipment and are carried at cost less depreciation and depletion and any accumulated impairment.

Mineral deposits in the reserve category are classified as depletable mining properties when operating levels intended by management have been reached and are being mined. Prior to this, they are classified as non-depletable mining properties.

Resources not categorized as reserves and exploration potential are classified as non-depletable mining properties. The value associated with resources and exploration potential is often referred to as value beyond proven and probable reserves, which includes amounts assigned from costs of property acquisitions. At the end of each reporting period or when otherwise appropriate and subsequent to a review and evaluation for impairment, carrying amounts of non-depletable mining properties are reclassified to depletable mining properties as a result of the conversion into reserves that have reached operating levels intended by management.

i. Recognition

Capitalized costs associated with mining properties include the following:

- Costs of direct acquisitions of production, development and exploration stage properties;
- Costs attributed to mining properties acquired in connection with business combinations;
- Expenditures related to the development of mining properties;
- Expenditures related to economically recoverable exploration;
- Estimates of reclamation and closure costs.

Capitalization ceases when an asset is capable of operating in the manner intended by management.

ii. Acquisitions

The cost of a property acquired as an individual asset purchase or as part of a business combination represents the property's fair value at the date of acquisition. This cost is capitalized until the viability of the mining property is determined. When it is determined that a property is not economically viable, the amount capitalized is written off, which may include expenditures which were capitalized to the carrying amount of the property subsequent to its acquisition.

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iii. *Development expenditures*

Drilling and related costs incurred to define and delineate a mineral deposit that has not been classified as proven and probable reserves at a development stage or production stage mine are capitalized as part of the carrying amount of the related property in the period incurred, when management determines that there is sufficient evidence that the expenditure will result in a future economic benefit to the Company.

Drilling and related costs incurred on sites without an existing mine and on areas outside the boundary of a known mineral deposit which contains proven and probable reserves are exploration expenditures and are expensed as incurred to the date of establishing that costs incurred are economically recoverable. Further exploration expenditures, subsequent to the establishment of economic recoverability, are capitalized and included in the carrying amount of the related property.

Management uses the following criteria in its assessments of economic recoverability and probability of future economic benefit:

- **Geology:** there is sufficient geologic and economic certainty of converting a residual mineral deposit into a proven and probable reserve at a development stage or production stage mine, based on the known geology and metallurgy. There is history of conversion of resources to reserves at operating mines to support the likelihood of conversion.
- **Scoping:** there is a scoping study or preliminary feasibility study that demonstrates the additional reserves and resources will generate a positive commercial outcome. Known metallurgy provides a basis for concluding there is a significant likelihood of being able to recoup the incremental costs of extraction and production.
- **Accessible facilities:** the mineral deposit can be processed economically at accessible mining and processing facilities where applicable.
- **Life of mine plans:** an overall life of mine plan and economic model to support the mine and the economic extraction of resources/reserves exists. A long-term life of mine plan, and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body.
- **Authorizations:** operating permits and feasible environmental programs exist or are obtainable.

iv. *Costs incurred during production*

Mine development costs incurred to maintain current production are included in the consolidated statements of net income/(loss) and comprehensive income/(loss). The distinction between mining expenditures incurred to develop new ore bodies and to develop mine areas in advance of current production is mainly the production timeframe of the mining area. For those areas being developed, which will be mined in future periods, the costs incurred are capitalized and depleted when the related mining area is mined, compared to current production areas where development costs are considered as costs of sales, given that the short-term nature of these expenditures matches the economic benefit of the ore being mined.

Capitalization of costs incurred ceases when an asset is capable of operating in the manner intended by management. Operating expenses incurred, and revenue earned subsequent to this point are recognized in profit or loss.

v. *Capitalization of waste in open pit operations*

Capitalization of waste stripping requires the Company to make judgments and estimates in determining the amounts to be capitalized. In open pit mining operations, it is necessary to incur costs to remove overburden and other mine waste materials in order to access the ore body (stripping costs). During the development of a mine, stripping costs are capitalized and included in the carrying amount of the related mining property and subsequently depleted over the productive life of the mine using the unit-of-production method. During the production phase of a mine, stripping costs incurred to provide access to sources of reserves that will be produced in future periods that

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would not have otherwise been accessible are capitalized and included in the carrying amount of the related component of the mining property. Stripping costs incurred and capitalized during the production phase are depleted using the unit-of-production method over the reserves and a portion of resources that directly benefit from the specific stripping activity. Costs incurred for regular waste removal that do not give rise to future economic benefits are considered as costs of sales in the period incurred.

vi. *Depletion*

The carrying amounts of mining properties are depleted using the unit-of-production method over the estimated recoverable ounces, when operating levels intended by management for the mining properties have been reached. Under this method, depletable costs are multiplied by the number of ounces extracted divided by the estimated total ounces to be extracted in current and future periods based on proven and probable reserves and a portion of resources.

Management reviews the estimated total recoverable ounces contained in depletable reserves and resources each financial year and when events and circumstances indicate that such a review should be made. Changes to estimated total recoverable ounces contained in depletable reserves and resources are accounted for prospectively.

vii. *Plant and equipment*

Plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Plant and equipment are depreciated using the units of production method based on ounces produced, or the straight-line method over the estimated useful lives of the related assets as follows:

Plant	Units of production
Mobile equipment	4 – 10 years
Computer equipment	3 years
Furniture and equipment	10 years

Where parts (components) of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment. Each asset's estimated useful life is determined considering its physical life limitations. This physical life of each asset cannot exceed the life of the mine at which the asset is utilized. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Amounts expended on assets under construction are capitalized until the asset becomes available for its intended use, at which time depreciation commences on the assets over its useful life. Repairs and maintenance of plant and equipment are expensed as incurred. Costs incurred to enhance the service potential of plant and equipment are capitalized and depreciated over the remaining useful life of the improved asset.

viii. *Derecognition*

Upon disposal or abandonment, the carrying amounts of mining properties and plant and equipment and accumulated depreciation and depletion are removed from the accounts and any associated gains or losses are recorded in profit or loss.

k) Impairment of mining interests

At each reporting date, the Company gives consideration whether any indicators of impairment exist. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing its recoverable amount, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects

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current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or a cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Impairment losses reverse in some circumstances. When an impairment loss subsequently reverses, it is recognized immediately in profit or loss. The carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.

l) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

m) Leases

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recognized at the lower of the fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

All other leases are classified as operating leases. Operating lease payments are recognized as an operating cost in profit or loss on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which benefits from the leased asset are consumed.

n) Income and deferred taxes

The Company uses the liability method of accounting for income and mining taxes. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for unused tax losses and other income tax deductions. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply if the related assets are realized or the liabilities are settled. To the extent that it is probable that taxable profit will not be available against which deductible temporary differences can be utilized a deferred tax asset may not be recognized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change is substantively enacted. Deferred tax assets and liabilities are considered monetary assets. Deferred tax balances denominated in other than US dollars are translated into US dollars using current exchange rates at the reporting date.

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Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

o) Reclamation and closure costs

The Company records a liability for the estimated future rehabilitation costs and decommissioning of its operating mines and development projects at the time the environmental disturbance occurs or a constructive obligation is determined. Environmental rehabilitation provisions are measured at the net present value of expected future cash flows. The unwinding of the obligation, referred to as accretion expense, is included in finance costs with a corresponding increase in the amount of the provision.

When provisions for closure and environmental rehabilitation are initially recognized, the corresponding cost is capitalized as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and environmental rehabilitation activities is recognized in mining interests and depreciated over the expected useful life of the operation to which it relates.

Environmental rehabilitation provisions are updated annually for changes in legal or regulatory requirements, changes to the expected cash flows, and for the effect on changes in the discount rate, and the change in estimate is added or deducted from the related asset and depreciated over the expected useful life of the operation to which it relates.

Increases or decreases to the provision also arise due to changes in legal or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period which the change is identified and quantifiable.

p) Revenue recognition

Revenue from the sale of gold in doré bar form is recognized when the Company has transferred control of the gold in doré bar form to the customer at an amount reflecting the consideration the Company expects to receive in exchange for those products. In determining whether the Company has satisfied a performance obligation, it considers the indicators of the transfer of control, which include, but are not limited to, whether: the Company has a present right to payment; the customer has legal title to the asset; the Company has transferred physical possession of the asset to the customer; and the customer has the significant risks and rewards of ownership of the asset. Revenue is gross of royalties paid to third parties.

q) Warrant derivative

The Company uses a Black-Scholes model for valuation of the warrant derivative. The pricing models require the input of subjective assumptions including expected share price volatility, interest rate and forfeiture rate. Changes in the input assumptions can affect the fair value estimate and the Company's net income/(loss) and warrant liability.

r) Financial instruments

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. On initial recognition, all financial assets and financial liabilities are recorded at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as at fair value through profit or loss (FVTPL). The directly attributable transaction costs

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of financial assets and liabilities classified as at FVTPL are expensed in the period in which they are incurred. Subsequent measurement of financial assets and liabilities depends on the classification of such assets and liabilities.

i. Classification of financial assets

Financial assets that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cashflows, and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Interest income is recognized using the effective interest method.

Financial assets that meet the following conditions are measured at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collection contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at FVTPL.

The Company, at initial recognition, may also irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

ii. Classification of financial liabilities

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using effective interest method.

The Company designates certain derivatives as hedging instruments in respect of foreign currency risk and commodity price risk as cash flow hedges (Note 2(e)). Derivative instruments that do not qualify as hedging instruments are recorded at fair value with changes in fair value recognized in net income/(loss).

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s) Share capital

Common shares are classified as share capital. Incremental costs directly attributable to the issue of new share or options are shown in equity as a deduction, net of tax from the proceeds. If the Company reacquires its own equity, the cost is deducted from equity and the associated shares are cancelled or held in treasury.

t) Earnings per share

Earnings per share calculations are based on the weighted average number of common and preferred shares issued and outstanding during the period. The rights of the common and preferred shares are the same and as such, common and preferred shares are treated as one class of shares for the earnings per share calculation. Diluted earnings per share are calculated using the treasury stock method, whereby the proceeds from the exercise of potentially dilutive common shares with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period.

u) Share-based payment arrangements

Cash settled share-based payments in the form of deferred share units (DSUs) to directors are measured at the fair value of the equity instruments at the grant date and revalued each reporting period. Initial recognition and the subsequent revaluation are recognized as share-based payments in consolidated statements of net income/(loss) and comprehensive income/(loss).

Equity settled share-based payments are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity settled share-based payments are expensed over the vesting period in accordance with the Company's share option plan, in the consolidated statements of net income/(loss) and comprehensive income/(loss).

3. CHANGE IN ACCOUNTING POLICIES AND STANDARDS

a) Application of new accounting standards effective January 1, 2018

The Company has adopted the following new IFRS standards for the annual period beginning on January 1, 2018.

i. *Impact of IFRS 15 Revenue from Contracts with Customers (IFRS 15)*

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods. Specifically, IFRS 15 introduces a five-step approach to revenue recognition. Under IFRS 15, an entity recognizes revenues when a performance obligation is satisfied, which is when "control" of the goods have transferred to the customer.

Revenue from the sale of gold in doré bar form is recognized and revenue is recorded at market prices following the transfer of control to the customer. The performance obligations are completed, and control is transferred to the customer, when the Company has a present right to payment, has transferred legal title to the asset, has transferred physical possession of the asset to the customer, the customer has accepted the significant risks and rewards of ownership, and the customer has accepted the asset. The Company receives sales proceeds from a combination of refiners, gold traders and off-take partners. Revenue is gross of royalties paid to third parties.

The Company adopted IFRS 15 using the modified retrospective method and has determined that there is no impact of the change in the accounting for revenue at the transition date.

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ii. *Impact of IFRS 9 Financial Instruments (IFRS 9)*

The key requirements of IFRS 9 as they relate to the Company include the following:

- Subsequent to initial measurement at fair value, all recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost in subsequent periods. For those financial assets that have a business model whose objective is achieved by both collecting the contractual cash flows and selling financial assets, are generally measured at fair value through other comprehensive income (FVTOCI). All other financial assets are measured at fair value through profit and loss (FVTPL) in subsequent accounting periods. In addition, on initial recognition, an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's FVTOCI, with only dividend income recognized in profit or loss. Transaction costs for financial assets held at FVTPL are expensed, for all other financial assets, they are recognized at fair value at initial measurement less any directly attributable transaction costs.
- Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the balance sheet subsequent to inception and how changes in value are recorded.
- For the impairment of financial assets, IFRS 9 requires an 'expected credit loss' model applies which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The Company has adopted IFRS 9 on a modified retrospective basis without the restatement of the comparative period and none of the Company's classification of its financial instruments have changed significantly as a result of the adoption of IFRS 9. The Company has assessed the impairment of its receivables using the expected credit loss model, however, there is no material difference as a result, and no impairment has been recognized upon transition and at December 31, 2018. There are no transitional impacts regarding financial liabilities in regards to classification and measurement. Trade and other payables and the loan facilities are classified as other financial liabilities and carried on the statement of financial position at amortized cost and the warrant derivative is a liability at fair value through profit or loss.

iii. *Future accounting standards and interpretations*

The Company has not early adopted IFRS 16, Leases, which has been issued and will be effective January 1, 2019. IFRS 16, Leases provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance leases.

The Company will adopt IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard is expected increase right-of-use assets with a corresponding increase to lease obligations. The right-of-use assets recognized will be measured at amounts equal to the lease obligation. The Company has elected to use the two exemptions proposed by IFRS 16 on the following contracts:

- Lease contracts with a duration of less than 12 months;
- Lease contracts for which the underlying asset has a low value.

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4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (Note 5), that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

b) Determination of economic viability

Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

c) Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined the functional currency of each entity is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

d) Business combinations

Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgements, taking into account all facts and circumstances.

e) Capitalization of waste stripping

Capitalization of waste stripping requires the Company to make judgments and estimates in determining the amounts to be capitalized. These judgments and estimates include and rely on the expected stripping ratio for each separate open pit, the determination of what defines separate pits, and the expected ounces to be extracted from each component of a pit, amongst others.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

a) Impairment of mining interests

The Company considers both external and internal sources of information in assessing whether there are any indications that mining interests are impaired. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mining interests. Internal sources of information the Company considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets

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In determining the recoverable amounts of the Company's mining interests, the Company's management makes estimates of the discounted future cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. The projected cash flows are significantly affected by changes in assumptions about gold's selling price, future capital expenditures, changes in the amount of recoverable reserves, resources, and exploration potential, production cost estimates, discount rates and exchange rates. Reductions in gold price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mining interests. The Company determined that none of their mining interests were impaired during the year ended December 31, 2018.

b) Estimated recoverable ounces

The Company estimates recoverable ounces for determining the fair value of mining interests, the number of ounces in heap leach inventory, and to determine the depletion rate for its mining interests. Changes to the estimates of recoverable ounces included in the heap leach inventory can impact the Company's ability to recover the carrying value of the inventory in the normal course of operations. Changes to the estimates of recoverable ounces including changes from revisions to the Company's mine plans and changes in gold price forecasts can result in a change to future depletion rates.

c) Mineral reserves

Mineral reserves and mineral resources are determined in accordance with Canadian Securities Administrator's National Instrument 43-101 - Standards of Disclosure for Mineral Projects. Mineral reserve and resource estimates include numerous estimates. Such estimation is a subjective process, and the accuracy of any mineral reserve or resource estimate is dependent on the quantity and quality of available data and on the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as gold prices and market conditions could have a material effect in the future on the Company's financial position and financial performance.

d) Environmental rehabilitation costs

The provisions for rehabilitation are based on the expected costs of environmental rehabilitation and inputs used to determine the present value of such provisions and the related accretion expense using the information available at the reporting date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the profit or loss and future cash flows may be impacted.

e) Deferred income tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, available tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax

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assets recognized. At the end of each reporting period, the Company reassesses unrecognized and recognized income tax assets.

f) Share-based payments and warrant derivatives

Numerous assumptions are made when accounting for share-based payments, including expected volatility, expected life, dividend yield and foreign exchange rate. Changes to these assumptions may alter the resulting accounting and ultimately the amount charged to profit or loss.

g) Contingencies

Due to the nature and complexity of the Company's operations, various legal and tax matters are ongoing at any given time and require estimation of amount and probability of outcome. In the event that the circumstances surrounding these matters change or the Company's outlook for the outcomes of these matters changes, the effects will be recognized in the consolidated financial statements.

6. ACQUISITION OF BRIO GOLD INC.

The Company completed the acquisition of Brio on May 24, 2018, whereby Leagold acquired all the issued and outstanding common shares of Brio (each, a Brio Share) by way of a statutory plan of arrangement (the Arrangement). Under the terms of the Arrangement, Brio shareholders received for each Brio Share held 0.922 of a common share of Leagold and 0.4 of a Leagold share purchase warrant (each whole warrant, a Leagold Warrant). Each Leagold Warrant entitles the holder to purchase one Leagold common share at a price of C\$3.70 until May 24, 2020.

Based on the opening price of Leagold shares of C\$3.07 on May 24, 2018, the 108,422,620 Leagold common shares issued in exchange for the outstanding Brio Shares had an aggregate value of \$258,209. In addition, 2,453,546 Leagold common shares were issued in exchange for certain of Brio's restricted share units (RSUs) and DSUs and in satisfaction of a partial severance payment, which increases the value of the total common share consideration to \$264,052. The Company issued 46,716,645 Leagold Warrants having a consideration value of \$19,703, calculated using a Black-Scholes valuation method (Note 17). Also under the Arrangement, certain Brio stock options were exchanged for 1,026,267 Leagold options to acquire common shares of Leagold, which have a fair value of \$930. The Company also provided a \$13,069 bridge loan to Brio prior to the closing of the Brio Acquisition, the proceeds of which were used to settle certain of Brio's liabilities. The total transaction price of \$297,754 reflects the consideration value of the newly issued common shares, warrants, and stock options, and the principal value of the bridge loan.

As part of the financing plan to complete the Brio Acquisition, the Company's existing \$150,000 senior secured 5-year loan facility with Société Générale, Investec Bank plc and Orion Mine Finance (Orion), was amended to provide an additional \$100,000 tranche of funding, net of \$2,454 of debt issuance costs. A portion of the proceeds of the new tranche was used to fully repay Brio's \$75,000 senior debt credit facility upon closing of the Brio Acquisition.

On the Closing Date, the Company also issued 21,317,098 common shares to a fund managed by Orion pursuant to a private placement at a price of C\$2.71 for proceeds of \$45,000, net of \$497 of share issue costs. Additionally, the Company issued 2,000,000 Leagold Warrants in connection with the private placement with an exercise price of C\$3.53. The fair value of these Leagold Warrants at the time of grant of \$1,200, calculated using a Black-Scholes valuation model (Note 17), was recognized as a reduction in the value of the Company's common shares issued to Orion.

Leagold's acquisition and restructuring costs related to the Brio Acquisition incurred during the year ended December 31, 2018, totaling \$8,038, have been expensed in the consolidated statements of net income/(loss) and comprehensive income/(loss). Since the Closing Date until December 31, 2018, the Company paid \$18,105 of Brio's transaction-related costs assumed as part of the Brio Acquisition.

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The following table shows the consideration and allocation of the purchase price to the identifiable assets and liabilities based on their estimated fair values at the date of acquisition:

Purchase price	
Fair value estimate of Leagold share consideration	\$ 264,052
Fair value estimate of Leagold Warrants issued	19,703
Fair value estimate of Leagold share options issued	930
Bridge loan issued	13,069
	\$ 297,754
Net assets/(liabilities) acquired	
Cash	\$ 5,423
Mining interests and plant and equipment	455,887
Other non-current assets	16,247
Net working capital acquired (excluding cash)	(46,345)
Hedging instruments	(4,525)
Senior debt credit facility	(75,000)
Deferred income tax liabilities	(9,971)
Provision for reclamation	(30,246)
Other non-current payables	(13,716)
	\$ 297,754

Upon finalization of the purchase price allocation, the fair value of mining interests and plant and equipment increased by \$8,900, other non-current assets increased by \$12,076, deferred tax liabilities increased by \$21,024, other non-current payables decreased by \$2,538, and negative working capital acquired increased by \$2,490 compared to the preliminary purchase price allocation. As a result of the change in the fair value of mining interests and plant and equipment, depreciation and depletion was increased by \$152.

Since the acquisition date of May 24, 2018, the revenues and net loss included in the consolidated financial statements related to the operations acquired from Brio are \$134,740 and \$2,569, respectively. Had the acquisition happened on January 1, 2018, the pro forma consolidated revenues and net income of the Company for the year ended December 31, 2018 would have been \$463,303 and \$13,630, respectively.

7. ACQUISITION OF THE LOS FILOS MINE

On April 7, 2017, the Company completed the acquisition of the Los Fillos mine in Guerrero State, Mexico from Goldcorp for total consideration of \$350,000. The Los Fillos Acquisition mine was completed through the purchase of Goldcorp's indirect subsidiaries: Desarrollos Mineros San Luis S.A. de C.V. (DMSL), Exploradora de Yacimientos Los Fillos S.A. de C.V. (Exploradora) and Minera Thesalia, S.A. de C.V. (Minera) (collectively, Los Fillos). The purchase price consisted of \$279,000 in cash and \$71,000 in common shares of the Company. At the closing of the Los Fillos Acquisition, Leagold issued 34,635,091 common shares to Goldcorp, representing \$71,000 at C\$2.75 per share.

Concurrent with the closing of the Los Fillos Acquisition, Leagold closed a financing with a fund managed by Orion Resource Partners consisting of a \$150,000 senior secured 5-year loan facility, and an equity private placement of \$50,000.

The Mexican anti-trust commission (COFECE) had approved the completion of the Los Fillos Acquisition, but required a second COFECE application with respect to \$29,000 of Orion's \$50,000 equity investment. To accommodate this, the \$50,000 was split into a \$21,000 private placement that was completed on April 7, 2017 whereby 10,244,182 common shares were issued to Orion at C\$2.75 per share, and a \$29,000 subscription receipt financing whereby 14,146,728 subscription receipts were issued to Orion at C\$2.75 per subscription receipt, with each subscription receipt converting into one common share upon receipt of the second COFECE approval. To

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accommodate the cash funding postponement, Goldcorp agreed to defer \$29,000 of the \$279,000 cash portion of the acquisition by accepting a short-term promissory note from Leagold. On July 12, 2017, the Company received the second COFECE approval with respect to the \$29,000 subscription receipt financing provided by Orion and the \$29,000 in subscription receipts were converted to 14,146,728 common shares and the \$29,000 of proceeds were paid to Goldcorp in satisfaction of the promissory note. Interest of \$595 was paid up to July 12, 2017 to Goldcorp relating to the promissory note.

The transaction costs related to the Los Filos Acquisition incurred for the year ended December 31, 2017 totaled \$7,636 and were expensed in the consolidated statements of net income/(loss) and comprehensive income/(loss). The Company capitalized \$7,712 relating to transaction costs associated with the loan facility for the year ended December 31, 2017. Leagold also agreed to distribute to Goldcorp the VAT receivable amount in DMSL outstanding as of the Closing Date of \$99,757, as and when these amounts are received from the Mexican tax authorities. All amounts relating to this VAT receivable have been distributed as at December 31, 2018. Subsequent to the Los Filos Acquisition, the Company incurred expenses for the year ended December 31, 2017 of \$2,274 relating to certain transitional services provided to the Company by Goldcorp.

The following table shows the consideration and allocation of the purchase price to the identifiable assets and liabilities based on their estimated fair values at the date of acquisition:

Purchase price		
Cash settlement	\$	250,000
Common shares issued		71,000
Short-term promissory note		29,000
	\$	350,000
Net assets/(liabilities) acquired		
Cash	\$	20,547
Mining interests and plant and equipment		270,801
Deferred income tax assets		75,844
Net working capital acquired (excluding cash)		24,169
Long-term inventories		3,801
Provision for reclamation		(42,428)
Other non-current payables		(2,734)
	\$	350,000

8. TRADE AND OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Trade receivables	\$ 5,322	\$ 9,622
Mexican VAT receivable (a)	14,038	16,114
Brazilian input tax credits receivable (b)	14,463	-
Income taxes receivable	5,470	2,708
Other receivables	1,706	1,073
	\$ 40,999	\$ 29,517
Less: non-current portion	7,229	-
Current portion	\$ 33,770	\$ 29,517

- a) The value-added tax (VAT) receivable balance of \$14,038 represents the VAT receivable at the Los Filos mine, net of VAT refunds received. Subsequent to December 31, 2018, \$4,198 of VAT refunds have been received relating to the Company's accumulated VAT receivable balance.

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- b) As at December 31, 2018, \$7,229 of the Brazilian input tax credits receivable are included in other long-term receivables on the consolidated statement of financial position (December 31, 2017 - \$nil) as they are expected to be recovered over a period which exceeds the next twelve months.

9. INVENTORIES

	December 31, 2018	December 31, 2017
Supplies	\$ 26,385	\$ 10,522
Finished goods	6,109	2,407
Work in progress	6,287	1,473
Heap leach ore	70,217	38,149
Stockpiled ore	4,302	5,425
	\$ 113,300	\$ 57,976
Less: non-current heap leach ore	1,506	2,410
Current portion	\$ 111,794	\$ 55,566

- a) The costs of inventories recognized as expense for the year ended December 31, 2018 was \$314,040 (December 31, 2017 - \$165,189) and is included in cost of sales.
- b) Inventory balances as at December 31, 2018 include NRV adjustments of \$219 at Fazenda mine, \$1,131 at RDM mine, \$645 at Pilar mine, offset by a reversal of NRV at Los Filos mine of \$1,465 (December 31, 2017 – write down of \$3,661 at Los Filos mine).

10. MINING INTERESTS

	Mining Properties		Plant and equipment	Total
	Depletable	Non-depletable		
Cost				
At December 31, 2017	\$ 66,435	\$ 89,253	\$ 157,618	\$ 313,306
Assets acquired on Brio Acquisition (Note 6)	120,227	13,818	321,842	455,887
Additions/expenditures (Note 23(a))	39,473	11,275	28,150	78,898
Change in reclamation liability (Note 13)	817	1,249	-	2,066
Balance as at December 31, 2018	\$ 226,952	\$ 115,595	\$ 507,610	\$ 850,157
Accumulated depreciation				
At December 31, 2017	\$ 9,124	\$ -	\$ 15,325	\$ 24,449
Depreciation/depletion	17,167	-	29,695	46,862
Change in depreciation included in inventory	1,651	-	3,145	4,796
Transfers and other non-cash movements	41	-	1,250	1,291
Balance as at December 31, 2018	\$ 27,983	\$ -	\$ 49,415	\$ 77,398
Carrying amounts				
Balance as at December 31, 2017	\$ 57,311	\$ 89,253	\$ 142,293	\$ 288,857
Balance as at December 31, 2018	\$ 198,969	\$ 115,595	\$ 458,195	\$ 772,759

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	Mining Properties		Plant and equipment	Total
	Depletable	Non-depletable		
Cost				
Balance at December 31, 2016	\$ -	\$ -	\$ -	\$ -
Los Filos Acquisition (Note 7)	47,847	72,043	150,911	270,801
Additions/expenditures (Note 23(a))	8,339	17,210	6,871	32,420
Disposals	-	-	(164)	(164)
Change in reclamation liability (Note 13)	10,249	-	-	10,249
Balance as at December 31, 2017	\$ 66,435	\$ 89,253	\$ 157,618	\$ 313,306
Accumulated depreciation				
At December 31, 2016	\$ -	\$ -	\$ -	\$ -
Depreciation/depletion	6,364	-	10,495	16,859
Change in depreciation included in inventory	2,760	-	4,830	7,590
Balance as at December 31, 2017	\$ 9,124	\$ -	\$ 15,325	\$ 24,449
Carrying amounts				
Balance as at December 31, 2016	\$ -	\$ -	\$ -	\$ -
Balance as at December 31, 2017	\$ 57,311	\$ 89,253	\$ 142,293	\$ 288,857

11. TRADE AND OTHER PAYABLES

	December 31, 2018	December 31, 2017
Trade and other payables	\$ 59,369	\$ 27,348
Accrued liabilities	41,752	24,412
	\$ 101,121	\$ 51,760

The Company assumed \$65,675 of trade and other payables as part of the Brio Acquisition (Note 6).

12. DEFERRED REVENUE

	December 31, 2018	December 31, 2017
Deferred revenue	\$ 23,382	\$ -
	\$ 23,382	\$ -

In December 2018, the Company sold 20,000 gold ounces to Orion with 10,000 gold ounces to be delivered by March 31, 2019 and 10,000 gold ounces to be delivered by May 31, 2019. The Company received a payment of \$23,382 for these gold sales.

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13. RECLAMATION AND CLOSURE COSTS

	December 31, 2018	December 31, 2017
Beginning balance	\$ 52,593	\$ -
Assumed on Los Filos Acquisition (Note 7)	-	42,428
Assumed on Brio Acquisition (Note 6)	30,246	-
Revision of estimate	3,438	10,249
Foreign exchange impact	(1,372)	-
Accretion expense (Note 20)	3,180	1,175
Expenditures (Note 23(b))	(1,579)	(1,259)
	\$ 86,506	\$ 52,593
Less: non-current portion	83,633	51,070
Current portion	\$ 2,873	\$ 1,523

The Company's environmental permits require that it reclaims any land it disturbs during mine development, construction and operations. The majority of these reclamation costs are expected to be incurred subsequent to the end of the expected useful life of the operation to which they relate. The Company measures the provision at the expected value of future cash flows using inflation rates of 2.20% to 4.06% and discounted to the present value using discount rates of 3.07% to 10.10% depending on the region in which the liabilities will be realized. The undiscounted value of the provision as at December 31, 2018 was \$141,782. Decommissioning, restoration and similar liabilities of the Company's mines and projects are incurred in Brazilian reais (R\$), Mexican pesos and US dollars. The liabilities, other than those denominated in US Dollars, are subject to translation gains and losses from one reporting period to the next in accordance with the Company's accounting policy for foreign currency translation of monetary items. Translation gains or losses are reflected in the carrying amounts of the related property, plant and equipment.

The revision of estimates of \$3,438 relate to the change from the fair value at Brio Acquisition (Note 6) and the subsequent valuation using a risk-free discount rate of 10.10% during the year ended December 31, 2018. The revision of estimates of \$10,249 related to the change in valuation from the Los Filos Acquisition (Note 7) and the subsequent valuation using a risk-free discount rate of 2.43% during the year ended December 31, 2017.

14. OTHER FINANCIAL LIABILITIES

	December 31, 2018	December 31, 2017
Warrant derivative (Note 17(b)(iii))	\$ 2,702	\$ 1,458
DSU liability (Note 17(b)(ii))	863	1,118
Hedging instruments (a)	10,702	-
Other financial liabilities	1,937	1,879
Ending balance	\$ 16,204	\$ 4,455
Less: non-current portion	5,502	4,455
Current portion (a)	\$ 10,702	\$ -

(a) Hedging instruments

i. Currency hedge

As part of the Brio Acquisition, the Company assumed hedging instruments with a fair value of \$4,525 (Note 6) relating to currency forward contracts of \$5,760 per month from January 2019 through December 2019, totaling \$69,114, at a fixed exchange rate of US\$1 = R\$3.4725 (Currency Hedge). The change in fair value of the Currency Hedge for the year ended December 31, 2018 was \$3,557 and was recorded in OCI on the consolidated statements of net income/(loss) and comprehensive income/(loss). The fair value of the Currency Hedge is \$8,083 as at

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December 31, 2018 and is included in other current financial liabilities on the consolidated statement of financial position.

ii. Gold price hedge

On December 14, 2018, the Company entered into a zero-cost collar contract, where gold puts will be purchased, and gold calls will be sold with average put and call strike prices of \$1,200 and \$1,275 per ounce, respectively (Gold Collar Hedge). These purchases and sales will be made for 7,500 ounces per month from January 2019 to September 2019 for a total of 67,500 ounces. The change in fair value of the Gold Collar Hedge for the year ended December 31, 2018 was \$2,619 and was recorded in OCI on the consolidated statements of net income/(loss) and comprehensive income/(loss). The fair value of the Gold Collar Hedge is \$2,619 as at December 31, 2018 and is included in other current financial liabilities on the consolidated statement of financial position.

15. LOAN FACILITIES

	December 31, 2018	December 31, 2017
Loan facilities (Notes 6, 7)	\$ 250,000	\$ 150,000
Deferred financing costs	(10,166)	(7,712)
Interest expense	32,526	10,908
Interest paid and payable	(27,897)	(9,263)
Total loan facilities	\$ 244,463	\$ 143,933
Less: non-current portion	99,821	143,933
Current portion	\$ 144,642	\$ -
Short-term loans assumed on Brio Acquisition (Note 6)	\$ 14,337	\$ -
Principal repayments on short-term loans	(14,100)	-
Interest expense	164	-
Repayment of interest	(401)	-
Total short-term loans	\$ -	\$ -
Total loan facilities and short-term loans	\$ 244,463	\$ 143,933
Less: non-current portion	99,821	143,933
Current portion	\$ 144,642	\$ -

(a) Loan facilities

As part of the financing plan to complete the Los Filos Acquisition (Note 7), the Company closed a financing with a fund managed by Orion consisting of a \$150,000 senior secured 5-year loan facility, which bears interest at a rate equal to the greater of three-month USD Libor or 1.00%, plus 700 basis points, and will mature on April 6, 2022. Principal repayments commence with the first repayment of \$11,538 due on March 31, 2019 and with equal quarterly installments thereafter, until fully repaid. Effective October 31, 2017, Société Générale and Investec Bank plc joined the \$150,000 loan facility, with the new lenders participating for \$25,000 each, and Orion retaining \$100,000 of the loan facility. All other terms of the loan facility remain the same.

As part of the financing plan to complete the Brio Acquisition (Note 6), the Company's existing \$150,000 senior secured five-year loan facility was amended to provide an additional \$100,000 tranche of funding, which bears interest at a rate equal to the greater of three-month USD Libor of 1.00%, plus 425 basis points, and will mature November 24, 2019. The lender participation for the additional \$100,000 tranche of funding is Orion for \$25,000, and Société Générale and Investec Bank plc for \$37,500 each. The principal amount is due as a single payment on the maturity date.

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Both tranches of the loan facility include the following standard covenants:

- Debt service coverage ratio of not less than 1.25;
- Tangible net worth of no less than \$400,000; and
- Leverage ratio of not more than 3.0.

The Company is in compliance with its covenants as at December 31, 2018.

(b) Short-term loans

As part of the Brio Acquisition (Note 6), the Company assumed \$14,337, including accrued interest, of short-term loans with a group of Brazilian banks which have varying maturity of 2 - 10 months and interest rates varying from 3.8% to 7.8%. As at December 31, 2018, the Company had repaid all of the short-term loans assumed as part of the Brio Acquisition.

16. OTHER LONG-TERM LIABILITIES

	December 31, 2018	December 31, 2017
Other long-term tax payable	\$ 3,263	\$ -
Legal provisions (a)	8,781	-
Tax provisions	1,507	-
	\$ 13,551	\$ -

(a) Legal provisions

Legal provisions primarily relate to labour-related claims in Brazil acquired as part of the Brio Acquisition which have arisen in the ordinary course of business.

17. SHARE CAPITAL

On the Closing Date of May 24, 2018, the Company also issued 21,317,098 common shares to Orion pursuant to a private placement at a price of C\$2.71 for proceeds of \$45,000, net of \$497 of share issue costs. Additionally, the Company issued 2,000,000 Leagold Warrants in connection with the private placement with an exercise price of C\$3.53. The fair value of these Leagold Warrants at the time of grant of \$1,200, calculated using a Black-Scholes valuation model, was recognized as a reduction in the proceeds of the Company's common shares issued to Orion.

As part of the Brio Acquisition, 1,522,639 Leagold common shares issued were withheld to cover certain withholding taxes paid by the Company. The Leagold common shares withheld are presented as a reduction in equity in share purchase reserve in the consolidated statement of changes in equity. During the year ended December 31, 2018, 225,000 Leagold shares withheld were sold with a value of \$405.

(a) Authorized capital

Unlimited common shares without par value

Unlimited preferred shares without par value

Unlimited series 1 convertible preferred shares with special rights and restrictions attached

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(b) Share-based payments

The following table summarizes the share-based payments:

	Year ended December 31,	
	2018	2017
Share-based payment expense	\$ 91	\$ 9,078
Expense recognized on grant of DSUs, net of change in fair value during the period	(61)	1,103
Total share-based payments	\$ 30	\$ 10,181

i. Share options

The Company has adopted a rolling share option plan (the Plan) whereby the option to acquire up to 10% of the issued share capital may be granted to eligible optionees from time to time. The Plan permits options granted to have a maximum term of ten years, a vesting period determined by the directors, and the exercise price may not be less than the market price, as prescribed by regulatory requirements. A summary of the changes in the share options is presented below:

	Options outstanding	Weighted average exercise price (C\$)
At December 31, 2016	2,500,000	2.23
Granted	9,200,000	2.86
Exercised	(20,000)	0.63
At December 31, 2017	11,680,000	\$ 2.73
Granted	100,000	2.92
Granted pursuant to Brio Acquisition (Note 6)	1,026,267	2.02
Exercised	(1,232,152)	1.48
Expired	(164,305)	2.40
At December 31, 2018	11,409,810	\$ 2.80

The following table summarizes information about the exercisable share options outstanding as December 31, 2018:

Exercise prices (C\$)	Number of share options outstanding	Number of share options exercisable	Weighted average exercise price (C\$)	Weighted average remaining contractual life
\$ 0.63	210,000	210,000	\$ 0.63	7.5 years
\$ 2.85	10,725,000	10,725,000	\$ 2.85	3.2 years
\$ 3.15	200,000	200,000	\$ 3.15	3.8 years
\$ 2.92	100,000	100,000	\$ 2.92	4.0 years
\$ 2.07	142,437	142,437	\$ 2.07	3.9 years
\$ 2.01	32,373	32,373	\$ 2.01	3.6 years
	11,409,810	11,409,810	\$ 2.80	3.4 years

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The following weighted average assumptions were used for Black-Scholes valuation of the share options granted during years ended December 31, 2018 and December 31, 2017:

	2018	2017
Risk-free interest rate	2.01%	1.38%
Expected life	1.8 years	5.0 years
Annualized volatility	41.50%	56.63%
Dividend rate	0.00%	0.00%

Subsequent to December 31, 2018, 142,437 share options with an exercise price of C\$2.07 were exercised, and 6,578,442 share options with an exercise price of C\$2.11 were granted by the Company.

ii. *Deferred share units*

The Company established a DSU plan for the purposes of strengthening the alignment of interests between non-executive directors of the Company and shareholders by linking a portion of the annual director compensation to the future value of the Company's common shares. Upon establishing the DSU plan for non-executive directors in November 2016, the Company adopted a policy to no longer grant share options to non-executive directors. The DSU plan allows each non-executive director to receive, in the form of DSUs, 50% of the director's fees which would otherwise be payable in cash. The plan also provides for discretionary grants of additional DSUs by the Board. Each DSU fully vests upon award but is distributed only when the director has ceased to be a member of the Board. Vested units are settled in cash based on the common share price at the date of settlement. A summary of the changes in the DSUs is presented below:

	DSUs outstanding	Weighted average grant price (C\$)
At December 31, 2016	26,640	\$ 3.15
Granted	479,378	2.62
Exercised	(24,368)	2.53
At December 31, 2017	481,650	\$ 2.63
Granted	285,403	2.06
Exercised	(86,334)	2.90
At December 31, 2018	680,719	\$ 2.39

During the year ended December 31, 2018, the Company granted 285,403 DSUs with a resulting fair value of \$439 which was recognized as share-based payments expense during the period. The total fair value of all outstanding DSUs at December 31, 2018 was \$863 (December 31, 2017 - \$1,118) which was recorded as other long-term liabilities (Note 14).

iii. *Warrant derivative*

In relation to the Los Filos Acquisition financing in April 2017, the Company has granted Orion 2,000,000 share purchase warrants that are exercisable in whole or in part for a term of five years at an exercise price of C\$3.575 per share.

In relation to the Brio Acquisition, the Company has granted Brio shareholders 46,716,645 share purchase warrants that are exercisable in whole or in part until May 24, 2020 at an exercise price of C\$3.70 per share. The Company has also granted an additional 2,000,000 share purchase warrants to Orion that are exercisable in whole or in part until May 24, 2021 at an exercise price of C\$3.529 per share.

The exercise price of these warrants is denominated in Canadian dollars to be consistent with the Company's shares being listed on the TSX; however, the functional currency of the Company is the US dollar. As a result of this difference in currencies, the proceeds that will be received by the Company are not fixed and will vary based on foreign exchange rates resulting in the warrants being classified as derivatives and therefore, they are required to be

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recognized and measured at fair value at each reporting period. Any changes in fair value from period to period are recorded as a non-cash finance costs in the consolidated statements of net income/(loss) and comprehensive income/(loss). Upon exercise, the holder will pay the Company the respective exercise price for each warrant exercised in exchange for one common share of the Company. The fair value at the date of exercise and the associated non-cash liability will be reclassified to share capital. The non-cash liability associated with any warrants that expire unexercised will be recorded as a gain in consolidated statements of net income/(loss) and comprehensive income/(loss). There are no circumstances in which the Company would be required to pay any cash upon exercise or expiry of the warrants.

A reconciliation of the change in the fair values of the warrant derivative, included on the consolidated statements of financial position as another long-term liability, is presented below:

	Warrants outstanding	Fair value of warrant derivative
At December 31, 2016	-	\$ -
Warrants issued	2,000,000	1,734
Change in fair value of warrant derivative	-	(276)
At December 31, 2017	2,000,000	\$ 1,458
Warrants issued (Note 6)	48,716,645	20,903
Warrants exercised	(772)	-
Change in fair value of warrant derivative (Note 20)	-	(19,659)
At December 31, 2018	50,715,873	\$ 2,702

The following weighted average assumptions were used for Black-Scholes valuation of the warrants granted during the years ended December 31, 2018 and December 31, 2017:

	2018	2017
Risk-free interest rate	1.98%	1.75%
Expected life	1.85 years	5.0 years
Annualized volatility	44.63%	52.92%
Dividend rate	0.00%	0.00%

(c) Basic and diluted earnings per share

Year ended December 31, 2018					
	Weighted average shares outstanding	Net income	Net income per share	Earnings before taxes	Earnings before taxes per share ⁽¹⁾
Basic EPS	232,127,862	\$15,285	\$0.07	\$20,965	\$0.09
Effect of dilutive stock options	235,616	-	-	-	-
Diluted EPS	232,363,478	\$15,285	\$0.07	\$20,965	\$0.09

Year ended December 31, 2017					
	Weighted average shares outstanding	Net loss	Net loss per share	Loss before taxes	Loss before taxes per share ⁽¹⁾
Basic EPS	114,588,828	\$(7,525)	\$(0.07)	\$(10,271)	\$(0.09)
Effect of dilutive stock options	-	-	-	-	-
Diluted EPS	114,588,828	\$(7,525)	\$(0.07)	\$(10,271)	\$(0.09)

⁽¹⁾ The Company is presenting net earnings before taxes per share as the Company believes this is a relevant metric that reflects the Company's results from continuing operations prior to the effect of the deferred tax recognized.

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At December 31, 2018, 50,715,873 share purchase warrants and 11,025,000 stock options were outstanding, which for the year ended December 31, 2018 were anti-dilutive. This is due to the underlying exercise prices exceeding the daily weighted average market values of the common shares for the year ended December 31, 2018 of C\$2.36.

18. REVENUE

	Year ended December 31,	
	2018	2017
Gold (a)	\$ 375,402	\$ 192,997
Silver (b)	1,109	697
	\$ 376,511	\$ 193,694

a) Gold offtake arrangement

As part of the Los Filos Acquisition financing, the Company entered into an offtake agreement with Orion (the Los Filos Gold Offtake Agreement) which provides for a gold offtake of 50% of the gold production from the Los Filos Mine at market prices, until a cumulative delivery of 1.1 million ounces to Orion. As part of the Brio Acquisition financing, the Company amended and restated the Los Filos Gold Offtake Agreement and entered into another offtake agreement with Orion (the Brazilian Gold Offtake Agreement). The Brazilian Gold Offtake Agreement provides for a gold offtake of 35% of the gold production from the Brazilian mines at market prices, until a cumulative delivery of 0.7 million ounces to Orion. As of December 31, 82,874 payable gold ounces had been sold to Orion under the terms of the offtake agreements.

b) Silver streaming arrangement

The Company's silver production from the Los Filos mine is subject to the terms of an agreement (the Silver Purchase Agreement) with Wheaton Precious Metals Corp. (WPM) under which the Company must sell a minimum of 5 million payable silver ounces produced by the Los Filos mine operations from August 5, 2010 to the earlier of the termination of the agreement or October 15, 2029 to WPM at the lesser of \$3.90 per ounce or the prevailing market price, subject to an inflationary adjustment. The contract price is revised each year on the anniversary date of the contract, which was \$4.34 per ounce until October 14, 2018. From October 15, 2018, the contract price has been revised to \$4.39 per ounce. As of December 31, 2018, 1.7 million payable silver ounces had been sold to WPM under the terms of the agreement.

c) Royalties

The Company is subject to a royalty arrangement of 0.5% and 1.5% of gross income on gold and silver revenues in Mexico and Brazil respectively. In addition, at the Los Filos mine, the concession named Xochipala is subject to a royalty arrangement of 3.0% of gross income on gold and silver revenues. At Pilar mine, there are multiple royalties between 0.75% and 1.0% of gross income on gold and silver revenues on certain concessions. At RDM mine, there is a royalty of 1.0% of gross income on gold and silver revenues. At Fazenda mine, there is a royalty of 0.75% of gross revenue royalty on certain concessions.

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19. OPERATING EXPENSES

	Year ended December 31,	
	2018	2017
Raw materials and consumables	\$ 146,284	\$ 88,611
Contractors	53,291	31,215
Salaries and employee benefits	61,537	24,262
Other	6,066	4,242
	\$ 267,178	\$ 148,330

20. FINANCE EXPENSE

	Year ended December 31,	
	2018	2017
Interest expense	\$ 22,793	\$ 11,062
Change in the fair value of warrant derivative (Note 17(b)(iii))	(19,659)	(276)
Accretion expense (Note 13)	3,180	1,175
	\$ 6,314	\$ 11,961

21. INCOME TAXES

	Year ended December 31,	
	2018	2017
Current income tax expense	\$ 7,797	\$ 2,326
Deferred income tax expense	(2,117)	(5,072)
	\$ 5,680	\$ (2,746)

The taxable earnings of the corporate entities in Canada, Mexico, Brazil, Luxembourg, Netherlands and Barbados are subject to tax under the tax law of the respective jurisdiction.

(a) Reconciliation of effective tax rate

	Year ended December 31,	
	2018	2017
Income/(loss) before taxes	\$ 20,965	\$ (10,270)
Statutory tax rate	27%	26%
Income tax benefit	\$ 5,661	\$ (2,670)
Reconciling items:		
Rate differential	5,561	749
Effect of foreign exchange rate changes on deferred taxes	10,841	5,188
Permanent differences	19,027	(5,277)
Impact of inflation on tax values	(13,285)	2,609
Mining convention benefits	2,666	2,797
Share issue costs	(134)	(2,622)
Change in unrecognized temporary differences	(21,801)	(2,943)
Change in prior period estimates	307	-
Impact of the Brio Acquisition	(4,271)	-
Other	1,108	(577)
	\$ 5,680	\$ (2,746)

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(b) Deferred tax balances

	December 31, 2018	December 31, 2017
Deferred tax assets		
Tax losses not utilized	\$ 126,161	\$ 105,815
Deductible temporary differences relating to:		
Mining taxes	5,205	2,967
Inventory	415	-
Current liabilities	6,564	9,223
Reclamation and closure cost obligations	5,981	5,981
Other	35	-
	\$ 144,361	\$ 123,986
Deferred tax liabilities		
Taxable temporary differences relating to:		
Mining properties, plant and equipment	(61,368)	(38,991)
Inventory	(3,477)	(863)
Prepaid expenses and other	(6,454)	(3,216)
	\$ 73,062	\$ 80,916

The Company believes that it is probable that the results of future operations will generate sufficient revenue to realize the deferred income tax assets.

	December 31, 2018	December 31, 2017
Beginning balance	\$ 80,916	\$ -
Deferred tax assets acquired at Los Filos Acquisition (Note 7)	-	75,844
Deferred tax liabilities assumed on Brio Acquisition (Note 6)	(9,971)	-
Deferred tax (expense)/recovery charged to earnings during the year	2,117	5,072
	\$ 73,062	\$ 80,916

(c) Deductible temporary differences, unused tax credits and unused tax losses

The Company's deductible temporary differences, unused tax credits, and unused tax losses that have not been recognized on the consolidated statement of financial position.

	December 31, 2018	December 31, 2017
Tax losses not utilized	\$ 163,373	\$ 20,521
Mining properties, plant and equipment	151,536	1,364
Reclamation and closure cost obligations	33,059	36,643
Foreign exchange	26,887	-
Other	42,988	9,670
	\$ 417,843	\$ 68,198

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(d) Unused tax losses carried forward

The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in relevant jurisdictions.

	Expiry dates	December 31, 2018	December 31, 2017
Canada	2025 to 2038	\$ 48,723	\$ 20,521
Mexico	2024 to 2027	401,826	352,717
Brazil	No expiry	110,970	-
		\$ 561,519	\$ 373,238

22. SEGMENT REPORTING

The Company operates in two principal geographic locations: Mexico (Los Filos) and Brazil (the RDM, Fazenda, Pilar and Santa Luz mines), with a corporate office in Canada. The following tables provides the Company's results and financial positions by reportable segment.

December 31, 2018							
	Los Filos	RDM	Pilar	Fazenda	Santa Luz	Corporate & Others	Total
Mining interests	\$ 296,726	\$ 114,579	\$ 57,089	\$ 149,423	\$ 154,491	\$ 451	\$ 772,759
Total assets	\$ 518,248	\$ 134,281	\$ 74,475	\$ 164,953	\$ 158,895	\$ 32,033	\$1,082,885
Total liabilities	\$ 91,384	\$ 22,059	\$ 27,507	\$ 53,999	\$ 9,469	\$ 294,428	\$ 498,846

Year ended December 31, 2018							
	Los Filos	RDM	Pilar	Fazenda	Santa Luz	Corporate & Others	Total
Revenues	\$ 241,771	\$ 36,203	\$ 39,464	\$ 59,073	\$ -	\$ -	\$ 376,511
Cost of sales							
Operating expenses	170,118	29,286	32,976	34,798	-	-	267,178
Depreciation and depletion	24,712	5,735	5,246	11,063	-	106	46,862
Royalties	1,809	897	582	848	-	-	4,136
	196,639	35,919	38,803	46,709	-	106	318,176
Earnings/(loss) from mine operations	\$ 45,132	\$ 284	\$ 661	\$ 12,364	\$ -	\$ (106)	\$ 58,335

Segment reporting as at and for the year ended December 31, 2018 are not comparable to the year ended December 31, 2017 given the Company had only one operating segment in the prior year, the Los Filos mine.

23. SUPPLEMENTAL CASH FLOW INFORMATION

The Company did not have any cash equivalents as at December 31, 2018 and December 31, 2017.

a) Expenditures on mining interests per the consolidated statements of cash flows include:

	Year ended December 31,	
	2018	2017
Capitalized expenditures on mining interests (Note 10)	\$ 78,898	\$ 32,420
Change in trade and other payables	3,489	(8,684)
	\$ 82,387	\$ 23,736

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b) Expenditures on reclamation and closure obligations per the consolidated statements of cash flows include:

	Year ended December 31,	
	2018	2017
Expenditures on reclamation and closure obligations (Note 13)	\$ 1,579	\$ 1,259
Change in trade and other payables	48	(60)
	\$ 1,627	\$ 1,199

c) Non-cash financing activities:

	Year ended December 31,	
	2018	2017
Common shares issued on Brio Acquisition (Note 6)	\$ 264,052	\$ -
Share options granted on Brio Acquisition (Note 6)	930	-
Common shares issued on Los Filos Acquisition (Note 7)	-	71,000
Warrants issued on Brio Acquisition (Note 6)	19,703	-
Warrants issued to Orion (Notes 6, 7)	1,200	1,734

24. RELATED PARTY TRANSACTIONS

The remuneration of key management which includes directors and management personnel responsible for planning, directing and controlling the activities of the Company during the period were as follows:

	Year ended December 31,	
	2018	2017
Short-term benefits	\$ 5,217	\$ 3,736
DSUs granted	441	1,103
Stock options granted	-	7,374
	\$ 5,658	\$ 12,213

25. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties, support any expansionary plants, maintain sufficient capital for potential investment opportunities and to pursue generative acquisition opportunities. The Company intends to finance potential acquisitions with a prudent combination of equity, debt and other forms of finance.

In the management of capital, the Company includes the components of equity, and loan facilities, net of cash.

Capital, as defined above, is summarized in the following table:

	December 31, 2018	December 31, 2017
Equity	\$ 584,039	\$ 268,359
Loan facilities (Note 15)	244,463	143,933
	828,502	412,292
Less: Cash	(53,021)	(54,039)
	\$ 775,481	\$ 358,253

The Company manages its capital structure and makes adjustments to it in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital

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requirements, the Company has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, trade and other receivables, trade and other payables, other long-term financial liabilities and the loan facilities.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The three levels of the fair value hierarchy are:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – inputs that are not based on observable market data.

The fair values of the Company's cash, trade and other receivables, and trade and other payables approximate their carrying values due to their short-term nature.

Other financial liabilities include the warrant derivative, the DSU payable, and hedging instruments which are measured at their fair value at the end of each reporting period. The loan facilities are measured at amortized cost and the carrying value approximates the fair value as the contractual interest rates are comparable to current market interest rates.

At each of December 31, 2018 and December 31, 2017, the levels in the fair value hierarchy into which the Corporation's financial assets and liabilities measured and recognized in the statements of financial position at fair value are categorized are as follows:

	December 31, 2018		December 31, 2017	
	Level 1	Level 2	Level 1	Level 2
Cash	\$ 53,021	\$ -	\$ 54,039	\$ -
Other financial liabilities	-	(14,267)	-	(2,576)
	\$ 53,021	\$ (14,267)	\$ 54,039	\$ (2,576)

Financial Risk

The Company is exposed to varying degrees of a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of counterparty limits, controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

The Company's primary exposure to credit risk is on its cash and trade and other receivables.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk other than receivable balances owed from the Mexican government. Subsequent to December 31, 2018, \$4,198 of VAT refunds have been received relating to the Company's accumulated VAT receivable balance. There is no indication that the Company will not receive any VAT receivables from the Mexican government.

The Company has \$14,463 of current and long-term input tax credits receivable from the Brazilian Government. The Company actively monitors the Brazilian tax legislation changes and believes that the balance is recoverable, either

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in the form of a refund from the respective jurisdictions in which the Company operates, or through offsetting against other taxes payable and VAT.

The Company sells its doré to large international organizations with strong credit ratings, the historical level of customer defaults is minimal and, as a result, the credit risk associated with doré trade receivables at December 31, 2018 is considered to be negligible. The Company also sells carbon fines to various organizations. During the year ended December 31, 2018, a refinery that Company sells carbon fines to declared bankruptcy. As a result, the Company recognized a provision of \$1,014 for an outstanding receivable at December 31, 2018 (December 31, 2017 - \$nil).

In determining the recoverability of a receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Excess cash deposits are restricted to guaranteed investment certificates of major banks or instruments of equivalent or better quality. No investments in asset-backed commercial paper is permitted.

The Company's maximum exposure to credit risk is as follows:

	December 31, 2018	December 31, 2017
Cash	\$ 53,021	\$ 54,039
Trade and other receivables (Note 8)	33,770	29,517
	\$ 86,791	\$ 83,556

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Refer to the table below for details on the Company's significant undiscounted commitments at December 31, 2018. The Company believes it has sufficient cash resources to pay its obligations associated with its financial liabilities as at December 31, 2018 as they become due as Leagold management are working to refinance the loan facilities during the first half of 2019.

The Company's significant undiscounted commitments at December 31, 2018 are as follows:

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
Trade and other payables	\$ 101,121	\$ -	\$ -	\$ -	\$ 101,121
Other long-term liabilities	-	-	-	13,551	13,551
Other financial liabilities	10,702	2,339	363	2,800	16,204
Reclamation and closure costs	2,989	21,974	17,078	99,741	141,782
Loan facilities – principal	146,154	92,308	11,538	-	250,000
Loan facilities – interest	19,597	12,097	271	-	31,965
	\$ 280,563	\$ 128,718	\$ 29,250	\$ 116,092	\$ 554,623

Foreign Currency Risk

Currency risk relates to the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. Exchange rate fluctuations may affect the costs that the Company incurs in its operations. There has been no change in the Company's objectives and policies for managing this risk during the year ended December 31, 2018.

The Company's reporting currency is the US dollar and major purchases are transacted in US dollars. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the US dollar. A portion of the Company's exploration, development and operating costs and administrative costs are incurred mainly in Mexican pesos, Brazilian reals and Canadian dollars. The fluctuation of the Mexican peso, Brazilian real and Canadian dollar in relation to the US dollar will consequently

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impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of shareholder's equity.

The table below highlights the current net assets held in Canadian dollars, Brazilian reals and Mexican pesos (in US dollar equivalents):

	December 31, 2018	December 31, 2017
Canadian dollars	\$ (1,378)	\$ 145
Brazilian reals	(19,595)	-
Mexican pesos	(11,270)	301
	\$ (32,243)	\$ 446

The effect on earnings and other comprehensive earnings before tax as at December 31, 2018, of a 10% appreciation or depreciation in the foreign currencies against the US dollar on the above mentioned financial and non-financial assets and liabilities of the Company is estimated to be \$2,931 (December 31, 2017 - \$41), assuming that all other variables remained constant.

Commodity Price Risk

Gold prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the political and economic conditions of major gold producing countries. The profitability of the Company is directly related to the market price of gold. A decline in the market prices for this precious metal could negatively impact the Company's future operations. The Company has hedged a portion of its gold production through the Gold Collar Hedge (Note 14(a)(i)).

Interest Rate Risk

The Company is exposed to interest rate risk on its cash and the loan facility. At December 31, 2018, the Company has determined the interest rate risk to be low and that a 10% increase or decrease in market interest rates would result in a \$490 (December 31, 2017 - \$142) increase or decrease to the Company's income.

27. COMMITMENTS AND CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company cannot reasonably predict the likelihood or outcome of these actions and accrues for such items when a liability is both probable and the amount can be reasonably estimated (Note 16). Management does not believe that adverse decisions in any pending legal matters will have a material effect on the financial condition or future results of operations.