



LUNDINGOLD

Creating A Leading High Grade Gold Company

Definitive Terms Reached with Government of Ecuador for Fruta del Norte Project

Webcast Presentation
January 15, 2016



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Unless otherwise indicated, all dollar values herein are in US dollars.

Information of a scientific and technical nature concerning the Fruta del Norte Project was prepared under the supervision of Anthony George, P.Eng., a mining engineer and Lundin Gold's Vice-President Project Development, and Nicholas Teasdale, MAusIMM CP(Geo), Lundin Gold's Vice-President Exploration, both of whom are Qualified Persons within the meaning of National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101").

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What is an Exploitation Agreement?

- ▶ **To advance Fruta del Norte to production, Lundin Gold requires an exploitation permit from the Government of Ecuador**
- ▶ **At the time of the acquisition, Lundin Gold had 18 months to submit a phase change application**
 - **Deadline is June 17, 2016**
- ▶ **One of the requirements to obtain an exploitation permit is the completion of an Exploitation Agreement**
- ▶ **Exploitation Agreement defines fiscal terms (royalty, tax, calculation methodology), establishes mining rights, title to concession and a legal framework to finance the project in international debt and equity markets**

Success: Definitive Terms Settled

- ▶ **After six months of negotiations, a definitive form of Exploitation Agreement was agreed to on January 14, 2016**
- ▶ **The definitive form of Exploitation Agreement has been approved by the Board of Directors of Lundin Gold**
- ▶ **The definitive form of Exploitation Agreement has been approved by the Government of Ecuador**



Key Terms of EA

- ▶ **Long Term:** Lundin Gold has right to develop and produce gold from Fruta del Norte for 25 years, which may be renewed
- ▶ **Reasonable Royalty:** Lundin Gold has agreed to pay the Government of Ecuador a royalty equal to 5% of net smelter revenues from production
- ▶ **Advanced Royalty of \$65 million to fund social infrastructure in the local communities**
 - Initial payment of \$25 million being due upon execution of EA
 - Two payments of \$20 million on the first and second anniversaries of signing of EA
- ▶ **Rapid Advance Royalty Recovery:** Advance royalty payment will be recoverable against the lesser of 50% of royalties payable in six month period or 20% of the total advance royalty payment



Windfall Tax

- ▶ **Important Changes to Windfall Tax:**
 - **Will not apply until Lundin Gold has recouped:**
 - **its cumulative investment in the development of Fruta del Norte since its inception; plus**
 - **present value of actual cumulative investment incurred from signing of Exploitation Agreement until the start of production**
 - **Will be calculated with reference to a calculated base price for gold and silver**
 - **Base price will be equal to the trailing 10-year average of the daily price of gold or silver, escalated by U.S. Consumer Price Index, plus one standard deviation**
 - **Calculated on a monthly basis**
 - **Tax will apply to the net smelter revenue over and above what revenue would be using the base price at a rate of 70%**



Sovereign Adjustment

- ▶ **Benefit for the People of Ecuador: Parties have settled on a fair sovereign adjustment provision**
 - EA provides that Government's share of cumulative benefits derived from FDN will not be less than 50%
 - To extent that Government's cumulative benefit falls below 50%, the Company will pay a sovereign adjustment
 - Calculation of benefits to Company will be the net of:
 - cumulative investment incurred in development of Fruta del Norte since its inception; plus
 - net present value of cumulative free cash flow subsequent to signing of Exploitation Agreement
 - Government's benefit will be calculated as present value of cumulative sum of taxes paid including corporate income taxes, royalties, windfall tax, labour profit sharing paid to the state, non-recoverable VAT, and previous sovereign adjustment payments



Other Aspects of EA

▶ **Bankable Agreement**

- **Government of Ecuador has agreed to a legal framework to facilitate project financing**

▶ **Certainty for Lundin Gold**

- **Includes a mechanism for correcting any economic imbalance that is the result of changes in taxes or applicable laws**

▶ **Continued Government Support**

- **Government provided assurances that it will guarantee continuity of Lundin Gold's activities and not interfere with Lundin Gold's contractual rights**
- **Government committed to working to achieve best possible conditions for the normal performance of mining activities, which include measures for public safety, infrastructure, utilities and assistance with land requirements**

Other Developments

- ▶ **Income Tax Rate fixed at 22%**

- ▶ **VAT Recovery**
 - ▶ **Mining now eligible after passing of legislation in December**
 - ▶ **VAT will be recoverable effective January 1, 2018**
 - ▶ **Current VAT rate is 12%**

- ▶ **Profit Sharing: 15% of before tax earnings split between government (12%) and employees (3%)**

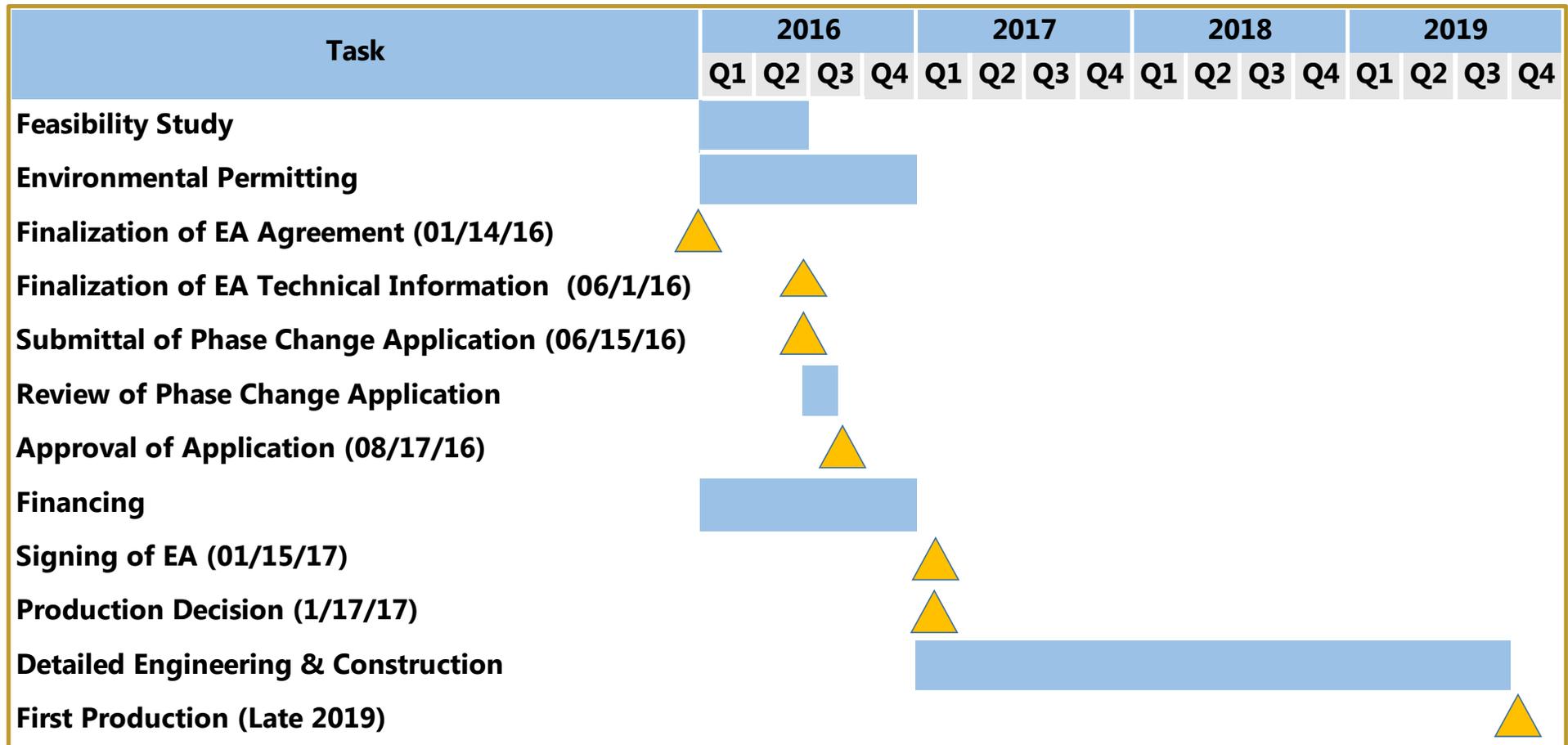


Summary

	Current	Previous Project Terms
Royalty	5%	5 – 8% based on Au price
Advanced Royalty	\$65 million 1 st Installment - \$25 M 2 nd Installment - \$20 M 3 rd Installment - \$20 M	\$65 million 1 st Installment - \$40 M 2 nd Installment - \$25 M
Advanced Royalty Recovery	Over 5 yr period	Over 10 yr period
Profit Sharing	15%	15%
Windfall Tax	Base Price: 10 yr moving avg + 1 std dev Capital recovery	\$1,650 per oz. No capital recovery
VAT Recovery	January 1, 2018	No Recovery
Income Tax Rate	22%	22%
Sovereign Adjustment	50%	52%
	Calculated on NPV basis	Calculated on straight cash flow



What's next?



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