INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of Lundin Gold Inc. and its subsidiary companies (collectively, "Lundin Gold" or the "Company") for the year ended December 31, 2016 provides a detailed analysis of the Company's business and compares its financial results with those of the previous year.

This MD&A is dated as of February 24, 2017 and should be read in conjunction with the Company's audited consolidated financial statements and related notes thereto for the fiscal years ended December 31, 2016 and 2015. These audited consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). References to the "2016 Period" and "2015 Period" relate to the years ended December 31, 2016 and December 31, 2015, respectively.

Other continuous disclosure documents, including the Company's press releases, quarterly and annual reports, and annual information form are available through its filings with the securities regulatory authorities in Canada at www.sedar.com.

HIGHLIGHTS AND ACTIVITIES

- An independent feasibility study for the Fruta del Norte Project ("FDN" or the "Project") was completed in June 2016 (the "Feasibility Study").
- In July, the La Zarza concession (host to FDN) phase change application was approved by the Government of Ecuador. With this approved, the status of the La Zarza concession was converted from the Exploration Phase to the Exploitation Phase under Ecuador's mining law.
- The Company completed an equity financing with a syndicate of underwriters (the "Underwriters"), pursuant to which the Underwriters purchased, on a bought deal basis, 17,250,000 common shares of the Company at a price of CAD$5.50 per common share (the "Offering"). Gross proceeds under the Offering were CAD$94,875,000 ($72.6 million).
- An exploration drilling campaign was completed in early August, having tested five key targets located 15 to 20 km south of the FDN. The results of the drilling program indicated that further follow up is required.
- In October, the Company's Environmental Impact Study (the "EIS") for FDN was approved and the Environmental License was granted by the Government of Ecuador.
- During 2016, the Company completed negotiations and signed the Exploitation Agreement (the "EA") for FDN with the Government of Ecuador in December. The EA, combined with existing laws and regulations, establishes the fiscal, operational and commercial terms and conditions for the development of FDN.
- During 2016, the Company completed negotiations and signed the Investment Protection Agreement (the "IPA") with the Government of Ecuador in December. The IPA provides further legal and tax stability to Lundin Gold in conjunction with the EA.
- The Company continued to progress its planned Early Works program to advance the engineering and initiate field work to maintain the project critical path. During the fourth quarter of 2016, work commenced on site clearing and earth works associated with the development of the area and facilities to support the commencement of construction of the mine portals and mine access declines in the second quarter of 2017.
- On January 16, 2017, the Company secured a $35 million credit facility from an insider of the Company (the "2017 Facility").
- On February 21, 2017, the Company awarded the mine development contract for FDN which encompasses construction of the mine portals and soft tunnelling work and the development of the twin declines.

ABOUT LUNDIN GOLD

Lundin Gold is a Canadian mining company with its head office in Vancouver, British Columbia and a corporate office in Quito, Ecuador. The Company owns FDN located in Southeast Ecuador.

Lundin Gold was incorporated in British Columbia and then continued under the *Canada Business Corporations Act*. It is a reporting issuer in the Provinces of Alberta, British Columbia and Ontario. Lundin Gold's common shares are listed for trading on the TSX and Nasdaq Stockholm under the trading symbol "LUG".

In December 2014, the Company acquired FDN along with surrounding exploration concessions, located in Southeast Ecuador. FDN is one of the largest and highest grade undeveloped gold projects in the world. The Company is advancing FDN in order to realize the significant potential of this asset.

The Company believes that the value created will not only greatly benefit shareholders, but also the Government and people of Ecuador who are the Company's most important stakeholders in this project. Lundin Gold views its commitment to corporate social responsibility as a strategic advantage that enables it both to access and effectively manage business opportunities in increasingly complex environments. Lundin Gold is committed to addressing the challenge of sustainability - delivering value to its shareholders, while simultaneously providing economic and social benefits to impacted communities and minimizing the environmental footprint of its operations.

THE FRUTA DEL NORTE PROJECT

Lundin Gold's property in Southeast Ecuador consists of 31 mining concessions covering an area of approximately 70,400 hectares. From this, FDN is comprised of three concession covering an area of approximately 4,900 hectares and is located approximately 140 kilometres east-northeast of the City of Loja, which is the fourth largest city in Ecuador.

In addition to the current Mineral Resource and Mineral Reserve estimates, the Company believes that there is significant exploration potential at FDN and on the more than 65,000 ha owned by the Company.

Activities in 2016

<u>Feasibility Study of FDN</u>

On June 6, 2016 the Company announced the results of the Feasibility Study on FDN. The highlights of the Feasibility Study are:

- Probable Mineral Reserves totalling 4.82 million ounces of gold and 6.34 million ounces of silver (15.5 million tonnes at 9.67 g/t Au and 12.7 g/t Ag);
- Estimated average annual gold production of 340,000 ounces at an estimated average life of mine ("LOM") total cash cost of $553/oz and an estimated LOM all-in sustaining cash cost of $623/oz, placing FDN in the lowest cash cost quartile globally;
- Estimated LOM production of approximately 4.4 million ounces of gold and 5.2 million ounces of silver over an initial 13-year mine life using an average gold recovery of 91.7% and average silver recovery of 81.5%;
- Estimated project capital cost, including contingency, of $669 million, net of taxes;
- Targeted start of construction in mid-2017;
- Expected first gold production in first quarter 2020 with first year of full production in 2021; and,

(Expressed in U.S. Dollars, unless otherwise noted)

- Project economics at a gold price of $1,250/ounce and a silver price of $20/ounce resulted in the following:

	Pre-tax	After Tax
Net Present Value at a 5% discount rate (NPV_5)	$1,283 million	$676 million
Internal Rate of Return (IRR)	23.8%	15.7%
Capital Payback (yrs)	3.7	4.5

Notes:

1. All figures are reported on a 100% equity project basis valuation. Capital payback is calculated based on start of production.
2. Economic valuation is presented using a start date of July 1, 2017.

Full details of the Feasibility Study can be found in a technical report entitled "Fruta del Norte - NI 43-101 Technical Report on Feasibility Study" (the "Technical Report") which has an effective date of April 30, 2016. The Technical Report is available for review under the Company's profile on SEDAR (www.sedar.com) and on the Company's website (www.lundingold.com).

Early Works Program

The Company continued with the project engineering and Early Works program to transition FDN from the feasibility study to full development and construction with the purpose of maintaining the critical path to first production. The key activities of this program carried out during the third and fourth quarter of 2016 were:

- Continuation of the field investigations campaign to obtain additional geotechnical information for mine portals and declines and ventilation shafts, process plant foundations, tailings dam and quarry site selection.

- Late in the year, commencement of clearing and site preparation for the construction of access roads, mine portals platform, mine waste dumps and water management facilities (ponds and drainage) and support services and facilities required for the start of the underground mine development by mid-2017.

- Advancement of the mine design to produce an updated life of mine plan. This included production of underground mine development plans and detailed construction drawings for the mine portals and soft tunnelling.

- Commencement of basic engineering of the process plant and surface facilities, including review of process plant layout and site layout production of quantity take offs for updated capital cost estimates. At year end basic engineering was approximately 56% complete.

- Completion of power studies for the incoming 230KV powerline from Bomboiza to Fruta del Norte and subsequent commencement of basic engineering, baseline studies for environmental permitting and easement acquisition.

On February 21, 2017, the Company awarded the mine development contract for FDN to a consortium comprising Ingenieria y Construcciones Mas Errazuriz Limitada y Filiales ("Mas Errazuriz") of Chile, and Sevilla y Martinez Ingenieros C.A. Semaica ("Semaica") of Ecuador. Mas Errazuriz and Semaica will partner as a 50/50 consortium to become Lundin Gold's key contractor for the mine portals and soft tunneling work and the development of the twin declines in preparation for operations.

Exploration

The Company continued exploration activities on some of its higher priority concessions. A drilling campaign was completed in August with 28 holes drilled totaling 8,519 metres. The program tested five key targets located 15 to 20 km south of FDN. Core follow-up and field reinterpretation on these targets, suggests that the Suarez Formation Pull-Apart Basin extends much further to the south than was previously interpreted, thereby upgrading the potential for Fruta del Norte style targets along the edges of the basin further south. Key exploration targets along the edges of the basin include Alejandro, Puente Princesa, and the general Rio Blanco area.

During the fourth quarter, an Induced Polarity (IP) geophysical survey was completed and was principally focused on strong geochemical targets in the Reina, Guacamayo, and Marequesa concessions (RGM block) where three new targets are being advanced to the drill-ready stage.

Ecuadorian Governmental Approvals

The Company's Phase Change Application in respect of its 100% owned La Zarza concession was approved by the Government of Ecuador on July 13, 2016. This approval moved the La Zarza concession from the exploration phase to the exploitation phase under Ecuador's mining law and permits Aurelian Ecuador S.A., the Company's wholly owned subsidiary, to proceed with its plans to develop FDN.

Environment and Permitting

On October 13, 2016, the Company's EIS for FDN was approved by the Government of Ecuador. The process of approval of the EIS started with the submission of a draft EIS in April 2016, followed by a public participation process coordinated and developed with the Ministry of Environment (the "MOE"), and the delivery of a final EIS to the MOE in August. The Environmental License was granted on October 28, 2016.

Exploitation Agreement

The Company signed the EA for FDN with the Government of Ecuador on December 14, 2016.

The EA, combined with existing laws and regulations, establishes the fiscal, operational and commercial terms and conditions for the development of FDN. The key features of the EA are:

- The right to develop and produce gold from FDN for 25 years, which may be renewed.

- Advance royalty payments totaling $65 million to the Government of Ecuador, of which $25 million was paid before the end of 2016. The balance of the payments will be due in two equal disbursements of $20 million on the first and second anniversary of signing the EA.

- A royalty equal to 5% of net smelter revenues from production. The advance royalty payment is deductible against future royalties payable.

The EA also defines the manner in which extraordinary revenue tax (the "Windfall Tax") is to be calculated. Consistent with the current laws in Ecuador, the Windfall Tax will not be applied until a company has recouped the cumulative investment in a mining project from its inception until the start of production, plus four years. The four-year grace period replaces the application of a present value adjustment to the actual cumulative investment incurred from signing of the EA, as originally disclosed by the Company in January.

Investment Protection Agreement

The Company signed the IPA with the Government of Ecuador on December 19, 2016. The terms and conditions of the IPA are unchanged from those announced in August.

The IPA provides further legal and tax stability to the Company in conjunction with the EA including, amongst other items, fixing the income tax rate applicable to the Company at 22% and exempting payments of principal and interest to financial institutions outside of Ecuador from the capital outflow tax. The execution of the IPA enhances the Company's ability to finance the development of FDN and gives the Company the right to any benefits that are granted pursuant to future investment protection agreements entered into by the Government of Ecuador with third parties for similar projects in the country.

(Expressed in U.S. Dollars, unless otherwise noted)

Certified English translations of the EA and IPA are available under the Company's profile on SEDAR at www.sedar.com.

SELECTED ANNUAL FINANCIAL INFORMATION

	2016	2015	2014
Net loss for the year	$ (62,813,819)	$ (45,323,862)	$ (748,724)
Basic and diluted loss per share	$ (0.59)	$ (0.45)	$ (0.04)
Weighted-average number of common shares outstanding	108,675,136	101,219,763	18,380,162
Total assets	$ 278,906,199	$ 267,399,530	$ 318,032,944

The loss during the year ended December 31, 2016 is higher compared to the previous year as a result of exploration expenditures of $5.3 million in 2016 compared to $0.9 million in 2015. Professional fees increased by $1.3 million due to an increase in corporate activities relating to negotiations with the Government of Ecuador on the EA and IPA. The Company was also required to pay $3.9 million due to a one-time mandatory contribution to the Government of Ecuador for the earthquake relief efforts. A law passed by the Government of Ecuador in response to an earthquake in the provinces of Manabí and Esmeraldas in Ecuador on April 16, 2016 established a mandatory one-time levy was based on 0.9% of the book value of the equity interest held in Ecuadorian companies by non-resident entities and is not deductible for income tax purposes.

In addition, the Company incurred $2.8 million to settle a legal dispute against the Company relating to a net smelter royalty on a Russian gold project previously held by the Company. Lastly, in 2016, the Company generated a gain on account of foreign exchange of $5.2 million. This gain was generated by the substantial holdings of U.S. dollars at the parent company level. As the functional currency of the parent company is the Canadian dollar, a strengthening of the U.S. dollar against the Canadian dollar during the year ended December 31, 2015 generated a gain in terms of Canadian dollars. The foreign exchange gain was less in 2016.

(Expressed in U.S. Dollars, unless otherwise noted)

SUMMARY OF QUARTERLY FINANCIAL RESULTS

The Company's financial statements are reported under IFRS as issued by the IASB. The following table provides highlights from the Company's financial statements of quarterly results for the past eight quarters (unaudited).

	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Net loss for the period	$ (23,888,698)	$ (11,785,014)	$ (12,430,576)	$ (14,709,531)
Basic and diluted loss per share	$ (0.20)	$ (0.10)	$ (0.12)	$ (0.15)
Weighted-average number of common shares outstanding	118,682,274	113,331,975	101,264,883	101,260,268
Total assets	$ 278,906,199	$ 300,194,541	$ 249,635,830	$ 253,616,770
Working capital	$ 1,022,055	$ 49,902,765	$ (8,535,198)	$ 2,922,308

	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Net loss for the period	$ (12,760,941)	$ (11,602,887)	$ (15,897,955)	$ (5,062,079)
Basic and diluted loss per share	$ (0.13)	$ (0.11)	$ (0.16)	$ (0.05)
Weighted-average number of common shares outstanding	101,260,268	101,239,398	101,201,982	101,176,268
Total assets	$ 267,399,530	$ 277,941,185	$ 294,612,037	$ 304,792,017
Working capital	$ 16,314,025	$ 28,324,350	$ 42,476,614	$ 56,317,859

The Company historically has only operated in the evaluation and exploration phase and therefore, has never generated production revenue. The only income generated by the Company is interest income on its cash deposits.

The current quarter's net loss is higher compared to losses in prior quarters, including the fourth quarter of 2015, primarily because of an increase in general and administrative expenditures. This increase was mainly due to the one-time mandatory contribution to the Government of Ecuador for the earthquake relief efforts (see above), a settlement of proceeding legal dispute (see above), an increase in project evaluation and exploration expenditures, and higher employee compensation due to incentive bonuses.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2016, the Company had cash of $8.5 million and a working capital balance of $1.0 million compared to cash of $21.4 million and a working capital balance of $16.3 million at December 31, 2015. The $12.9 million decrease in cash was due primarily to $57.4 million used in operating activities relating to project evaluation expenses on FDN. The Company also paid its first advance royalty payment of $25 million upon signing of the EA. The balance of the payments will be due in two equal disbursements of $20 million on the first and second anniversary of signing. This decrease was offset by cash provided by financing activities of $69.7 million mainly from an equity financing (see paragraph below).

Equity Financing

The Company completed an equity financing pursuant to which the Underwriters purchased, on a bought deal basis, 17,250,000 common shares of the Company at a price of CAD$5.50 per common share. The total gross proceeds raised under the Offering was CAD$94,875,000 ($72.6 million). Share issue costs of $3.3 million were paid resulting in net proceeds of $69.3 million received by the Company in relation to the Offering.

Short-term credit facilities

On June 8, 2016, the Company secured an $18 million credit facility from an insider of the Company. A total of $8 million was drawn down under the Facility and repaid in full on July 22, 2016 from the proceeds of the Offering. A total of 39,267 common shares of the Company were issued in lieu of interest and fees.

Subsequently, on January 16, 2017, the Company secured a second short-term $35 million credit facility from the same party (the "2017 Facility").

The 2017 Facility is evidenced by a debenture (the "2017 Debenture") which is unsecured and is due on the earlier of the closing of a financing by the Company or May 31, 2017 (the "Maturity Date"). No interest is payable in cash during the term of the 2017 Debenture. Any amount of the 2017 Facility remaining unpaid and outstanding on or after the Maturity Date shall bear interest at a rate of 5.00% per annum until repaid in full.

The Company issued an aggregate of 60,000 common shares on January 16, 2017 as consideration for the 2017 Facility in lieu of fees. The Company will also issue an additional 1,700 common shares per month for each $1 million of the 2017 Facility drawn down and outstanding until the Maturity Date. All securities issued in conjunction with the 2017 Facility will be subject to a four-month hold period under applicable securities law.

While the Company has recently completed the Feasibility Study for FDN, it has just commenced its development and has no other sources of revenues. The Company's continuing operations and the underlying value and recoverability of the amount shown for the mineral interests are entirely dependent upon the ability of the Company to obtain the necessary financing to develop FDN, fund future advance royalty payments to the Government of Ecuador, and on future profitable production.

Any potential development activities at FDN require substantial additional capital. As the Company does not have any sources of revenue, the Company is pursuing various financing transactions or arrangements, including equity financing, debt financing, stream financing, joint venturing or other means.

Management is engaged in advanced discussions with a number of parties, including financial institutions, strategic and other potential investors, which would allow for longer term financial solutions to be put in place. There can be no assurance that such financing will be available to the Company when required or, if available, that it will be offered on terms acceptable to Lundin Gold. A failure to raise capital by mid-2017 could delay the commencement of development of FDN and, if the ongoing negotiations to raise capital were to extend for a material period of time beyond mid-2017, it could potentially have a material adverse effect on Lundin Gold's business, financial condition and results of operations.

TRANSACTIONS WITH RELATED PARTIES

During the 2016 Period, the Company paid $324,577 (2015 - $293,267) to Namdo Management Services Ltd. ("Namdo"), a private corporation associated with an officer of the Company. The Company occupies office space in the Namdo offices for the Company's management, investor relations personnel and support staff. Namdo charges a service fee and recovers out of pocket expenses related to the Company. In addition, during the 2016 Period, the Company paid $97,566 (2015 - $107,321) to Bofill Mir & Alvarez Jana Abogados ("BMAJ"), a law firm of which a director of the Company is a partner. BMAJ assisted the Company with the negotiations of the EA and IPA with the Government of Ecuador. The Company also paid $116,244 (2015 – nil) to Lundin S.A.. Lundin S.A. is associated with a director of the Company and provides administrative and office facilities pursuant to an agreement.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, cash equivalents and receivables, which are categorized as loans and receivables, and accounts payable and accrued liabilities, which are categorized as amortized cost. The fair value of these financial instruments other than cash approximates their carrying values due to the short-term nature of these instruments.

The Company's financial instruments are exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate and liquidity risk.

Currency risk

The Company's parent is Canadian and its capital is raised in Canadian dollars, with foreign operations in Ecuador. Expenditures in Ecuador are primarily denominated in U.S. dollars. As such, the Company is subject to risk due to fluctuations in the exchange rates of foreign currencies. Although the Company does not enter into derivative financial instruments to manage its exposure, the Company tries to manage this risk by maintaining most of its cash in U.S. dollars.

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash is held in a large Canadian financial institution with a high investment grade rating. The Company does not have any asset-backed commercial paper. The Company's receivables are made up of interest recoverable from large Canadian financial institutions.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. Cash flow forecasting is performed regularly which monitors the Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs at all times. In addition, management is actively involved in the review, planning and approval of significant expenditures and commitments. Management is currently engaged in advanced discussions with a number of parties, including financial institutions, strategic and other potential investors, which would allow for longer term financial solutions to be put in place (refer to Liquidity and Capital Resources section above).

COMMITMENTS AND CONTINGENCIES

The Company has committed to payments under various leases and other commitments. Excluding spending amount which may be required to maintain the Company's mineral properties in good standing, the future minimum payments are as follows:

	Advance royalty	Other	Total
2017	$ 20,000,000	$ 7,236,910	$ 27,236,910
2018	20,000,000	-	20,000,000
Total	$ 40,000,000	$ 7,236,910	$ 47,236,910

OFF-BALANCE SHEET ARRANGEMENTS

During the 2016 Period and the 2015 Period there were no material off-balance sheet transactions. The Company has not entered into any specialized financial arrangements to minimize its currency risk.

OUTSTANDING SHARE DATA

As at the date of this MD&A, there were 118,748,003 common shares issued and outstanding and stock options outstanding to purchase a total of 3,834,500 common shares for a total of 122,582,503 common shares outstanding on a fully-diluted basis.

OUTLOOK

The Company remains on track with the Early Works program which is expected to be completed by mid-2017. In addition, the mine development contract for FDN was awarded on February 21, 2017 which encompasses construction of the mine portals and soft tunnelling work and the development of the twin declines. These activities support the commencement of construction of the mine portals and twin declines in the second quarter of 2017.

Upon completion of basic engineering, near the end of the first quarter of 2017, the Company anticipates preparing a production plan based on the new mine plan, updated capital and operating cost estimates and a revised execution plan taking into account a self perform approach versus conventional EPCM approach.

During the next 12 months, the Company will continue to work with its financial advisors to put in place the financing for the construction of FDN. Funding for the construction and development of FDN is expected to be done by various financing transactions or arrangements, including equity financing, debt financing, stream financing, joint venturing or other means with the objective of securing a first stage of funding by mid-2017.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are presented in Note 3 in the Notes to the audited consolidated financial statements for the year ended December 31, 2016.

Use of estimates

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.
Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that the actual results differ from assumptions made, relate to, but are not limited to, the following:

Valuation of mineral properties

The Company carries the acquisition costs of its mineral properties at cost less any provision for impairment. The Company undertakes a periodic review of the carrying values of mineral properties and whenever events or changes in circumstances indicate that their carrying values may exceed their fair value. In undertaking this review, management of the Company is required to make significant judgments. These judgments are subject to various risks and uncertainties, which may ultimately influence the expected recoverability of the carrying values of the mineral properties and related expenditures.

Utilization of tax losses

The Company is subject to income taxes in a number of jurisdictions. At present all of the entities are creating tax losses. These tax losses are only recognized to the extent that expected future taxable profits are available.

Stock-based compensation

The fair value of stock options is determined using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management of the Company is required to make certain assumptions and estimates regarding the life of the options, volatility and forfeiture rates. Changes in the assumptions used could result in materially different results.

Decommissioning and site restoration

The Company has obligations for site restoration and decommissioning related to FDN. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the country in which the project is located, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

CHANGES IN ACCOUNTING POLICIES

New standards and interpretations not yet adopted

IFRS 15, Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

IFRS 15 will be effective for financial years commencing on or after January 1, 2018. The Company does not expect any impact from this new standard as the Company has yet to generate any revenues.

IFRS 9, Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not expect any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities.

IFRS 16, Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. The Company does not expect any impact from this new standard as the Company does not currently have any leases.

QUALIFIED PERSON

The technical information relating to FDN contained in this MD&A has been reviewed and approved by Ron Hochstein P. Eng, Lundin Gold's President & CEO, and Nicholas Teasdale, MAusIMM CP(Geo), Lundin Gold's Vice-President Exploration, both of whom are Qualified Persons under NI 43-101.

Full details of the Feasibility Study can be found in a technical report entitled "Fruta del Norte - NI 43-101 Technical Report on Feasibility Study" (the "Technical Report") which has an effective date of April 30, 2016. The Technical

Report is available for review under the Company's profile on SEDAR (www.sedar.com) and on the Company's website (www.lundingold.com).

FINANCIAL INFORMATION

The report for the three months ended March 31, 2017 is expected to be published on or about May 10, 2017.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2016, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting 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 controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2016, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

RISKS FACTORS

There are a number of factors that could negatively affect Lundin Gold's business and the value of the common shares, including the factors listed below. The following information pertains to the outlook and conditions currently known to Lundin Gold that could have a material impact on the financial condition of the Company. Other factors may arise that are not currently foreseen by management of Lundin Gold that may present additional risks in the future. Current and prospective security holders of Lundin Gold should carefully consider these risk factors.

Financing Requirements

The development of FDN requires substantial additional capital. When such additional capital is required, Lundin Gold may need to pursue various financing transactions or arrangements, including equity financing, debt financing, joint venturing of projects or other means. Additional financing may not be available when needed or, if available, the terms of such financing might not be favourable to Lundin Gold. If Lundin Gold raises additional funding by issuing equity, such financing may substantially dilute the interests of shareholders and reduce the value of their investment. Moreover, Lundin Gold may not be successful in locating suitable financing when required or at all. A failure to raise capital when needed would have a material adverse effect on Lundin Gold's business, financial condition and results of operations.

In addition, debt and other mezzanine financing may involve a pledge of assets and may be senior to interests of equity holders. Lundin Gold may incur substantial fees and costs in pursuing future capital requirements. The ability to obtain needed financing may be impaired by a variety of factors such as the capital markets (both generally and in the gold industry, in particular), the location of FDN in Ecuador and the price of gold.

Instability in Ecuador

FDN is located in Ecuador, South America. As a result, the Project is subject to certain risks and possible political and economic instability specific to Ecuador, such as the outcome of political elections and the possible turnover of government, political unrest, labour disputes, invalidation of government orders, permits or property rights, risk of corruption including violations under applicable foreign corrupt practices laws, military repression, war, civil disturbances, criminal and terrorist acts, arbitrary changes in laws, expropriation, nationalization, renegotiation or nullification of existing agreements and changes to monetary or taxation policies. The occurrence of any of these risks may adversely affect the mining industry, mineral exploration and mining activities generally or the Company and, among impacts, could result in the impairment or loss of mineral concessions or other mineral rights.
Exploration, development or production may also be affected to varying degrees by government regulations with respect to, but not limited to, restrictions on future exploitation and production, price controls, export controls, income taxes, labour and immigration, and by delays in obtaining or the inability to obtain necessary permits, opposition to mining from environmental and other non-governmental organizations, limitations on foreign ownership, expropriation of property, ownership of assets, environmental legislation, labour relations, limitations on repatriation of income and return of capital, high rates of inflation, increased financing costs and site safety. These factors may affect both Lundin Gold's ability to undertake exploration and development activities in respect of future properties in the manner contemplated, as well as its ability to continue to explore, develop and operate those properties in which it has an interest or in respect of which it has obtained exploration and development rights to date.

Ecuador is holding presidential elections this year, which will be decided by a runoff vote in April and which may result in a change in government. Any shifts in political attitudes or changes in laws that may result in, among other things, significant changes to mining laws or any other national legal body of regulations or policies are beyond the control of Lundin Gold and may adversely affect its business. The Company faces the risk that future governments may adopt substantially different policies, which might extend to the expropriation of assets or increased government participation in the mining sector. In addition, changes in resource development or investment policies, increases in taxation rates, higher mining fees and royalty payments, revocation or cancellation of mining concession rights or shifts in political attitudes in Ecuador may adversely affect Lundin Gold's business.

Gold Price

Gold price has fluctuated widely, particularly in recent years. The price of gold is affected by numerous factors beyond Lundin Gold's control, including levels of supply and demand, global or regional consumptive patterns, sales by government holders, metal stock levels maintained by producers and others, increased production due to new mine developments and improved mining and production methods, speculative activities related to the sale of metals, availability and costs of metal substitutes, international economic and political conditions, interest rates, currency values and inflation.

The development of FDN requires substantial additional capital. When such additional capital is required, Lundin Gold may need to pursue various financing transactions or arrangements, including equity financing, debt financing, joint venturing of projects or other means. Variations in the gold price may impact if the additional financing is available when needed or, if available, the terms of such financing might not be favourable to Lundin Gold.

The mineral exploration and development industry in general is intensely competitive, and there is a risk that even with commercial quantities of proven and probable Mineral Reserves, a profitable market may not exist for the sale of the same. The economically viable development of identified Mineral Reserves is highly dependent upon the price of metals. A sustained and substantial decline in gold prices could result in the write down, termination of exploration work or loss of its interests in such properties.

If FDN is developed to production, the majority of Lundin Gold's revenue will be derived from the sale of gold. Therefore, fluctuations in the prices of this commodity may affect Lundin Gold's future operations and potential profitability. Declining market prices for gold could materially adversely affect Lundin Gold's future operations and profitability.

Further, if the price of gold decreases, then potential revenues from FDN will likely decrease and such decreased revenues may increase the requirements for capital. Failure to obtain sufficient financing will result in a delay or indefinite postponement of development or production at FDN.

Government or Regulatory Approvals
Lundin Gold's exploration and development activities and its operations depend on its ability to obtain, sustain or renew various mineral rights, licenses, permits, authorizations and regulatory approvals (collectively, "Rights" and individually a "Right") from various governmental and quasi-governmental authorities. Lundin Gold's ability to obtain, sustain or renew such Rights on acceptable terms and on a timely basis is subject to changes in regulations and policies and to the discretion of the applicable governmental and quasi-governmental bodies. Lundin Gold may not be able to obtain, sustain or renew its Rights or its Rights may not be obtainable on reasonable terms or on a timely basis.

Additional Rights that are necessary to permit Lundin Gold to commercially exploit the deposit at FDN may be subject to unfavourable terms, may be delayed or may not be obtained at all. A delay in obtaining any such Rights, the imposition of unfavourable terms or conditions on any Rights or the denial of any Right may have a material adverse effect on Lundin Gold's business, financial condition, results of operations and prospects and, in particular, the development of FDN.

Contractor Performance
As the Company proceeds with the development of FDN, the timely and cost effective completion of the work will depend on a large degree to the satisfactory performance of Lundin Gold's contractors, as well as the design and engineering consultants who are responsible for the different elements of the site and mine plan. If any of these contractors or consultants do not perform to accepted or expected standards, Lundin Gold may be required to hire different contractors to complete tasks, which may impact schedules and add costs to the Project and, in some cases lead to significant risks and losses. A major contractor default or the failure to properly manage contractor performance could have a material impact on Lundin Gold's results.

Risks with Underground Development
The Company's activities related to the development of the mine at FDN are subject to risks inherent in the mining industry generally, including unexpected problems associated with required water flow, retention and treatment, water quality, surface and underground conditions, equipment performance, accidents, labour disputes, force majeure risks and natural disasters. Particularly with underground development, inherent risks include variations in rock structure and strength as it impacts on construction of the mine, de-watering and water handling requirements and unexpected local ground conditions. Hazards, such as unusual or unexpected rock formations, rock bursts, pressures, collapses, flooding or other conditions, may be encountered during construction. Such risks could result in personal injury or fatality; damage to or destruction of the mine, processing facilities or equipment; environmental damage; delays, suspensions or permanent cessation of activities; monetary losses; and possible legal liability.

Title Matters and Surface Rights and Access
There is a risk that title to the mining concessions, the surface rights and access rights comprising FDN may be deficient or subject to dispute. The procurement or enforcement of such rights can be costly and time consuming. In areas where there are local populations or land owners, it may be necessary, as a practical matter, to negotiate surface access. Despite having the legal right to access the surface and carry on mining activities, Lundin Gold may not be able to negotiate satisfactory agreements with existing landowners/occupiers for such access, and therefore it may be unable to carry out mining activities as planned. In addition, in circumstances where such access is denied, or no

agreement can be reached, Lundin Gold may need to rely on the assistance of local officials or the courts in such jurisdictions, which may delay or impact mining activities as planned.

There is also a risk that the Company's exploration, development and mining authorizations and surface rights may be challenged or impugned by third parties. In addition, there is a risk that Lundin Gold will not be able to renew some or all its licenses in the future. Inability to renew a license could result in the loss of any project located within that license.

Finally, there is a risk that developing laws and movements respecting the acquisition of lands and other rights of indigenous communities may alter the arrangements made by prior owners of the lands where FDN is located. Future laws and actions could have a material adverse effect on Lundin Gold's operations at FDN or on its financial position, cash flow and results of operations.

Shortages of Critical Parts, Equipment and Skilled Labour
Lundin Gold's ability to acquire critical resources such as input commodities, equipment, and skilled labour due to worldwide demand, may cause unanticipated cost increases and delays in delivery times, thereby impacting operating costs, capital expenditures and development schedules.

Employee Recruitment and Retention
Recruiting and retaining qualified personnel is critical to Lundin Gold's success. Lundin Gold is dependent on the services of key executives including its President and Chief Executive Officer and other highly skilled and experienced executives and personnel focused on managing Lundin Gold's interests. The number of persons skilled in construction, development, acquisition and exploration of mining properties is limited and competition for such persons is intense. As Lundin Gold continues with the development of FDN and its business activity grows, Lundin Gold will require additional key construction, operations, financial and geologic personnel. There is a risk that Lundin Gold will not be successful in attracting, training and retaining qualified personnel as competition for persons with these skill sets increases. If Lundin Gold is not successful in attracting, training and retaining qualified personnel, the efficiency of Lundin Gold's operations could be impaired, which could have an adverse impact on Lundin Gold's future cash flows, earnings, results of operations and financial condition.

Community Relations
The Company's relationship with communities in which it operates is critical to the construction and development of the Project. FDN is located near rural communities, some of which contain groups that have been opposed to mining activities from time to time in the past, which may affect Lundin Gold's ability to develop FDN in the short and long term. Furthermore, local communities may be influenced by external entities, groups or organizations opposed to mining activities. In recent years, anti-mining nongovernmental organization ("NGO") activity in Ecuador has increased. These communities and NGOs have taken such actions as road closures, work stoppages, and law suits for damages. These actions relate not only to current activities but often in respect to the mining activities by prior owners of mining properties. Such actions by communities and NGOs may have a material adverse effect on Lundin Gold's operations at FDN and on its financial position, cash flow and results of operations. Lundin Gold does not presently maintain political risk insurance for FDN.

Infrastructure
Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important elements of infrastructure, which affect capital and operating costs. The lack of availability on acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploration or development of FDN. If adequate infrastructure is not available in a timely manner, there is a risk that (i) the development of FDN will not be completed on a timely basis, or at al, (ii) the resulting operations will not achieve the anticipated production volume or (iii) the anticipated construction costs and ongoing operating costs associated with the development of FDN will be higher than anticipated. Furthermore, unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of necessary infrastructure could adversely affect Lundin Gold's operations and profitability.

Market Price of the Company's Common Shares
Securities of mineral companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic conditions in North America and globally, and market perceptions of the attractiveness of particular industries. The price of the Company's common shares is also likely to be significantly affected by short-term changes in commodity prices, other mineral prices, currency exchange fluctuation, or in its financial condition or results of exploration on its projects. Other factors unrelated to the performance of the Company that may have an effect on the price of the Company's common shares include the following: the extent of analyst coverage available to investors concerning the business of the Company may be limited if investment banks with research capabilities do not follow the Company, lessening in trading

volume and general market interest in the Company's common shares may affect an investor's ability to trade significant numbers of common shares of the Company, the size of the Company's public float and its inclusion in market indices may limit the ability of some institutions to invest in the Company's common shares, and a substantial decline in the price of the common shares of the Company that persists for a significant period of time could cause the Company's common share to be delisted from an exchange, further reducing market liquidity. If an active market for the common shares of the Company does not continue, the liquidity of an investor's investment may be limited and the price of the Company's common shares may decline. If an active market does not exist, investors may lose their entire investment in the Company. As a result of any of these factors, the market price of the Company's common shares at any given point in time may not accurately reflect the long-term value of the Company. Securities class-action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Tax Regime in Ecuador

Tax regimes in Ecuador may be subject to differing interpretations and are subject to change without notice. The Company's interpretation of tax law as applied to its transactions and activities may not coincide with that of the tax authorities. As a result, the taxation applicable to transactions and operations may be challenged or revised by the tax authorities, which could result in significant additional taxes, penalties and/or interest.

There is a risk that restrictions on the repatriation of earnings from Ecuador to foreign entities will be imposed in the future and Lundin Gold has no control over withholding tax rates. In addition, there is a risk that new laws and regulations in Ecuador may result in a capital gains tax on profits derived from the sale of shares, ownership interests and other rights, such as exploration rights, of companies with permanent establishments in the country. The Company will not likely be able to comply with this law as currently drafted as it does not have access to the information requested by the law. It is unknown at this time what, if any, liability the Company or its subsidiaries may be subject to as a result of the application of this law. There is a risk that the Company's access to financing may be limited as a result of the indirect taxation.

Measures to Protect Endangered Species

Ecuador is a country with a diverse and fragile ecosystem and the federal government, regional governments and NGOs are vigilant in their protection of endangered species. The existence or discovery of an endangered species at FDN would likely have a number of adverse consequences to the Company's plans and operations. For instance, the presence of an endangered species could require the Company to modify its design plans and construction, to take extraordinary measures to protect the species or to cease its activities at FDN temporarily or permanently, all of which would delay FDN's development and production and would have an adverse economic impact on the Company, which could be material. The existence or discovery of an endangered species at FDN could also ignite NGO and local community opposition to FDN, which would be a further barrier to development of FDN and could impact the Company's global reputation.

Non-Compliance and Compliance Costs

Lundin Gold, its subsidiaries, its business and its operations are subject to various laws and regulations. The costs associated with compliance with such laws and regulations may cause substantial delays and require significant cash and financial expenditure, which may have a material adverse effect on the Company or the development of FDN.

The legal and regulatory requirements in Ecuador applicable to mining activities are different from those in Canada. The officers and directors of the Company rely, to a great extent, on the Company's local legal counsel and local consultants and advisors in respect of legal, environmental compliance, banking, financing and tax matters in order to ensure compliance with material legal, regulatory and governmental developments as they pertain to and affect the Company's operations in Ecuador and to assist the Company with its governmental relations. The Company may also rely, to some extent, on those members of management who have previous experience working and conducting business in Ecuador.

Despite these resources, the Company may fail to comply with a legal or regulatory requirement, which may lead to the revocation of certain rights or to penalties or fees and in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in exploration operations may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws. Any of the foregoing may have a material adverse effect on the Company or the development of FDN.

Economic Developments in Ecuador
Due to its location in Ecuador, FDN depends in part upon the performance of the Ecuadorian economy. As a result, Lundin Gold's business, financial position and results of operations may be affected by the general conditions of the Ecuadorian economy, price instabilities, currency fluctuations, inflation, interest rates, regulatory changes, taxation changes, social instabilities, political unrest and other developments in or affecting Ecuador over which Lundin Gold does not have control. Because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect in which an entire region or class of investment is disfavoured by international investors, Ecuador could also be adversely affected by negative economic or financial developments in other emerging market countries.

Exploration and Development Risks
The exploration for, and development of, mineral deposits involves significant risks which, even with a combination of careful evaluation, experience and knowledge, may not be eliminated. Few exploration properties are ultimately developed into producing mines. Major expenses may be required to locate and establish Mineral Reserves, to develop metallurgical processes, and to construct mining and processing facilities at a particular site. There is a risk that the exploration or development programs of Lundin Gold will not result in a profitable commercial mining operation.

Whether a mineral deposit will be commercially viable depends on a number of factors, including but not limited to: the particular attributes of the deposit, such as quantity and quality of the minerals, metallurgy and proximity to infrastructure and labour; mineral prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, and environmental protection. The exact effect of these factors cannot be accurately predicted but could have a material adverse effect upon Lundin Gold's operations.

There is a risk that the expenditures made by Lundin Gold towards the search and evaluation of precious metals and other minerals will not result in discoveries of additional Mineral Resources, Mineral Reserves or any other mineral occurrences. There is a risk that even if commercial quantities of ore are discovered, the new ore body will not be developed and brought into commercial production. Development projects are subject to, but not limited to, the successful completion of final feasibility studies, issuance of necessary permits and other government approvals and receipt of adequate financing.

Mineral Reserve and Resource Estimates
Mineral Reserve and Mineral Resource figures are estimates, and there is a risk that any of the Mineral Resources and Mineral Reserves identified at FDN to date will not be realized. Until a deposit is actually mined and processed, the quantity of Mineral Resources and Mineral Reserves and grades must be considered as estimates only. In addition, the quantity of Mineral Resources and Mineral Reserves may vary depending on, among other things, precious metal prices. Any material change in quantity of Mineral Resources, Mineral Reserves or percent extraction of those Mineral Reserves recoverable by underground mining techniques may affect the economic viability of any project undertaken by Lundin Gold. In addition, there is a risk that metal recoveries in small scale laboratory tests will not be duplicated in a larger scale test under on-site conditions or during production.

Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability, and there is a risk that they will never be mined or processed profitably. Further, there is a risk that Inferred Mineral Resources will not be upgraded to proven and probable Mineral Reserves as a result of continued exploration.

Fluctuations in gold prices, results of drilling, metallurgical testing and production and the evaluation of studies, reports and plans subsequent to the date of any estimate may require revision of such estimate. Any material reductions in estimates of Mineral Reserves could have a material adverse effect on Lundin Gold's results of operations and financial condition.

Operating History
Lundin Gold has limited experience in operating FDN and conducting exploration work in Ecuador generally. Although Lundin Gold possesses an experienced management team, Lundin Gold is subject to many risks common to new enterprises, including limitations with respect to personnel, financial and other resources and lack of revenues. There is a risk that Lundin Gold will not be successful in achieving a return on shareholders' investment and the likelihood of Lundin Gold's success must be considered in light of its expected early stage of operations.

Dependence on Single Project
The only property in which Lundin Gold has an interest is FDN. Actual development costs thereof may differ materially from Lundin Gold's estimates and may render the development of FDN economically unfeasible. In the absence of additional mineral projects, Lundin Gold is solely dependent upon FDN for its revenue and profits, if any. Should the

development of FDN not be possible or practicable for political, engineering, technical or economic reasons, then Lundin Gold's business and financial position will be significantly and adversely affected.

Artisanal and Illegal Mining

Previous mining by illegal and artisanal miners has occurred in the area surrounding FDN and occurs today on a more limited basis. Activity by artisanal and illegal miners could lead to interference with Lundin Gold's operations and could result in conflicts. These potential activities could cause damage to FDN, including pollution, environmental damage, fires, or personal injury or death, for which Lundin Gold could potentially be held responsible. The presence of artisanal and illegal miners can lead to project delays and disputes regarding the development or operation of gold deposits. Artisanal and illegal mining can also result in mine stoppages, environmental issues and could have a material adverse effect on Lundin Gold's results of operations or financial condition.

Reclamation Obligations

Reclamation requirements are designed to minimize long-term effects of mining exploitation and exploration disturbance by requiring the operating company to control possible deleterious effluents and to re-establish to some degree pre-disturbance land forms and vegetation. Lundin Gold is subject to such requirements in connection with its activities at FDN and may be liable for actions and activities and disturbances caused by artisanal and illegal miners on the Company's property. Any significant environmental issues that may arise, however, could lead to increased reclamation expenditures and could have a material adverse impact on Lundin Gold's financial resources. Furthermore, environmental hazards may exist on the properties in which Lundin Gold holds interests which are unknown to Lundin Gold at present and which have been caused by previous or existing owners or operators of the properties.

There can also be no assurance that closure estimates prove to be accurate. The amounts recorded for reclamation costs are estimates unique to a property based on estimates provided by independent consulting engineers and Lundin Gold's assessment of the anticipated timing of future reclamation and remediation work required to comply with existing laws and regulations. Actual costs incurred in future periods could differ from amounts estimated. Additionally, future changes to environmental laws and regulations could affect the extent of reclamation and remediation work required to be performed by Lundin Gold. Any such changes in future costs could materially impact the amounts charged to operations for reclamation and remediation.

Adverse Economic Conditions

The unprecedented events in financial markets in the past several years have had a profound impact on the global economy. Many industries, including the precious metals mining industry, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations, high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates and tax rates may adversely affect Lundin Gold's growth and profitability. Specifically, the current commodity market conditions have had an impact on the cost and availability of financing and liquidity for commodity related companies and there is a risk that the Company will not successfully finance ongoing operations. The volatility of gold prices would also impact Lundin Gold's expected revenues, profits, losses and cash flow while continued recessionary pressures could adversely impact demand for Lundin Gold's production, if any. Finally, volatile energy, commodity and consumables prices and currency exchange rates would impact Lundin Gold's production costs, if any, and the devaluation and volatility of global stock markets could impact Lundin Gold. These factors could have a material adverse effect on Lundin Gold's financial condition and results of operations.

Information Systems and Cyber Security

The Company's operations depend on information technology ("IT") systems. These IT systems could be subject to network disruptions caused by a variety of sources, including computer viruses, security breaches and cyber-attacks, as well as disruptions resulting from incidents such as cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

Although to date the Company has not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Industry Competition

The mining industry is intensely competitive in all its phases. Lundin Gold competes with many companies that have greater financial and technical resources than Lundin Gold for the acquisition of mineral properties, recruitment and retention of qualified employees and access to equipment required for exploration, development and production. There is a risk that competition adversely affects Lundin Gold's future exploration and development of FDN or other projects it may acquire.

Insurance and Uninsured Risks

The business of Lundin Gold is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unexpected geological conditions, ground or slope failures, cave-ins, rock bursts, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties, personal injury or damage to the properties of Lundin Gold or the properties of others, delays in mining, monetary losses and possible legal liability. Lundin Gold's current insurance does not cover all the potential risks associated with an exploration or development company's operations. Lundin Gold may also be unable to maintain insurance to cover certain risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Lundin Gold or to other companies in the mining and exploration industry on acceptable terms. Lundin Gold might also become subject to liability for pollution or other hazards which it may not be insured against or which Lundin Gold may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Lundin Gold to incur significant costs that could have a material adverse effect upon its consolidated financial performance and results of operations.

Application of Anti-Bribery Laws

Lundin Gold is required to comply with anti-corruption and anti-bribery laws, including the Canadian *Corruption of Foreign Public Officials Act*, as well as similar laws in the countries in which Lundin Gold conducts its business. If Lundin Gold finds itself subject to an enforcement action or is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions imposed on Lundin Gold resulting in a material adverse effect on Lundin Gold.

Claims and Legal Proceedings

Lundin Gold may be subject to claims or legal proceedings in multiple jurisdictions covering a wide range of matters that arise in the ordinary course of its current business or the Company's previous business activities in Canada, Cyprus and Russia which could materially adversely impact Lundin Gold's financial position, cash flow and results of operations.

Internal Controls

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

Control of Lundin Gold

As at the date hereof, Zebra and Lorito Holdings S.à.r.l ("Lorito"), who report their security holdings as joint actors, and Kinross Gold Corporation ("Kinross") are control persons of Lundin Gold. As long as Kinross, Zebra and Lorito maintain significant interests in Lundin Gold, they will have the ability to exercise certain influence with respect to the affairs of Lundin Gold and significantly affect the outcome of the votes of shareholders. There is a risk that the interests of Kinross, Zebra and Lorito differ from those of other shareholders.

As a result of the significant holdings of Kinross, Zebra and Lorito, there is a risk that the Company's securities are less liquid and trade at a relative discount compared to circumstances where these persons did not have the ability to influence or determine matters affecting Lundin Gold. Additionally, there is a risk that their significant interests in Lundin Gold discourages transactions involving a change of control of Lundin Gold, including transactions in which an investor, as a holder of the Company's securities, would otherwise receive a premium for its Company's securities over the then-current market price.

FORWARD LOOKING STATEMENTS

Certain of the information and statements in this MD&A are considered "forward-looking information" or "forward-looking statements" as those terms are defined under Canadian securities laws (collectively referred to as "forward-looking statements"). Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "believes", "anticipates", "expects", "is expected", "scheduled", "estimates", "pending", "intends", "plans", "forecasts", "targets", or "hopes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "will", "should" "might", "will be taken", or "occur" and similar expressions) are not statements of historical fact and may be forward-looking statements.

By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. Lundin Gold believes that the expectations reflected in this forward looking information are reasonable, but no assurance can be given that these expectations will prove to be correct. Forward-looking information should not be unduly relied upon. This information speaks only as of the date of this MD&A, and the Company will not necessarily update this information, unless required to do so by securities laws.

This MD&A contains forward-looking information in a number of places, such as in statements pertaining to: the benefits to be derived under the exploitation agreement and the investment protection agreement; the timing, progress and success of the Early Works program; the success of the Company's exploration plans and activities; planned exploration and development expenditures and reclamation costs; the timing and success of permitting and regulatory approvals; the completion of a new production plan within the expected timeframe; future sources of liquidity, capital expenditures and requirements; the expectations of market prices and costs; the development, construction and operation of FDN; anticipated future tax payments and rates, cash flows and their uses.

Lundin Gold's actual results could differ materially from those anticipated. Management has identified the following risk factors which could have a material impact on the Company or the trading price of its shares: the ability to arrange financing and the risk to shareholders of dilution from future equity financings; risks related to carrying on business in an emerging market such as possible government instability and civil turmoil and economic instability; volatility in the price of gold; the timely receipt of regulatory approvals, permits and licenses; risks associated with the performance of the Company's contractors; risks inherent in the development of an underground mine; deficient or vulnerable title to mining concessions and surface rights; shortages of resources, such as labour, and the dependence on key personnel; risks associated with the Company's community relationships; unreliable infrastructure and local opposition to mining; volatility in the market price of the Company's shares; uncertainty with the tax regime in Ecuador; measures required to protect endangered species; difficulty complying with changing government regulations and policies, including without limitation, compliance with environment, health and safety regulations, and the cost of compliance or failure to comply with applicable laws; exploration and development risks; the accuracy of the Mineral Reserve and Resource estimates for FDN and the Company's reliance on one project; liabilities; the Company's lack of operating history in Ecuador; illegal mining; uncertainty as to reclamation and decommissioning; adverse global economic conditions; risks associated with the Company's information systems; the inadequacy of insurance; risks of bribery or corruption; the potential for litigation; limits of disclosure and internal controls; and the potential influence of the Company's largest shareholders.

There can be no assurance that such statements will prove to be accurate, as Lundin Gold's actual results and future events could differ materially from those anticipated in this forward-looking information as a result of the factors discussed under the heading "Risk Factors" in this MD&A.

February 24, 2017

Independent Auditor's Report

To the Shareholders of Lundin Gold Inc.

We have audited the accompanying consolidated financial statements of Lundin Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lundin Gold Inc. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

LUNDIN GOLD INC.

Consolidated Statements of Financial Position
(Expressed in U.S. Dollars)

	Note	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		$ 8,503,476	$ 21,360,228
Other current assets		706,982	608,297
		9,210,458	21,968,525
Non-current assets			
Property, plant and equipment	4	7,821,938	8,557,202
Mineral properties	5	236,873,803	236,873,803
Advance royalty	6	25,000,000	-
		$ 278,906,199	$ 267,399,530
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 8,188,403	$ 5,654,500
Non-current liabilities			
Reclamation provisions	8	973,831	866,593
		9,162,234	6,521,093
EQUITY			
Share capital	9	456,750,048	386,675,284
Equity-settled share-based payment reserve	10	7,421,932	5,012,391
Accumulated other comprehensive loss		(11,377,657)	(10,572,699)
Deficit		(183,050,358)	(120,236,539)
		269,743,965	260,878,437
		$ 278,906,199	$ 267,399,530

Nature of operations and Liquidity (Note 1)
Subsequent events (Note 19)

Approved by the Board of Directors

/s/ Ron F. Hochstein	*/s/ Ian W. Gibbs*
Ron F. Hochstein	Ian W. Gibbs

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

LUNDIN GOLD INC.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in U.S. Dollars)

	Note	Years Ended December 31, 2016	2015
EXPENSES			
Project evaluation	11	$ 36,906,551	$ 36,144,858
Exploration		5,317,000	939,131
General and administration:			
Depreciation		25,868	23,159
Donations		681,973	2,000,000
Investor relations		895,767	554,508
Municipal taxes		520,661	496,400
Office and general		1,876,182	2,128,765
Professional fees		3,603,346	2,304,976
Regulatory and transfer agent		170,792	169,562
Salaries and benefits		3,602,160	3,270,048
Stock-based compensation	10	2,207,775	1,693,658
Travel		999,518	899,280
Loss before other items		56,807,593	50,624,345
OTHER ITEMS			
Other expense (income)	12	6,186,406	(5,192,420)
Interest income		(180,180)	(108,063)
Net loss for the year		$ 62,813,819	$ 45,323,862
OTHER COMPREHENSIVE LOSS			
Items that may be subsequently reclassified to net loss			
Currency translation adjustment		824,872	7,643,688
Other		(19,914)	89,013
Comprehensive loss for the year		$ 63,618,777	$ 53,056,563
Basic and diluted loss per common share		$ 0.59	$ 0.45
Weighted-average number of common shares outstanding		108,675,136	101,219,763

LUNDIN GOLD INC.

Consolidated Statements of Changes in Equity
(Expressed in U.S. Dollars)

	Note	Number of Common Shares	Share Capital	Equity-settled Share-based Payment Reserve	Accumulated Other Comprehensive Loss	Deficit	Total
Balance December 31, 2014		101,176,268	$ 386,315,842	$ 3,006,381	$ (2,839,998)	$ (74,912,677)	$ 311,569,548
Exercise of stock options	10	84,000	359,442	(99,360)	-	-	260,082
Stock-based compensation	10	-	-	2,105,370	-	-	2,105,370
Currency translation adjustment		-	-	-	(7,643,688)	-	(7,643,688)
Other		-	-	-	(89,013)	-	(89,013)
Net loss for the year		-	-	-	-	(45,323,862)	(45,323,862)
Balance December 31, 2015		101,260,268	$ 386,675,284	$ 5,012,391	$ (10,572,699)	$ (120,236,539)	$ 260,878,437
Proceeds from equity financing, net	9	17,250,000	69,261,119	-	-	-	69,261,119
Exercise of stock options	10	136,000	641,211	(225,779)	-	-	415,432
Share consideration for debenture		39,267	172,434	-	-	-	172,434
Stock-based compensation	10	-	-	2,635,320	-	-	2,635,320
Currency translation adjustment		-	-	-	(824,872)	-	(824,872)
Other		-	-	-	19,914	-	19,914
Net loss for the year		-	-	-	-	(62,813,819)	(62,813,819)
Balance December 31, 2016		118,685,535	$ 456,750,048	$ 7,421,932	$ (11,377,657)	$ (183,050,358)	$ 269,743,965

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

LUNDIN GOLD INC.

Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars)

	Note	Years Ended December 31, 2016	2015
OPERATING ACTIVITIES			
Net loss for the year		$ (62,813,819)	$ (45,323,862)
Item not affecting cash:			
Stock-based compensation	10	2,635,320	2,105,370
Depreciation and accretion		1,109,363	1,120,406
Other expense		(751,076)	(5,283,696)
		(59,820,212)	(47,381,782)
Changes in non-cash working capital items:			
Other current assets		(95,382)	78,088
Accounts payable and accrued liabilities		2,525,491	4,066,798
Net cash used for operating activities		(57,390,103)	(43,236,896)
FINANCING ACTIVITIES			
Net proceeds from equity financing	9	69,261,119	-
Proceeds from exercise of stock options		415,432	260,082
Net proceeds from draw downs of debenture	7	8,000,000	-
Repayment of debenture	7	(8,000,000)	-
Non-cash finance cost of debenture		172,434	-
Change in non-cash working capital items:			-
Proceeds from private placement, net		-	(239,656)
Net cash provided by financing activities		69,848,985	20,426
INVESTING ACTIVITIES			
Payment of advance royalty		(25,000,000)	-
Acquisition of Aurelian Resources Inc., net of cash acquired		-	(3,548,816)
Acquisition of property, plant and equipment		(394,746)	(165,900)
Net cash used for investing activities		(25,394,746)	(3,714,716)
Effect of foreign exchange rate differences on cash		79,112	(2,628,063)
Net decrease in cash		(12,856,752)	(49,559,249)
Cash, beginning of year		21,360,228	70,919,477
Cash, end of year		$ 8,503,476	$ 21,360,228
Supplemental information			
Interest received		180,180	125,221
Taxes paid		-	-
Changes in accounts payable and accrued liabilities related to:			
Proceeds from private placement, net		-	(239,656)
Acquisition of Aurelian Resources Inc.		-	(3,548,816)
Acquisition of property, plant and equipment		-	(55,672)

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

(Expressed in U.S. Dollars, unless otherwise noted)

1. Nature of operations and Liquidity

Lundin Gold Inc. together with its subsidiaries (collectively referred to as “Lundin Gold” or the “Company”) is focused on advancing the Fruta del Norte gold project in Ecuador (the “Fruta del Norte Project”) through development to a production decision.

The common shares of the Company are listed for trading on the Toronto Stock Exchange (the “TSX”) and Nasdaq Stockholm under the symbol “LUG”. The Company was originally incorporated in British Columbia and continued under the Canada Business Corporations Act in 2002.

The Company’s head office is located at Suite 2000, 885 W. Georgia Street, Vancouver, BC, and it has a corporate office in Quito, Ecuador.

At December 31, 2016, the Company had a working capital balance of $1.0 million (2015 - $16.3 million). In January 2017, it secured a $35 million short-term credit facility (Note 19) to fund ongoing activities at the Fruta del Norte Project in the early part of 2017.

While the Company has recently completed a feasibility study for the Fruta del Norte Project, it has just commenced its development and has no other sources of revenues. The Company’s continuing operations and the underlying value and recoverability of the amount shown for the mineral interests are entirely dependent upon the ability of the Company to obtain the necessary financing to develop the Fruta del Norte Project, fund future advance royalty payments to the Government of Ecuador (Note 6), and on future profitable production.

Any potential development activities at the Fruta del Norte Project require substantial additional capital. As the Company does not have any sources of revenue, the Company is pursuing various financing transactions or arrangements, including equity financing, debt financing, stream financing, joint venturing or other means.

Management is engaged in advanced discussions with a number of parties, including financial institutions, strategic and other potential investors, which would allow for longer term financial solutions to be put in place. There can be no assurance that such financing will be available to the Company when required or, if available, that it will be offered on terms acceptable to Lundin Gold. A failure to raise capital by mid-2017 could delay the commencement of development of the Fruta del Norte Project and, if the ongoing negotiations to raise capital were to extend for a material period of time beyond mid-2017, it could potentially have a material adverse effect on Lundin Gold’s business, financial condition and results of operations.

2. Basis of preparation

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and have been consistently applied to all the periods presented.

These consolidated financial statements were approved for issue by the Board of Directors on February 24, 2017.

The following entities are included in these consolidated financial statements:

		Ordinary shares held	
	Country of incorporation	December 31, 2016	December 31, 2015
Fortress Minerals Cyprus (I) Ltd.	Republic of Cyprus	-	100%
Aurelian Resources Inc.	Canada	100%	100%
Aurelian Resources Corporation Ltd.	Canada	100%	100%
Aurelian Ecuador S.A.	Ecuador	100%	100%
Aurelian Ecuador Holding S.A.	Ecuador	100%	100%
Ecoaurelian Agricola S.A.	Ecuador	100%	100%

Fortress Minerals Cyprus (I) Ltd. was wound up during the year ended December 31, 2016.

2. Basis of preparation (continued)

The proportion of the voting rights held directly by the parent company does not differ from the proportion of ordinary shares held.

3. Summary of significant accounting policies

The Company's principal accounting policies are outlined below:

(a) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(b) Foreign currency translation

Transactions and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in the profit or loss.

Group companies

The functional currency of the significant subsidiary of the Company, Aurelian Ecuador S.A., is U.S. dollars. Other entities which have a functional currency different from the presentation currency, including Lundin Gold Inc. whose functional currency is CAD, are translated into the presentation currency as follows:

i. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.
ii. Income and expenses for each statement of loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
iii. All resulting exchange differences are recognized in other comprehensive loss as cumulative translation adjustments.

(c) Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

3. Summary of significant accounting policies (continued)

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that the actual results differ from assumptions made, relate to, but are not limited to, the following:

Valuation of mineral properties – The Company carries the acquisition costs of its mineral properties at cost less any provision for impairment. The Company undertakes a periodic review of the carrying values of mineral properties and whenever events or changes in circumstances indicate that their carrying values may exceed their fair value. In undertaking this review, management of the Company is required to make significant judgments. These judgments are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mineral properties and related expenditures.

Utilization of tax losses – The Company is subject to income taxes in a number of jurisdictions. At present all of the entities are creating tax losses. These tax losses are only recognized to the extent that expected future taxable profits are available.

Stock-based compensation – The fair value of stock options is determined using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management of the Company is required to make certain assumptions and estimates regarding the life of the options, volatility and forfeiture rates. Changes in the assumptions used could result in materially different results.

Decommissioning and site restoration – The Company has obligations for site restoration and decommissioning related to its gold project. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the country in which the project is located, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

(d) Segment reporting

The Company's primary reporting segments are based on the location of operations, being Ecuador and Canada. The office in Canada provides support to the project with respect to treasury and finance, technical support, regulatory reporting and corporate administration.

(e) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company has classified its financial instruments in the following categories:

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loan and receivables comprise cash and receivables and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

3. Summary of significant accounting policies (continued)

ii. Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payables and accrued liabilities are measured at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

If such evidence exists, the Company recognizes an impairment loss, as follows:

i. Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(f) Cash

Cash includes cash on hand and deposits held with banks.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset consists of its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation of each asset is calculated using the straight line method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of plant and equipment are as follows:

Buildings	20 years
Machinery and equipment	10 years
Vehicles	5 years
Furniture and office equipment	3 to 10 years

(h) Exploration and evaluation ("E&E") expenditures and mineral properties

Exploration and evaluation costs are those costs required to find a mineral property and determine commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves.

3. Summary of significant accounting policies (continued)

E&E costs consist of, but are not limited to:

- gathering exploration data through topographical and geological studies;
- exploratory drilling, trenching and sampling;
- determining the volume and grade of the resource;
- test work on geology, metallurgy, mining, geotechnical and environmental; and
- conducting engineering, marketing and financial studies.

Project costs in relation to these activities are expensed as incurred until such time that the project demonstrates technical feasibility and commercial viability. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, costs for the project are capitalized prospectively as capitalized development costs within mineral properties. Technical feasibility and commercial viability generally coincides with the establishment of proven and probable mineral reserves.

Costs associated with acquiring a mineral property are capitalized as incurred.

(i) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Provisions

Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation on long-lived assets when a present legal or constructive obligation exists, as a result of past events and the amount of the liability is reasonably determinable. Asset retirement obligations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a risk free rate. This is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk free discount rate. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and amortized or depleted to operations over the life of the related asset.

(k) Current and deferred income tax

Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

i. Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. Summary of significant accounting policies (continued)

ii. Deferred tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(l) Share capital

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

(m) Stock-based compensation

The Company has a stock-based compensation plan, under which the entity receives services from employees and non-employees as consideration for equity instruments (options) of the Company.

Stock options granted to employees are measured on the grant date. Stock options granted to non-employees are measured on the date that the goods or services are received.

The fair value of the employee and non-employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted and the vesting periods. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The cash subscribed for the shares issued when the options are exercised is credited to share capital, net of any directly attributable transaction costs.

(n) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. For the years presented, this calculation proved to be anti-dilutive.

3. Summary of significant accounting policies (continued)

(o) Comprehensive loss

Comprehensive loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as foreign currency gains or losses related to the net investment in foreign operations. The Company's comprehensive loss, components of other comprehensive loss and cumulative translation adjustments are presented in the statements of loss and comprehensive loss and the statements of changes in equity.

(p) Pronouncements issued but not yet effective

i. IFRS 15, Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

IFRS 15 will be effective for financial years commencing on or after January 1, 2018. The Company does not expect any impact from this new standard as the Company has yet to generate any revenues.

ii. IFRS 9, Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not expect any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities.

iii. IFRS 16, Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. The Company does not expect any impact from this new standard as the Company does not currently have any leases.

(Expressed in U.S. Dollars, unless otherwise noted)

4. Property, plant and equipment

Cost	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2015	$ 4,442,000	$ 4,094,000	$ 741,000	$ 263,258	$ 9,540,258
Additions	-	17,748	-	92,480	110,228
Cumulative translation adjustment	-	-	-	(19,410)	(19,410)
Balance, December 31, 2015	4,442,000	4,111,748	741,000	336,328	9,631,076
Additions	145,619	-	235,123	14,004	394,746
Disposals and other	(129,441)	-	-	-	(129,441)
Cumulative translation adjustment	-	-	-	1,866	1,866
Balance, December 31, 2016	$ 4,458,178	$ 4,111,748	$ 976,123	$ 352,198	$ 9,898,247

Accumulated depreciation	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2015	$ 3,037	$ 18,318	$ 5,170	$ 2,209	$ 28,734
Depletion, amortization and accretion for the year	102,300	584,831	280,365	79,406	1,046,902
Currency translation adjustment	-	-	-	(1,762)	(1,762)
Balance, December 31, 2015	105,337	603,149	285,535	79,853	1,073,874
Depletion, amortization and accretion for the year	102,300	585,568	218,107	96,147	1,002,122
Cumulative translation adjustment	-	-	-	313	313
Balance, December 31, 2016	$ 207,637	$ 1,188,717	$ 503,642	$ 176,313	$ 2,076,309

Net book value	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
As at December 31, 2015	$ 4,336,663	$ 3,508,599	$ 455,465	$ 256,475	$ 8,557,202
As at December 31, 2016	$ 4,250,541	$ 2,923,031	$ 472,481	$ 175,885	$ 7,821,938

(Expressed in U.S. Dollars, unless otherwise noted)

5. Mineral properties

Cost	Fruta del Norte Project	Fruta del Norte restoration asset	Total
Balance, January 1, 2015	$ 236,337,090	$ 536,713	$ 236,873,803
Additions	-	-	-
Balance, December 31, 2015	236,337,090	536,713	236,873,803
Additions	-	-	-
Balance, December 31, 2016	$ 236,337,090	$ 536,713	$ 236,873,803

6. Advance royalty

On December 14, 2016, the Company executed the Exploitation Agreement ("EA") for the Fruta del Norte Project with the Government of Ecuador. The EA, combined with the existing laws and regulations and an Investment Protection Agreement executed on December 19, 2016, establishes the fiscal terms and conditions for the development of the Fruta del Norte Project. As required under the EA, an advance royalty payment of $25 million was paid upon signing of the EA. This payment will be followed by two subsequent advance royalty payments of $20 million on the first and second anniversaries of the execution of the EA.

The advance royalty payments totalling $65 million are deductible against future royalties payable at a rate equal to the lesser of 50% of the actual future royalties payable in a six-month period or 10% of the total advance royalty payment.

7. Debenture

On June 8, 2016, the Company secured an $18 million short-term credit facility (the "2016 Facility").

The 2016 Facility was evidenced by a debenture (the "2016 Debenture") which was unsecured and was due on the earlier of the closing of a financing by the Company or August 31, 2016. No interest was payable in cash during the term of the 2016 Debenture.

The Company issued an aggregate of 20,000 common shares on June 9, 2016 as consideration for the 2016 Facility in lieu of fees. The Company also issued 19,267 common shares as consideration for amounts drawn under the 2016 Facility. All securities issued in conjunction with the 2016 Facility were subject to a four-month hold period under applicable securities law.

All amounts outstanding under the 2016 Facility were repaid in full on July 22, 2016 from the proceeds of an underwritten equity financing (Note 9).

(Expressed in U.S. Dollars, unless otherwise noted)

8. Reclamation provisions

The Company's provisions relates to the rehabilitation of the Fruta del Norte project. The reclamation provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments. At December 31, 2016, the Company applied a pre-tax discount rate of 14.0% (2015 – 14.0%) and an inflation rate of 3.7% (2015 – 3.7%). The estimated total liability for reclamation and remediation costs on an undiscounted basis is approximately $6.9 million.

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 866,593	$ 793,087
Accretion of liability component of obligations	107,238	73,506
	$ 973,831	$ 866,593

9. Share capital

(a) Authorized:
- Unlimited number of common shares without par value
- Unlimited number of preference shares without par value

A continuity summary of the issued and outstanding common shares and the associated dollar amounts is presented below:

		Number of common shares	Share capital
Balance at January 1, 2015		101,176,268	$ 386,315,842
Stock options exercised		84,000	260,082
Stock options exercised - fair value adjustment		-	99,360
Balance at December 31, 2015		101,260,268	386,675,284
Equity financing, net	(a)	17,250,000	69,261,119
Stock options exercised		136,000	415,432
Stock options exercised - fair value adjustment		-	225,779
Share consideration for debenture		39,267	172,434
Balance at December 31, 2016		118,685,535	$ 456,750,048

(a) On June 27, 2016, the Company entered into an agreement with a syndicate of underwriters (the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 15,000,000 common shares of the Company at a price of CAD$5.50 per common share, for aggregate gross proceeds of CAD$82,500,000 (the "Offering") in two tranches. The Underwriters were granted an over-allotment option, exercisable in whole or in part, to purchase up to an additional 2,250,000 common shares, representing 15% of the number of common shares sold under the Offering, also at a price of CAD$5.50 per share.

(Expressed in U.S. Dollars, unless otherwise noted)

9. Share capital (continued)

The first tranche of the Offering, for 10,000,000 common shares, closed on July 19, 2016. The second tranche of the offering for 5,000,000 common shares, closed on August 9, 2016. In addition, the Underwriters exercised the over-allotment option in full and purchased 2,250,000 additional common shares.

The total gross proceeds raised under the Offering was CAD$94,875,000 ($72.6 million). Share issue costs of $3.3 million were paid resulting in net proceeds of $69.3 million received by the Company in relation to the Offering.

10. Stock options

The Company has a rolling stock-based compensation plan (the "Plan") allowing for the reservation of a maximum 10% of the common shares issued and outstanding at any given time for issuance under the Plan. Under the Plan, all stock options are granted at the discretion of the Company's board of directors. The term of any option granted may not exceed ten years and the exercise price may not be less than the market price of the Company's common shares at the time of grant.

Stock options have an expiry date of five years from date of grant and vest over a period of 24 months from date of grant.

A continuity summary of the stock options granted and outstanding under the Plan is presented below:

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Number of Common Shares		Weighted exercise price (CAD)	Number of Common Shares		Weighted exercise price (CAD)
Balance, beginning of year	2,122,500	$	3.91	757,000	$	3.81
Granted	2,092,000		4.43	1,880,500		3.95
Cancelled / Expired	(244,000)		4.08	(431,000)		3.89
Exercised[(1)]	(136,000)		4.03	(84,000)		3.94
Balance outstanding, end of year	3,834,500	$	4.18	2,122,500	$	3.91
Balance exercisable, end of year	1,528,650	$	3.95	808,500	$	3.83

[(1)] The weighted average share price on the exercise date for the stock options exercised during the year ended December 31, 2016 and December 31, 2015 were CAD$5.61 and CAD$3.92, respectively.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2016:

		Outstanding options				Exercisable options			
	Range of exercise prices (CAD)	Number of options outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price (CAD)	Number of options outstanding	Weighted average remaining contractual life (life)		Weighted average exercise price (CAD)
$	3.69 to 4.00	1,922,500	2.99	$	3.90	1,201,250	2.87	$	3.87
$	4.01 to 5.84	1,912,000	4.24		4.46	327,400	4.17		4.24
		3,834,500	3.61	$	4.18	1,528,650	3.15	$	3.95

(Expressed in U.S. Dollars, unless otherwise noted)

10. **Stock options** (continued)

The fair value based method of accounting was applied to stock options granted to employees, including directors, and non-employees on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2016	2015
Risk-free interest rate	0.54%	0.60%
Expected stock price volatility	60.85%	64.83%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	$2.25	$2.10

The equity-settled share-based payment reserve comprises the fair value of employee options measured at grant date and amortized over the period during which the employees become unconditionally entitled to the options.

During the year ended December 31, 2016, the Company recorded stock-based compensation expense of $2,635,320 (2015 – $2,105,370) of which $2,207,775 (2015 – $1,693,658) has been allocated to general and administration expenses; $206,119 (2015 – $290,326) to project evaluation expenses; and $221,426 (2015 – $121,386) to exploration expenses.

11. **Project evaluation**

	December 31, 2016	December 31, 2015
Camp costs	$ 3,058,169	$ 2,817,670
Community relations	2,390,441	1,613,449
Conceptual studies	8,675,783	14,953,499
Depreciation and accretion expense	1,083,495	1,097,247
Drilling and other operating expenses	1,706,713	4,553,998
Earthworks	1,302,822	-
Engineering	3,315,778	-
Environmental costs	6,033,864	3,429,114
Office and general	2,474,969	1,659,324
Salaries and benefits	4,437,291	3,752,647
Property taxes	2,427,226	2,267,910
	$ 36,906,551	$ 36,144,858

(Expressed in U.S. Dollars, unless otherwise noted)

12. Other expense (income)

	Note	December 31, 2016	December 31, 2015
Gain on foreign exchange		$ (812,246)	$ (5,192,420)
Statutory contribution to Ecuador earthquake relief	(a)	3,917,144	-
Settlement of claims and arbitration proceeding	(b)	2,800,000	-
Other		281,508	-
		$ 6,186,406	$ (5,192,420)

(a) In response to an earthquake in the provinces of Manabí and Esmeraldas in Ecuador on April 16, 2016, the Government of Ecuador passed a law requiring companies to provide a monetary levy for earthquake relief efforts. This mandatory one-time levy was based on 0.9% of the book value of the equity interest held in Ecuadorian entities by non-resident entities and is not deductible for income tax purposes.

(b) In December 2016, the Company incurred $2.8 million to settle a legal dispute against the Company relating to a net smelter royalty on a Russian gold project previously held by the Company.

13. Related party transactions

(a) Related party expenses

During the years ended December 31, 2016 and December 31, 2015, the Company incurred the following:

Payee	Nature	Note	December 31, 2016	December 31, 2015
Namdo	Management fees	i	$ 324,577	$ 293,267
BMAJ	Legal fees	ii	97,566	107,321
Lundin S.A.	Office and administration	iii	116,244	-

i. Namdo Management Services Ltd. ("Namdo"), a company associated with an officer of the Company, provides services and office facilities to the Company pursuant to an agreement.

ii. Bofill Mir & Alvarez Jana Abogados ("BMAJ"), a law firm of which a director of the Company is a partner, assists the Company in negotiations with the Government of Ecuador.

iii. Lundin S.A., a company associated with a director of the Company, provides administrative and office facilities to the Company pursuant to an agreement.

(b) Key management compensation

Key management includes executive officers of the Company. The compensation paid or payable to key management for employee services is shown below.

	December 31, 2016	December 31, 2015
Salaries and benefits	$ 3,140,714	$ 1,792,334
Stock-based compensation	2,291,955	1,817,025
	$ 5,432,669	$ 3,609,359

(Expressed in U.S. Dollars, unless otherwise noted)

14. Income taxes

Income tax expense differs from the amount that would result from applying the Canadian and federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	December 31, 2016	2015
Loss before income taxes	$ (62,813,819)	$ (45,323,862)
Canadian federal and provincial income tax rates	26.00%	26.00%
Income tax expense based on the above rates	(16,331,593)	(11,784,204)
Increase (decrease) due to:		
Differences in foreign tax rates	1,914,579	1,571,860
Non-deductible costs	2,060,243	1,959,130
Losses and temporary differences for which an income tax asset has not been recognized	12,459,963	8,929,099
Non-taxable portion of capital gains	(103,192)	(675,885)
Benefits of losses and temporary differences not previously recognized	-	-
Income tax expense	$ -	$ -

Deductible temporary differences for which deferred taxes have not been recognized:

	December 31, 2016	2015
Non-capital losses - Canada	$ 21,884,554	$ 12,431,854
Net-capital losses - Canada	11,362,877	11,805,687
Non-capital losses - Cyprus	-	154,094
Mineral properties	84,202,732	38,754,750
Share issuance costs	4,272,238	2,436,551
Donations	-	108,382
Liabilities	1,235,519	1,162,868
Other	198,506	192,582
	$ 123,156,426	$ 67,046,768

15. Segmented information

The Company's primary business activity is the advancement of the Fruta del Norte gold project in Ecuador. During the years ended December 31, 2016 and December 31, 2015, all project evaluation and exploration expenses were incurred in Ecuador. In addition, materially all of the non-current assets of the Company are located in Ecuador.

16. Financial instruments and risk management

a) *Measurement categories and fair values*

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of loss or consolidated statements of comprehensive loss.

The Company's financial instruments consist of cash and receivables, which are categorized as loans and receivables, and accounts payable and accrued liabilities, which are categorized as amortized cost. The fair value of these financial instruments other than cash approximates their carrying values due to the short-term nature of these instruments.

b) *Fair value hierarchy*

The following table classifies financial assets and liabilities that are recognized on the statement of financial position in a hierarchy that is based on the significance of the inputs used in making the measurements. The levels in the hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At December 31, 2016 and 2015, the Company had no financial assets or liabilities recognized at fair value.

c) *Financial risk management*

The Company's financial instruments are exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate and liquidity risk.

Currency risk

The Company's parent is Canadian and its capital is raised in Canadian dollars, with foreign operations in Ecuador. Expenditures in Ecuador are primarily denominated in U.S. dollars. As such, the Company is subject to risk due to fluctuations in the exchange rates of foreign currencies. Although the Company does not enter into derivative financial instruments to manage its exposure, the Company tries to manage this risk by maintaining most of its cash in U.S. dollars.

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash is held in a large Canadian financial institution with a high investment grade rating. The Company does not have any asset-backed commercial paper. The Company's receivables are made up of interest recoverable from large Canadian financial institutions.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

(Expressed in U.S. Dollars, unless otherwise noted)

16. Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. Cash flow forecasting is performed regularly which monitors the Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs at all times. In addition, management is actively involved in the review, planning and approval of significant expenditures and commitments. Management is currently engaged in advanced discussions with a number of parties, including financial institutions, strategic and other potential investors, which would allow for longer term financial solutions to be put in place (Note 1).

17. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

In the management of capital, the Company considers items included in equity attributable to shareholders to be capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's assets. In order to maintain or adjust the capital structure, the Company may attempt to issue new shares or debt instruments, acquire or dispose of assets, or to bring in joint venture partners.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditures budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

18. Commitments

The Company has committed to payments under various leases and other commitments. Excluding spending amounts which may be required to maintain the Company's mineral properties in good standing, the future minimum payments are as follows:

	Advance royalty (Note 6)	Other	Total
2017	$ 20,000,000	$ 7,236,910	$ 27,236,910
2018	20,000,000	-	20,000,000
Total	$ 40,000,000	$ 7,236,910	$ 47,236,910

19. Subsequent events

On January 16, 2017, the Company secured a $35 million short-term credit facility (the “2017 Facility).

The 2017 Facility is evidenced by a debenture (the “2017 Debenture”) which is unsecured and is due on the earlier of the closing of a financing by the Company or May 31, 2017 (the "Maturity Date"). No interest is payable in cash during the term of the 2017 Debenture. Any amount of the 2017 Facility remaining unpaid and outstanding on or after the Maturity Date shall bear interest at a rate of 5.00% per annum until repaid in full.

The Company issued an aggregate of 60,000 common shares on January 16, 2017 as consideration for the 2017 Facility in lieu of fees. The Company is required to also issue an additional 1,700 common shares per month for each $1 million of the 2017 Facility drawn down and outstanding until the Maturity Date. All securities issued in conjunction with the 2017 Facility will be subject to a four-month hold period under applicable securities law.