

# **LEAGOLD MINING CORPORATION**

Amended and Restated Management Discussion and Analysis

For the three and six months ended June 30, 2017 and 2016

## LEAGOLD MINING CORPORATION

Management Discussion and Analysis of Financial Condition and Results of Operations

For the three and six months ended June 30, 2017 and 2016

(Expressed in Thousands of United States Dollars, Except as Otherwise Stated)

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The following discussion and analysis of the financial condition and results of operations of Leagold Mining Corporation. (“Leagold” or the “Company”) should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2017 and June 30, 2016, as well as the audited financial statements for the 15-month period ended December 31, 2016, and the related notes thereto, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). During 2016, the Company changed its year end from September 30 to December 31, to prepare for improved comparability with its gold sector peers. All monetary amounts are in United States dollars unless otherwise specified.

The Management’s Discussion and Analysis is prepared as of August 10, 2017. Additional information regarding the Company, including its Annual Information Form is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### BUSINESS OVERVIEW

Leagold is a Canadian based gold producer with an operating mine, Los Filos, in Mexico as of the date of this MD&A. The Company’s shares are listed on the Toronto Stock Exchange (TSX: LMC).

Leagold’s corporate strategy is to identify and acquire operating gold mines, mine projects nearing the construction stage and attractive development stage projects within Latin America that can be consolidated regionally. This involves targeting medium-sized dislocated or non-core gold assets in Latin America with attractive values and upside potential from optimization, project de-risking and exploration. Leagold has an experienced management team with a history of creating shareholder value and operational success.

On April 7, 2017, the Company completed the acquisition of Los Filos mine in Guerrero State, Mexico from Goldcorp Inc. (“Goldcorp”), for total consideration of \$350 million (the “Acquisition”). Further details of the Acquisition can be found under “Los Filos – Acquisition”. Los Filos mine is an ideal cornerstone asset to launch Leagold’s growth strategy. Los Filos mine is a sizable, low cost mine with long-established operations, ‘best-in-class’ infrastructure and experienced workforce. Los Filos mine also has an attractive expansion opportunity with the Bermejil Underground project with the potential to increase production, reduce all in sustaining cost (“AISC”) per ounce, and extend mine life.

### Q2 2017 HIGHLIGHTS

- The Los Filos mine acquisition was completed on April 7, 2017 (“Acquisition date”)
- For the 84-day period, from April 8, 2017 to June 30, 2017 (inclusive), Los Filos mine generated:
  - Produced 43,980 gold ounces and sold 54,010 gold ounces at an AISC/oz<sup>(1)</sup> of \$989
  - Mine-level EBITDA<sup>(1)</sup> of \$15.9 million
  - All-in sustaining cost margin<sup>(1)</sup> of \$13.8 million
  - Free cash flow (before working capital, interest, and tax)<sup>(1)</sup> of \$10.3 million
- Leagold is optimizing the Los Filos operations with a focus on changes that result in significant and sustainable cost savings
- The Bermejil underground expansion project at the Los Filos mine is proceeding as planned with 10 drill rigs advancing a 56,000-metre infill and step-out drilling program and the recent completion of a portal location and decline trade-off study
- During Q2 2017, Leagold generated total revenue \$67.5 million, EBITDA<sup>(1)</sup> of \$14.2 million and earnings from mine operations of \$8.5 million.
- During Q2 2017, Leagold generated adjusted net earnings<sup>(1)</sup> after tax of \$6.4 million
- At June 30, 2017, Leagold had cash and cash equivalents of \$65.4 million (December 31, 2016 – \$24.7 million)

(1) Non-IFRS measure, see Non-IFRS Financial Performance Measures for reconciliation.

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### LOS FILOS MINE

The Los Filos mine operation consists of two open-pit mines, Los Filos and Bermejal, an underground mine at Los Filos and the opportunity to develop an underground mine at Bermejal as an expansion project. The open-pit operation began commercial production in 2008. Gold is recovered from crushed and run-of-mine ore via a conventional, low-cost heap leach process. The Los Filos mine is located 230 km south of Mexico City and is accessible by paved roads and a private airstrip. Grid power is supplied by InterGen with a 20 MVA substation at site.

Los Filos produced 231koz during 2016, and has a significant mineral resource base that includes Measured and Indicated Resources of 422.5 Mt at 0.86 g/t containing 11.5 million ounces (“Moz”) and Inferred Resources of 162.7 million tonnes (“Mt”) at 0.76 g/t containing 4.0 Moz as at December 31, 2016 as set out in the NI 43-101 Technical Report and Preliminary Economic Assessment, Los Filos Gold Mine, Guerrero State, Mexico (the “Technical Report”). The Technical Report and subsequently disclosed exploration drilling results (see news releases dated April 12, 2017 and July 13, 2017) also demonstrated that Bermejal Underground is an attractive expansion project with the potential to increase gold production, reduce AISC/oz, and extend mine life.

#### Los Filos Operational Improvements Initiated by Leagold

Since the Acquisition, Leagold has been optimizing the Los Filos operations with a focus on changes that result in significant and sustainable cost-savings.

*Open Pit Mining Fleet Utilization* - To further reduce the cost of the open pit operations, several activities were initiated to improve the utilization rate of the mining equipment. This included enhanced drill and blasting sequencing and improved haul truck and loading equipment maintenance to increase productivity levels. Average daily truck utilization rates have increased from approximately 55% to 80%, and further improvements are expected. The mining fleet maintenance contract has been renegotiated to be more effective and thus improving availabilities.

*Underground Mining Improvements* - Several improvements were initiated at both the North (Leagold operated) and South (contractor operated) Los Filos Underground mines to increase production and reduce costs. At the North mine, extensive operator, maintenance, supervisory and technical services training programs have now been implemented. Additional mining equipment has been purchased for improved ground support capability, mechanized loading of explosives and for mechanized placement of Cemented Rock Fill (CRF). New infrastructure has been completed to allow for mechanized preparation of CRF. CRF results in improved productivity and ground support and will enable implementation of underhand cut and fill mining methods. This was based on a successful underhand cut and fill trial program in late 2016 /early 2017 which demonstrated improved safety, less dilution, and improved ore recoveries. Stope heights have also been increased to 4 metres from 3.5 metres, effectively reducing one access cut per stope block. Improvements to drill patterns as well as the explosives loading and blast sequencing have increased the advance per blast, as well as reduced dilution and overbreak. Shift times have been changed to improve productivity. Increased attention is being given to reducing dilution in the cut and fill mining operations by strictly controlling the mining drive widths. These initiatives have increased daily production since the start of 2017 by 25% to 1,100 tpd with further improvements expected during the remainder of the year.

*Heap Leaching* - To improve the gold recovery on the heap leach pad, several process improvements are being implemented including increased lift heights, better control of flow rates and optimization of cyanide concentration and pH levels. Additional initiatives that were identified for potential implementation are modification of the leaching cycle and reducing losses of carbon fines.

*Agglomeration Improvement* - To improve the agglomeration quality of the crushed ore that is placed on the heap leach pads, Leagold is refurbishing and installing an agglomeration drum, that was already on site

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but previously decommissioned, into the processing circuit. Gold recovery from the heap leach pad should increase due to the improved agglomeration by increasing the percolation of the leachate solution through the ore. The agglomeration drum was removed from the processing circuit several years ago to de-bottleneck the processing circuit, but given the current and planned throughput this is no longer a factor in the Los Filos operating plan. To date, a review of the mechanical and electrical condition of the agglomeration drum and equipment and an assessment of the ground condition for the building foundation at the proposed location have been completed. An engineering estimate for construction is being finalized. Installation of the agglomeration drum and ancillary structures is currently scheduled for completion by October 2017 with commissioning and start-up immediately following.

*Overland Conveyor Installation* - To reduce the cost of transportation and eliminate re-handling of crushed ore onto the Heap Leach Pad 2, a series of new overland conveyors will be installed to efficiently convey the ore onto the pad. These new conveyors will replace the mine fleet trucks and shovels/excavators that are currently hauling ore to the pad. Final engineering layouts of the overland conveyors have been completed, and the detailed design for fabrication has been initiated. In addition, the agglomeration drum installation has been incorporated into the design. The new overland conveyors are scheduled to be fully operational in Q1 2018.

*Processing Facility Trade-Off Study* - To evaluate the potential increase in gold recovery from the high-grade ore from the Bermejal Underground deposit plus ore currently being mined from Los Filos Underground Mine, a processing facility trade-off study was initiated. Several processing alternatives, including tank leaching and carbon-in-leach, were identified for further evaluation to assess whether the capital investment in a new processing facility could be justified in order to obtain the higher gold recoveries with these processes. The results from this trade-off study will be used as the basis for the next phase of engineering design.

## OUTLOOK

When Leagold acquired the Los Filos mine in April 2017, it was anticipated that it would take approximately six months – Q2 and Q3 – to transition the mine and implement the planned improvements. Both the open pit and underground mining activities have shown significant improvements, but gold production in Q2 was affected by mine planning and heap leach pad management issues. These issues are expected to continue into Q3. Leagold expects that production and cost improvements will be reflected in the results of Q4 and onwards.

For the second half of 2017, Leagold is providing Los Filos mine production guidance of 95,000 to 110,000 ounces at an all-in sustaining cost per ounce of \$875 to \$925.

At a gold price of \$1,200 per ounce and using the mid-point of H2/2017 production and AISC/oz guidance ranges, Los Filos is projecting an AISC margin<sup>(1)</sup> of approximately \$31 million in H2/2017. Including the AISC margin of \$13.8 million generated from April 8 to June 30, 2017, the AISC margin for the 267-day operating period of April 8 to December 31, 2017 is estimated to be \$44 million.

Leagold is optimizing the Los Filos operations with a focus on changes that result in significant and sustainable cost-savings. Two of the many initiatives underway include reinstalling the agglomeration drum to improve gold recovery rates and extending the overland conveyors to deliver crushed ore more efficiently for stacking onto Heap Leach Pad 2.

Bermejal underground expansion project is proceeding as planned with 10 drill rigs advancing the 56,000 metre infill and step-out drilling program and the recent completion of a portal location and decline design trade-off study.

(1) Non-IFRS measure, see Non-IFRS Financial Performance Measures for reconciliation.

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For the second half of 2017, non-sustaining project capital of \$19 million has been allocated which includes \$12 million for drilling, studies, and initial development of the Bermejil underground expansion project, \$5 million to extend the overland conveyors to Heap Leach Pad 2, and \$1.3 million for refurbishment and reinstalling the agglomeration drum. The conveyor and agglomeration drum capital projects are expected to improve production and cost performance starting in 2018.

## OPERATIONS REVIEW

The following table summarizes the data for the Los Filos mine from the Acquisition date from April 8, 2017 to June 30, 2017 (inclusive):

<b>Mining Physicals:</b>	<b>Unit</b>	<b>April 8, 2017 to June 30, 2017</b>
Tonnes mined - Open Pit	000's	6,696
Tonnes of ore mined - Open Pit	000's	1,956
Tonnes of ore mined - Underground	000's	89
Average gold grade mined – Open Pit	g/t	0.57
Average gold grade mined – Underground	g/t	6.33
Tonnes of ore processed	000's	1,986
Gold ounces produced	oz	43,980
Gold ounces sold	oz	54,010
<b>Unit Cost Analysis:</b>		
Realized gold sales price	\$/oz	1,244
Mining cost - Open pit	\$/t mined	1.45
Mining cost - Underground	\$/t ore	99.84
Processing costs	\$/t placed	10.93
Site general and administration costs	\$/t placed	2.12
<b>Cash Cost Details:</b>		
<b>Gold revenue</b>	<b>\$000's</b>	<b>67,199</b>
Mining costs - Open Pit	\$000's	9,681
Mining costs - Underground	\$000's	8,889
Processing costs	\$000's	21,697
Site general and administration costs	\$000's	4,212
Inventory and other adjustments	\$000's	2,580
<b>Total cash costs<sup>2</sup></b>	<b>\$000's</b>	<b>47,059</b>
Land payments	\$000's	3,393
Royalties	\$000's	307
Sustaining capital <sup>1</sup>	\$000's	2,680
<b>Mine-level AISC<sup>1</sup></b>	<b>\$000's</b>	<b>53,439</b>
<b>AISC margin<sup>1</sup></b>	<b>\$000's</b>	<b>13,760</b>
<b>Cash Cost per gold ounce sold<sup>2</sup></b>	<b>\$/oz</b>	<b>871</b>
<b>AISC per gold ounce sold<sup>2</sup></b>	<b>\$/oz</b>	<b>989</b>

<sup>1</sup> Sustaining capital, all-in sustaining costs and all-in sustaining cost margin are non-IFRS financial performance measures with no standard meaning under IFRS. Refer to the section Non-IFRS Measures.

<sup>2</sup> Cash costs and all-in sustaining costs per gold ounce sold excludes the impact of \$2.1 million in non-recurring transition costs and the impact of \$2 million in certain inventory adjustments through purchase price allocation ("PPA") valuation relating to the acquisition of Los Filos in Q2 2017.

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Los Filos mine produced 43,980 ounces of gold following Leagold's acquisition of the mine on April 7, 2017. Gold sales were 54,010 ounces with associated revenues of \$67,199 at an AISC per ounce of \$989 per ounce sold for the period from April 8, 2017 to June 30, 2017 (inclusive).

Gold production was affected by mine planning and heap leach management issues which will continue into the third quarter. Improvements are expected to be reflected in the fourth quarter of this year. Some duplications of administrative costs occurred during the transition period; however, most administrative services have now been transferred to the mine. Leagold is focused on reducing costs, improving accountability and generating free cash flow and is currently implementing several sustainable operational changes under a substantially new mine management team at site.

The following table reconciles the AISC for the Los Filos mine and the free cash flow (before working capital, tax and investing activities) to the quarterly change in cash balances.

	<b>Three months ended June 30, 2017</b>	<b>Six months ended June 30, 2017</b>
<b>Gold revenue</b>	<b>67,199</b>	<b>67,199</b>
Total cash cost <sup>2</sup>	(47,059)	(47,059)
Land payments	(3,393)	(3,393)
Royalties <sup>1</sup>	(307)	(307)
Sustaining capital expenditures ("capex")	(2,680)	(2,680)
<b>AISC</b>	<b>(53,439)</b>	<b>(53,439)</b>
<b>AISC margin</b>	<b>13,760</b>	<b>13,760</b>
<b>Less: Non-sustaining capex</b>		
Bermejal Underground expansion	(1,981)	(1,981)
Other non-sustaining capex	(1,469)	(1,469)
<b>Free cash flow (before working capital, interest, and tax)</b>	<b>10,310</b>	<b>10,310</b>
Operating working capital changes (excluding VAT)	(5,309)	(78)
Change in VAT receivable	(8,591)	(8,591)
Taxes paid <sup>1</sup>	(381)	(381)
<b>Net free cash flow from operations</b>	<b>(3,971)</b>	<b>1,260</b>
Cash acquired through Acquisition <sup>1</sup>	20,547	20,547
Private placement proceeds, net of issue costs <sup>1</sup>	23,690	145,289
Loan facility proceeds, net of issue costs <sup>1</sup>	142,288	142,288
Transaction costs <sup>1</sup>	(4,544)	(7,512)
Non-recurring expenses <sup>3</sup>	(4,122)	(4,122)
Cash paid to Goldcorp for Los Filos Mine <sup>1</sup>	(250,000)	(250,000)
Interest paid on loan facility and promissory note <sup>1</sup>	(3,385)	(3,385)
Corporate and administration	(1,560)	(2,285)
Foreign exchange gain on cash and cash equivalents <sup>1</sup>	(1,915)	(212)
Other	(1,232)	(1,154)
<b>Cash inflow/(outflow) for the period</b>	<b>(84,204)</b>	<b>40,714</b>
<b>Opening cash balance</b>	<b>149,568</b>	<b>24,650</b>
<b>Closing cash balance (excluding restricted cash)</b>	<b>65,364</b>	<b>65,364</b>

<sup>1</sup> As presented on the consolidated statement of comprehensive earnings and consolidated statement of cash flows.

<sup>2</sup> Cash costs is a non-IFRS financial performance measures with no standard meaning under IFRS. Refer to the section Non-IFRS Measures.

<sup>3</sup> Includes \$2.1 million in non-recurring transition costs and \$2 million in certain inventory adjustments through PPA valuation relating to the acquisition of Los Filos in Q2 2017

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Free cash flow before working capital, interest, and taxes for Los Filos mine was \$10.3 million. Leagold ended Q2 2017 with a strong cash balance of \$65.4 million and operations being cash flow positive.

### BERMEJAL UNDERGROUND EXPANSION PROJECT

The Company continues to focus on the advancement of the Bermejtal Underground as an expansion project. Following the Acquisition, the Company commenced an infill and step-out drilling program and completed a portal and decline trade-off study.

*Infill and Step-Out Exploration Drilling Program* – To further refine the extent and continuity of the Bermejtal Underground deposit, a 56,000 metre drilling program was initiated. Infill drilling throughout areas of previously identified mineralization and step-out drilling along the northern, eastern and western regions of the deposit will provide improved definition and additional resources. Progress to the end of Q2 has approximately 12,900 metres completed, with assays on-going. Currently, a total of eight diamond drill rigs and two reverse circulation drill rigs are operating. A subsequent metallurgical laboratory testing program is being planned based on gold grades and individual rock types from the current drilling program to improve the understanding and predictability of gold recovery by lithology from the deposit.

*Portal and Decline Study* - A trade-off study was performed to determine the optimal portal location and decline design to provide initial access to the deposit. Multiple portal locations were analyzed based on development costs, construction schedules and geotechnical parameters. The preferred portal location is at the base of the northern end of the existing Bermejtal Open Pit, where surface mining has already been completed. This location provides the shortest decline access to the eastern flank of the deposit (650 linear metres of development) and to the main body of the deposit (1,600 linear metres of development). The design provides access to the eastern flank to allow initial trial mining. Based on this study, an engineering design of the portal and decline was completed, and this design information is being used for permitting (which has been granted to the company on July 31, 2017) and in the tender packages for the upcoming portal and decline construction bid process.

### SAFETY, HEALTH & ENVIRONMENT

Leagold places the safety and health of people as the highest priority and is committed to sustainable development. Leagold recognizes that the long-term sustainability of its business is dependent upon good stewardship in both the protection of the environment and the efficient management of the exploration, development, and extraction of mineral resources. Leagold is committed to the safety and security of its people with the goal to protect employees, assets, and Leagold's reputation. The Company has a Zero Harm policy which is applied at Los Filos mine, and continuous efforts are made to reduce the lost time injury frequency rate ("LTIFR"). The following table shows the safety statistics from the Acquisition date of April 8, 2017 to June 30, 2017 (inclusive).

Incident Category	April 8 to June 30, 2017
Fatality	-
Lost Time Injury (LTI)	6
Total Work Hours	1,087,480
LTIFR <sup>1</sup>	5.52

<sup>1</sup> Lost time injury frequency rate - Number of LTI's in the period x 1,000,000/ (Total Work Hours worked for the period)

### LOS FILOS – ACQUISITION

On April 7, 2017 (the "Closing Date"), the Company completed the acquisition of the Los Filos Mine in Guerrero State, Mexico from Goldcorp for total consideration of \$350 million (the "Acquisition"). The Acquisition was completed through the purchase of Goldcorp's indirect subsidiaries: Desarrollos Mineros San Luis S.A. de C.V. ("DMSL"), Exploradora de Yacimientos Los Filos S.A. de C.V. ("Exploradora") and

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Minera Thesalia, S.A. de C.V. (“Minera”) (collectively, “Los Filos”). The purchase price consisted of \$279 million in cash and \$71 million in common shares of the Company. Leagold has also agreed to distribute to Goldcorp the VAT receivable amount in DMSL outstanding as of the Closing Date, as and when these amounts are received from the Mexican tax authorities. At closing of the Acquisition, Leagold issued 34,635,091 common shares to Goldcorp, representing \$71 million at C\$2.75 per share. As part of the agreement for the Acquisition, Goldcorp has appointed a director to the Leagold Board of Directors.

Concurrent with the closing of the Acquisition, Leagold closed a financing with a fund managed by Orion Resource Partners (“Orion”) consisting of a \$150 million senior secured loan facility (the “Facility”), and equity investment of \$50 million.

The Mexican anti-trust commission (“COFECE”) had approved the completion of the Acquisition, but required a second COFECE application with respect to \$29 million of Orion Resource Partner’s (“Orion’s”) \$50 million equity investment. To accommodate this, the \$50 million was split into a \$21 million private placement that was completed on the Closing Date whereby 10,244,182 common shares were issued to Orion at C\$2.75 per subscription receipt, and a \$29 million subscription receipt financing whereby 14,146,728 subscription receipts were issued to Orion at C\$2.75 per share, with each subscription receipt converting into one common share upon receipt of the second COFECE approval. To accommodate the cash funding postponement, Goldcorp agreed to defer \$29 million of the \$279 million cash portion of the Acquisition by accepting a short-term promissory note from Leagold.

In relation to the equity investment received from Orion, 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. The fair value of these warrants at the time of grant of \$2.2 million, calculated using a Black-Scholes valuation model, has been recognized in the consolidated statement of equity as a reduction in the value of the Company’s common shares issued to Orion.

On July 12, 2017, the Company received the second COFECE approval with respect to the \$29 million subscription receipt financing provided by Orion and the \$29 million in subscription receipts were converted to 14,146,728 common shares and the \$29 million proceeds were paid to Goldcorp in satisfaction of the promissory note.

The net proceeds from the various financings were used for the Acquisition and for general working capital purposes.

The transaction costs related to the Acquisition incurred as at June 30, 2017, totaling \$7,512 have been expensed in the statement of net loss and comprehensive loss. The Company has capitalized \$7,712 relating to transaction costs associated with the Facility. Subsequent to the Acquisition, the Company has incurred expenses relating to certain transitional services provided by Goldcorp which have been included in accrued liabilities as of June 30, 2017.

As of the date of these condensed interim consolidated financial statements, the determination of fair value of assets and liabilities acquired is based on preliminary estimates and has not been finalized. The actual fair values of the assets and liabilities may differ from the amounts disclosed in the preliminary fair value below and are subject to change.

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

	<b>April 7, 2017</b>
Cash	\$ 250,000
Common shares issued	71,000
Short term promissory note	29,000
<b>Total Consideration</b>	<b>\$ 350,000</b>

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Cash	\$	20,547
Mining interests		270,801
Deferred income and mining 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)
<b>Total Consideration</b>	<b>\$</b>	<b>350,000</b>

Since acquisition date of April 7, 2017, the revenues and net loss included in the condensed interim consolidated financial statements are \$67,482 and \$9,614, respectively. Had the acquisition happened on January 1, 2017, the pro forma consolidated revenues and net losses of the company for the six months ended June 30, 2017 would have been approximately \$119 million and \$4 million, respectively.

### Orion loan Facility

The Company arranged a Facility with Orion which bears interest at a rate equal to the greater of 3-month Libor or 1.00%, plus 700 basis points, and will mature on March 31, 2022. Principal repayments commence with the first repayment due on March 31, 2019 and with equal quarterly installments thereafter, until fully repaid in March 31, 2022. The Facility includes a standard debt service cover ratio that ranges from 1.75 at all times up to and including December 31, 2018, and gradually declines to 1.25 by October 1, 2019 until maturity.

Further details of the Acquisition can be found in the Final Prospectus ("Prospectus"), Technical Report and other disclosure documents available on SEDAR at [www.sedar.com](http://www.sedar.com).

## FINANCIAL RESULTS FOR THE PERIOD

The following tables summarize the Company's financial and operational information for the last eight quarters and three fiscal years. The significant factors affecting results in the quarters presented below is the acquisition of the Los Filos mine.

### Summary of Quarterly Results

For the three months ended:				
(US dollars in thousands except per share and ounce amounts)	June 30, 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016
Gold revenues	67,199	-	-	-
Gold ounces sold	54,010	-	-	-
Earnings from mine operations	8,459	-	-	-
Net earnings (loss)	(7,623)	(1,992)	(3,538)	(715)
Basic earning (loss) per share	(0.06)	(0.07)	(0.02)	(0.05)
Diluted earnings (loss) per share	(0.06)	(0.07)	(0.02)	(0.05)
For the three months ended:				
(US dollars in thousands except per share and ounce amounts)	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015
Net earnings (loss)	134	(6)	(5)	(13)
Basic earning (loss) per share	(0.02)	(0.00)	(0.00)	(0.00)
Diluted earnings (loss) per share	(0.02)	(0.00)	(0.00)	(0.00)

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### ***Three and six months ended June 30, 2017 and three and six months ended June 30, 2016***

During the three and six months ended June 30, 2017, the Company recorded a net loss of \$7,623 or \$0.06 loss per share and \$9,614 and \$0.13 loss per share respectively. The results for the three and six months ended June 30, 2017, are not comparable to the same periods in the prior year given the Company had no operations in the prior year.

- Revenues for both the three and six month period were \$67,482 (2016 - \$nil), primarily related to the 54,010 gold ounces sold from Los Filos mine.
- Operating expenses for both the three and six month period were \$55,395 (2016 - \$nil). Operating expenses related to the Los Filos operations were comprised of consumables used in mining and processing (\$30 million), salaries and wages (\$9 million), contractors (\$13 million) and other production costs (\$3 million).
- Depreciation and depletion for both the three and six month period was \$3,321 (2016 - \$nil) related to the depletion of mineral reserves in Q2 2017 and the depreciation of plant and equipment with useful lives ranging from 3 to 10 years.
- Share based compensation for the three and six months ended June 30, 2017 were \$9,392 and \$9,471 respectively. (2016 - \$nil). This primarily relates to a Black-Scholes valuation of the 9,000,000 incentive stock options granted to the officers, employees, and consultants on April 28, 2017. In addition, the share based compensation includes the fair values of the DSU's issued to the Board of Directors of the Company.
- Transaction costs for the three and six months ended June 30, 2017 were \$4,544 and \$7,512 respectively (2016 - \$nil). These are all related to the Acquisition, for which due diligence, legal, and advisory services were rendered.
- Foreign exchange loss of \$1,605 for the three months ended June 30, 2017 (2016 - \$nil) was primarily due to the CAD/USD foreign currency fluctuation related to the Canadian denominated funds held in escrow relating to the \$130 million Subscription Receipt Offering.
- Finance expenses for the three and six months ended June 30, 2017 were \$3,686 and \$3,628 respectively. This is primarily related to the accretion expense on the Facility with Orion and the \$29 million promissory note held with Goldcorp, the fair value adjustment of the valuation of the warrants issued to Orion, as well as \$0.6 million in accretion incurred in relation to the Los Filos mine rehabilitation provision.

### **Liquidity and Capital Resources**

The Company had a working capital balance (excluding restricted cash) of \$65,001 as at June 30, 2017 (December 31, 2016 - \$24,199), and an accumulated deficit of \$13,819 (December 31, 2016 - \$4,205). The Company currently has sufficient cash and cash equivalents to fund its current operating and administration costs.

As at June 30, 2017, the Company had cash and cash equivalents of \$65,364 (December 31, 2016 - \$24,650).

Net change in cash position at June 30, 2017 compared to March 31, 2017, was a decrease of \$55,176, attributable to the following components of the statement of cash flows:

- The Los Filos mine's free cash flow before non-cash working capital adjustments was \$10.3 million which was netted against Corporate's operating outflows, resulting in an overall operating cash

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inflow before non-cash working capital adjustments of \$5,212 for the three months ended June 30, 2017 (three months ended June 30, 2016 - \$7).

- Operating activities used \$8,688 for the three months ended June 30, 2017 (three months ended June 30, 2016 - \$44) resulting from an outflow of \$13,900 in working capital movements (primarily due to an increase in VAT receivable).
- Investing activities used \$236,177 associated primarily with the acquisition of Los Filos, net of the cash acquired through the Acquisition.
- Financing activities generated \$191,604, of which \$142,289 was generated by the Facility and \$29,000 from the subscription receipts issued to Goldcorp. A further \$23,690 was received through a private placement of shares. The Company paid interest of \$3,385 relating to these loan facilities.

Net change in cash position at June 30, 2017 compared to December 31, 2016, was an increase of \$69,742, attributable to the following components of the statement of cash flows:

- The Los Filos mine's free cash flow before non-cash working capital adjustments was \$10.3 million which was netted against Corporate's operating cashflow inflow before non-cash working capital adjustments of \$1,540 for the six months ended June 30, 2017 (six months ended June 30, 2016 - \$13).
- Operating activities used \$7,129 for the six months ended June 30, 2017 (six months ended June 30, 2016 - \$49) resulting from an outflow of \$8,669 in working capital movements (primarily due to an increase in VAT receivable).
- Investing activities show a cash outflow of \$236,120 associated with the acquisition of Los Filos net of the cash acquired through the Acquisition.
- Financing activities generated \$313,203, of which \$145,289 was received through a private placement financing, \$142,288 was generated by the Facility and \$29,000 from the subscription receipts issued to Goldcorp. The Company paid interest of \$3,385 relating to these loan facilities.

### Contractual Obligations and Commitments

The following table summarizes the contractual maturities of the Company's financial liabilities as at June 30, 2017:

	Within 1 year	2 to 3 years	4 to 5 years	Over 5 years	Total
Trade and other payables	\$ 37,899	\$ -	\$ -	\$ -	\$ 37,899
Other current payables	2,630	-	-	-	2,630
Promissory note <sup>1</sup>	29,000	-	-	-	29,000
Other long-term liabilities	-	-	-	1,969	1,969
Loan facility – principal	-	69,231	80,769	-	150,000
Loan facility – interest	12,395	21,245	6,687	-	40,327
	<b>\$ 81,924</b>	<b>\$ 90,476</b>	<b>\$ 87,456</b>	<b>\$ 1,969</b>	<b>\$ 261,825</b>

<sup>1</sup> On July 12, 2017, the Company paid \$29 million to Goldcorp in satisfaction of the promissory note.

### Gold Offtake Arrangement

As part of the Acquisition financing, the Company entered into an offtake agreement with Orion (the "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 of June 30, 2017, 23,436 payable gold ounces had been sold to Orion under the terms of the Gold Offtake Agreement.

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#### Silver Streaming Arrangement

The Company's silver production from the Los Filos mine and Bermejal property is subject to the terms of an agreement (the "Silver Purchase Agreement") with Wheaton Precious Metals Corp. ("WPM"). During the three and six months ended June 30, 2017, silver revenue equalled less than 0.5% of the Company's total revenue. Under this agreement 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 (the "Fixed Price") or the prevailing market price, subject to an inflationary adjustment. The contract price is revised on the anniversary date of the contract which was \$4.29 per ounce at December 31, 2016. As of June 30, 2017, 1.457 million payable silver ounces had been sold to WPM under the terms of the agreement.

#### **Outstanding Share Data**

As at August 10, 2017, the date of this MD&A, the Company had the following outstanding equity components outstanding:

	<b>Units</b>
Common shares	151,316,959
Stock options	11,480,000
Warrants	2,000,000
	<b>164,796,959</b>

Common shares outstanding at August 10, 2017 include 14,146,728 common shares that were converted with respect to the \$29 million subscription receipts financing provided by Orion.

#### **Related Party Transactions**

The Company's related parties consist of its key management personnel. The remuneration of directors and a number of other members of key management personnel responsible for planning, directing, and controlling the activities of the Company during the year were as follows:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Short-term benefits	\$ 330	\$ -	\$ 651	\$ -
DSUs granted	514	-	593	-
Stock-options granted	7,373	-	7,374	-
	<b>\$ 8,217</b>	<b>\$ -</b>	<b>\$ 8,618</b>	<b>\$ -</b>

The Company reviews its compensation practices on an ongoing basis and is dedicated to maintaining an effective compensation program that is market competitive, aligns with business strategy and shareholder interests, and attracts and retains a high-performing executive team.

#### **NON-IFRS FINANCIAL PERFORMANCE MEASURES**

The Company has presented certain non-IFRS measures in this document. The Company believes that these measures, while not a substitute for measures of performance prepared in accordance with IFRS, provide investors an improved ability to evaluate the underlying performance of the Company. These measures do not have any standardized meaning prescribed under IFRS, and therefore may not be

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comparable to other issuers. As the Acquisition closed on April 7, 2017, these measures are not available or meaningful for periods prior to this date.

### All-in sustaining cost margin and operating EBITDA

The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use the all-in sustaining cost margin and earnings before interest, tax, depreciation, and amortization (“EBITDA” and “mine-level EBITDA”) to evaluate the Company’s performance and ability to generate cash flows and service debt. Accordingly, these do not have a standard meaning and are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The following tables provide the illustration of the calculation of this margin and operating EBITDA, as adjusted and calculated by the Company for the three months ended June 30, 2017, including the period of April 8, 2017 to June 30, 2017 (inclusive) in which the Company owned Los Filos mine:

(US dollars in thousands)		For the three months ended June 30, 2017
Gold revenues	\$	67,199
Less: Cash costs of ounces sold <sup>2</sup>		(47,059)
Subtotal		20,140
Less: Land payments		(3,393)
Less: Royalties		(307)
Less: Sustaining capital		(2,680)
<b>All-in sustaining cost margin</b>	<b>\$</b>	<b>13,760</b>

		For the three months ended June 30, 2017
(Loss) before tax <sup>1</sup>	\$	(12,450)
Add back: Share-based payments <sup>1</sup>		9,392
Add back: Transaction costs <sup>1</sup>		4,544
Add back: Non-recurring costs <sup>2</sup>		4,122
Add back: Depreciation and depletion <sup>1</sup>		3,321
Add back: Foreign exchange loss <sup>1</sup>		1,605
Add back: Finance and accretion costs <sup>1</sup>		3,686
<b>EBITDA</b>	<b>\$</b>	<b>14,220</b>
Add back: Corporate general and administration costs <sup>1</sup>		1,560
Add back: Other (exploration and other costs) <sup>1</sup>		123
<b>Mine-level EBITDA</b>	<b>\$</b>	<b>15,903</b>

<sup>1</sup> As presented on the consolidated statement of comprehensive earnings.

<sup>2</sup> Cash costs of ounces sold has been adjusted for non-recurring and other adjustments is comprised of \$2.1 million in non-recurring transition costs and \$2 million in certain inventory adjustments through PPA valuation relating to the acquisition of Los Filos in Q2 2017. Other adjustments primarily relate to \$4 million in land payments.

### Total Cash Costs

Total cash costs is a common financial performance measure in the gold mining industry however has no standard meaning under IFRS. The Company reports total cash costs on a per ounce sold basis. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, such as costs of sales, certain investors use this information to evaluate the Company’s performance and ability to

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generate operating income and cash flow from its mining operations. Management uses this metric as an important tool to monitor operating costs. Adoption of the standard is voluntary and other companies may quantify this measure differently as a result of different underlying principles and policies applied.

The following tables provide the illustration of the calculation of cash costs per ounce of gold sold, as adjusted and calculated by the Company for the three months ended June 30, 2017, including the period of April 8, 2017 to June 30, 2017 (inclusive) in which the Company owned Los Filos mine:

(US dollars in thousands except ounces amount)		For the three months ended June 30, 2017
Total ounces of gold sold	Oz	54,010
Production costs from mine operations <sup>1</sup>	\$	55,395
Less: Non-recurring and other adjustments <sup>2</sup>	\$	(8,336)
<b>Total cash costs<sup>1</sup></b>	<b>\$</b>	<b>47,059</b>
<b>Total cash costs per ounce of gold sold<sup>1</sup></b>	<b>\$/oz</b>	<b>871</b>

<sup>1</sup> As presented on the consolidated statement of comprehensive earnings.

<sup>2</sup> Non-recurring and other adjustments is comprised of \$2.1 million in non-recurring transition costs and \$2 million in certain inventory adjustments through PPA valuation relating to the acquisition of Los Filos in Q2 2017. Other adjustments primarily relate to \$4 million in land payments.

### All-In Sustaining Costs

The Company is reporting all-in sustaining costs per ounce sold. The methodology for calculating all-in sustaining costs per ounce was developed internally and is calculated below, and readers should be aware that this measure does not have a standardized meaning. This non-IFRS measure provides investors with transparency to the total period-attributable cash cost of producing an ounce of gold, and may aid in the comparison with other gold mining peers. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The following tables provide the illustration of the calculation of all-in sustaining costs per ounce sold, as adjusted and calculated by the Company for the three months ended June 30, 2017, including the period of April 8, 2017 to June 30, 2017 (inclusive) in which the Company owned Los Filos mine:

(US dollars in thousands except ounces amount)		For the three months ended June 30, 2017
Total ounces of gold sold	Oz	54,010
Total cash costs <sup>1</sup>	\$	47,059
Land payments	\$	3,393
Royalties	\$	307
Sustaining capital expenditures	\$	2,680
<b>Total all-in sustaining costs<sup>1</sup></b>	<b>\$</b>	<b>53,439</b>
<b>Total all-in sustaining costs per ounce sold<sup>1</sup></b>	<b>\$/oz</b>	<b>989</b>

<sup>1</sup> Cash costs and all-in sustaining costs have been adjusted for non-recurring and other adjustments is comprised of \$2.1 million in non-recurring transition costs and \$2 million in certain inventory adjustments through PPA valuation relating to the acquisition of Los Filos in Q2 2017. Other adjustments primarily relate to \$4 million in land payments.

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#### Adjusted Net Earnings and Adjusted Net Earnings Per Share

Adjusted net earnings and adjusted net earnings per share (basic and diluted) are used by management and investors to measure the underlying operating performance of the Company. Presenting these measures from period to period helps management and investors evaluate earnings trends more readily in comparison with results from prior periods.

Adjusted net earnings is defined as net income adjusted to exclude specific items that are significant but not reflective of the underlying operating performance of the Company, such as: the impact of foreign exchange gains and losses, deferred income and mining taxes, change in fair value of warrant derivatives and other non-recurring items, such as transaction costs, share-based payments, and one-time fair value adjustments from the acquisition.

Adjusted net earnings per share amounts are calculated using the weighted average number of shares outstanding on a basic and diluted basis as determined under IFRS.

(US dollars in thousands except per share amounts)		For the three months ended June 30, 2017	
Basic weighted average shares outstanding	Shares		128,687,650
Diluted weighted average shares outstanding	Shares		129,367,650
Net loss <sup>1</sup>	\$		(7,623)
Adjustments:			
Transaction costs <sup>1</sup>	\$		4,544
Non-recurring costs <sup>2</sup>	\$		4,122
Share based payments <sup>1</sup>	\$		9,392
Foreign exchange loss <sup>1</sup>	\$		1,605
Change in fair value of warrants derivative	\$		(795)
Deferred income tax recovery <sup>1</sup>	\$		(4,828)
<b>Adjusted net earnings</b>	<b>\$</b>		<b>6,417</b>
<b>Per share – Basic</b>	<b>\$/share</b>		<b>0.06</b>
<b>Per share – Diluted</b>	<b>\$/share</b>		<b>0.06</b>

<sup>1</sup> As presented on the consolidated statement of comprehensive earnings.

<sup>2</sup> Includes \$2.1 million in non-recurring transition costs and \$2 million in certain inventory adjustments through PPA valuation relating to the acquisition of Los Filos in Q2 2017.

#### OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative instrument obligations, or with respect to any obligations under a variable interest entity arrangement.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

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### **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.

### **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.

### **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. 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 at acquisition date.

### **RECENT ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The Company has not early adopted the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

**IFRS 9, Financial Instruments:** IFRS 9 introduces the new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value, and all financial liabilities classified as subsequently measured at amortized cost except for financial liabilities measured at fair value through profit or loss. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments bringing together the classification and measurement, impairment, and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 is annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect IFRS 9 to have a material impact on the consolidated financial statements but will finalize the assessment for the year ended December 31, 2017.

**IFRS 16, Leases:** IFRS 16 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. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact IFRS 16 will have on the consolidated financial statements.

**IFRS 15, Revenue from Contracts with Customers:** IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company does not expect IFRS 15 to have a material impact on the consolidated financial statements but will finalize the assessment for the year ended December 31, 2017.

### **KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, 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:

#### **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

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.

#### **Estimated Recoverable Ounces**

The carrying amounts of the Company's mining interests are depleted based on recoverable ounces. Changes to estimates of recoverable ounces and depletable costs 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.

#### **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 results of operation.

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### **Environmental Rehabilitation**

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.

### **Deferred Income Taxes**

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax 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 assets recognized. At the end of each reporting period, the Company reassesses unrecognized and recognized income tax assets.

### **Share-based Payments**

Numerous assumptions are made when accounting for share-based payments. Changes to these assumptions may alter the resulting accounting and ultimately the amount charged to profit or loss.

### **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.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, promissory note, other long-term liabilities and the Facility.

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.

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

Other long-term liabilities are measured at their fair value at the end of each reporting period. The Facility is measured at amortized cost.

### RISK FACTORS

Readers of this Management's Discussion and Analysis should give careful consideration to the information included or incorporated by reference in this document and the Company's condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2017 and June 30, 2016. For further details of risk factors, please refer to the Prospectus filed on SEDAR at [www.sedar.com](http://www.sedar.com), the audited financial statements for the 15-month period ended December 31, 2016, and the below discussions.

#### 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 cash equivalents, restricted 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. The Company sells its gold to large international organizations with strong credit ratings but the historical level of customer defaults is minimal and, as a result, the credit risk associated with gold trade receivables at June 30, 2017 is negligible. 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:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Cash and cash equivalents	\$ 65,364	\$ 24,650
Restricted cash	29,028	-
Trade and other receivables	21,247	-
	<b>\$ 115,639</b>	<b>\$ 24,650</b>

##### 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 Contractual Obligations and Commitments section for details on the Company's significant undiscounted commitments at June 30, 2017.

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### 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 quarter ended June 30, 2017.

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 and Canadian dollars. The fluctuation of the Mexican peso and Canadian dollar in relation to the US dollar will consequently 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 net assets held in Canadian dollars and Mexican pesos (in US dollar equivalents):

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Canadian dollars	\$ 10	\$ (210)
Mexican pesos	(3,199)	-
	<b>\$ (3,189)</b>	<b>\$ (210)</b>

The effect on earnings and other comprehensive earnings before tax as at June 30, 2017, 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 \$290 (December 31, 2016 - \$21), 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 not hedged any of its gold or silver sales.

### Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents, restricted cash, promissory note and the Facility. At June 30, 2017, 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 nominal increase or decrease to the Company's earnings.

### **Capital Risk**

The Company's primary exposure to credit risk is on its cash and cash equivalents, restricted 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 governments in the countries the Company operates in. The Company sells its gold to large international organizations with strong credit ratings but the historical level of customer defaults is minimal and, as a result, the credit risk associated with gold trade receivables

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at June 30, 2017 is negligible. The Company does not rely on ratings issued by credit rating agencies in evaluating counterparties' related credit risk.

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.

### **Operational Risks**

#### Acquisition of the Los Filos mine

The Company will be subject to the risks of operating the Los Filos mine. See. "Risk Factors" as disclosed in the Prospectus filed on SEDAR at [www.sedar.com](http://www.sedar.com)

#### Funding

Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in the delay or indefinite postponement of the Company's growth strategy.

#### Competition and Agreements with Other Parties

The mining industry is intensely competitive in all its phases. The Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future.

#### Price Volatility of Public Stock

In recent years securities markets have experienced extremes in price and volume volatility. The market price of securities of many early stage companies, among others, have experienced fluctuations in price which may not necessarily be related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any market for the Company's shares will be subject to market trends generally and the value of the Company's shares on the TSX may be affected by such volatility.

#### Economic Conditions

Unfavorable economic conditions may negatively impact the Company's financial viability as a result of increased financing costs and limited access to capital markets.

#### Dependence on Management

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

#### Mineral Reserves and Resources

Mineral reserve and mineral resource estimates are imprecise and depend partially on statistical inference drawn from drilling and other data, which may prove to be unreliable. Estimates, which were valid when made, may change over the course of the mine life. Reserves should not be interpreted as assurances of

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mine life or of the profitability of current or future production. Furthermore, there can be no assurance that those portions of such mineral resource that are not mineral reserves will ultimately be converted into mineral reserves. Mineral resources that are not part of mineral reserves do not have demonstrated economic viability. Mineral reserves depleted by production must be frequently replaced to maintain production levels over the long term. There is no assurance that current or future exploration programs will result in any new commercial mining operations or yield new reserves to replace or expand current reserves

### Outside Contractors risk

Certain aspects of mining operations such as drilling and blasting to be conducted by an outside contractor. The operations at the south underground of Los Filos are performed by contractor, and as a result, the Company is subject to a number of risks, including reduced control over the aspects of the operations that are the responsibility of the contractor, failure of a contractor to perform under its agreements with the companies, inability to replace the contractor if either party terminates the contract, interruption of operations in the event the contractor ceases operations due to insolvency or other events, failure of the contractor to comply with applicable legal and regulatory requirements and failure of the contractor to properly manage its workforce resulting in labor conflict or other employment issues.

### Conflicts of Interest

The Company's directors and officers may serve as directors and officers, or may be associated, with other reporting companies or have significant shareholding in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the British Columbia Business Corporations Act ("Corporations Act") in dealing with conflicts of interest. These provisions state that where a director or officer has such a conflict, the director must arrange a meeting of the board to disclose his interest and must refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith and in the best interests of the Company.

For further information on Risk Factors, refer to those set forth in the Prospectus filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Disclosure controls and procedures and internal controls over financial reporting**

Disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information required to be disclosed by the Company is accumulated and communicated to senior management as appropriate and recorded, processed, summarized and reported to allow timely decisions with respect to required disclosure, including in its annual filings, interim filings or other reports filed or submitted by it under securities legislation. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the design of the Company's disclosure controls and procedures, that as of June 30, 2017, the Company's disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing adequate internal control over financial reporting. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that the internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. During the three and six months ended June 30, 2017, there have been no changes in the Company's internal control over

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financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any internal controls over financial reporting and disclosure controls and procedures, no matter how well designed, can have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance that the objectives of the control system are met.

Additionally, Leagold Mining acquired the Los Filos mine on April 7, 2017. Therefore, the Company was unable to assess the Los Filos mine's disclosure controls and procedures and internal control over financial reporting in the period between the acquisition date and the date of management's internal control assessment, due to the timing of the acquisition. Accordingly, in accordance with National Instrument 52-109 - *Certification of Disclosure in Issuer's Annual and Interim Filings*, because the Los Filos mine was acquired not more than 365 days before the end of June 30, 2017, the Company has limited the scope of the Company's design of disclosure controls and procedures and internal controls over financial reporting to exclude the controls, policies and procedures of the Los Filos mine.

As Los Filos is the Company's only operation the financial information presented in this MD&A relates primarily to Los Filos.

### CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this MD&A and certain information incorporated herein by reference constitute "forward looking information" or "forward looking statements" within the meaning of applicable securities legislation. Forward-looking information and forward looking statements include, but are not limited to, statements with respect to the Company's plans or future financial or operating performance, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, conclusions of economic assessments of projects, the timing and amount of estimated future production, costs of future production, future capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, requirements for additional capital, sources and timing of additional financing, realization of unused tax benefits and future outcome of legal and tax matters. Generally, these forward looking information and forward looking statements can be identified by the use of forward looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", "will continue" or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Statements concerning mineral resource estimates may also be deemed to constitute forward looking information to the extent that they involve estimates of the mineralization that will be encountered. The material factors or assumptions used to develop forward looking information or statements are disclosed throughout this document.

Forward looking information and forward looking statements, while based on management's best estimates and assumptions, are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Leagold to be materially different from those expressed or implied by such forward-looking information or forward looking statements, including but not limited to: risks related to the successful integration of acquisitions; risks related to international operations; risks related to joint venture operations; risks related to general economic conditions and credit availability, actual results of current exploration activities, unanticipated reclamation expenses; changes in project parameters as plans continue to be refined; fluctuations in prices of metals including gold; fluctuations in foreign currency exchange rates, increases in market prices of mining consumables, possible variations in mineral reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes, title disputes, claims and limitations on insurance coverage and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, changes in national and local government regulation of mining operations, tax rules and regulations, and political and economic developments in countries in

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which the Company operates, actual resolutions of legal and tax matters, as well as those factors discussed in the section entitled “Description of the Business – Risk Factors” in Leagold’s most recent AIF available on SEDAR at [www.sedar.com](http://www.sedar.com). Although Leagold has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information and forward looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information or statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information or statements. The Company has and continues to disclose in its Management’s Discussion and Analysis and other publicly filed documents, changes to material factors or assumptions underlying the forward-looking information and forward looking statements and to the validity of the information, in the period the changes occur. The forward looking statements and forward looking information are made as of the date hereof and Leagold disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward looking statements or forward looking information contained herein to reflect future results. Accordingly, readers should not place undue reliance on forward-looking statements and information.

### **CAUTIONARY NOTE REGARDING RESERVES AND RESOURCES**

Readers should refer to the AIF filed by Leagold available at [www.sedar.com](http://www.sedar.com), for further information on mineral reserves and resources, which is subject to the qualifications and notes set forth therein.