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# LUNDIN GOLD INC.

Management's Discussion and Analysis  
Six Months Ended June 30, 2017  
(Expressed in U.S. Dollars, unless otherwise noted)

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## INTRODUCTION

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This Management's Discussion and Analysis ("MD&A") of Lundin Gold Inc. and its subsidiary companies (collectively, "Lundin Gold" or the "Company") provides a detailed analysis of the Company's business, and compares its financial results for the three and six months ended June 30, 2017 with those of the same period from the previous year.

This MD&A is dated as of August 9, 2017 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes thereto for the three and six months ended June 30, 2017, which are prepared in accordance with IAS 34: Interim Financial Statements, and the Company's audited annual consolidated financial statements and related notes thereto, which are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and the MD&A for the fiscal year ended December 31, 2016. References to the "2017 Period" and "2016 Period" relate to the six months ended June 30, 2017 and June 30, 2016, 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](http://www.sedar.com).

Lundin Gold Inc., headquartered in Vancouver, Canada, owns the Fruta del Norte gold project in southeast Ecuador, which is one of the largest and highest grade undeveloped gold projects in the world (the "Fruta del Norte Project"). The Company has an experienced board and management team with extensive expertise in construction and operations dedicated to the advancement of this exceptional project.

The Company operates with transparency and in accordance with international best practices in the areas of sustainability, health and safety, environment and community relations. The Company 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 its environmental footprint. The Company believes that the value created through the development of the Fruta del Norte Project will not only greatly benefit its shareholders, but also the Government and people of Ecuador.

## HIGHLIGHTS AND ACTIVITIES

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### *Fruta del Norte Project*

- The mine development contractor mobilized to the Fruta del Norte Project and construction of mine portals commenced in May 2017.
- Construction of the mine development support facilities commenced during the second quarter of 2017 in preparation for the development of the twin mine declines in the fourth quarter.
- On May 30, 2017, the Company announced the completion of a project update for the Fruta del Norte Project. The update was based on advancing the design and estimates from the Technical Report entitled "*Fruta del Norte - NI 43-101 Technical Report on Feasibility Study*" filed by the Company in June 2016. The updated results include a revised mine plan, updated capital and operating costs and a new execution plan based on a self-perform approach.

### *Financing*

- On January 16, 2017, the Company obtained a \$35 million short-term unsecured credit facility from an insider of the Company (the "Facility"). The outstanding balance of \$28.6 million at June 30, 2017 was repaid in full on July 14, 2017.
- On May 30, 2017, the Company secured a project finance package of \$400 to \$450 million (the "Financing") with the Orion Mine Finance Group and Blackstone Tactical Opportunities (the "Lenders").

### *Exploration*

- Exploration activities have focused on advancing targets to the drill testing stage. The Puma, Barbasco and Fruta del Norte SW epithermal gold-silver targets within the Suarez pull-apart basin have been better defined; while outside of the basin, the Gata Salvaje, Las Nubes and El Quimi targets have been advanced.

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## THE FRUTA DEL NORTE PROJECT

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Lundin Gold's property in Southeast Ecuador consists of 32 mining concessions covering an area of approximately 70,400 hectares. From this, the Fruta del Norte Project is comprised of three concessions 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.

Development of the Fruta del Norte Project remains on track to deliver first gold in the last quarter of 2019 and achieve commercial production in the second quarter of 2020.

### *Activities in the Second Quarter of 2017*

#### Fruta del Norte Project

Work on the Fruta del Norte Project focused on three main activities during the quarter. The Company completed the project update, which updated the Project mine plan, capital and operating costs and execution plan. The mine development contractor mobilized to site during the quarter and construction of the mine portals began on May 1, 2017. The Company also continued the Early Works program consisting principally of earthworks for the construction of the mine development support facilities and site infrastructure. Other activities carried out during the second quarter included:

- issuing of the bid packages for the process equipment and other long lead items;
- issuing of the tender for the design, supply and construction of the powerline from Bomboiza to the Fruta del Norte Project;
- completion of the expansion to the existing camp at Las Peñas and award of the construction for the main construction camp; and,
- delivery of the first orders of mine equipment for the portal and soft tunneling construction.

#### Environment and Permitting

The Company continued with ongoing permitting activities. The Company received the domestic water permit and environmental register for the private section of the North Access Road. The Environmental Impact Assessment ("EIA") for the power transmission line was submitted. Preparation of the EIA for the new Mountain Pass Quarry continued through the quarter and is anticipated to be submitted next quarter.

#### Exploration

Exploration activities have focused on advancing targets to be ready for drilling. This includes the mapping and geochemical sampling of the epithermal gold-silver Puma and Barbasco targets within the Suarez pull-apart basin structure that hosts the Fruta del Norte deposit, and the diatreme Gata Salvaje target outside of this basin structure. Target definition mapping and geochemical sampling has also been conducted on the Las Nubes and El Quimi porphyry copper-gold ( $\pm$  skarn) targets. A structural interpretation has been carried out on the Fruta del Norte SW target area, where Fruta del Norte mineralisation may be fault offset.

At the end of the quarter, Nicholas Teasdale, Vice President Exploration, resigned from the position for personal reasons. The Company's current exploration programs will be managed by its current exploration team under the guidance of Steve Leary. This team, led by Steve, was responsible for the discovery of Fruta del Norte.

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## 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).

	2017 Q2	2017 Q1	2016 Q4	2016 Q3
Net income (loss) for the period	\$ 784,342	\$ (6,387,440)	\$ (23,888,698)	\$ (11,785,014)
Basic income (loss) per share	\$ 0.01	\$ (0.05)	\$ (0.20)	\$ (0.10)
Diluted income (loss) per share	0.01	(0.05)	(0.20)	(0.10)
Weighted-average number of common shares outstanding				
Basic	118,857,521	118,743,908	118,682,274	113,331,975
Diluted	119,880,477	118,743,908	118,682,274	113,331,975
Property, plant and equipment	49,042,502	22,568,856	7,821,938	7,946,634
Total assets	\$ 460,837,712	\$ 295,795,073	\$ 278,906,199	\$ 300,194,541
Working capital	\$ 107,023,972	\$ (18,776,330)	\$ 1,022,055	\$ 49,902,765
	2016 Q2	2016 Q1	2015 Q4	2015 Q3
Net loss for the period	\$ (12,430,576)	\$ (14,709,531)	\$ (12,760,941)	\$ (11,602,887)
Basic and diluted loss per share	\$ (0.12)	\$ (0.15)	\$ (0.13)	\$ (0.11)
Weighted-average number of common shares outstanding	101,264,883	101,260,268	101,260,268	101,239,398
Property, plant and equipment	8,187,901	8,304,852	8,557,202	8,819,790
Total assets	\$ 249,635,830	\$ 253,616,770	\$ 267,399,530	\$ 277,941,185
Working capital	\$ (8,535,198)	\$ 2,922,308	\$ 16,314,025	\$ 28,324,350

To date, the Company has never generated production revenue. The only income generated by the Company is interest income on its cash deposits.

The Company generated net income in the current quarter due to the recognition of a \$4.4 million gain on the fair value revaluation of its long-term debt at June 30, 2017. In addition, starting in the first quarter of 2017, the Company commenced the capitalization of expenses relating to the development of the Fruta del Norte Project in accordance to the Company's accounting policy. This resulted in the reduction of project evaluation expenditures. On the other hand, the Company incurred higher professional fees during the second quarter of 2017 due to ongoing costs relating to project finance initiatives.

The loss in the 2017 Period is lower compared to that of the 2016 Period due to the revaluation of the Company's long-term debt and commencement of capitalization of expenses as noted above.

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## LIQUIDITY AND CAPITAL RESOURCES

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As at June 30, 2017, the Company had cash of \$134.3 million and a working capital of \$107.0 million compared to cash of \$8.5 million and a working capital balance of \$1.0 million at December 31, 2016. The change in cash was primarily due to proceeds from the Financing offset by costs incurred for the development of the Fruta del Norte Project of \$29.6 million and exploration expenditures of \$3.8 million.

### Short-term credit facility

On January 16, 2017, the Company obtained the Facility from an insider of the Company. On July 14, 2017, the Company repaid the \$28.6 million outstanding balance of the Facility in full.

The Company issued an aggregate of 60,000 common shares on January 16, 2017 as consideration for the Facility in lieu of fees. No interest was payable in cash during the term of the Facility. The Company also issued 1,700 common shares per each \$1 million of the Facility drawn down and outstanding each month. As at June 30, 2017, 117,290 common shares valued at \$521,659 have been issued for amounts drawn down and outstanding under the Facility. All securities issued in conjunction with the Facility are subject to a four-month hold period under applicable securities law.

### The Financing

On May 30, 2017, the Company's operating subsidiary, Aurelian Ecuador S.A. ("Aurelian"), which holds the Fruta del Norte Project, closed the Financing comprised of a gold prepay credit facility for \$150 million (the "Prepay Loan"), a stream loan credit facility of \$150 million (the "Stream Loan") and an offtake agreement (the "Offtake"). The Lenders also committed to participate in future equity financings of the Company required to fund the Fruta del Norte Project, in an aggregate amount of not less than \$100 million and not more than \$150 million, as and when initiated by the Company and subject to minimum financing thresholds.

Pursuant to the Financing, the Company, together with Aurelian and other subsidiaries related to the Project (collectively, the "Project Subsidiaries"), are subject to a number of non-financial covenants while amounts remain outstanding. The Prepay and Stream Loans are secured by way of a first ranking charge over the Project Subsidiaries' assets, pledges of the shares of the Project Subsidiaries and guarantees of the Company and the Project Subsidiaries.

To date, \$150 million has been advanced under the Financing. The remaining \$150 million is available to be drawn at the option of Aurelian, up to the end of June 2018, subject to the perfection of all security and certain other conditions.

#### (a) Gold prepay credit facility

The Prepay Loan is a senior secured loan facility of \$150 million with a stated interest rate of 7.5% per annum with interest accruing based upon the outstanding balance. As at June 30, 2017, \$75 million has been drawn under this facility.

The Prepay Loan is amortized and repayable over 19 quarters starting December 31, 2020. The quarterly payments are equivalent to the value of 11,500 oz. of gold based on the spot price of gold at the time of the payment date. The excess of the quarterly repayments over the principal and interest components, if any, is a variable additional charge (the "Finance Charge"). If the average gold price in the fiscal quarter prior to repayment date is greater than \$1,436 or less than \$1,062, then the repayments are reduced or increased by 15%, respectively. In addition, the Company has an option to defer the quarterly instalments for up to four (4) quarters by increasing the gold equivalent deliveries by 1,000 oz. for each deferred quarter.

#### (b) Stream loan credit facility

The Stream Loan is a senior secured loan facility of \$150 million with a stated interest rate of 7.5% per annum with interest accruing based upon the outstanding balance. As at June 30, 2017, \$75 million has been drawn under this facility.

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The Stream Loan is repayable in variable monthly instalments equivalent to the value of 7.75% of gold production less \$400 per oz. (the "Gold Base Price") and 100% of the silver production less \$4 per oz. (the "Silver Base Price") upon the start of commercial production at the Fruta del Norte Project, up to a maximum of 350,000 oz. of gold and six million oz. of silver. The Gold Base Price and Silver Base Price are subject to increase by 1% per annum starting on the third anniversary of the commercial production date. The excess of the monthly repayments over the principal and interest components, if any, is a Finance Charge.

The monthly gold and silver quantities and associated maximum deliverable ounces are subject to increase by set percentages if commercial production is not achieved by December 31, 2020 until October 1, 2021. In addition, the Company has the option to repay (i) 50% of the remaining Stream Loan on June 30, 2024 for \$150 million and / or (ii) the other 50% of the remaining Stream Loan on June 30, 2026 for \$225 million.

## (c) Offtake Commitment

The Lenders have been granted the right to purchase 50% of Fruta del Norte gold production, up to a maximum of 2.5 million oz., at a price determined based on monthly delivery dates and a defined quotational period. This obligation will be satisfied first through the sale of doré and then, if required, financial settlement.

The Company has elected to classify each component of the Financing as a financial liability measured at fair value.

In May 2016, the Company completed a feasibility study for the Fruta del Norte Project and has since commenced its development. It currently has no 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, and on future profitable production.

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

Management continues to engage in discussions with a number of parties, including financial institutions, strategic and other potential investors to raise additional project funding for the Fruta del Norte Project. 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 when required could delay the commencement of development of the Fruta del Norte Project and could potentially have a material adverse effect on Lundin Gold's business, financial condition and results of operations.

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## TRANSACTIONS WITH RELATED PARTIES

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During the 2017 Period, the Company paid \$170,876 (2016 – \$160,878) 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 2017 Period, the Company paid \$42,059 (2016 – \$50,972) to Bofill Mir & Alvarez Jana Abogados ("BMAJ"), a law firm of which a director of the Company is a partner. BMAJ assists the Company with negotiations and ongoing relations with the Government of Ecuador. The Company also paid \$67,451 (2016 – \$48,113) to Lundin S.A. during the 2017 Period. Lundin S.A. is associated with a director of the Company and provides administrative and office facilities pursuant to an agreement.

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## FINANCIAL INSTRUMENTS

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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 and the Facility, which are categorized as financial liabilities at 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. In addition, the Company has long-term debt all of which have been classified as financial liabilities measured at fair value.

The Company's financial instruments are exposed to a variety of financial risks by virtue of its activities.

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## *Currency risk*

Lundin Gold is a Canadian company 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 large financial institutions 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*

The Company is subject to interest rate risk with respect to the fair value of long-term debt which are accounted for at fair value through profit or loss.

## *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 will allow for the full funding of the development of the Fruta del Norte Project (refer to Liquidity and Capital Resources section above).

## *Commodity price risk*

The Company is subject to commodity price risk from fluctuations in the market prices for gold and silver. Commodity price risks are affected by many factors that are outside the Company's control including global or regional consumption patterns, the supply of and demand for metals, speculative activities, the availability and costs of metal substitutes, inflation and political and economic conditions. The Company has not hedged the price of any commodity at this time.

The fair value of long-term debt which is accounted for at fair value through profit or loss is impacted by fluctuations of commodity prices.

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## **OFF-BALANCE SHEET ARRANGEMENTS**

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During the 2017 Period and the year ended December 31, 2016 there were no off-balance sheet transactions. The Company has not entered into any specialized financial arrangements to minimize its currency risk.

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## **OUTSTANDING SHARE DATA**

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As at the date of this MD&A, there were 119,588,090 common shares issued and outstanding and stock options outstanding to purchase a total of 4,654,250 common shares for a total of 124,242,340 common shares outstanding on a fully-diluted basis.

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## OUTLOOK

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The Fruta del Norte Project is in transition from the Early Works phase into the Project Execution phase which began on July 1, 2017. Detailed engineering work is expected to be substantially complete by the third quarter of 2018. The majority of plant and mine equipment purchase orders are expected to be placed by the end of 2017. Mine development is expected to be well underway with completion of the mine decline portals and soft tunneling and commencement of the underground development by the end of 2017. The approval of the power line EIA and the new Mountain Pass quarry are anticipated within the next twelve months to allow construction to begin. Site capture is expected to be substantially complete in 2018.

During the next 12 months, the Company will also continue to work with its financial advisors to put in place the remaining funding for the construction of the Fruta del Norte Project.

An airborne resistivity (ZTEM) survey is planned to better define targets in and in proximity to the Suarez pull-apart basin, and an airborne MAG/RAD survey will be carried out on outlying concessions to facilitate reconnaissance in those areas. The exploration activities will focus on advancing existing targets to the drill-ready stage and based on current plans drilling of some of the targets is anticipated for late 2017.

## SUBSEQUENT EVENTS

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On August 4, 2017, the Company completed the acquisition of land required for the development of certain facilities for the operation the Fruta del Norte Project. As consideration for this land, the Company:

- Paid \$1.1 million in cash;
- Issued 430,938 common shares of the Company; and
- Granted a 2% net smelter royalty for any metallic minerals mined from the acquired land.

## CRITICAL ACCOUNTING ESTIMATES

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The adoption of certain accounting policies requires the Company to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain. For a complete discussion of accounting estimates deemed most crucial by the Company, refer to the Company's annual 2016 Management's Discussion and Analysis.

The following is an additional critical accounting estimate considered by the Company during the period:

### ***Fair value of financial instruments***

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Company uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at initial recognition and at the end of each reporting period. Refer to Note 13 of the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2017 for further details on the methods and assumptions utilized.

## RISKS AND UNCERTAINTIES

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Acquisition, exploration and development of mineral properties involves a high degree of financial risk, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of an ore body may result in substantial rewards, few exploration properties are ultimately developed into producing mines. Major expenditures may be required to establish reserves by drilling, constructing mining and process facilities at a site, developing metallurgical processes and extracting base and precious metals from ore.

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Company's Annual Information Form dated February 28, 2017 (the "AIF") which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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## QUALIFIED PERSON

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The technical information relating to the Fruta del Norte Project contained in this MD&A has been reviewed and approved by Ron Hochstein P. Eng, Lundin Gold's President & CEO who is a Qualified Person under NI 43-101. The disclosure of exploration information contained in this MD&A was prepared by Steve Leary, MAusIMM CP(Geo), a consultant to the Company, who is a Qualified Person in accordance with the requirements of 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" 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](http://www.sedar.com)) and on the Company's website ([www.lundingold.com](http://www.lundingold.com)).

## FINANCIAL INFORMATION

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The report for the three and nine months ended September 30, 2017 is expected to be published on or about November 7, 2017.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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### *Disclosure controls and procedures*

Management, including the Chief Executive Officer and the Chief Financial Officer, are responsible for the design of the Company's disclosure controls and procedures in order 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.

### *Internal controls over financial reporting*

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.

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.

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, beginning January 1, 2017 and ending June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## FORWARD LOOKING STATEMENTS

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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



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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 timing and success of the Early Works program, the success of the Company's exploration plans and activities, exploration and development expenditures and reclamation costs, timing and success of permitting and regulatory approvals, project financing and future sources of liquidity, capital expenditures and requirements, the results of the project update and, development, construction and operation of the Fruta del Norte Project, 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 input commodities, equipment and skilled 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 the Fruta del Norte Project and the Company's reliance on one project; the Company's lack of operating history; illegal mining; uncertainty as to reclamation and decommissioning; adverse global economic conditions; risks associated with the Company's information systems; the ability to obtain adequate 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 the AIF available at [www.sedar.com](http://www.sedar.com).

# LUNDIN GOLD INC.

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars)

	Note	June 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 134,336,190	\$ 8,503,476
Other current assets	3	12,663,792	706,982
		146,999,982	9,210,458
<b>Non-current assets</b>			
Property, plant and equipment	4	49,042,502	7,821,938
Mineral properties	5	239,795,228	236,873,803
Advance royalty		25,000,000	25,000,000
		\$ 460,837,712	\$ 278,906,199
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 11,376,010	\$ 8,188,403
Debenture	6	28,600,000	-
		39,976,010	8,188,403
<b>Non-current liabilities</b>			
Long-term debt	7	150,996,732	-
Reclamation provisions	8	3,995,506	973,831
		194,968,248	9,162,234
<b>EQUITY</b>			
Share capital	9	457,709,359	456,750,048
Equity-settled share-based payment reserve	10	8,900,923	7,421,932
Foreign currency translation reserve		(12,087,362)	(11,377,657)
Deficit		(188,653,456)	(183,050,358)
		265,869,464	269,743,965
		\$ 460,837,712	\$ 278,906,199

Nature of operations and liquidity (Note 1)

Commitments (Note 15)

Subsequent events (Note 6, 16)

Approved by the Board of Directors

/s/ Ron F. Hochstein  
Ron F. Hochstein

/s/ Ian W. Gibbs  
Ian W. Gibbs

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

# LUNDIN GOLD INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
<b>EXPENSES</b>					
Project evaluation	11	\$ -	\$ 6,676,148	\$ -	\$ 15,807,254
Exploration		1,033,498	2,705,991	3,831,671	5,454,311
General and administration:					
Depreciation		18,452	6,323	37,107	11,976
Investor relations		76,962	70,882	109,339	170,548
Municipal taxes		193,073	196,844	193,073	196,844
Office and general		250,991	459,495	1,070,258	876,062
Professional fees		1,068,450	683,710	2,014,586	1,484,555
Regulatory and transfer agent		81,392	45,869	180,925	146,677
Salaries and benefits		765,350	715,211	1,435,194	1,251,299
Stock-based compensation	10	766,297	626,792	1,366,775	1,144,636
Travel		268,262	285,201	445,804	429,714
Loss before other items		4,522,727	12,472,466	10,684,732	26,973,876
<b>OTHER ITEMS</b>					
Loss (gain) on foreign exchange		(732,978)	(83,399)	(692,595)	204,694
Other expense (income)	6	(192,128)	41,509	(7,076)	(38,463)
Derivative gains	7	(4,381,963)	-	(4,381,963)	-
Net loss (income) for the period		\$ (784,342)	\$ 12,430,576	\$ 5,603,098	\$ 27,140,107
<b>OTHER COMPREHENSIVE LOSS (INCOME)</b>					
<b>Items that may be subsequently reclassified to net loss</b>					
Currency translation adjustment		772,410	86,530	709,705	(285,734)
Comprehensive loss (income)		\$ (11,932)	\$ 12,517,106	\$ 6,312,803	\$ 26,854,373
Loss (income) per common share					
Basic		\$ (0.01)	\$ 0.12	\$ 0.05	\$ 0.27
Diluted		(0.01)	0.12	0.05	0.27
Weighted-average number of common shares					
Basic		118,857,521	101,264,883	118,801,029	101,262,576
Diluted		119,880,477	101,264,883	118,801,029	101,262,576

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

# LUNDIN GOLD INC.

Condensed Consolidated Interim Statements of Changes in Equity  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars)

	Note	Number of common shares	Share capital	Equity-settled share-based payment reserve	Foreign currency translation reserve	Deficit	Total
Balance, January 1, 2016		101,260,268	\$ 386,675,284	\$ 5,012,391	\$ (10,572,699)	\$ (120,236,539)	\$ 260,878,437
Share consideration for debenture	6	20,000	89,792	-	-	-	89,792
Stock-based compensation	10	-	-	1,492,438	-	-	1,492,438
Currency translation adjustment		-	-	-	285,734	-	285,734
Net loss for the period		-	-	-	-	(27,140,107)	(27,140,107)
<b>Balance, June 30 2016</b>		<b>101,280,268</b>	<b>\$ 386,765,076</b>	<b>\$ 6,504,829</b>	<b>\$ (10,286,965)</b>	<b>\$ (147,376,646)</b>	<b>\$ 235,606,294</b>
Balance, January 1, 2017		118,685,535	\$ 456,750,048	\$ 7,421,932	\$ (11,377,657)	\$ (183,050,358)	\$ 269,743,965
Exercise of stock options	10	39,000	182,401	(64,458)	-	-	117,943
Share consideration for debenture	6	177,290	776,910	-	-	-	776,910
Stock-based compensation	10	-	-	1,543,449	-	-	1,543,449
Currency translation adjustment		-	-	-	(709,705)	-	(709,705)
Net loss for the period		-	-	-	-	(5,603,098)	(5,603,098)
<b>Balance, June 30, 2017</b>		<b>118,901,825</b>	<b>\$ 457,709,359</b>	<b>\$ 8,900,923</b>	<b>\$ (12,087,362)</b>	<b>\$ (188,653,456)</b>	<b>\$ 265,869,464</b>

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

# LUNDIN GOLD INC.

Condensed Consolidated Interim Statements of Cash Flows  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars)

	Six months ended June 30,	
	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (5,603,098)	\$ (27,140,107)
Items not affecting cash:		
Stock-based compensation	1,381,765	1,492,438
Depreciation	37,107	559,179
Foreign exchange loss (gain)	(707,472)	229,797
Derivative gains	(4,381,963)	-
Other income	39,307	47,799
	(9,234,354)	(24,810,894)
Changes in non-cash working capital items:		
Other current assets	(1,139,407)	34,675
Accounts payable and accrued liabilities	(8,384,411)	(522,248)
Net cash used for operating activities	(18,758,172)	(25,298,467)
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt (Note 7)	150,000,000	-
Transaction costs (Note 7)	(4,465,408)	-
Proceeds from exercise of stock options	117,943	-
Net proceeds from draw downs of debenture (Note 6)	28,600,000	7,994,195
Net cash provided by financing activities	174,252,535	7,994,195
<b>INVESTING ACTIVITIES</b>		
Acquisition and development of property, plant and equipment	(29,639,078)	(133,059)
Net cash used for investing activities	(29,639,078)	(133,059)
Effect of foreign exchange rate differences on cash	(22,571)	66,544
Net increase (decrease) in cash	125,832,714	(17,370,787)
Cash, beginning of period	8,503,476	21,360,228
Cash, end of period	\$ 134,336,190	\$ 3,989,441
<b>Supplemental information</b>		
Interest received	\$ 7,076	\$ 86,262
Change in accounts payable and accrued liabilities related to:		
Transaction costs	1,666,397	-
Acquisition of property, plant and equipment	9,672,704	-

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

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# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars, unless otherwise noted)

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## 1. Nature of operations and liquidity

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

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.

In May 2016, the Company completed a feasibility study for the Fruta del Norte Project and has since commenced its development. It currently has no 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, and on future profitable production.

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

The Company closed a project financing package in May 2017 (See Note 7). Management continues to engage in discussions with a number of parties, including financial institutions, strategic and other potential investors to raise additional project funding for the Fruta del Norte Project. 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 when required could delay the commencement of development of the Fruta del Norte Project and could potentially have a material adverse effect on Lundin Gold’s business, financial condition and results of operations.

## 2. Basis of preparation and consolidation

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These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board, applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting. As a result, they do not conform in all respects with the disclosure requirements for annual financial statements under IFRS, and should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2016.

These unaudited condensed consolidated interim financial statements are presented in U.S. dollars.

In preparing these unaudited condensed consolidated interim financial statements, the Company applied the same accounting policies and key sources of estimation uncertainty as those that were applied to the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2016 except as noted below.

During the six months ended June 30, 2017, the Company applied the following:

*i. Financial Instruments*

At initial recognition, the Company has classified its long-term debt as financial liabilities at fair value. Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statement of loss within “derivative gains and losses” in the period in which they arise.

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# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars, unless otherwise noted)

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## 2. Basis of preparation and consolidation (continued)

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*ii. Critical accounting estimates*

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 fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Company uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at initial recognition and at the end of each reporting period. Refer to Note 14 for further details on the methods and assumptions utilized.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

These financial statements were approved for issue by the Board of Directors on August 9, 2017.

## 3. Other current assets

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	June 30, 2017	December 31, 2016
Prepaid expenses and deposits	\$ 1,856,763	\$ 706,982
Deferred transaction and derivative costs (Note 7)	10,807,029	-
	<u>\$ 12,663,792</u>	<u>\$ 706,982</u>

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars, unless otherwise noted)

## 4. Property, plant and equipment

Cost	Development Costs	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
<b>Balance, January 1, 2016</b>	\$ -	\$ 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
<b>Balance, December 31, 2016</b>	-	4,458,178	4,111,748	976,123	352,198	9,898,247
Additions	41,216,002	-	133,806	384,538	-	41,734,346
Cumulative translation adjustment	-	-	-	-	2,874	2,874
<b>Balance, June 30, 2017</b>	\$ 41,216,002	\$ 4,458,178	\$ 4,245,554	\$ 1,360,661	\$ 355,072	\$ 51,635,467
<b>Accumulated depreciation</b>						
<b>Balance, January 1, 2016</b>	\$ -	\$ 105,337	\$ 603,149	\$ 285,535	\$ 79,853	\$ 1,073,874
Depreciation and amortization for the year	-	102,300	585,568	218,107	96,147	1,002,122
Cumulative translation adjustment	-	-	-	-	313	313
<b>Balance, December 31, 2016</b>	-	207,637	1,188,717	503,642	176,313	2,076,309
Depreciation and amortization for the period	-	51,150	291,557	123,161	48,746	514,614
Cumulative translation adjustment	-	-	-	-	2,042	2,042
<b>Balance, June 30, 2017</b>	\$ -	\$ 258,787	\$ 1,480,274	\$ 626,803	\$ 227,101	\$ 2,592,965
<b>Net book value</b>						
<b>As at December 31, 2016</b>	\$ -	\$ 4,250,541	\$ 2,923,031	\$ 472,481	\$ 175,885	\$ 7,821,938
<b>As at June 30, 2017</b>	\$ 41,216,002	\$ 4,199,391	\$ 2,765,280	\$ 733,858	\$ 127,971	\$ 49,042,502



# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars, unless otherwise noted)

## 4. Property, plant and equipment (continued)

Included in the additions to developments costs are the following:

	June 30, 2017	December 31, 2016
Stock-based compensation	\$ 161,684	\$ -
Depreciation and amortization	477,507	-
Finance expense	1,614,583	-
Accretion of transaction and derivative costs	68,540	-
Accretion of reclamation provision	100,250	-
	\$ 2,422,564	\$ -

## 5. Mineral properties

Cost	Fruta del Norte Project	Fruta del Norte restoration asset	Total
<b>Balance, January 1, 2016</b>	\$ 236,337,090	\$ 536,713	\$ 236,873,803
Additions	-	-	-
<b>Balance, December 31, 2016</b>	236,337,090	536,713	236,873,803
Additions (Note 8)	-	2,921,425	2,921,425
<b>Balance, June 30, 2017</b>	\$ 236,337,090	\$ 3,458,138	\$ 239,795,228

## 6. Debenture

On January 16, 2017, the Company obtained a \$35 million unsecured short-term credit facility from an insider of the Company (the "Facility"). The amount outstanding at June 30, 2017 was \$28.6 million. On July 14, 2017, the Company repaid the outstanding balance of the Facility in full.

The Company issued an aggregate of 60,000 common shares on January 16, 2017 as consideration for the Facility in lieu of fees. No interest was payable in cash during the term of the Facility. The Company also issued 1,700 common shares per \$1 million of the Facility drawn down and outstanding each month. As at June 30, 2017, 117,290 common shares have been issued for amounts drawn down and outstanding under the Facility. An additional 48,620 common shares were issued on July 1, 2017 on account of the facility amount outstanding during the month of June. The value of all shares issued up to and including July 1, 2017 in the amount of \$979,652 was capitalized to property, plant and equipment. All securities issued in conjunction with the Facility are subject to a four-month hold period under applicable securities law.

	June 30, 2017	December 31, 2016
Balance, beginning of year	\$ -	\$ -
Draw downs during the period	28,600,000	-
Deferred finance fees	(255,251)	-
Accretion of deferred finance fees	255,251	-
	\$ 28,600,000	\$ -

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars, unless otherwise noted)

## 7. Long-term debt

On May 30, 2017, the Company's operating subsidiary, Aurelian Ecuador S.A. ("Aurelian"), which holds the Fruta del Norte Project, closed a project finance package (the "Financing") comprised of a gold prepay credit facility for \$150 million (the "Prepay Loan"), a stream loan credit facility of \$150 million (the "Stream Loan") and an offtake agreement (the "Offtake"). The lenders also committed to participate in future equity financings of the Company required to fund the Fruta del Norte Project, in an aggregate amount of not less than \$100 million and not more than \$150 million, as and when initiated by the Company and subject to minimum financing thresholds.

Pursuant to the Financing, the Company, together with Aurelian and other subsidiaries related to the Project (collectively, the "Project Subsidiaries"), are subject to a number of non-financial covenants while amounts remain outstanding. The Prepay and Stream Loans are secured by way of a first ranking charge over the Project Subsidiaries' assets, pledges of the shares of the Project Subsidiaries and guarantees of the Company and the Project Subsidiaries.

To date, \$150 million has been advanced under the Financing. The remaining \$150 million is available to be drawn at the option of Aurelian, up to the end of June 2018, subject to the perfection of all security and certain other conditions.

Transaction costs incurred associated to the Financing totalled \$6,131,804 of which \$3,065,902 has been recorded as Other Current Assets since only half of the available Financing was drawn down and outstanding at June 30, 2017.

As at June 30, 2017, the long-term debt consisted of the following:

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Principal	\$ 75,000,000	\$ 75,000,000	\$ -	\$ 150,000,000
Interest accrued and capitalized at stated rate of 7.5%	357,534	277,397	-	634,931
Transaction costs	(1,517,148)	(1,529,310)	-	(3,046,458)
Derivative fair value adjustments	(4,671,574)	(6,260,693)	14,340,526	3,408,259
<b>Total</b>	<b>\$ 69,168,812</b>	<b>\$ 67,487,394</b>	<b>\$ 14,340,526</b>	<b>\$ 150,996,732</b>

Derivative fair value adjustments reflect the revaluation of the long-term debt at fair value as at June 30, 2017, including half of the cost of derivatives which are part of the long-term debt. Half of the cost has been recorded in Other Current Assets since only half of the available long-term debt was drawn down and outstanding at June 30, 2017.

### (a) Gold prepay credit facility

The Prepay Loan is a senior secured loan facility of \$150 million with a stated interest rate of 7.5% per annum with interest accruing based upon the outstanding balance. As at June 30, 2017, \$75 million has been drawn under this facility.

The Prepay Loan is amortized and repayable over 19 quarters starting December 31, 2020. The quarterly payments are equivalent to the value of 11,500 oz. of gold based on the spot price of gold at the time of the payment date. The excess of the quarterly repayments over the principal and interest components, if any, is a variable additional charge (the "Finance Charge"). If the average gold price in the fiscal quarter prior to repayment date is greater than \$1,436 or less than \$1,062, then the repayments are reduced or increased by 15%, respectively (the "Credit/Penalty"). In addition, the Company has an option to defer the quarterly instalments for up to four (4) quarters by increasing the gold equivalent deliveries by 1,000 oz. for each deferred quarter (the "Prepay Deferral").

The Company has elected to measure the Prepay Loan as a financial liability measured at fair value.

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# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017

(Unaudited – Prepared by Management)

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

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## 7. Long-term debt (continued)

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### (b) Stream loan credit facility

The Stream Loan is a senior secured loan facility of \$150 million with a stated interest rate of 7.5% per annum with interest accruing based upon the outstanding balance. As at June 30, 2017, \$75 million has been drawn under this facility.

The Stream Loan is repayable in variable monthly instalments equivalent to the value of 7.75% of gold production less \$400 per oz. (the “Gold Base Price”) and 100% of the silver production less \$4 per oz. (the “Silver Base Price”) upon the start of commercial production at the Fruta del Norte Project, up to a maximum of 350,000 oz. of gold and six million oz. of silver. The Gold Base Price and Silver Base Price are subject to increase by 1% per annum starting on the third anniversary of the commercial production date. The excess of the monthly repayments over the principal and interest components, if any, is a Finance Charge.

The monthly gold and silver quantities and associated maximum deliverable ounces are subject to increase by set percentages if commercial production is not achieved by December 31, 2020 until October 1, 2021 (the “Stream Loan Extension”). In addition, the Company has the option to repay (i) 50% of the remaining Stream Loan on June 30, 2024 for \$150 million and / or (ii) the other 50% of the remaining Stream Loan on June 30, 2026 for \$225 million (the “Buyback Options”).

The Company has elected to measure the Stream Loan as a financial liability measured at fair value.

### (c) Offtake Commitment

The Lenders have been granted the right to purchase 50% of Fruta del Norte gold production, up to a maximum of 2.5 million oz., at a price determined based on monthly delivery dates and a defined quotational period. This obligation will be satisfied first through the sale of doré and then, if required, financial settlement.

The Company has determined that the Offtake represents a derivative financial liability. Accordingly, the Offtake, which is primarily a function of the gold price option feature, is measured at fair value at each statement of financial position date, with changes in the derivative fair value being recorded in profit or loss.

## 8. Restoration provision

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The Company’s provisions relate 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 June 30, 2017, the Company applied a pre-tax discount rate of 13.4% (2016 – 14.0%) and an inflation rate of 3.5% (2016 – 3.7%). The estimated total liability for reclamation and remediation costs on an undiscounted basis is approximately \$18.9 million.

	June 30, 2017	December 31, 2016
Balance, beginning of year	\$ 973,831	\$ 866,593
Fair value of new obligations during the period	2,921,425	-
Accretion of liability component of obligations	100,250	107,238
	\$ 3,995,506	\$ 973,831

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# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017

(Unaudited – Prepared by Management)

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

## 9. Share capital

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:

	Note	Number of common shares	Share capital
Balance at January 1, 2016		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
Stock options exercised		39,000	117,943
Stock options exercised - fair value adjustment		-	64,458
Share consideration for debenture	6	177,290	776,910
Balance at June 30, 2017		118,901,825	\$ 457,709,359

- (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 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 Shares sold under the Offering, also at a price of CAD\$5.50 per share.

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.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars, unless otherwise noted)

## 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:

	Six months ended June 30, 2017		Year ended December 31, 2016	
	Number of common shares	Weighted exercise price (CAD)	Number of common shares	Weighted exercise price (CAD)
Balance, beginning of period	3,834,500	\$ 4.18	2,122,500	\$ 3.91
Granted	1,269,000	5.17	2,092,000	4.43
Cancelled / Expired	(141,750)	4.65	(244,000)	4.08
Exercised <sup>(1)</sup>	(39,000)	4.04	(136,000)	4.03
Balance outstanding, end of period	4,922,750	\$ 4.42	3,834,500	\$ 4.18
Balance exercisable, end of period	2,757,000	\$ 4.04	1,528,650	\$ 3.95

<sup>(1)</sup> The weighted average share price on the exercise date for the stock options exercised during the six months ended June 30, 2017 and year ended December 31, 2016 were CAD\$6.35 and CAD\$5.61, respectively.

The following table summarizes information concerning outstanding and exercisable options at June 30, 2017:

Range of exercise prices (CAD)	Outstanding options			Exercisable options		
	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	1,895,500	2.49	\$ 3.90	1,895,500	2.49	\$ 3.90
\$ 4.01 to 5.84	3,027,250	4.11	4.75	861,500	3.71	4.34
	4,922,750	3.49	\$ 4.42	2,757,000	2.87	\$ 4.04

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:

	2017	2016
Risk-free interest rate	1.08%	0.54%
Expected stock price volatility	61.87%	60.85%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	\$2.71	\$2.25

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017

(Unaudited – Prepared by Management)

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

## 10. Stock options (continued)

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

During the six months ended June 30, 2017, the Company recorded stock-based compensation expense of \$1,543,449 (2016 – \$1,492,438) of which \$1,366,775 (2016 – \$1,144,636) has been allocated to general and administration expenses; nil (2016 – \$230,677) to project evaluation expenses; \$14,990 (2016 – \$117,125) to exploration expenses; and \$161,684 (2016 – nil) to property, plant and equipment.

## 11. Project evaluation

	Three months ended		Six months ended	
	2017	June 30, 2016	2017	June 30, 2016
Camp costs	\$ -	\$ 756,519	\$ -	\$ 1,399,780
Community relations	-	344,367	-	658,376
Conceptual studies	-	3,124,019	-	8,727,334
Depreciation and accretion expense	-	267,844	-	547,203
Drilling and other operating expenses	-	74,445	-	116,192
Environmental costs	-	592,992	-	1,245,012
Office and general	-	355,363	-	876,388
Salaries and benefits	-	566,120	-	1,311,366
Property taxes	-	594,479	-	925,603
	\$ -	\$ 6,676,148	\$ -	\$ 15,807,254

In accordance with its accounting policies, the Company commenced capitalizing Project Evaluation expenditures in 2017.

## 12. Related party transactions

### (a) Related party expenses

During the six months ended June 30, 2017 and June 30, 2016, the Company incurred the following:

Payee	Nature	Note	June 30, 2017	June 30, 2016
Namdo	Management fees	i	\$ 170,876	\$ 160,878
BMAJ	Legal fees	ii	42,059	50,972
Lundin S.A.	Office and administration	lii	67,451	48,113

- 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 with negotiations and ongoing relations 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.

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# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017  
(Unaudited – Prepared by Management)  
(Expressed in U.S. Dollars, unless otherwise noted)

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## 12. Related party transactions (continued)

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(b) Key management compensation

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

	June 30, 2017		June 30, 2016	
Salaries and benefits	\$	1,276,025	\$	838,483
Stock-based compensation		1,260,571		1,299,156
	\$	2,536,596	\$	2,137,639

## 13. Segmented information

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The Company's primary business activity is the advancement of the Fruta del Norte Project in Ecuador. During the six months ended June 30, 2017 and June 30, 2016, all project development, evaluation and exploration expenditures were incurred in Ecuador. In addition, materially all the non-current assets of the Company are located in Ecuador.

## 14. Financial instruments

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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 and debenture, which are categorized as financial liabilities at 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. In addition, the Company has long-term debt all of which have been classified as financial liabilities measured at fair value.

(a) Fair value measurements and hierarchy

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lower priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2: Inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

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# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2017  
(Unaudited – Prepared by Management)  
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## 14. Financial instruments (continued)

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The following table sets forth the Company's financial liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Each of these financial instruments are classified as Level 3 as their valuation includes significant unobservable inputs.

	June 30, 2017	June 30, 2016
Gold prepay credit facility	\$ 69,168,812	\$ -
Stream loan credit facility	67,487,394	-
Offtake derivative liability	14,340,526	-
	<u>\$ 150,996,732</u>	<u>\$ -</u>

The financial liabilities above were valued using Monte Carlo simulation valuation models. The key inputs used by the Monte Carlo simulation include: the gold forward curve based on Comex futures, the Company's expectation about long-term gold yields, gold volatility, risk-free rate of return, non-performance risk, and production expectations. In addition, in valuing the Stream Loan, the silver forward curve based on Comex futures, silver volatility, and the gold/silver correlation were used.

## 15. Commitments

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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	Other	Total
2017	\$ 20,000,000	\$ 4,062,000	\$ 24,062,000
2018	20,000,000	-	20,000,000
Total	<u>\$ 40,000,000</u>	<u>\$ 4,062,000</u>	<u>\$ 44,062,000</u>

## 16. Subsequent Event

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On August 4, 2017, the Company completed the acquisition of a small mining concession to gain access to land required for the development of certain facilities for the operation the Fruta del Norte Project. As consideration for this concession, the Company:

- Paid \$1.1 million in cash;
- Issued 430,938 common shares of the Company; and
- Granted a 2% net smelter royalty for any metallic minerals mined from the acquired concession.