



## TOREX GOLD RESOURCES INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

*This management's discussion and analysis of the financial condition and results of operations ("MD&A") for Torex Gold Resources Inc. ("Torex" or the "Company") was prepared as at November 7, 2018 and is intended to supplement and complement the Company's unaudited condensed consolidated interim financial statements and related notes for the three and nine months ended September 30, 2018. It should be read in conjunction with the Company's annual audited consolidated financial statements and annual management's discussion and analysis for the year ended December 31, 2017. All dollar figures included therein and in the following MD&A are stated in United States dollars ("U.S. dollar") unless otherwise stated.*

#### HIGHLIGHTS

- **Record gold production** in the quarter totalled 100,346 ounces in dore, and an additional 1,135 ounces in carbon fines. Gold produced for the nine months totalled 246,309 ounces in dore, and an additional 11,322 ounces in carbon fines.
- **Record mine production** in the quarter totalled 11,092 kt, averaged 120,561 tpd. For the nine months, mine production totalled 21,326 kt, averaged 82,658 tpd.
- **Mine ore production** in the quarter totalled 1,246 kt, averaged 13,539 tpd. For the nine months, mine ore production totalled 3,095 kt, averaging 11,995 tpd
- **Grade mined** in the quarter averaged 2.60 gpt, and 2.66 gpt for the nine months.
- **Plant throughput** in the quarter of 1,170 kt, averaged 12,717 tpd. Plant throughput in the nine months of 2,955 kt, averaged 11,453 tpd.
- **Grade processed** in the quarter averaged 3.01 gpt and 2.99 gpt for the nine months.
- **Gold recovery** averaged 89% in the quarter and 88% in the nine months, higher than design expectations.
- **SART plant construction** is complete and has been turned over to the operating team to continue the ramp up to design capacity. In the quarter, cost savings from the SART plant, including by-product revenues, and recovery improvements were \$48 per ounce.
- **Principal repayments** of \$14.1 million in the quarter and \$36.3 million in the nine months were made to reduce the Term Loan under the Debt Facility to \$263.7 million.

#### Technical Report ("TR") confirms status as a producer in the lowest cost quartile

- The Company completed an updated TR including a life of mine plan for its producing El Limón Guajes ("ELG") Mine Complex, that has increased average annual gold production to 430,000 ounces per year, from 2019 to 2023.
- The TR contains an updated Media Luna Preliminary Economic Assessment ("PEA"),<sup>1</sup> with an after-tax Net Present Value ("NPV") discounted at 5% of \$582.0 million, and an after-tax internal rate of return ("IRR") of 27%. For purposes of illustration, the TR includes a Media Luna design utilizing a conceptual new underground mining technology that Torex is developing. The new technology, called the Muckahi Mining System ("Muckahi"),<sup>1</sup> shows the potential to increase the Media Luna Project, NPV by \$197.0 million and after-tax IRR to 46%. If proven, the Muckahi technology could be applicable to many other underground deposits.

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<sup>1</sup> A preliminary economic assessment should not be considered a prefeasibility study or feasibility study, as the economics and technical viability of the Media Luna Project have not been demonstrated at this time. The Media Luna's PEA (as defined in this MD&A) is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. It cannot be assumed that all or any part of the inferred mineral resources will ever be upgraded to a higher category. Furthermore, there is no certainty that the conclusions or results as reported in the Media Luna PEA will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability. The Media Luna PEA includes information on Muckahi. It is important to note that Muckahi is experimental in nature and has not been tested in an operating mine. Many aspects of the systems are conceptual, and proof of concept has not been demonstrated.

## Initial results from the Media Luna in-fill diamond drilling program<sup>2</sup>

- The Company announced the results from the first 23 holes, of a planned 175 hole in-fill drilling program at its Media Luna Project. Highlighted intercepts from this program include 10.5 gpt Au Eq. over 39.2m in borehole ML18-222A, 7.0 gpt Au Eq. over 49.6m in borehole ML18-215, 7.1 gpt Au Eq. over 45.9m in borehole ML18-219W and 8.3 gpt Au Eq. over 22.6m in borehole ML18-208W.
- This is consistent with the results from the earlier 100m centers program and bodes well for the potential of the deposit to live up to expectations. There are currently 5 drills active on the Media Luna Project. On average each drill completes two holes per month, which suggests completion of the program at the end of 2019.
- Significant testing of Muckahi is expected to be completed by the end of 2019; land lease negotiations for Media Luna have been completed and permitting baseline work is underway.

## Financial results

- **Gold sold** for the quarter totalled 102,919 ounces for total proceeds of \$124.9 million at an **average realized gold price<sup>3</sup>** of \$1,214 per ounce. Gold sold for the nine months ended September 30, 2018 totalled 243,471 ounces for total proceeds of \$309.7 million at an average realized gold price<sup>3</sup> of \$1,272 per ounce.
- **Revenue** totalled \$126.4 million and **cost of sales** totalled \$94.7 million, or \$920 per ounce of gold sold for the quarter. **Revenue** totalled \$312.2 million and **cost of sales** totalled \$238.2 million, or \$978 per ounce of gold sold for the nine months ended September 30, 2018.
- **Earnings from mine operations** totalled \$31.7 million for the quarter, and \$74.0 million for the nine months ended September 30, 2018.
- **Income before income tax** totalled \$28.4 million for the quarter, and \$40.0 million for the nine months ended September 30, 2018.
- **Net income** after current and deferred income tax expense totalled \$23.9 million or \$0.28 per share on a basic and diluted basis for the quarter, and \$21.8 million, or \$0.26 per share on a basic and diluted basis for the nine months ended September 30, 2018. The strengthening of the peso favourably impacted the deferred tax expense calculated for the period.
- **Adjusted net earnings<sup>3</sup>**, which excludes, amongst other items, unrealized derivative and foreign exchange gains and losses, totalled \$7.3 million, or \$0.09 per share on a basic and diluted basis for the quarter, and \$5.8 million, or \$0.07 per share on a basic and diluted basis for the nine months ended September 30, 2018.
- **Cash flow from operations** totalled \$77.8 million for the quarter, and \$167.5 million for the nine months ended September 30, 2018.
- **Cash balances** as at September 30, 2018 totalled \$148.2 million (including restricted cash of \$26.6 million).
- **Total cash costs<sup>3</sup>** of \$590 per ounce of gold sold for the quarter, and \$655 per ounce of gold sold for the nine months ended September 30, 2018.
- **All-in sustaining costs<sup>3</sup>** of \$967 per ounce of gold sold for the quarter, and \$980 per ounce of gold sold for the nine months ended September 30, 2018.
- **Ore in stockpile** as at September 30, 2018 was 0.9 million tonnes at an average estimated grade of 1.43 gpt.
- **Full year guidance** is unchanged from initial release.

<sup>2</sup> For more information on the drill results, see the Company's news release titled "Torex Reports Initial Results from the Media Luna In-fill Diamond Drilling Program" issued on October 25, 2018, and filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.torexgold.com](http://www.torexgold.com).

<sup>3</sup> Refer to "Non-IFRS Financial Performance Measures" for further information and a detailed reconciliation.

The following table summarizes key operating and financial highlights:

Table 1.

		Three Months Ended				Nine Months Ended	
		Sep 30, 2018	Jun 30, 2018	Mar 31, 2018 <sup>3</sup>	Dec 31, 2017 <sup>3</sup>	Sep 30, 2017	Sep 30, 2018 <sup>3</sup>
<i>In millions of U.S. dollars, unless otherwise noted</i>							
<b>Operating Data</b>							
<b>Mining</b>							
Ore tonnes mined	kt	1,246	1,278	571	633	1,140	3,095
Waste tonnes mined	kt	9,846	5,877	2,508	2,319	7,546	18,231
Total tonnes mined	kt	11,092	7,155	3,079	2,952	8,686	21,326
Strip ratio <sup>2</sup>	waste:ore	8.2	4.6	4.4	3.7	6.7	6.0
Average gold grade of ore mined	gpt	2.60	2.45	3.29	3.03	2.53	2.66
Ore in stockpile	mt	0.9	0.8	0.5	0.8	0.5	0.9
<b>Processing</b>							
Average plant throughput	tpd	12,717	10,989	10,467	12,588	12,522	11,453
Average gold recovery	%	89	87	87	85	87	88
Average gold grade of ore processed	gpt	3.01	2.86	3.13	2.72	2.35	2.99
<b>Production and sales</b>							
Gold dore produced	oz	100,346	78,796	67,167	28,162	67,337	246,309
Gold sold	oz	102,919	77,646	62,906	31,398	78,254	243,471
Gold from carbon fines produced	oz	1,135	1,300	8,887	1,809	3,305	11,322
<b>Financial Data</b>							
Revenue	\$	126.4	101.8	84.0	40.8	100.5	312.2
Cost of sales	\$	94.7	78.3	65.2	34.1	83.4	238.2
Earnings from mine operations	\$	31.7	23.5	18.8	6.7	17.1	74.0
Net income (loss)	\$	23.9	(12.3)	10.2	(25.0)	(1.6)	21.8
Per share - Basic	\$/share	0.28	(0.14)	0.12	(0.31)	(0.02)	0.26
Per share - Diluted	\$/share	0.28	(0.14)	0.12	(0.31)	(0.02)	0.26
Adjusted net earnings (loss) <sup>1,4</sup>	\$	7.3	10.6	(12.2)	0.3	2.3	5.8
Per share - Basic <sup>1,4</sup>	\$/share	0.09	0.13	(0.15)	0.00	0.03	0.07
Per share - Diluted <sup>1,4</sup>	\$/share	0.09	0.13	(0.15)	0.00	0.03	0.07
Cost of sales	\$/oz	920	1,008	1,036	1,086	1,066	978
Total cash costs <sup>1</sup>	\$/oz	590	680	730	755	728	655
All-in sustaining costs <sup>1</sup>	\$/oz	967	1,017	954	1,016	1,035	980
Average realized gold price <sup>1</sup>	\$/oz	1,214	1,302	1,331	1,284	1,277	1,272
Cash and cash equivalents	\$	121.6	91.4	110.5	44.9	66.5	121.6
Restricted cash	\$	26.6	26.5	13.9	13.9	13.8	26.6
Working capital	\$	56.8	59.2	86.0	32.9	52.3	56.8
Total debt	\$	346.4	360.8	373.9	385.6	386.0	346.4
Total assets	\$	1,253.4	1,219.2	1,225.9	1,168.1	1,206.0	1,253.4
Total liabilities	\$	496.9	488.3	484.4	488.8	503.2	496.9

- Adjusted net earnings (loss), total cash costs, all-in sustaining costs, and average realized gold price are financial performance measures with no standard meaning under International Financial Reporting Standards ("IFRS"). Refer to "Non-IFRS Financial Performance Measures" for further information and a detailed reconciliation.
- For the three months ended September 30, 2018, ore mined underground from the ELG Underground (defined herein) of 38 kt, is included in ore tonnes mined and excluded from the strip ratio. For the three months ended June 30, 2018, March 31, 2018, December 31, 2017 and September 30, 2017, ore mined from the ELG Underground (defined herein) was 5 kt, 4 kt, 13 kt and 12 kt, respectively.
- Due to the Blockade, the first quarter of 2018 represents 75 days of partial operations, while the fourth quarter of 2017 represents 34 days of operations.
- Beginning the second quarter of 2018, the Company updated adjusted net earnings (loss) to include the tax effect of currency translation on tax base. Comparatives have been restated. Refer to "Non-IFRS Financial Performance Measures" for further information.
- Sum of the quarters may not add to the year to date amounts due to rounding.

## THIRD QUARTER REPORT

This MD&A contains forward-looking statements that are subject to risks and uncertainties, as discussed under “Cautionary Note Regarding Forward-Looking Statements”. The following abbreviations are used throughout this document: \$ (United States dollar), C\$ (Canadian dollar), AISC (all-in sustaining costs), Au (gold), Ag (silver), Cu (copper), oz (ounce), gpt (grams per tonne), kt (thousand tonnes), mt (million tonnes), m (metres), km (kilometres), and tpd (tonnes per day).

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## COMPANY OVERVIEW AND STRATEGY

The Company is a growth-oriented, Canadian-based resource company engaged in the exploration, development, and operation of the Morelos Gold property (the “Morelos Gold Property”). The Morelos Gold Property is located in the prolific Guerrero Gold Belt in southern Mexico, approximately 180 kilometres to the southwest of Mexico City and 50 km southwest of Iguala, and consists of 7 mineral concessions covering a total area of approximately 29,000 hectares.

The Company’s principal assets are the El Limón Guajes mining complex (the “ELG Mine Complex”), comprised of the El Limón, Guajes and El Limón Sur open pits (the “ELG Open Pits”), the El Limón Guajes underground mine including zones referred to as Sub-Sill and El Limón Deep (collectively, the “ELG Underground”), and the processing plant and related infrastructure, which reached the commercial production stage as of April 1, 2016. In addition, the Media Luna deposit (the “Media Luna Project”), is an early stage development project (for which the Company issued a Preliminary Economic Assessment (the “PEA”) on September 4, 2018).

The Company’s strategy is to grow production from high quality assets. The Morelos Gold Property provides significant opportunity to implement this strategy. The Media Luna Project provides mid-term growth potential. The developing ELG Underground provides near-term growth opportunity in both the Sub-Sill and the El Limón Deep zone. The many untested exploration targets on this prolific property provide long-term growth opportunities.

In addition to realizing the full potential of the Morelos Gold Property, the Company will seek opportunities to acquire assets in the Americas that enable profitable and effective geographic diversification.

## OBJECTIVES FOR 2018

### Production, within constraints:

- Production - 325,000 to 350,000 gold ounces sold (4,200 kt, 2.95 gpt, 87% recovery)
- Constraints:
  - Production will be weighted to the second half of the year
  - Lost time injury frequency of < 2 per million hours worked (Employees and on-site contractors)
  - Zero reportable spills of 1,000 litres or more, that reports to the river or reservoir
  - Cash costs of between \$620 to \$640 per gold ounce sold
  - AISC of between \$940 to \$975 per gold ounce sold
  - Sustaining capital expenditure of < \$84 million
  - Development capital expenditure of < \$37 million

### Set up 2019 production:

- Strip 18 million tonnes of waste
- Plant throughput at an average of 14,000 tonnes per day by year-end 2018
- SART plant producing copper precipitate by July 1, 2018
- Sub-Sill producing an average of 850 tonnes per day by year-end 2018

### Set up for growth:

- Release the Media Luna PEA by the end of July 2018
- 37,000 metres of Media Luna infill drill program completed by year-end 2018
- 20,000 metres of exploration and infill drilling for the ELG Underground by year-end 2018

## FINANCIAL RESULTS

The following table summarizes the financial results of the Company:

Table 2.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018 <sup>1</sup>	September 30, 2017
<i>In millions of U.S. dollars, unless otherwise noted</i>				
Revenue	126.4	100.5	312.2	274.1
Gold	124.9	99.9	309.7	272.1
Silver	1.0	0.6	2.0	2.0
Copper	0.5	-	0.5	-
Cost of sales	94.7	83.4	238.2	226.1
Earnings from mine operations	31.7	17.1	74.0	48.0
Exploration and evaluation expenses	1.2	1.9	3.7	6.0
General and administrative expenses	4.6	5.2	16.2	14.9
Blockade and other charges	-	-	4.1	-
Gain on derivative contracts	1.0	0.2	1.9	0.8
Finance (income) costs, net	(0.2)	6.6	13.1	21.6
Foreign exchange (gain) loss	(1.3)	1.1	(1.2)	(6.1)
Income tax expense, net	4.5	4.1	18.2	-
Net income (loss)	23.9	(1.6)	21.8	12.4
Per share - Basic (\$/share)	0.28	(0.02)	0.26	0.16
Per share - Diluted (\$/share)	0.28	(0.02)	0.26	0.15
Adjusted net earnings (loss) <sup>2,4</sup>	7.3	2.3	5.8	(25.1)
Per share - Basic (\$/share) <sup>2,4</sup>	0.09	0.03	0.07	(0.31)
Per share - Diluted (\$/share) <sup>2,4</sup>	0.09	0.03	0.07	(0.31)
Cost of sales (\$/oz)	920	1,066	978	1,040
Total cash costs (\$/oz) <sup>2</sup>	590	728	655	703
All-in sustaining costs (\$/oz) <sup>2</sup>	967	1,035	980	985
Average realized gold price (\$/oz) <sup>2,3</sup>	1,214	1,277	1,272	1,249
Average realized margin (\$/oz) <sup>2,3</sup>	624	549	617	546

1. Due to the Blockade, the first nine months of 2018 represent 258 days of operations, including the first quarter when operations were partial.
2. Adjusted net earnings (loss), total cash costs, AISC, average realized gold price and average realized margin are non-IFRS financial performance measures with no standard meaning under IFRS. Refer to "Non-IFRS Financial Performance Measures" for further information and a detailed reconciliation.
3. Average realized gold price and average realized margin include realized losses from gold derivative contracts of \$2 per ounce for the nine months ended September 30, 2017. Refer to "Non-IFRS Financial Performance Measures" for further information and a detailed reconciliation.
4. Beginning in the second quarter of 2018, the Company updated adjusted net earnings (loss) to include the tax effect of currency translation on tax base. Comparatives have been restated. Refer to "Non-IFRS Financial Performance Measures" for further information.

## THIRD QUARTER FINANCIAL RESULTS

### Processed gold grade was 3.01 grams per tonne

The processed grade in the quarter was greater than the mined grade due to preferential feeding of higher grades to the mill and the stockpiling of lower grades. The grade estimate for mined material is based on blast hole and diamond drill assays whereas the mill grade is determined by metal balance for the process plant. The net result is a processed gold grade of 3.01 gpt, versus a mined grade of 2.60 gpt. For the nine months ended September 30, 2018, the average grade processed was 2.99 gpt.

### **Processed average daily tonnage of 12,717 tpd**

Processing plant throughput rates were consistent throughout the quarter. Throughput rates for the third quarter averaged 12,717 tpd or 91% of design capacity, and throughput rates for the nine months ended September 30, 2018 averaged 11,453 tpd or 82% of design capacity.

### **Revenue totalled \$126.4 million**

During the third quarter of 2018, the Company recognized \$126.4 million in revenue compared to \$100.5 million for the third quarter of 2017. The Company sold 102,919 ounces of gold at an average realized price of \$1,214 per ounce in the third quarter of 2018, compared to 78,254 ounces of gold at an average realized price of \$1,277 in the third quarter of 2017. The increase in ounces sold is linked to a 28% increase in grades processed, which together with higher average recoveries and consistent throughput, led to more ounces produced which more than offset the decrease in the average realized price in the third quarter of 2018 compared to the third quarter of 2017. In the third quarter of 2018, the Company settled and recognized revenues pertaining to 1,992 ounces of gold from carbon fines. In addition, the Company produced 1,135 ounces from carbon fines in the third quarter of 2018, which were not settled as at September 30, 2018, and for which revenue has not been recognized. As at September 30, 2018, the Company has 8,200 ounces from carbon fines in inventory at the external refinery and in the queue for processing awaiting settlement, for which revenues have not yet been recognized, and for which the associated production costs and depreciation remain in inventory.

During the nine months ended September 30, 2018, the Company recognized \$312.2 million in revenue compared to \$274.1 million in the nine months ended September 30, 2017. The increase is a result of a higher number of ounces of gold sold combined with a higher average realized price per ounce. The Company sold 243,471 ounces of gold at an average realized price of \$1,272 per ounce in the nine months ended September 30, 2018, compared to 217,399 ounces of gold at an average realized price of \$1,249 per ounce in the nine months ended September 30, 2017. Despite operating under constrained arrangements in the first four months of 2018 as a result of the Blockade (further details are provided in the “Community” section of this MD&A), and processing 10% fewer total tonnes of ore, the Company produced and sold more ounces of gold in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 due to a 25% increase in the average grade processed.

Revenue from the sale of gold is recognized based on the actual price realized on the sale, unless the gold is used to settle a commitment under derivative contracts. Where gold is delivered to settle derivative contracts, revenues are recorded based on the spot market price at the time of the settlement, and any difference between the spot price and the sales price received under the contract, is recognized as a realized gain or loss on derivative contracts.

Realized gains and losses on gold derivative contracts (“Gold Contracts”) are presented separately from revenue but included in the calculation of average realized gold price. The average realized gold price per ounce sold does not have any standardized meaning prescribed by IFRS. Refer to “Non-IFRS Financial Performance Measures” for further information and a detailed reconciliation.

The Company’s Gold Contracts were extinguished in 2017, and therefore there were no realized gains or losses on Gold Contracts for the three months ended September 30, 2018 and 2017, and the nine months ended September 30, 2018 compared to realized losses on Gold Contracts of \$0.5 million for the nine months ended September 30, 2017. Of the total 217,399 ounces of gold sold in the nine months ended September 30, 2017, 76,113 ounces were delivered into the Gold Contracts.

The SART plant began operation late in the second quarter of 2018. Sales of copper precipitate commenced in the third quarter of 2018, contributing \$0.5 million from copper sales and an additional \$0.2 million from silver recovered. In the three and nine months ended September 30, 2018, the Company also sold \$0.8 million and \$1.8 million in silver not from copper precipitate.

### **Cost of sales was \$94.7 million or \$920 per ounce**

Cost of sales for the third quarter of 2018 was \$94.7 million compared to \$83.4 million in the third quarter of 2017. Production costs increased to \$58.5 million for the third quarter of 2018 compared to \$54.6 million for the third quarter of 2017. The increase in production costs reflects increased costs from a new bonus structure for Mexican employees introduced by the Company in 2018, higher mining costs related to the Sub-Sill, and higher electricity costs, partially offset by the impact of higher grades processed.

Cost of sales for the nine months ended September 30, 2018 was \$238.2 million compared to \$226.1 million for the nine months ended September 30, 2017. This increase reflects increased costs for the new bonus structure introduced by the Company, plus higher Sub-Sill mining costs and higher electricity costs, partially offset by lower throughput due to the suspension of operations in connection with the Blockade in the first 15 days of January 2018 and the subsequent ramp-up, and ounces of carbon fines produced and shipped that have not settled as at September 30, 2018, for which the associated production costs remain in inventory. In the nine months ended September 30, 2018, there is an additional \$2.8 million of production costs (excluding \$1.3 million of depreciation) included in 'Blockade and other charges', which appear as a separate expense line in the Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss).

Depreciation and amortization expense amounted to \$32.5 million for the third quarter of 2018 compared to \$25.8 million for the same period in 2017. The increase in depreciation from the third quarter of 2017 is primarily driven by an increase in gold ounces recovered, which drives the basis of depreciation for most of the Company's property, plant and equipment, as well as increased depreciation of capitalized deferred stripping costs, which are being amortized in conjunction with the mining of the corresponding ore from the El Limón B open pit.

Depreciation and amortization expense amounted to \$76.3 million for the nine months ended September 30, 2018 compared to \$71.3 million for the nine months ended September 30, 2017. The increase in depreciation is primarily driven by an increase in both gold ounces recovered and the depreciation of capitalized deferred stripping costs. In the nine months ended September 30, 2018, there is \$1.3 million of depreciation included in 'Blockade and other charges'.

Royalties were \$3.7 million and \$9.5 million for the three and nine months ended September 30, 2018 compared to \$3.0 million and \$8.3 million for the three and nine months ended September 30, 2017, representing 3% of proceeds from gold and silver sales. Of the 3% royalty expense, 2.5% is payable to the Mexican Geological Survey agency and 0.5% is payable to the Ministry of Finance.

### **Total cash costs were \$590 per ounce sold**

Total cash costs (net of by-product sales) for the third quarter of 2018 were \$590 per ounce of gold sold, a decrease of 19% or \$138 per ounce of gold sold compared to the third quarter of 2017 at \$728 per ounce of gold sold. Total cash costs (net of by-product sales) for the nine months ended September 30, 2018 were \$655 per ounce of gold sold, a decrease of 7% or \$48 per ounce of gold sold from the nine months ended September 30, 2017 of \$703 per ounce of gold sold. While tonnes processed remained relatively consistent at 1.2 million tonnes, the Company mined 11.1 million tonnes in the third quarter of 2018 compared to 8.7 million tonnes in the third quarter of 2017. Despite mining more tonnes, higher operating costs stemming from the new bonus structure, higher electricity costs and higher Sub-Sill mining costs, total cash costs per ounce of gold sold were reduced primarily due to the processing of higher-grade ore and higher recoveries in the three months ended September 30, 2018 compared to three months ended September 30, 2017.

In the nine months ended September 30, 2018, the Company mined 21.3 million tonnes and processed 3.0 million tonnes, compared to 23.5 million tonnes mined and 3.3 million tonnes processed in the nine months ended September 30, 2017. Despite higher costs emanating from the new bonus structure, higher electricity costs and higher Sub-Sill mining costs, total cash costs per ounce of gold sold were reduced primarily due to the processing of higher-grade ore, higher recoveries, and reduced mining and processing activities during the ramp-up subsequent to the Blockade in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

As the Blockade led to partial operations in the first four months of 2018, total cash costs exclude of \$2.8 million of costs during the 15 days of the Blockade, during which time no operating activity could take place.

Refer to “Non-IFRS Financial Performance Measures” for further information and a detailed reconciliation.

#### **All-in sustaining costs were \$967 per ounce**

AISC for the third quarter of 2018 were \$967 per ounce of gold sold compared to \$1,035 per ounce of gold sold for the third quarter of 2017. Sustaining capital expenditures in the third quarter of 2018 amounted to \$33.3 million, compared to \$18.4 million spent in the third quarter of 2017. Sustaining capital expenditures were \$23.8 million for capitalized stripping activities, and \$9.5 million for sustaining equipment and infrastructure.

AISC for the nine months ended September 30, 2018 were \$980 per ounce of gold sold compared to \$985 per ounce of gold sold for the nine months ended September 30, 2017. Sustaining capital expenditures in the nine months ended September 30, 2018 amounted to \$60.6 million, compared to \$45.4 million spent in the nine months ended September 30, 2017. Sustaining capital expenditures were \$41.6 million for capitalized stripping activities, and \$19.0 million for sustaining equipment and infrastructure.

Refer to “Non-IFRS Financial Performance Measures” for further information and a detailed reconciliation.

#### **Exploration and evaluation expenses of \$1.2 million**

Exploration and evaluation expenditures were \$1.2 million and \$3.7 million in three and nine months ended September 30, 2018, compared to \$1.9 million and \$6.0 million in the three and nine months ended September 30, 2017. In the third quarter and the nine months of 2018, exploration and evaluation activities were mainly related to evaluation work on Muckahi. In 2017, exploration activities were largely focused on phase two of the Sub-Sill diamond drill program. A maiden underground resource for the Sub-Sill deposit was announced in the first quarter of 2017, and on January 16, 2018, the Company declared the maiden ELG Underground mineral reserve and mine plan (mining of the Sub-Sill Resource). The ELG Underground mine plan is expected to generate 480 kt at 11.65 gpt, containing 180,000 gold ounces, during 29 months of production. The total capital required is \$23.0 million, of which \$22.0 million is expected to be incurred in 2018.

#### **General and administrative expenses of \$4.6 million**

General and administrative expenses were \$4.6 million and \$16.2 million in the three and nine months ended September 30, 2018 compared to \$5.2 million and \$14.9 million in the three and nine months ended September 30, 2017. The fluctuations in the three and nine months September 30, 2018 compared to the three and nine months ended September 30, 2017 are due to the timing of certain salaries and benefits, and severance costs.

#### **Blockade and other charges of \$4.1 million**

In the nine months ended September 30, 2018, the Company recognized an expense of \$4.1 million in relation to the Blockade and other charges consisting mainly of idle contractor and labour costs, employment contract suspensions and terminations of \$2.8 million, and depreciation and amortization of \$1.3 million.

### **Finance income, net of finance costs, of \$0.2 million**

Finance income, net of finance costs, amounted to \$0.2 million in the three months ended September 30, 2018 and \$13.1 million in finance costs, net of finance income, in the nine months ended September 30, 2018. In the three and nine months ended September 30, 2018, the Company collected \$7.3 million and \$8.2 million in interest pertaining to VAT receivables, which partially offset \$7.8 million and \$23.6 million in finance costs in the three and nine months ended September 30, 2018. The Company recognized finance costs, net of finance income, of \$6.6 million and \$21.6 million in the three and nine months ended September 30, 2017. Finance income primarily relates to the interest received on the VAT receivable whereas finance costs largely reflect the interest expense on the Debt Facility, Equipment Loan, Finance Lease Arrangement and VAT Loan (as all such terms are defined herein). The Company fully repaid the VAT Loan in 2017 and therefore interest on the VAT Loan is included in the nine months ended September 30, 2017, and not included in the nine months ended September 30, 2018.

### **No remaining settlements under the Gold Contracts**

The final outstanding ounces under the Gold Contracts were delivered in early July 2017 and, therefore, the Company did not recognize any unrealized gains or losses for the three and nine months ended September 30, 2018 and the third quarter of 2017, compared to an unrealized loss of \$8.6 million for the nine months ended September 30, 2017.

### **Gain on currency derivative contracts of \$1.0 million due to the appreciation of the Mexican peso**

Based on forward prices for Mexican pesos at September 30, 2018, the Company recognized an unrealized gain of \$1.1 million for the three months ended September 30, 2018 compared to no unrealized gain or loss recognized for the three months ended September 30, 2017. In the third quarter of 2018, the average exchange rate of the Mexican peso relative to the U.S. dollar was higher than the average contract forward prices. As such, the Company realized a loss of \$0.1 million on the contracts it settled during the quarter, compared to a gain of \$0.2 million for the third quarter of 2017.

Based on forward prices for Mexican pesos as at September 30, 2018, the Company recognized an unrealized gain of \$2.0 million for the nine months ended compared to an unrealized gain of \$9.7 million for the nine months ended September 30, 2017. In the nine months ended September 30, 2018, the average exchange rate of the Mexican peso relative to the U.S. dollar was higher than the average contract forward prices. As such, the Company realized a loss of \$0.1 million on the contracts it settled during the nine months ended September 30, 2018, compared to a gain of \$0.2 million for the comparable period in 2017.

### **Foreign exchange gain of \$1.3 million due to the appreciation of the Mexican peso**

The Company recognized a foreign exchange gain of \$1.3 million for the quarter ended September 30, 2018, compared to a loss of \$1.1 million for the quarter ended September 30, 2017. Based on closing exchange rates, the Mexico peso appreciated by 5.3% in the third quarter of 2018 compared to the second quarter of 2018.

The Company recognized a foreign exchange gain of \$1.2 million for the nine months ended September 30, 2018, compared to a gain of \$6.1 million for the nine months ended September 30, 2017. Based on closing exchange rates, the Mexico peso appreciated by 4.7% in the nine months ended September 30, 2018 compared to December 31, 2017.

### **Current income and mining tax expense of \$3.2 million**

The Company recognized a current income tax expense of \$3.2 million in the three months ended September 30, 2018 primarily related to the 7.5% Mexican mining royalty, compared to a current tax expense of \$1.5 million in the three months ended September 30, 2017. The increase is due to an increase in the Company's taxable earnings used to calculate the 7.5% Mexican mining royalty.

The Company recognized a current income tax expense of \$8.8 million in the nine months ended September 30, 2018 primarily related to the 7.5% Mexican mining royalty, compared to a current tax expense of \$6.7 million in the nine months ended September 30, 2017. In the nine months ended September 30, 2018, the Company paid \$3.9 million in relation to the 7.5% Mexican mining royalty for 2017, which is considered an income tax for IFRS purposes.

### **Deferred income tax expense of \$1.3 million**

The Company recognized a deferred income tax expense of \$1.3 million in the three months ended September 30, 2018, compared to a deferred income tax expense of \$2.6 million for the three months ended September 30, 2017. The Company recognized a deferred income tax expense of \$9.4 million in the nine months ended September 30, 2018, compared to a deferred income tax recovery of \$6.7 million for the nine months ended September 30, 2017.

The Company's deferred tax estimate is sensitive to the foreign exchange fluctuations of the Mexican peso relative to the United States Dollar ("U.S. Dollar") because the tax reporting currency of its Mexican subsidiaries is the Mexican peso while the accounting functional currency is the U.S. Dollar. Therefore, the U.S. Dollar value of Mexican tax attributes available for future deduction will change as the value of the Mexican peso changes relative to the U.S. Dollar. Generally, a decline in the value of the Mexican peso relative to the U.S. Dollar will increase deferred tax expense (or decrease deferred tax recovery), while an increase in the value of the Mexican peso relative to the U.S. dollar will reduce deferred tax expense (or increase deferred tax recovery).

For the three months ended September 30, 2018 and based on the closing foreign exchange rates, the Mexican peso appreciated by 5.3% to 18.8 relative to the USD which created an estimated recovery of \$8.2 million of foreign exchange included in deferred tax expense, while for the three months ended September 30, 2017, the Mexican peso depreciated by 1.7% to 18.2 relative to the USD, which created an estimated expense of \$1.4 million of foreign exchange included in deferred tax expense. The remaining fluctuation is caused by higher income and other temporary differences. For the nine months ended September 30, 2018, the Mexican peso appreciated by 4.7% to 18.8 relative to the USD which created an estimated recovery of \$7.8 million of foreign exchange included in deferred tax expense, while for the nine months ended September 30, 2017, the Mexican peso appreciated 11.9% to 18.2 relative to the U.S. dollar, which created an estimated recovery of \$18.4 million of foreign exchange included in deferred tax recovery.

### **Net income of \$23.9 million**

Net income for the third quarter of 2018 totalled \$23.9 million, or \$0.28 per share on a basic and diluted basis, while adjusted net earnings amounted to \$7.3 million, or \$0.09 per share on a basic and diluted basis. In the third quarter of 2017, net loss was \$1.6 million, or \$0.02 per share, on both a basic and diluted basis while adjusted net earnings amounted to \$2.3 million, or \$0.03 per share on a basic and diluted basis. Net income increased compared to the third quarter of 2017, largely due to higher earnings from mine operations stemming from higher grades processed, and interest income collected on the VAT receivables.

Net income for the nine months ended September 30, 2018 totalled \$21.8 million, or \$0.26 per share on a basic and diluted basis, while adjusted net earnings amounted to \$5.8 million, or \$0.07 per share on a basic and diluted basis. In the nine months ended September 30, 2017, the Company had net income of \$12.4 million, or \$0.16 per share on a basic and \$0.15 per share on a diluted basis while adjusted net loss amounted to \$25.1 million, or \$0.31 per share, both on a basic and diluted basis. Net income in the nine months of September 30, 2018 compared to the nine months ended September 30, 2017 increased largely due to higher earnings from mine operations stemming from higher grades processed and interest income collected on the VAT receivables, partially offset by higher income tax expense in the nine months ended September 30, 2018. Refer to the section "Non-IFRS Financial Performance Measures" for a reconciliation of net income (loss) to adjusted net earnings (loss).

## RESULTS OF OPERATIONS

The following table summarizes the operating results for the Company's ELG Mine Complex:

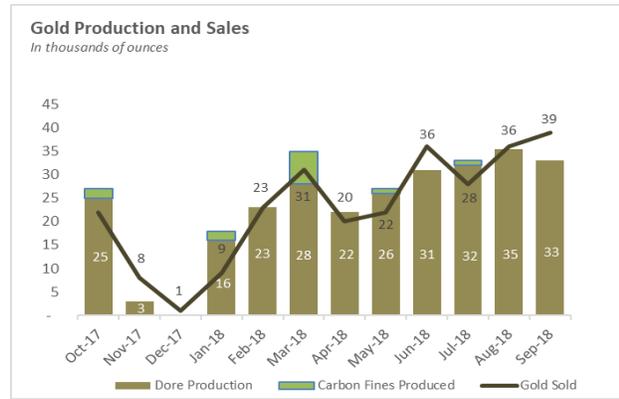
Table 3.

		Three Months Ended				Nine Months Ended	
		Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Sep 30, 2018
<b>Mining</b>							
<b>Guajes</b>							
Ore tonnes mined	kt	-	27	497	202	340	524
Waste tonnes mined	kt	2,635	1,484	1,958	847	1,820	6,077
Total tonnes mined	kt	2,635	1,511	2,455	1,049	2,160	6,601
Strip ratio <sup>1</sup>	waste:ore	-	55.0	3.9	4.2	5.4	11.6
Average gold grade of ore mined	gpt	-	2.62	3.47	3.56	3.27	3.43
<b>El Limón</b>							
Ore tonnes mined	kt	1,208	1,246	70	418	788	2,524
Waste tonnes mined	kt	7,211	4,393	550	1,472	5,726	12,154
Total tonnes mined	kt	8,419	5,639	620	1,890	6,514	14,678
Strip ratio	waste:ore	6.0	3.5	7.9	3.5	7.3	4.8
Average gold grade of ore mined	gpt	2.35	2.42	1.99	2.60	2.15	2.37
<b>Total ELG Open Pits</b>							
Ore tonnes mined	kt	1,208	1,273	567	620	1,128	3,048
Waste tonnes mined	kt	9,846	5,877	2,508	2,319	7,546	18,231
Total tonnes mined	kt	11,054	7,150	3,075	2,939	8,674	21,279
Strip ratio	waste:ore	8.2	4.6	4.4	3.7	6.7	6.0
Average gold grade of ore mined	gpt	2.35	2.42	3.29	2.91	2.48	2.55
<b>ELG Underground</b>							
Ore tonnes mined	kt	38	5	4	13	12	47
Average gold grade of ore mined <sup>2</sup>	gpt	10.57	8.71	3.72	8.86	6.78	9.78
<b>Processing</b>							
Total tonnes processed	kt	1,170	1,000	785	428	1,152	2,955
Average plant throughput	tpd	12,717	10,989	10,467	12,588	12,522	11,453
Average gold recovery	%	89	87	87	85	87	88
Average gold grade of ore processed	gpt	3.01	2.86	3.13	2.72	2.35	2.99
<b>Production and sales</b>							
Gold dore produced	oz	100,346	78,796	67,167	28,162	67,337	246,309
Gold sold	oz	102,919	77,646	62,906	31,398	78,254	243,471
Gold from carbon fines produced	oz	1,135	1,300	8,887	1,809	3,305	11,322

1. The strip ratio for Guajes is nil for the three months ended September 30, 2018 and high in the three months ended June 30, 2018 because the activities within Guajes are focused on the stripping Guajes West with Guajes East being mined out.
2. In the three months ended March 31, 2018, the average gold grade of ore mined in the ELG Underground was below the cut-off grade and represents incremental ore. For the ELG Underground, the Company's operational cut-off grade is 4.47 gpt and the Company's incremental cut-off grade is 0.74 gpt.

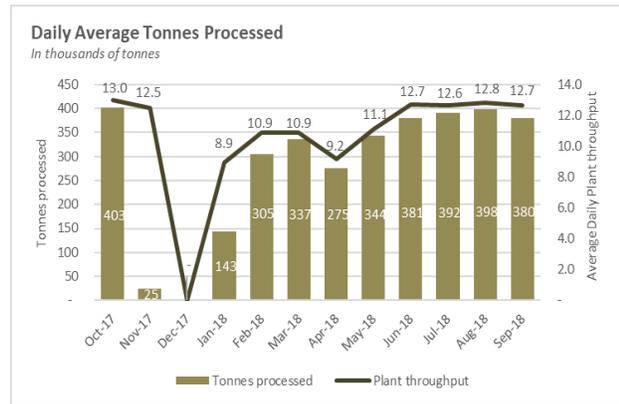
### Gold Production and Sales

In the third quarter of 2018, 100,346 ounces of dore gold were produced and 102,919 ounces of gold were sold, for a total of 246,309 dore ounces produced and 243,471 ounces of gold sold year-to-date in 2018. In addition, 1,135 and 11,322 gold ounces from carbon fines were produced and shipped in the third quarter and nine months ended September 30, 2018, respectively.



### Plant Ramp-Up

The ramp up of all operations, post the Blockade, has gone smoothly with steadily increasing production. The debottlenecking of the SAG Mill has also advanced as technical solutions have been implemented. Throughout the third quarter, the Company sustained average throughput levels in excess of 90% of design capacity. Consistency achieving an average throughput rate of 14,000 tpd is expected by the end of the year.

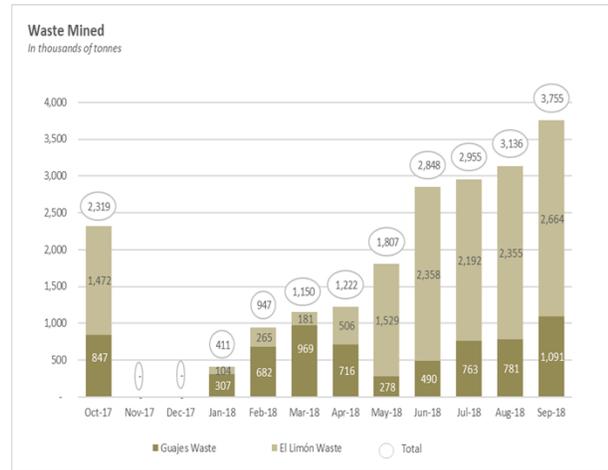
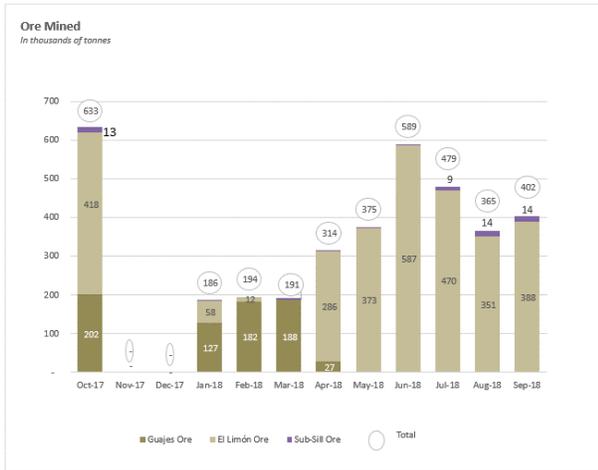


### SART Plant

The construction of the SART plant was completed on schedule in the second quarter of 2018. The plant has been transferred from the construction team to the operations team and the ramp up to design rates is progressing. In the third quarter of 2018, the Company recognized \$0.5 million of copper revenues and \$0.2 million of silver revenues in relation to copper precipitate facilitated by the SART plant. In aggregate, the Company benefitted from savings of \$48 per ounce from the SART plant from decreased utilization of reagents and by-product revenues.

## Mining

A total of 11,092 kt were mined in the third quarter of 2018, including 38 kt from the Sub-Sill zone, at an average waste to ore strip ratio of 8.2. Approximately 76% of the tonnes mined in the third quarter were from El Limón with the remaining 24% from Guajes. At September 30, 2018, there were 0.9 mt of ore in stockpiles at an average grade of 1.43 gpt.



## Safety

At the end of the third quarter of 2018, the lost time injury frequency rate (“LTIFR”) was 1.3 per million hours worked. There were no lost time injuries in the quarter.

The total hours worked in 2018 year to date (Company employees and contractors) was approximately 3.6 million.

## Community

Following the disruption of the Blockade, the establishment of a new normal relationship with the local communities is ongoing. We continue to strengthen our bond with our stakeholder communities through various initiatives that link the success of the mine to the success of the communities. We are gradually changing the perception that the ELG Mine is the solution to all problems – we are working to be one of the partners contributing to local development with a variety of partners that address local needs as required.

Our community development agreements allow an opportunity for communities to determine which projects we will support within the total funds made available to them. This process also allows the individual communities the opportunity to seek funding from other agencies and the Mining Fund (to which we contribute through taxes).

To further our links to the communities, we have refined several initiatives including: maintaining some of our team members in the community of Nuevo Balsas, integrating the local communities along the old access road into our programs, developing improved links with the Municipality of Cocula, refining the local hiring policy to make it more transparent, developing a more focused local procurement policy, and providing an opportunity to local vendors to provide food services for the operational teams.

The Blockade resulted in divisions within the community. While most are trying to move past these divisions, there are still tensions, particularly from those that lost their employment with the Company as a result of their Blockade activities. The Company and its contractors and suppliers are the source of most paid employment in the area. Considerations are underway to find opportunities to reintegrate these individuals into paid employment.

## EXPLORATION AND DEVELOPMENT ACTIVITIES

### Media Luna Project Update

The Company's plan for the Media Luna Project is to advance the project from early stage development to production. Work towards this goal includes infill drilling with the goal of upgrading approximately 25% of the inferred resource to the measured and indicated confidence categories, which are suitable for inclusion in a feasibility study. The total budget for this undertaking is estimated at \$15.0 million with completion targeted for late 2019 with an updated resource estimate planned for two months after the completion of the drill program. As at September 30, 2018, the Company capitalized \$10.5 million, including \$7.5 million in the nine months ended September 30, 2018 in relation to development activities at the Media Luna Project.

Key trade-off studies prior to the commencement of a feasibility study are targeted for completion by mid-2019 and are budgeted at \$1.0 million. A feasibility study with a budget of \$9.0 million is planned to start in mid-2019 with completion aimed for late 2020 or early 2021. Early work will be determined by drilling results and a feasibility study, with a timeline of 2020 to 2021 based on financing. Subject to the results of the feasibility study, commercial production is expected in 2023 or 2024.

At the Media Luna Project, the Company is subject to various environmental, exploration, land use, water and infrastructure construction permits.

Pre-commercial capital expenditures, net of pre-commercial revenues, are estimated at \$411.4 million. The Company intends to fund these expenditures from cash flows generated from the existing ELG Open Pits and ELG Underground.

An updated PEA for the Media Luna Project was included as part of the updated technical report released on September 4, 2018, entitled "NI 43-101 Technical Report ELG Mine Complex Life of Mine Plan and Media Luna Preliminary Economic Assessment", which has an effective date of March 31, 2018 and is available on the Company's website at [www.torexgold.com](http://www.torexgold.com) and filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### Morelos Gold Property Exploration Update

The Morelos property has many highly prospective targets that are untested. From amongst the targets that have been tested, large zones of mineralization and resources have been discovered. At this time, the exploration teams are primarily focused on advancing known mineralization and resources towards production. This takes the form of in-fill diamond drilling programs in Media Luna, Sub-Sill and El Limón Deep, with a purpose of upgrading the confidence class of the known mineralization and resources. In Media Luna, the in-fill drill program has an objective of upgrading 25% of the Inferred 7.4 million ounce gold-equivalent resource to the indicated confidence class.

Opportunistically, untested targets will be drilled when this can be done efficiently in conjunction with one of the in-fill drill programs. One, such opportunity is a porphyry target that is close to the Media Luna area. This target is scheduled to be drilled prior to mid-year 2019. There are similar opportunities that are underway to leverage the drills from the Sub-Sill, to test for mineralization similar to the Sub-Sill, in the vicinity of the Guajes pit.

There are currently 11 diamond drills operating on the Morelos property. Results will be released as they come available and are analyzed.

## FINANCIAL CONDITION REVIEW

The Company's Debt Facility (defined below and discussed in the "Debt Financing" section of this MD&A) has financial covenants, which, if not met, could result in an event of default. The Company's Debt Facility also contains cross-default provisions with the Company's Finance Lease Arrangement and Equipment Loan (both terms defined below and discussed in the "Debt Financing" section of this MD&A). As at September 30, 2018, the Company is in compliance with all financial and operating covenants.

During the Blockade, the Company undertook several actions to reduce cash outflows, suspended employment contracts in Mexico, managed its debt and working capital, and continued to monitor all elements of corporate expenditure closely. The Blockade was lifted in April 2018 and full operations resumed. The Company continues to monitor expenditures closely. On January 29, 2018, the Company announced the offering, which closed on February 7, 2018 and resulted in aggregate net proceeds of C\$58.5 million to the Company (the "Offering"). As part of the Offering, the underwriters partially exercised their over-allotment option and purchased an additional 12% of the Offering with the remainder of the over-allotment option being exercised and closing on February 16, 2018, for aggregate net proceeds of C\$60.0 million to the Company pursuant to the Offering.

### Summary Balance Sheet

The following table summarizes key balance sheet items at September 30, 2018:

Table 4.

<i>In millions of U.S. dollars</i>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Cash and cash equivalents	\$ 121.6	\$ 44.9
Restricted cash	26.6	13.9
Value-added tax receivables	49.5	54.8
Inventory	68.5	63.1
Property, plant and equipment	971.4	973.9
Other assets	15.8	17.5
<b>Total assets</b>	<b>\$ 1,253.4</b>	<b>\$ 1,168.1</b>
Accounts payable and accrued liabilities	\$ 86.0	\$ 50.9
Debt	346.4	385.6
Deferred income tax liabilities	36.4	26.3
Other liabilities	28.1	26.0
<b>Total liabilities</b>	<b>\$ 496.9</b>	<b>\$ 488.8</b>
<b>Total shareholders' equity</b>	<b>\$ 756.5</b>	<b>\$ 679.3</b>

### Cash and cash equivalents and restricted cash

The Company ended the third quarter of 2018 with cash on hand of \$121.6 million, with an additional \$26.6 million in restricted cash. The Company holds cash balances in both Canadian dollars and Mexican pesos, as well as U.S. dollar holdings.

Pursuant to the Debt Facility, the Company maintains restricted cash of \$26.6 million in respect of reserve funds for estimated reclamation obligations. Each year the Company completes an updated progressive mine closure plan to assess the estimated costs to remediate disturbed areas and if necessary, sets aside additional funds. On April 2, 2018, the Company transferred an additional \$12.6 million to restricted cash for potential reclamation obligations pursuant to the Debt Facility.

### **Value-added tax (“VAT”) receivables**

The Company has VAT receivables primarily denominated in Mexican pesos. The VAT receivables balance fluctuates as additional VAT is paid and refunds are received, as well as with the movement of the Mexican peso exchange rate relative to the U.S. dollar. During the nine months ended September 30, 2018, the Company collected \$43.7 million in VAT receivables, and interest of \$8.2 million.

### **Inventory**

At September 30, 2018, inventories included \$21.9 million of ore in stockpile, \$5.4 million of gold-in-circuit, \$14.6 million of finished metal inventory, and \$26.6 million of materials and supplies. At December 31, 2017, inventory included \$16.9 million of ore in stockpile, \$13.9 million of gold-in-circuit, \$3.0 million of finished metal inventory, and \$29.3 million of materials and supplies. The increase of \$5.4 million is largely due to timing of gold sales and the settlement of carbon fines.

### **Property, plant and equipment**

Property, plant and equipment increased by \$99.7 million for infrastructure, equipment, and capitalized stripping costs for the nine months ended September 30, 2018. These increases are offset by depreciation and amortization of \$101.7 million.

### **Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities were \$86.0 million at September 30, 2018 compared to \$50.9 million at December 31, 2017. The increase is due to an increase in activity, the timing of payments, advances received for carbon fines shipped but not yet settled, and the impact of accrued costs in relation to a new bonus structure introduced by the Company for employees in Mexico.

### **Debt**

The Company’s debt obligations include the amounts outstanding under the Debt Facility, the Equipment Loan and Finance Lease Arrangement which financed mobile mining equipment. Refer to “Debt Financing” for further details.

## **DEBT FINANCING**

### **Debt Facility**

On July 21, 2017, the Company, through its subsidiary Minera Media Luna, S.A. DE C.V. (“MML”), signed an Amended and Restated Credit Agreement (“ARCA”) with BNP Paribas, Commonwealth Bank of Australia, ING Capital LLC., and SG Americas Securities, LLC, as joint bookrunners and BMO Harris Bank N.A. and The Bank of Nova Scotia (the “Banks”) in connection with a secured \$400.0 million debt facility (the “Debt Facility”). The Debt Facility comprises a \$300.0 million term loan (the “Term Facility”) and a \$100.0 million revolving loan facility (the “Revolving Facility”). On July 25, 2017, the Company drew the full amount of the Term Facility and \$75.0 million of the Revolving Facility to repay the loan facility that was previously entered into with the Banks. The Company may use the Revolving Facility for MML’s general corporate purposes, including development expenditures, subject to the conditions of the Debt Facility.

The Debt Facility bears interest at a rate of LIBOR plus 4.00% for the first two years, LIBOR plus 4.25% for years three and four, and LIBOR plus 4.50% thereafter and includes standard and customary finance terms and conditions. The Debt Facility is secured by all of the assets of MML and secured guarantees of the Company and each of its other subsidiaries. The Revolving Facility and the Term Facility will mature June 30, 2020 and June 30, 2022, respectively. The first scheduled repayment of the Term Facility of \$9.3 million was made on March 31, 2018, and varying repayments continue in quarterly instalments until maturity. The Revolving Facility and the Term Facility may be repaid in full at any time without penalty or premium. In the nine months ended September 30, 2018, the Company repaid \$36.3 million of the Debt Facility, including \$14.1 million in the third quarter of 2018.

The Debt Facility provides for, as part of the permitted payments, potential spending to facilitate the Company’s Media Luna Project and the Sub-Sill from ELG cash flow, subject to satisfaction of the terms of the Debt Facility, including

compliance with financial covenants related to maintaining a minimum liquidity balance of \$50.0 million, minimum current and prospective debt service coverage ratio of 1.2, maximum net leverage ratio of 3.0, and mandatory cash sweeps as described below.

The net leverage ratio means, as at any calculation date, the ratio of MML's net indebtedness divided by a four-quarter rolling Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") as defined by the ARCA.

A mandatory cash sweep shall be introduced until \$50.0 million of the Term Facility has been repaid if (i) the ELG Mine Complex does not meet 90% of certain projected operating and economic performance parameters for the six months ended December 31, 2018 or (ii) if any mine plan or base case financial model requiring approval of the majority lenders does not receive such approval.

In accordance with the ARCA, the Company provided the Banks, with an updated mine plan by June 30, 2018. The ARCA required a minimum reserve tail ratio of 30%. In September 2018, the Banks agreed to waive compliance with the reserve tail covenant for purposes of the 2018 mine plan so that the Company could submit an alternative optimized mine plan that meets the requirements of the ARCA, except as it relates to the reserve tail covenant. This consent is effective until the date ("Waiver End Date") that is the earlier of (i) the date on which a mine plan delivered in accordance with the ARCA evidences compliance with the reserve tail covenant ("RTR Compliant Mine Plan"); (ii) the date on which a mine plan delivered in accordance with the ARCA evidences a reserve tail ratio of less than 27% ("RTR Floor Non-Compliant Mine Plan"); and (iii) the date on which the Company is required to deliver a mine plan under the ARCA and fails to do so.

In the event that the mine plan delivered by the Company pursuant to the ARCA following the end of fiscal 2018 is neither an RTR Compliant Mine Plan nor a RTR Floor Non-Compliant Mine Plan, the Company shall from and including November 15, 2019 and on each quarterly date thereafter (each a "RTR Prepayment Date") until the Waiver End Date, prepay outstanding credit under the ARCA in an amount equal to the RTR Prepayment Amount, which is the greater of (i) \$2.6 million and (ii) such amount as is required to ensure that equal quarterly repayments will be made on each RTR Prepayment Date so that the ARCA is repaid in full as at the last fiscal quarter the Company is in compliance with the reserve tail covenant based on the mine plan as at such RTR Prepayment Date.

As at September 30, 2018, the Company is in compliance with the financial and other covenants under the Debt Facility.

#### *Transaction costs*

Previously capitalized financing charges pertaining to the previously entered into loan facility, in the amount of \$7.9 million, as well as capitalized financing fees associated with the refinanced Debt Facility of \$6.5 million, were proportionately allocated based on the respective drawn amounts of the Term Facility and the Revolving Facility, are presented net of the Debt Facility, and will be amortized over the terms of the Term Facility and Revolving Facility, respectively. The costs capitalized were primarily Banks' fees and legal costs. During the nine months ended September 30, 2018, the amortization expense relating to the deferred finance charges included in finance costs for the Debt Facility, is calculated using an effective interest rate ranging between 1.589% and 1.607% and results in unamortized deferred finance charges of \$10.3 million as at September 30, 2018 (December 31, 2017 - \$12.3 million). Please refer to section "Recent Accounting Pronouncements" for details on the impact of adoption of IFRS 9 on the Company.

#### **Equipment Loan**

On December 23, 2015, the Company, through its subsidiary MML, executed a \$7.6 million four-year loan agreement with BNP Paribas (the "Equipment Loan"). The Equipment Loan, secured by certain mining vehicles that are owned by the Company, is due to mature on December 31, 2019, is repayable in quarterly instalments starting March 31, 2016, and bears interest at a rate of LIBOR plus 3.75%. The loan is carried at amortized cost on the Condensed Consolidated Interim Statements of Financial Position. As at September 30, 2018, the Company has made principal repayments of \$5.2 million, of which \$1.2 million were paid in the nine months ended September 30, 2018.

#### **Finance Lease Arrangement**

On December 31, 2015, the Company, through its subsidiary MML, executed a finance lease agreement for up to \$17.4 million with Parilease SAS (the "Finance Lease Arrangement") to finance certain mining equipment. Advances

under the Finance Lease Arrangement bear interest at a rate of LIBOR plus 4.00% and are repayable in quarterly instalments over five years. On December 26, 2016 and August 7, 2017, the Company signed amendments to the Finance Lease Arrangement that included increases of \$6.3 million and \$1.2 million, respectively, in available funds, bringing the total funds available to \$24.9 million. As at September 30, 2018, the Company has utilized \$24.5 million of the amount available and has made principal repayments of \$8.0 million, of which \$3.8 million were paid in the nine months ended September 30, 2018.

## LIQUIDITY AND CAPITAL RESOURCES

The total assets of the Company as at September 30, 2018 were \$1,253.4 million (December 31, 2017 - \$1,168.1 million), which includes \$121.6 million in cash and cash equivalents (December 31, 2017 - \$44.9 million), excluding restricted cash of \$26.6 million (December 31, 2017 - \$13.9 million). As discussed in “Financial Condition Review”, the Company closed an offering during the nine months ended September 30, 2018 for aggregate net proceeds of C\$60.0 million.

The Company had working capital of \$56.8 million as at September 30, 2018, compared to \$32.9 million at December 31, 2017.

As a result of the Blockade, the Company obtained a temporary reduction to the minimum liquidity covenant from \$50.0 million to \$30.0 million, with the condition that the remaining \$25.0 million available under the credit agreement, and not yet drawn, counted towards meeting the liquidity covenant threshold but may not be drawn. The temporary reduction expired in February 2018 and the Company is in compliance with the minimum liquidity covenant at September 30, 2018.

Cash flow generated from operating activities, excluding changes in non-cash working capital, for the nine months ended September 30, 2018 totalled \$128.3 million compared to \$90.7 million for the nine months ended September 30, 2017.

Investing activities resulted in net cash outflows of \$79.0 million in the nine months ended September 30, 2018, compared with net cash outflows of \$68.4 million for the comparative period in 2017. The increase in cash outflows is largely due to a \$12.6 million transfer to restricted cash in connection with future reclamation obligations, combined with the net cash outflow pertaining to working capital for property, plant and equipment of \$3.6 million in the nine months ended September 30, 2018 compared to net cash inflow of \$6.3 million in the nine months ended September 30, 2017. This is partially offset by lower additions to property, plant and equipment of \$12.5 million, and the net value-added tax received of \$18.9 million in the nine months ended September 30, 2018 compared to the net amount of \$9.8 million received in the comparative period.

Financing activities resulted in net cash outflows of \$12.0 million for the nine months ended September 30, 2018 compared with cash outflows of \$50.9 million in the comparative period. Net cash flows from financing activities in the nine months ended September 30, 2018 relate primarily to proceeds from the Offering of \$48.1 million, (net of share issuance costs), less interest paid of \$18.8 million, and repayments under the Debt Facility, Finance Lease Arrangement, and Equipment Loan totalling \$41.3 million. In comparison, for the nine months ended September 30, 2017, cash flows used in financing activities related to interest paid of \$20.5 million, repayments under the VAT Loan, Equipment Loan and Finance Lease Arrangement totalling \$24.8 million, and \$6.5 million paid to refinance the previously entered into loan facility.

As at September 30, 2018, the Company’s contractual obligations included office lease agreements, office equipment leases, long-term land lease agreements with the Rio Balsas, the Real del Limón, Atzcala and the Puente Sur Balsas Ejidos and the individual owners of land parcels within certain of those Ejido boundaries, and contractual commitments related to the purchases of goods and services used in the operation of the ELG Mine Complex. All of the long-term land lease agreements can be terminated at the Company’s discretion at any time without penalty.

In October 2017, the Company signed a 25-year common land, lease agreement with the Puente Sur Balsas Ejido for the land required for the exploration, construction, and mining of minerals at the Media Luna Project. The agreement can be revoked at the Company's discretion, with one year's notice. The agreement satisfies the land access requirement that is a pre-condition to entering the regulatory process to obtain permits for the development and operation of a future Media Luna mine. These agreements are not included in the contractual commitments reported below. In addition, the Company has entered into several exploration-related agreements, all of which are cancellable within a year at the Company's discretion.

The trends that affect the Company's liquidity are further described in the "Economic Trends" section of this MD&A. The liquidity risks associated with the Company's financial instruments are set out in the "Financial Risk Management" section of this MD&A.

In addition, production revenue from concessions are subject to a 2.5% royalty payable to the Mexican Geological Survey agency. The royalty is accrued based on revenue and payable on a quarterly basis. In January 2018, the Company paid \$1.0 million relating to the fourth quarter of 2017 for the 2.5% royalty. In April 2018, the Company paid \$2.3 million relating to the first quarter of 2018 for the 2.5% royalty. In July 2018, the Company paid \$2.7 million relating to the second quarter of 2018 for the 2.5% royalty. In October 2018, the Company paid \$3.1 million relating to the third quarter of 2018 for the 2.5% royalty.

The Company is subject to a mining tax of 7.5% on earnings before the deduction of taxes, interest, depreciation and amortization, and a royalty of 0.5% on sales of gold, silver and platinum. Both the mining tax and 0.5% royalty are payable on an annual basis in March of the following year. In April 2018, the Company paid \$5.5 million relating to royalties due for 2017 in respect of the 7.5% and 0.5% royalties.

## Contractual Commitments

Table 5.

In millions U.S. dollars	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	Greater than 5 years
Long-term leases	\$ 3.6	\$ 1.0	\$ 1.0	\$ 0.5	\$ 1.1
ELG Mine Complex operating commitments	35.7	35.6	0.1	-	-
ELG Mine Complex capital commitments	8.8	8.8	-	-	-
Debt	357.0	77.2	218.4	61.4	-
<b>Total</b>	<b>\$ 405.1</b>	<b>\$ 122.6</b>	<b>\$ 219.5</b>	<b>\$ 61.9</b>	<b>\$ 1.1</b>

## OUTSTANDING SHARE DATA

Table 6.

Outstanding Share Data at November 7, 2018	Number
Common shares	84,917,606
Share purchase options <sup>1</sup>	811,424
Restricted share units <sup>2,3</sup>	437,057
Performance share units <sup>4</sup>	524,559

1. Each share purchase option is exercisable into one common share of the Company.
2. Each restricted share unit is redeemable for one common share of the Company.
3. The balance includes both Restricted Share Units ("RSUs") and Employee Restricted Share Units ("ERSUs") issued under the Restricted Share Unit Plan ("RSU Plan") and the Employee Share Unit ("ESU Plan"), respectively.
4. The number of performance share units that vest is determined by multiplying the number of units granted to the participant by an adjustment factor, which ranges from 0 to 2.0. Therefore, the number of units that will vest and be settled may be higher or lower than the number of units originally granted to a participant. The adjustment factor is based on the Company's total shareholder return relative to a group of comparable companies over the applicable period. Under the terms of the plan, the Board of Directors is authorized to determine the adjustment factor.

## 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 comparable to other issuers.

### **Total cash costs**

Total cash costs is a common financial performance measure in the gold mining industry; however, it 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 generate operating income and cash flow from its mining operations. Management uses this metric as an important tool to monitor operating costs. Total cash costs are calculated in accordance with the standard developed by the Gold Institute. Adoption of the standard is voluntary and other companies may quantify this measure differently as a result of different underlying principles and policies applied.

### **All-In Sustaining Costs**

AISC is a common financial performance measure in the gold mining industry; however, it has no standard meaning under IFRS. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, such as cost of sales and cash flows from operations, certain investors use this information to evaluate the Company's operating performance and its ability to generate free cash flow from current operations. Management uses this metric as an important tool to monitor operating and capital costs.

Torex reports AISC in accordance with the guidance issued by the World Gold Council ("WGC") in June 2013. The WGC definition of AISC seeks to extend the definition of total cash costs by adding corporate general and administrative costs, reclamation and remediation costs (including accretion and amortization), exploration and study costs (capitalized and expensed), capitalized stripping costs and sustaining capital expenditures and represents the total costs of producing gold from current operations. AISC exclude income tax payments, interest costs, costs related to business acquisitions and items needed to normalize earnings. Consequently, these measures are not representative of all of the Company's cash expenditures. In addition, the calculation of AISC does not include depreciation expense as it does not reflect the impact of expenditures incurred in prior periods. Therefore, it is not indicative of the Company's overall profitability. Other companies may quantify these measures differently because of different underlying principles and policies applied. Differences may also occur due to different definitions of sustaining versus non-sustaining capital.

## Reconciliation of Total Cash Costs and All-in Sustaining Costs to Cost of Sales

Table 7.

		Three Months Ended		Nine Months Ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<i>In millions of U.S. dollars, unless otherwise noted</i>					
Gold sold	oz	102,919	78,254	243,471	217,399
<b>Total cash costs per ounce sold</b>					
Production costs and royalties	\$	62.2	57.6	161.9	154.8
Less: Silver sales	\$	(1.0)	(0.6)	(2.0)	(2.0)
Less: Copper sales	\$	(0.5)	-	(0.5)	-
Total cash costs	\$	60.7	57.0	159.4	152.8
Total cash costs per ounce sold	\$/oz	590	728	655	703
<b>All-in sustaining costs per ounce sold</b>					
Total cash costs	\$	60.7	57.0	159.4	152.8
General and administrative costs <sup>1</sup>	\$	4.6	5.2	16.1	14.8
Reclamation and remediation costs	\$	0.5	0.4	1.4	1.1
Sustaining exploration costs <sup>2</sup>	\$	0.4	-	1.0	-
Sustaining capital expenditure <sup>3</sup>	\$	33.3	18.4	60.6	45.4
Total all-in sustaining costs	\$	99.5	81.0	238.5	214.1
Total all-in sustaining costs per ounce sold	\$/oz	967	1,035	980	985

1. Includes share-based compensation in the amount of \$1.7 million, or \$16/oz, and \$5.7 million, or \$23/oz for the three and nine months ended September 30, 2018, respectively.
2. Sustaining exploration costs for the three and nine months ended September 30, 2018 exclude \$0.8 million and \$2.7 million of evaluation costs in relation to a new mining technology that the Company is developing.
3. Based on additions to property, plant and equipment per the Statement of Cash Flows for the three and nine months ended September 30, 2018. Capital expenditures for the three and nine months ended September 30, 2018 totalled \$44.2 million and \$81.6 million. Sustaining capital expenditures of \$33.3 million in the three months ended September 30, 2018 are related to \$23.8 million for the cash component of capitalized stripping activities, and \$9.5 million for sustaining equipment and infrastructure expenditures. Sustaining capital expenditures in the nine months ended September 30, 2018 of \$60.6 million include \$41.6 million for the cash component of capitalized stripping activities, and \$19.0 million for sustaining equipment and infrastructure expenditures. Non-sustaining capital expenditures of \$10.9 million in the three months ended September 30, 2018 relating to the SART plant, the El Limón Deep tunnel, the Sub-Sill, and the Media Luna Project, have been excluded from AISC. Non-sustaining capital expenditures of \$21.0 million in the nine months ended September 30, 2018 relating to the SART plant, the El Limón Deep tunnel, the Sub-Sill, and the Media Luna Project, have been excluded from AISC.

### Average Realized Price and Average Realized Margin

Average realized price and average realized margin per ounce of gold sold are used by management to better understand the gold price and margin realized throughout a period.

Average realized price is quantified as revenue per the Statement of Operations and Comprehensive Income (Loss) and includes realized gains and losses on the Gold Contracts, if any, less silver and copper sales. Average realized margin reflects average realized price per ounce of gold sold less total cash costs per ounce of gold sold.

The average realized price for the third quarter of 2018 was \$1,214 per ounce of gold sold compared to \$1,277 per ounce of gold sold for the third quarter of 2017. The decrease is primarily a result of lower average spot prices. The average realized price for the nine months ended September 30, 2018 was \$1,272 compared to \$1,249 in the nine months ended September 30, 2017. The increase is primarily as a result of higher average spot prices.

The average realized margin for the third quarter of 2018 was \$624 per ounce of gold sold compared to \$549 per ounce of gold sold for the third quarter of 2017. The average realized margin for the nine months ended September 30, 2018 was \$617 per ounce compared to \$546 per ounce for the nine months ended September 30, 2017. The increase primarily reflects lower total cash costs.

## Reconciliation of Average Realized Price and Average Realized Margin to Revenue

Table 8.

		Three Months Ended		Nine Months Ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<i>In millions of U.S. dollars, unless otherwise noted</i>					
Gold sold	oz	102,919	78,254	243,471	217,399
Revenue	\$	126.4	100.5	312.2	274.1
Less: Silver sales	\$	(1.0)	(0.6)	(2.0)	(2.0)
Less: Copper sales	\$	(0.5)	-	(0.5)	-
Less: Realized loss on Gold Contracts	\$	-	-	-	(0.5)
Total proceeds	\$	124.9	99.9	309.7	271.6
Total average realized price per ounce	\$/oz	1,214	1,277	1,272	1,249
Less: Total cash costs per ounce	\$/oz	590	728	655	703
Total average realized margin per ounce	\$/oz	624	549	617	546

### Adjusted Net Earnings (Loss)

Adjusted net earnings (loss) and adjusted net earnings (loss) 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 (loss) is defined as net income (loss) 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, non-cash unrealized gains and losses on derivative contracts, impairment provisions (if any), the tax effect of currency translation on tax base, and other non-recurring items, net of tax.

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

Beginning in the second quarter of 2018, the Company updated adjusted net earnings (loss) to include the tax effect of currency translation on tax base to better reflect the underlying operating performance of the Company. Comparatives have been restated.

Adjusted net earnings for the third quarter of 2018 was \$7.3 million, compared to \$2.3 million in adjusted net earnings for the third quarter of 2017. The increase in adjusted net earnings is largely due to higher net income, partially offset by the tax effect of currency translation on tax base.

## Reconciliation of Adjusted Net Earnings (Loss) to Net Income (Loss)

Table 9.

<i>In millions of U.S. dollars, unless otherwise noted</i>		Three Months Ended		Nine Months Ended	
		Sep 30, 2018	Sep 30, 2017 <sup>1</sup>	Sep 30, 2018	Sep 30, 2017 <sup>1</sup>
Basic weighted average shares outstanding	shares	84,912,606	79,826,579	84,195,319	79,777,568
Diluted weighted average shares outstanding	shares	85,068,526	79,826,579	84,316,584	80,261,645
Net income (loss)	\$	23.9	(1.6)	21.8	12.4
Adjustments, after-tax:					
Unrealized foreign exchange (gain) loss	\$	(2.9)	0.7	(3.2)	(6.9)
Unrealized (gain) loss on derivative contracts	\$	(1.1)	-	(2.0)	(1.1)
Tax effect of adjustments	\$	1.2	(0.2)	1.6	1.8
Tax effect of currency translation on tax base <sup>1</sup>	\$	(13.8)	3.4	(12.4)	(31.3)
Adjusted net earnings (loss)	\$	7.3	2.3	5.8	(25.1)
Per share - Basic	\$/share	0.09	0.03	0.07	(0.31)
Per share - Diluted	\$/share	0.09	0.03	0.07	(0.31)

1. Beginning in the second quarter of 2018, the Company updated adjusted net earnings (loss) to include the tax effect of currency translation on tax base. Comparatives have been restated.

## ADDITIONAL IFRS FINANCIAL MEASURES

The Company has included the additional IFRS measures “Earnings from mine operations” and “Cash generated from operating activities before change in non-cash working capital balances” in its financial statements.

“Earnings from mine operations” provides useful information to management and investors as an indication of the Company’s principal business activities before consideration of how those activities are financed, and expended in respect of sustaining capital expenditures, corporate general and administrative expenses, exploration and evaluation expenses, foreign exchange losses, derivative costs, finance income and expenses, and taxation.

“Cash generated from operating activities before change in non-cash working capital balances” provides useful information to management and investors as an indication of the cash flows from operations before consideration of the impact of changes in working capital balances in the period.

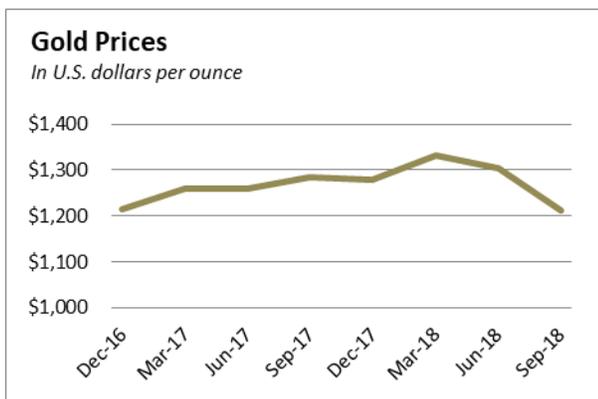
## ECONOMIC TRENDS

The Company's results from operations, financial condition, and cash flows are affected by various business conditions and economic trends that are beyond the Company's control. The market price for gold and foreign currency exchange rates are the most significant external factors that affect the Company's financial performance.

Table 10.

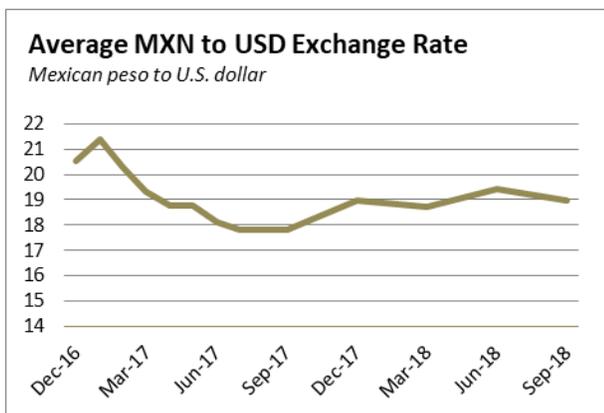
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
<b>Average market spot prices</b>					
Gold	\$/oz	1,212	1,284	1,281	1,254
<b>Average market exchange rates</b>					
Mexican peso : U.S. dollar	Peso : \$	19.0	17.8	19.0	18.9
Canadian dollar : U.S. dollar	C\$ : \$	1.31	1.25	1.29	1.31

### Metal prices



The Company's profitability and operating cash flows are significantly impacted by the price of gold. The market price of gold continued to exhibit volatility during the nine months ended September 30, 2018, and averaged \$1,281 per ounce of gold, up 2% over the average price for the nine months ended September 30, 2017. Prior to July 2017, the Company's profitability and operating cash flows were less impacted by volatility in the market spot prices as the Company had fixed price Gold Contracts for the sale of a portion of the Company's production.

### Foreign exchange rates



The Company's functional currency is the U.S. dollar and it is therefore exposed to financial risk related to foreign exchange rates. In particular, approximately 47% of the Company's costs for the nine months ended September 30, 2018 were incurred in Mexican pesos. Although the Company has entered into the Peso Contracts to fix a portion of its Mexican peso-denominated costs and operating expenditures, changes in exchange rates are still expected to have an impact on the Company's results. In addition, the Company is exposed to foreign exchange risk on its non-U.S. dollar denominated monetary assets and liabilities. The average exchange rate of the Mexican peso relative to the U.S. dollar was 19.0 and 17.8 pesos for the nine months ended September 30, 2018 and the nine months ended September 30, 2017, representing a depreciation of 7% in the Mexican peso.

## SUMMARY OF QUARTERLY RESULTS

### Quarterly Results for the Eight Most Recently Completed Quarters

Table 11.

		2018				2017			2016
		Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
<i>In millions of U.S. dollars, unless otherwise noted</i>									
<b>Key Operating Data</b>									
<b>Mining</b>									
Ore mined	kt	1,246	1,278	571	633	1,140	1,164	711	853
Waste mined	kt	9,846	5,877	2,508	2,319	7,546	7,212	5,725	5,982
Total mined	kt	11,092	7,155	3,079	2,952	8,686	8,376	6,436	6,835
Strip ratio <sup>1</sup>	waste:ore	8.2	4.6	4.4	3.7	6.7	6.2	8.1	7.0
Average gold grade of ore mined	gpt	2.60	2.45	3.29	3.03	2.53	2.37	2.19	3.03
<b>Processing</b>									
Tonnes processed	kt	1,170	1,000	785	428	1,152	1,189	941	849
Average plant throughput <sup>3</sup>	tpd	12,717	10,989	10,467	12,588	12,522	13,063	10,455	9,233
Plant recovery	%	89	87	87	85	87	86	85	89
Average gold grade of ore processed	gpt	3.01	2.86	3.13	2.72	2.35	2.37	2.49	3.49
<b>Production and Sales</b>									
Gold dore produced	oz	100,346	78,796	67,167	28,162	67,337	74,487	70,887	80,955
Gold ounces sold	oz	102,919	77,646	62,906	31,398	78,254	68,398	70,747	83,259
Gold from carbon fines produced	oz	1,135	1,300	8,887	1,809	3,305	3,037	-	-
<b>Financial Results</b>									
Revenue	\$	126.4	101.8	84.0	40.8	100.5	86.6	87.0	102.3
Cost of sales	\$	94.7	78.3	65.2	34.1	83.4	71.7	71.0	68.6
Earnings from mine operations	\$	31.7	23.5	18.8	6.7	17.1	14.9	16.0	33.8
General and administrative	\$	4.6	5.1	6.5	4.2	5.2	4.2	5.5	3.8
Exploration and evaluation	\$	1.2	2.2	0.3	0.5	1.9	3.6	0.5	1.9
Blockade and other charges	\$	-	-	4.1	14.4	-	-	-	-
Income tax expense (recovery)	\$	4.5	17.7	(4.0)	(0.7)	4.1	0.5	(4.6)	16.7
Net income (loss)	\$	23.9	(12.3)	10.2	(25.0)	(1.6)	5.1	8.9	10.7
Per share - Basic	\$/share	0.28	(0.14)	0.12	(0.31)	(0.02)	0.06	0.11	0.13
Per share - Diluted	\$/share	0.28	(0.14)	0.12	(0.31)	(0.02)	0.06	0.11	0.13
Adjusted net earnings (loss) <sup>2,4</sup>	\$	7.3	10.6	(12.2)	0.3	2.3	(11.7)	(15.7)	16.7
Per share - Basic <sup>2,4</sup>	\$/share	0.09	0.13	(0.15)	0.00	0.03	(0.15)	(0.20)	0.21
Per share - Diluted <sup>2,4</sup>	\$/share	0.09	0.13	(0.15)	0.00	0.03	(0.15)	(0.20)	0.21
Cost of sales	\$/oz	920	1,008	1,036	1,086	1,066	1,048	1,004	823
Total cash costs <sup>2</sup>	\$/oz	590	680	730	755	728	706	671	539
All-in sustaining costs <sup>2</sup>	\$/oz	967	1,017	954	1,016	1,035	991	923	746
Average realized gold price <sup>2</sup>	\$/oz	1,214	1,302	1,331	1,284	1,277	1,241	1,227	1,232
Average realized margin <sup>2</sup>	\$/oz	624	622	601	529	549	535	556	693

For each of the eight most recent completed quarters, the financial data was prepared in accordance with IFRS. The presentation and functional currency is in U.S. dollars. The quarterly results are unaudited. Sum of all the quarters may not add up to annual or year to date totals due to rounding.

- Ore mined underground from the Sub-Sill of 38 kt, 5 kt, 4 kt, 13 kt and 12 kt is included in ore tonnes mined and excluded from the strip ratio for the three months ended September 30, 2018, June 30, 2018, March 31, 2018, December 31, 2017 and September 30, 2017, respectively.
- Adjusted net earnings (loss), total cash costs, AISC, average realized gold price, and average realized margin are non-IFRS financial performance measures with no standard meaning under IFRS. Refer to "Non-IFRS Financial Performance Measures" for further information.
- Due to the Blockade, the first quarter of 2018 represents 75 days of partial operations.
- Beginning in the second quarter of 2018, the Company updated adjusted net earnings (loss) to include the tax effect of currency translation on tax base. Comparatives have been restated. Refer to "Non-IFRS Financial Performance Measures" for further information.

Net income (loss) has fluctuated based on, among other factors, gold prices, foreign exchange rates, deferred income taxes, interest collected on VAT receivables, and the Blockade. Gold prices affect the Company's realized sales prices of its gold production, as well as the marked-to-market value of the Gold Contracts. Fluctuations in the value of the Mexican peso and Canadian dollar relative to the U.S. dollar affect the Company's operating and corporate expenses, income taxes, and the value of non-U.S. dollar denominated monetary assets and liabilities such as cash, amounts receivable, accounts payable and debt. Changes in the value of the Mexican peso also impact the marked-to-market value of the Peso Contracts, as well as the tax basis of non-monetary assets and liabilities considered in the Company's deferred tax liability.

## **TRANSACTIONS WITH RELATED PARTIES**

In June 2018, Fred Stanford, the Company's President and Chief Executive Officer ("CEO") sold, assigned and transferred to the Company (the "Assignment"), with the exception of trademarks, his entire right, title and interest in a proprietary mining system (the "Mining System" which is sometimes referred to as "Muckahi") for use in underground mines for nominal consideration. The transaction is accounted for at the exchange amount based on the consideration. All subsequent improvements to this system will be owned by the Company. The Company has granted an irrevocable license (the "License" and together with the Assignment, the "IP Agreements"), in any intellectual property associated with the Mining System, including any improvements, to Muckahi Inc., an entity controlled by Fred Stanford, the Company's CEO. During Fred Stanford's tenure as CEO, Muckahi Inc. will not be permitted to make use of the License. The Mining System is currently in the evaluation stage and if determined viable, the Company may use the system in current or future underground mining operations or for commercial purposes. The board of directors of the Corporation (the "Board") appointed a committee of independent directors (the "Independent Committee") to negotiate the terms of the IP Agreements and make a recommendation to the Board thereon. The Board approved the IP Agreements, taking into consideration, among other matters, the Independent Committee's determination that the terms of the IP Agreements are fair, reasonable and in the best interests of the Corporation and their recommendation to approve the IP Agreements. In August 2018, the Company and Muckahi Inc. entered into an agreement which grants to the Company the right to use the name "Muckahi" on a royalty free basis. The term of the agreement is perpetual, however, Muckahi Inc. may terminate the agreement at any time by giving the Company 60 days prior notice.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As of the date of this filing, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both the current and future periods.

The areas that require management to make significant judgments in applying the Company's accounting policies to determine carrying values in the unaudited condensed consolidated interim financial statements are the same as those applied in the audited consolidated financial statements as at and for the year ended December 31, 2017.

With the exception of the change detailed in section "Recent Accounting Pronouncements", there have been no changes in the accounting policies adopted by the Company from those detailed in Note 3 to the Company's December 31, 2017 audited consolidated financial statements.

## RECENT ACCOUNTING PRONOUNCEMENTS

New and amended standards and interpretations issued and effective:

(a) IFRS 15, *Revenue from Contracts with Customers*

The Company has adopted IFRS 15, Revenue from Contracts (“IFRS 15”) issued in May 2014. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control-based approach to recognize revenue, which is a change from the risk and reward approach under previous standards.

The adoption of IFRS 15 did not impact the Company’s consolidated financial statements. IFRS 15 requires that revenue from contracts with customers be recognized upon the transfer of control over goods or services to the customer. The recognition of revenue upon transfer of control to the customer is consistent with the Company’s accounting policy, of recognizing revenue on trade date for spot sales, upon shipment for copper precipitate sales, and on settlement for carbon fines sales.

(b) IFRS 9, *Financial instruments*

The Company adopted IFRS 9, Financial Instruments (“IFRS 9”), issued in July 2014 with a date of initial application of January 1, 2018. IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 requires classification of financial assets as measured at amortized cost, fair value through profit or loss (“FVTPL”) or fair value through other comprehensive income and classification of financial liabilities as measured at amortized cost or fair value. The approach in IFRS 9 for financial assets is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. The nature and effects of the key changes to the Company’s accounting policies resulting from its adoption of IFRS 9 are summarized below.

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparatives in accordance with the transition requirements. As a result, the comparative information provided continues to be accounted for in accordance with the Company’s previous accounting policy.

As a result of the adoption of IFRS 9, the Company has changed its accounting policy for modifications in the terms of a debt instrument that does not meet the de-recognition conditions. Under IFRS 9, such modifications result in the recalculation of the amortized cost of the liability and the difference in present value arising as a result of such a non-substantial modification being recognized in profit or loss. Fees and transaction costs related to such a modification continue to be recognized as an adjustment to the carrying amount of the liability. Under IAS 39, the difference in present value was recognized as an adjustment to the effective interest rate and amortized over the remaining life of the modified financial liability. The following table summarizes the impact, net of tax, of transition to IFRS 9 as at January 1, 2018.

	IAS 39 as previously reported at December 31, 2017	Adjustments	Impact on the opening balance at January 1, 2018
<b>Liabilities</b>			
Debt	\$ 385.6	\$ (2.3)	\$ 383.3
Deferred income tax liabilities	26.3	0.7	27.0
<b>Deficit</b>			
Deficit	\$ 254.5	\$ (1.6)	\$ 252.9

(c) *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2)

The Company has adopted the amendments to IFRS 2 issued by the IASB in June 2016, clarifying how to account for certain types of share-based payment transactions, with a date of initial application of January 1, 2018. The amendments provide requirements for the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company's accounting is consistent with this amendment and therefore the adoption of this amendment did not impact the Company's consolidated financial statements.

(d) *IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration*

The Company has adopted IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*, with a date of initial application of January 1, 2018. The interpretation clarifies which date should be used for translation when an advance payment or receipt is made in a foreign currency. The interpretation clarifies that the date of the transaction for determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary assets or non-monetary liability arising from the payment or receipt of advance consideration. The Company has already been using the date of the transaction for determining the exchange rate in this context. Therefore, the adoption of this interpretation did not impact the Company's consolidated financial statements.

Accounting pronouncements issued but not yet effective:

(a) *IFRS 16, Leases*

IFRS 16, *Leases* ("IFRS 16"), issued in January 2016, replaces IAS 17, *Leases*. IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. IFRS 16 is effective for periods beginning on or after January 1, 2019. The Company intends to adopt IFRS 16 in its consolidated financial statements for the period beginning on January 1, 2019. The Company has completed a systems evaluation and completed a preliminary review of leases with additional analysis and impact quantification under way. The Company anticipates that the impact of adopting this new standard will be to increase property, plant and equipment, lease liability, depreciation and amortization expense, finance costs, and cash flows from operating activities as well as decrease lease expense and financing cash flows as more lease payments will be recorded as financing outflows in the Company's Statements of Cash Flows.

(b) *IFRIC Interpretation 23, Uncertainty over Income Tax Treatments*

The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is applicable for periods beginning on or after January 1, 2019. Under this interpretation, the key test is whether it is probable that the tax authorities will accept a chosen tax treatment. If it is probable, then the amount recorded in the consolidated financial statements must be the same as the treatment in the tax return. If it is not probable, then the amount recorded in the consolidated financial statements would be different than in the tax return and would be measured as either the most likely amount or the expected value. The interpretation also requires companies to reassess the judgments and estimates applied if facts and circumstances change, because of, examination or actions by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires. The Company intends to adopt the interpretation in its consolidated financial statements for the period beginning on January 1, 2019. The Company is currently assessing the impact of adopting this new standard.

## FINANCIAL RISK MANAGEMENT

The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, liquidity risk, foreign currency risk and interest rate risk.

### ***Credit risk***

Credit risk is the risk of a loss associated with a counterparty's inability to fulfill its contractual payment obligations. To mitigate exposure to credit risk, the Company has adopted strict investment policies, which prohibit any equity or money market investments. All of the Company's cash, cash equivalents, restricted cash, derivative contracts, and VAT receivables are with reputable financial institutions or government agencies and, as such, the Company does not consider its credit risk on these balances to be significant as at September 30, 2018.

### ***Liquidity risk***

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At September 30, 2018, the Company had cash balances of \$121.6 million, excluding restricted cash of \$26.6 million (December 31, 2017 – cash balance of \$44.9 million, excluding restricted cash of \$13.9 million). The Company maintains its cash in fully liquid business accounts. At September 30, 2018, the cash balance held by MML totalled \$82.3 million (December 31, 2017 - \$23.9 million).

As at September 30, 2018, the amounts outstanding under the Debt Facility, Equipment Loan, and Finance Lease Arrangement, totalled \$338.7 million, \$2.0 million, \$16.3 million, respectively.

The cash flows that are expected to fund the ELG Mine Complex and settle current liabilities are dependent on, among other things, proceeds from gold sales and recovery of the Company's VAT receivables. The Company is exposed to liquidity and credit risk with respect to its VAT receivables if the Mexican tax authorities are unable, or unwilling to make payments in a timely manner in accordance with the Company's monthly filings. Timing of collection on VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up.

As at September 30, 2018, the Company's VAT receivable balance is \$49.5 million and in respect of this balance, the Company expects to recover \$33.7 million during the next twelve months and a further \$15.8 million thereafter. The Company's approach to managing liquidity risk with respect to its VAT receivables is to file its refund requests on a timely basis, monitor actual and projected collections of its VAT receivables, and cooperate with the Mexican tax authorities in providing information as required. Although the Company expects a full recovery, there remains risk on the amount and timing of collection of the Company's VAT receivables, which may affect the Company's liquidity and ability to fund other priorities.

The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

### ***Commodity Price Risk***

Gold prices have fluctuated widely in recent years. There is no assurance that, even as commercial quantities of gold may be produced in the future, a profitable market will exist for them. A 10% appreciation or depreciation of gold prices would decrease or increase the Company's net income by \$19.1 million for the nine months ended September 30, 2018.

### ***Foreign Currency Risk***

The Company is exposed to financial risk related to foreign exchange rates. The Company operates in Canada and Mexico and has foreign currency exposure to non-U.S dollar denominated transactions. The Company expects a significant amount of exploration, capital development, operating and decommissioning expenditures associated with the Morelos Gold Property to be paid in Mexican pesos and U.S. dollars. A significant change in the currency exchange

rates between the Canadian dollar and Mexican peso compared to the U.S. dollar is expected to influence the Company's results of operations in the future periods.

As at September 30, 2018, the Company had cash and cash equivalents, amounts receivable, VAT receivables, accounts payable and accrued liabilities and income taxes payable that are in Mexican pesos and in Canadian dollars. As at September 30, 2018, a 10% appreciation or depreciation of the Mexican peso relative to the U.S. dollar would have resulted in a decrease or increase of \$0.7 million in the Company's net income for the nine months ended September 30, 2018. A 10% appreciation or depreciation of the Canadian dollar relative to the U.S. dollar would not have resulted in a significant impact in the Company's net income for the nine months ended September 30, 2018.

As at September 30, 2018, a 10% appreciation or depreciation of the Mexican peso relative to the U.S. dollar would have resulted in an increase or decrease of \$0.5 million and \$0.6 million (using the spot rate as at September 30, 2018 of \$18.8 Mexican pesos per U.S. dollar) in the Company's net income for the nine months, as a result of the change in the value of the Peso Contracts.

As at September 30, 2018, compared to the end of the prior quarter, June 30, 2018, the Mexican peso appreciated by 5.3%. This led to an increase in the United States dollar equivalent tax value of the Company's property, plant and equipment, which for tax purposes is denominated in Mexican pesos. This decrease in value for tax purposes, without a change in the value of the property, plant and equipment for IFRS purposes (as it is denominated in United States dollars) decreased the temporary difference between the values. The difference in these values at September 30, 2018, multiplied by the applicable Mexican tax rate, derives the associated deferred tax liability for this quarter. This value was still greater than the equivalent deferred tax liability value calculated for the prior quarter. The difference in these liabilities resulted in a deferred tax expense for this quarter.

#### ***Interest Rate Risk***

Interest rate risk is the risk that the future cash flows of a financial instrument, or its fair value will fluctuate because of changes in market interest rates. As at September 30, 2018, a 100-basis point change in the LIBOR rate would result in a \$3.6 million change per annum in interest expense relating to the Company's Debt Facility, Equipment Loan and Finance Lease Arrangement based on current market spreads. The Company has not entered into any agreements to hedge against unfavourable changes in interest rates.

The Company deposits cash in fully liquid business bank accounts with reputable financial institutions or government agencies. As such, the Company does not consider its interest rate risk exposure to be significant at September 30, 2018 with respect to its cash and cash equivalent positions.

## **RISKS AND UNCERTAINTIES**

For a more comprehensive discussion of the risks faced by the Company, which may cause the actual financial results, performance or achievements of the Company to be materially different from the Company's estimated future results, performance or achievements expressed or implied by forward-looking information or forward-looking statements, please refer to the Company's latest Annual Information Form ("AIF"), filed on [www.sedar.com](http://www.sedar.com).

#### **Indebtedness risks**

The level of the Company's indebtedness, as well as the financial covenants, restrictive covenants and other limitations imposed under the indebtedness, could have an adverse impact on the Company's business including limiting its ability to obtain additional financing, making it difficult to satisfy its obligations, limiting its ability to pursue additional opportunities and making the Company more vulnerable to general adverse economic and industry conditions.

There can be no assurance that the Company will be able to generate sufficient cash flow over the required period to satisfy its financial covenants and service its indebtedness on a timely basis, or at all. If the Company is unable to service its indebtedness or if an event of default occurs under the Debt Facility, or other indebtedness, the amounts outstanding could become repayable in full if the Company is unable to obtain a waiver or extension. In such an event,

the Company may not have sufficient cash resources or the ability to obtain additional funds in order to repay these amounts.

### **Safety and security risks**

The ELG Mine Complex and the Media Luna Project are in the State of Guerrero, Mexico. Guerrero State suffers from high levels of criminality. The homicide rate is among the highest in the world and organized crime is active in the state, and in the region surrounding the ELG Mine Complex. Criminal activities in the region, or the perception that activities are likely, may disrupt the Company's operations, hamper the Company's ability to hire and keep qualified personnel, and impair the Company's access to sources of capital. Risks associated with conducting business in the region include risks related to personnel safety and asset security. Risks may include, but are not limited to: kidnappings of employees and contractors; exposure of employees and contractors to local crime-related activity and disturbances; exposure of employees and contractors to drug trade activity; and damage or theft of Company or personal assets including the Company's future gold shipments. These risks may result in serious, adverse consequences including personal injuries or death, property damage or theft, limiting or disrupting operations, restricting the movements of funds, impairing contractual rights and causing the Company to shut down operations, all of which may expose the Company to costs as well as potential liability. Such events could have a material adverse effect on the Company's cash flows, earnings, results of operations and financial condition and make it more difficult for the Company to obtain financing, if needed. Although the Company has developed procedures regarding these risks, due to the unpredictable nature of criminal activities, there is no assurance that the Company's efforts are able to effectively mitigate risks and effectively safeguard personnel and Company property.

### **Illegal blockades**

Local communities may be influenced by external entities, groups, or organizations opposed to mining activities or seeking to gain illegally from mining. Social acceptance of MML remains strong and local communities are largely supportive of the ELG Mine Complex; however, the ELG Mine Complex does experience blockades from time to time. Most recently, the Company's operations in the ELG Mine Complex were shut down from November 3, 2017 to January 15, 2018.

The ELG Mine Complex has been blockaded on several occasions since commercial production started in 2016. With the exception of the recent Blockade, most of the blockades have been short, with the root cause traced back to inequality or perceived inequality. There was very little economic inequality before the Morelos Gold Property was identified, and poverty in the area was widespread. The ELG Mine Complex has brought new wealth to the area, and for some, the land leases, jobs, and business opportunities have created a distinctly improved set of economic outcomes. However, not everyone has been able to take advantage of these opportunities and for those who have not seen a dramatic change in their lifestyle, they now see others in their community with wealth that they do not have. This has been perceived as unfair by some members of the community, and most of the blockades to date have been an expression of that perceived unfairness.

The Company has been working with the government to mitigate this risk of blockades, and it is expected that the economic benefits of the ELG Mine Complex will reach more local citizens now that the government's mining fund, which is supported by royalties from the ELG Mine Complex, is investing in the development of infrastructure within the communities of the Municipality of Cocula. There is no assurance that the Company's efforts will be able to effectively mitigate such risks.

### **Operational risks**

#### ***Precious metal exploration, mine development and operations***

The most significant risks and uncertainties the Company faces are: the Company's reliance on its principal assets, the ELG Mine Complex and the Media Luna Project that form part of its 100% owned Morelos Gold Property; key issues relating to the development and exploitation of the ELG Mine Complex; open pit mining risks; risks associated with the ramp-up of the processing plant, fluctuation in gold and other metal prices, commodity price risk, currency exchange

rate fluctuations, capital and operational cost estimates, access to the ELG Mine Complex and the possibility of blockades, dependence on good relationships with employees and contractors and the possibility of labour unrest, strikes and similar job actions, dependence on key executives and employees, limited operating history, generating positive cash flow, the ability of the Company to secure additional financing, the safety and security of the Company properties, including criminal activity such as theft and robbery, servicing of the indebtedness of the Company, the ability to secure necessary permits and licenses, leases for the land on which the Company operates, including surface and access rights, foreign operations and political and country risk, government policies and practices in respect of the administration of recovery of VAT funds and recovery of VAT funds, exploration, development, exploitation and the mining industry generally, environmental risks and hazards, decommissioning and reclamation costs, parameters and assumptions underlying mineral resource and mineral reserve estimates and financial analyses being incorrect, actual results of current exploration, development and exploitation activities not being consistent with expectations, potential litigation, hiring the required personnel and maintaining personnel relations, future commodity prices, infrastructure, single property focus, use and reliance of experts outside Canada, competition, hedging contracts, interest rate risk, price and volatility of public stock, limitations under the 2017 Debt Facility, Equipment Loan and Finance Lease Arrangement, liquidity of parent company, conflicts of interest of certain personnel, credit and liquidity risk, compliance with anti-corruption laws, enforcement of legal rights, accounting policies and internal controls. For additional information relating to the Company, and a detailed description of risks and uncertainties refer to the Company's most recent annual information form, which is available at the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). See also "Cautionary Note Regarding Forward-Looking Statements."

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The President and Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal control framework was designed based on the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

There was no change in the Company's internal controls over financial reporting that occurred during the third quarter of 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **Disclosure Controls and Procedures**

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 to allow timely decisions regarding required disclosure. The Company's President and Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the design of the disclosure controls and procedures, that as of September 30, 2018, the Company's disclosure controls and procedures have been designed to provide reasonable assurance that material information is made known to them by others within the Company.

### **Limitations of Controls and Procedures**

The Company's management, including the President and 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.

## QUALIFIED PERSONS

Scientific and technical information contained in this MD&A has been reviewed and approved by Dawson Proudfoot, P.Eng., Vice President, Engineering of Torex Gold Resources Inc. and a Qualified Person under NI 43-101.

## ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's most recent annual information form, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com), and is available upon request from the Company.

## CAUTIONARY NOTES

### Preliminary Economic Assessment

A preliminary economic assessment should not be considered a prefeasibility study or feasibility study, as the economics and technical viability of the Media Luna Project have not been demonstrated at this time. The PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. It cannot be assumed that all or any part of the inferred mineral resources will ever be upgraded to a higher category. Furthermore, there is no certainty that the conclusions or results as reported in the Media Luna PEA will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

The Media Luna PEA includes information on Muckahi. It is important to note that Muckahi is experimental in nature and has not been tested in an operating mine. Many aspects of the system are conceptual, and proof of concept has not been demonstrated. Drill and blast fundamentals, standards and best practices for underground hard rock mining are applied in the Muckahi, where applicable. The proposed application of a monorail system for underground transportation for mine development and production mining is unique to underground hard rock mining. There are existing underground hard rock mines that use a monorail system for transportation of materials and equipment, however not in the capacity described in the Technical Report. Aspects of Muckahi mining equipment are currently in the design stage. The mine design, equipment performance and cost estimations are conceptual in nature, and do not demonstrate technical or economic viability. The approximate timeframe to develop and test the concept would be approximately two years (approx. second quarter 2020) for the mine development activities and up to five years for the mine production activities (approx. second quarter 2023). Further studies would be required to verify the viability of Muckahi. Muckahi is not intended as a "trade off study" but is shown in the PEA to merely demonstrate the potential benefits Muckahi may have using the Media Luna deposit as an example. It includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary economic assessment will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

### Forward-Looking Statements

This MD&A contains "forward-looking statements" and "forward-looking information" within the meaning of applicable Canadian securities legislation. Forward-looking information includes, but is not limited to, information with respect to the future exploration, development and exploitation plans concerning the Morelos Gold Property, the adequacy of the Company's financial resources, business plans and strategy and other events or conditions that may occur in the future, and the results set out in the Technical Report including the PEA including with respect to mineral resource and mineral reserve estimates, the ability to exploit estimated mineral reserves, the Company's expectation that the ELG Mine Complex will be profitable with positive economics from mining, recoveries, grades, annual production, receipt of all necessary approvals and permits, the parameters and assumptions underlying the mineral resource and mineral reserve estimates and the financial analysis, and gold prices, the expectation that the Company will be able to generate sufficient cash flow to satisfy the financial covenants under the Debt Facility and service its

indebtedness on a timely basis, the expectation that the Company will achieve the full guidance as initially released, the expected successful ramp-up and achieving full production, expected metal recoveries, gold production, total cash costs per ounce of gold sold, AISC per ounce of gold sold and revenues from operations, and capital costs, the ability to mine and process estimated mineral reserves, near term growth opportunities in both the Sub-Sill and El Limón Deep zone and mid-term growth potential of Media Luna, plans to complete the drilling programs on Media Luna and El Limón Deep and budgets to complete drilling programs, plans to seek opportunities to acquire assets in the Americas that enable profitable and effective geographic diversification, expected production from the ELG Underground mine and related capital requirements, the expected successful ramp-up and operation of the SART plant and the expected net benefit, including cost saving, from the operation of the SART plant, and further advances of funds if required, pursuant to the Debt Facility (which is subject to certain customary conditions precedent), expected timing and receipt of VAT refunds, continued unimpeded operations and the permanent resolution of the Blockade, and plans to further examine the potential of the new mining technology (Muckahi) including the expected completion of the testing by the end of 2019, the indication based on the initial results of the infill drilling program on Media Luna that the deposit will meet expectations, plan to advance the Media Luna Project from early stage development to production, including, the goal of the infill drilling program to upgrade 25% of the inferred resources to indicated, completing key trade off studies by mid-2019 and the associated budget, plan and timeline to complete a feasibility study and subject to the outcome of the feasibility study, among other things, projected timeline for commencement of production, plan and timeline to complete a drill program to test a porphyry target, and expected future loss carryforwards and their effect on the Company's tax expense and effective tax rate. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans," "expects," or "does not expect," "is expected," "budget," "scheduled," "goal," "estimates," "forecasts," "intends," "anticipates," or "does not anticipate," "believes" or "potential" or variations of such words and phrases or statements that certain actions, events or results "may," "could," "would," "might," or "will be taken," "occur," or "be achieved." Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including risks associated with the ramp-up of the processing plant, fluctuation in gold and other metal prices, commodity price risk, currency exchange rate fluctuations, capital and operational cost estimates, satisfying financial covenants under the Debt Facility, illegal blockades, dependence on good relationships with employees and contractors and labour unions, dependence on key executives and employees, limited operating history, generating positive cash flow, the ability of the Company to secure additional financing, the safety and security of the Company properties, servicing of the indebtedness of the Company, the ability to secure necessary permits and licenses, title to the land on which the Company operates, including surface and access rights, foreign operations and political and country risk, government policies and practices in respect of the administration of recovery of VAT funds and recovery of VAT funds, exploration, development, exploitation and the mining industry generally, environmental risks and hazards, decommissioning and reclamation costs, parameters and assumptions underlying mineral resource and mineral reserve estimates and financial analyses being incorrect, actual results of current exploration, development and exploitation activities not being consistent with expectations, risks associated with skarn deposits, potential litigation, hiring the required personnel and maintaining personnel relations, future commodity prices, infrastructure, single property focus, use and reliance of experts outside Canada, competition, hedging contracts, interest rate risk, price and volatility of public stock, conflicts of interest of certain personnel, credit and liquidity risk, compliance with anti-corruption laws, enforcement of legal rights, accounting policies and internal controls as well as those risk factors included herein and elsewhere in the Company's public disclosure.

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, but which may prove to be incorrect. Although the Company believes that the assumptions and expectations reflected in such forward-looking information are reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A and in the Company's annual information form ("AIF") and Technical Report, assumptions have been made regarding, among other things:

the Company's ability to carry on its exploration, development and exploitation activities planned for the Morelos Gold Property, the continued ramp-up to full production, timely access to the high grade material, timely completion, cost savings expected from the operation of the SART plant, the price of gold, sufficient cash flow to satisfy its financial covenants under the Debt Facility and service its indebtedness, the ability of the Company to access the ELG Mine Complex and the Media Luna Project without disruption, the ability of the Company to obtain qualified personnel, equipment, goods, consumables and services in a timely and cost-efficient manner, the timing and receipt of any required approvals and permits, the ability of the Company to operate in a safe, efficient and effective manner, the ability of the Company to obtain financing on acceptable terms, the ability to conclude the land access agreements for the additional target areas on the Morelos Property, the accuracy of the Company's mineral resource and mineral reserve estimates, annual production, the financial analysis contained in the Technical Report including the PEA, and geological, operational and price assumptions on which these are based, and the regulatory framework regarding environmental matters. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information contained herein is presented for the purposes of assisting investors in understanding the Company's expected financial and operating performance and the Company's plans and objectives and may not be appropriate for other purposes. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

**November 7, 2018**