

# LUNDIN GOLD

Building a Leading Gold Company  
Through Responsible Mining

Q2 2018



---

# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## INTRODUCTION

---

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, 2018 with those of the same period from the previous year.

This MD&A is dated as of August 10, 2018 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, 2018, 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, 2017.

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, headquartered in Vancouver, Canada, is developing its wholly-owned Fruta del Norte gold project ("Fruta del Norte Project" or the "Project") in southeast Ecuador. The Fruta del Norte Project is one of the highest-grade gold projects currently under construction in the world today. The Company's board and management team have extensive expertise in mine construction and operations and are dedicated to advancing this project through to first gold production in 2019.

The Company operates with transparency and in accordance with international best practices. Lundin Gold is committed to delivering value to its shareholders, while simultaneously providing economic and social benefits to impacted communities, fostering a healthy and safe workplace and minimizing the environmental impact. The Company believes that the value created through the development of Fruta del Norte will benefit its shareholders, the Government and the people of Ecuador.

## SECOND QUARTER 2018 HIGHLIGHTS AND ACTIVITIES

---

### *Fruta del Norte Project*

- Overall engineering was 48% complete and construction 21% complete.
- The cumulative advance in the K'isa and Kuri declines was 2.2 kilometres ("km").
- Process plant excavation is nearly complete.
- Process plant ball mill piers were poured.
- Grinding building foundations and carbon-in-leach tank foundations were well underway.
- North Access road was 70% complete.
- Tailings storage facility access road construction was completed, and polishing pond and diversion ditch construction began.
- Clearing of powerline route from site began.
- New camp kitchen and dining facility was completed.

### *Financing*

- Closed a \$350 million senior secured project finance debt facility (the "Facility") with a syndicate of seven lenders. In addition, the Company executed a gold concentrate offtake agreement with Boliden.

---

# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## *Exploration*

- Scout drilling of the El Puma target, located in the southern Suarez Basin, was completed with a total of 6,245 metres ("m") in six drill holes.
- Mapping, geochemical sampling and the permitting required for future drilling continues on a number of epithermal gold-silver targets around the Suarez Basin.

## *Corporate*

- Istvan Zollei of Orion Mine Finance Group and Michael Nossal and Craig Jones of Newcrest Mining Limited joined the board of the Company following the closing of the equity financing.

---

## **THE FRUTA DEL NORTE PROJECT**

---

Lundin Gold's properties in Southeast Ecuador consists of 30 mining concessions covering an area of approximately 64,406 hectares. From this, the Fruta del Norte Project is comprised of six concessions covering an area of approximately 5,039 hectares and is located approximately 140 km east-northeast of the City of Loja, which is the fourth largest city in Ecuador.

Development of the Project remains on track and on budget to deliver first gold production in the fourth quarter of 2019 and achieve commercial production in the second quarter of 2020.

### *Activities in the Second Quarter of 2018*

#### Fruta del Norte Project

During the second quarter of 2018 the progress continued on the Project, most notably in the areas of engineering, procurement and construction. Overall engineering was 48% complete and construction was 21% complete as of the end of the quarter.

#### Mine Development

- As at June 30, a total of 2.2 km of underground mine development had been achieved, with 1,030 m and 1,167 m in the Kuri and K'isa declines, respectively. Daily advance rates improved steadily throughout the quarter achieving an average advance rate of 5.9 m per day in Kuri and 6.6 m per day in K'isa in June, versus a target of 5.16 m per day.
- Company awarded the service fleet in May. With this award, nearly all of the mining equipment purchase orders have been placed.

#### Process Plant Construction

- Process plant and main substation excavation was nearly complete at the end of the quarter.
- Construction moved ahead with the ball mill piers and grinding building foundations were poured, putting this project at 84% complete.
- Carbon-in-leach tank bases were 20% complete.
- Fabrication of process plant equipment is on track with the first equipment (thickeners and primary jaw crusher) scheduled to arrive on site in the third quarter of 2018.

#### Major Site Earthworks

- North Access road was an estimated 70% complete with less than 2 km remaining until it is done.
- Remaining section of the North Access road includes a steep escarpment which requires careful attention for technical and safety reasons.
- Road construction through this section is progressing well and the Company remains on track to finish the road by the end of the third quarter of 2018.
- Tailings storage facility, polishing pond and east diversion ditch access roads were completed, and work commenced on clearing and grubbing in the polishing pond area.

---

# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## Powerline

- Regulatory process of formalizing all easements required for the powerline from the Bomboiza substation to the Project is near complete.
- Contractor mobilized and started clearing on the powerline route from site in June.

## Ancillary Facilities

- Work started on the permanent mine maintenance shop, mine substation and mine compressor station.
- Fuel storage station is almost finished and is in the final commissioning stages.

## Environment and Permitting

- Continued to advance the Mountain Pass Quarry Environmental Licence, water permit and administrative act. The Mountain Quarry water permit was subsequently issued after quarter end.
- Continued to advance several SENAGUA water permits.
- Submitted explosives storage expansion permit.

## Exploration

- Diamond drilling was completed at the El Puma target located in the southern Suarez basin, with a total of 6,245m in six drill holes. A buried vein, breccia and shear hosted epithermal quartz-carbonate-sulfide system was intersected along the interpreted western edge of the basin. Assays received from the drilling are variably anomalous in the epithermal pathfinder elements silver, arsenic, antimony, lead and zinc but not significantly anomalous in gold. The results are currently being interpreted and compared with other epithermal systems around the basin.
- Mapping and geochemical sampling has continued on the Puente-Princesa epithermal target which is approximately 4km north of El Puma along the strike of the western basin margin. Epithermal gold-silver veins have previously been sampled in trenches and drill holes at Puente-Princesa in 2004. The basin is covered between the El Puma and Puente-Princesa target areas by post-mineral andesite lavas and basin sediment.
- Drill permitting is in process on the Barbasco epithermal gold-silver target on the eastern edge of the Suarez basin approximately 6km south of Fruta del Norte. The target is defined by an extensive area of anomalous epithermal pathfinder elements (arsenic and antimony) in soil samples within the Suarez basin. An outcrop containing an epithermal quartz vein (20cm width) has been located in the andesites along the edge of this target and has assayed up to 8 g/t Au. The target model is a buried Fruta del Norte style epithermal gold-silver system.

# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

## SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	2018 Q2	2018 Q1	2017 Q4	2017 Q3
Derivative gain (loss) for the period	\$ 18,846	\$ (23,993)	\$ (14,135)	\$ (8,281)
Net income (loss) for the period	\$ 19,741	\$ (25,588)	\$ (19,505)	\$ (16,032)
Basic income (loss) per share	\$ 0.09	\$ (0.20)	\$ (0.16)	\$ (0.13)
Diluted income (loss) per share	\$ 0.09	\$ (0.20)	\$ (0.16)	\$ (0.13)
Weighted-average number of common shares outstanding				
Basic	213,163,980	124,861,126	119,666,840	119,417,366
Diluted	213,754,928	124,861,126	119,666,840	119,417,366
Additions to property, plant and equipment	\$ 77,278	\$ 66,250	\$ 55,543	\$ 38,635
Total assets	\$ 994,583	\$ 988,889	\$ 481,729	\$ 434,198
Long-term debt	\$ 349,032	\$ 376,218	\$ 217,940	\$ 163,591
Working capital	\$ 377,265	\$ 460,329	\$ 26,794	\$ 66,196
	2017 Q2	2017 Q1	2016 Q4	2016 Q3
Derivative gain (loss) for the period	\$ 4,382	\$ -	\$ -	\$ -
Net income (loss) for the period	\$ 785	\$ (6,387)	\$ (23,889)	\$ (11,785)
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
Additions to property, plant and equipment	\$ 26,731	\$ 15,003	\$ 257	\$ 4
Total assets	\$ 460,838	\$ 295,795	\$ 278,906	\$ 300,195
Long-term debt	\$ 150,997	\$ -	\$ -	\$ -
Working capital	\$ 107,024	\$ (18,776)	\$ 1,022	\$ 49,903

To date, the Company has not generated production revenue. The only income generated by the Company is interest income on its cash deposits.

---

# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

The Company's net income in the second quarter of 2018 is mainly due to the revaluation of the Company's long-term debt as more fully explained below. In addition, the Company generated a foreign exchange gain of \$7.1 million from its substantial holdings of U.S. dollar cash at its Canadian entities during the quarter compared to a foreign exchange gain of only \$0.7 million in the second quarter of 2017. As the functional currency of these Canadian entities is the Canadian dollar, a strengthening of the U.S. dollar against the Canadian dollar during the period generates an unrealized gain in terms of Canadian dollars. This is offset by an increase in office and general expenses of \$0.8 million mainly due to an increase in payments to foreign vendors which resulted in an increase in capital outflow tax paid.

The loss in the 2018 Period is higher by \$0.2 million compared to that of the 2017 Period due to the revaluation of the Company's long-term debt and recognition of a substantial foreign exchange gain as noted above. In addition, the Company also incurred higher salaries and benefits in the 2018 Period due to the performance incentive plan payment to the Company's employees.

## *Derivative gains or losses*

The Company did not repay or increase its long-term debt during the second quarter of 2018; however, the Company's long-term debt balance is comprised of financial liabilities measured at fair value on a quarterly basis. This balance is valued using Monte Carlo simulation valuation models. The key inputs used by the Monte Carlo simulation include: the gold and silver forward curve based on Comex futures, the Company's expectation about long-term gold yields, gold and silver volatility, risk-free rate of return, risk-adjusted discount rate, and production expectations. Relatively small variations in these inputs can give rise to significant variations in the fair value of financial liabilities; hence, the large derivative gains and losses recorded in the accounts to date.

During the second quarter of 2018, the Company recorded a derivative gain from the fair value revaluation of its long-term debt of \$18.8 million compared to a derivative gain of \$4.4 million recognized in the second quarter of 2017. For the 2018 Period, the Company has recorded a derivative loss of \$5.1 million compared to a derivative loss of \$4.4 million in the 2017 Period.

---

## LIQUIDITY AND CAPITAL RESOURCES

---

As at June 30, 2018, the Company had cash of \$393.5 million and a working capital of \$377.3 million compared to cash of \$35.0 million and a working capital balance of \$26.8 million at December 31, 2017. The change in cash was primarily due to net proceeds from the private placement in March 2018 of \$396.5 million and the final drawdown of \$110 million under the gold prepay and stream credit facilities. This is offset by costs incurred for the development of the Fruta del Norte Project of \$121.0 million, general and administration costs of \$9.9 million and exploration expenditures of \$4.2 million.

The Company closed a project financing package of \$300 million in May 2017 comprising of the gold prepay and stream credit facilities, a \$400 million private placement in March 2018, and secured the Facility of \$350 million in July 2018. The initial draw down of the Facility is not expected to occur until the first quarter of 2019 and is subject to customary conditions precedent and establishing a cost overrun facility.

The Company currently has no sources of revenues. Its continuing operations and the underlying value and recoverability of the amount shown for the mineral interests are dependent upon the ability of the Company to complete the development of the Fruta del Norte Project and on future profitable production.

---

## TRANSACTIONS WITH RELATED PARTIES

---

During the 2018 Period, the Company paid \$0.2 million (2017 – \$0.2 million) 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.

---

# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## FINANCIAL INSTRUMENTS

---

---

The Company's financial instruments consist of cash, cash equivalents and receivables, which are categorized as financial assets at amortized cost, and accounts payable and accrued liabilities, which are categorized as financial liabilities at amortized cost. The fair value of these financial instruments, 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.

### *Currency risk*

Lundin Gold is a Canadian company and its capital is typically 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.

### *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 and on the Facility.

### *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 to monitor 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.

### *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.

## OFF-BALANCE SHEET ARRANGEMENTS

---

---

During the 2018 Period and the year ended December 31, 2017 there were no 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 213,163,980 common shares issued and outstanding and stock options outstanding to purchase a total of 5,830,400 common shares for a total of 218,994,380 common shares outstanding on a fully-diluted basis.

---

# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## OUTLOOK

---

---

The Company is focussed on advancing the Project on schedule through to first gold production in 2019. To achieve that goal, the following activities are planned over the next twelve months:

- Completing detailed engineering of the process plant, tailings storage facility and site-wide water management.
- Completing the North Access road.
- Completing process plant concrete foundations and advancing steel and equipment erection.
- Receiving the majority of the process plant equipment and mine mobile equipment onsite.
- Advancing construction of the site infrastructure buildings such as the laboratory, reagent storage, mine dry and administration.
- Continuing to advance underground mine development, as well as the underground services and facilities.
- Completing the construction of the 42 km, 230 kilovolt power transmission line to connect to the national grid.
- Receiving approval of the Mountain Pass Quarry Environmental License and developing the quarry.
- Awarding the contracts for the design and supply of the paste plant and water treatment plant, advancing the engineering and equipment procurement and beginning earthworks and site preparation for the two plants.
- Advancing construction of the tailings storage facility.
- Completing engineering and starting construction for the Zamora River bridge near Los Encuentros.

The Company is also in discussions with selected potential parties in order to establish a cost overrun facility which is a condition precedent to the initial draw down of the Facility, expected to occur in the first quarter of 2019.

Exploration is currently focused on mapping and geochemical sampling of the Puente-Princesa target. Other targets may be mapped and sampled during 2018 depending on results. Drill permitting continues for a number of epithermal gold-silver target areas around the Suarez basin.

## ADOPTION OF NEW ACCOUNTING STANDARDS

---

---

During the six months ended June 30, 2018, the Company adopted the following new accounting standards:

*i. IFRS 15, Revenue from Contracts with Customers*

The IASB issued a new standard for the recognition of revenue. This replaced 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.

This new standard did not affect the Company's financial statements 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. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 *Financial Instruments: Disclosures*.



---

# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

The Company's long-term debt is and under IFRS 9, continues to be classified as financial liabilities at fair value. Upon adoption of IFRS 9, the component of fair value changes relating to the Company's own credit risk is recognised in Other Comprehensive Loss. Amounts recorded in Other Comprehensive Loss related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Fair value changes relating to market risk are recognised in profit or loss.

The adoption of IFRS 9 has resulted in adjustments to the amounts recognised in the unaudited condensed consolidated interim financial statements. Refer to the Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2018 for further details.

---

## CRITICAL ACCOUNTING ESTIMATES

---

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 2017 Management's Discussion and Analysis.

---

## RISKS AND UNCERTAINTIES

---

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 March 20, 2018 (the "AIF") which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

---

## QUALIFIED PERSON

---

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 Stephen Leary, MAusIMM CP(Geo), a consultant to the Company, who is a Qualified Person in accordance with the requirements of NI 43-101.

---

## FINANCIAL INFORMATION

---

The report for the three and nine months ended September 30, 2018 is expected to be published on or about November 8, 2018.

---

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

---

### *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.

---

# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## *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, 2018 and ending June 30, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

---

## **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 timing of first production and the progress of the development, construction and operation of the Project, improvements to site logistics and completion of camp infrastructure and the acquisition of land and surface rights, 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, 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; the ability to maintain its obligations under the gold prepay and stream credit facilities, the Facility and other debt; risks related to carrying on business in Ecuador; 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 critical resources, labour and key executive personnel, such as input commodities, equipment and skilled labour, and the dependence on key personnel; risks associated with the Company's community relationships; unreliable infrastructure; volatility in the market price of the Company's shares; the potential influence of the Company's largest shareholders; uncertainty with the tax regime in Ecuador; measures required to protect endangered species; 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; the Company's reliance on one project; risks related to artisanal and illegal mining; uncertainty as to reclamation and decommissioning; risks associated with the Company's information systems; competition in the mining industry; the ability to obtain adequate insurance; risks of bribery or corruption; the potential for litigation; and limits of disclosure and internal controls.

---

# **LUNDIN GOLD INC.**

Management's Discussion and Analysis

Six Months Ended June 30, 2018

(All dollar amounts are stated in U.S. dollars unless otherwise indicated. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

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 thousands of U.S. Dollars)

	Note	June 30, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 393,488	\$ 35,018
Other current assets	3	9,233	12,726
		402,721	47,744
<b>Non-current assets</b>			
VAT recoverable and other long-term assets	4	9,898	-
Property, plant and equipment	5	284,871	142,598
Mineral properties	6	252,093	246,387
Advance royalty		45,000	45,000
		\$ 994,583	\$ 481,729
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 25,456	\$ 20,950
<b>Non-current liabilities</b>			
Long-term debt	7	349,032	217,940
Reclamation provisions	8	15,014	7,990
		389,502	246,880
<b>EQUITY</b>			
Share capital	9	857,308	460,856
Equity-settled share-based payment reserve	10	10,874	9,547
Accumulated other comprehensive loss		(43,315)	(11,364)
Deficit		(219,786)	(224,190)
		605,081	234,849
		\$ 994,583	\$ 481,729

Commitments (Note 14)

Subsequent events (Note 1, 14)

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.

**LUNDINGOLD**

# LUNDIN GOLD INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss  
(Unaudited – Prepared by Management)  
(Expressed in thousands of U.S. Dollars, except share and per share amounts)

	Note	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
<b>EXPENSES</b>					
Exploration		\$ 1,567	\$ 1,034	\$ 4,199	\$ 3,832
General and administration:					
Corporate social responsibility		400	-	772	-
Depreciation		28	18	52	37
Investor relations		85	77	151	109
Municipal taxes		213	193	213	193
Office and general		1,076	251	1,377	1,070
Professional fees		1,247	1,068	2,258	2,014
Regulatory and transfer agent		74	81	170	181
Salaries and benefits		896	765	3,230	1,435
Stock-based compensation	10	796	767	1,327	1,367
Travel		209	268	344	446
Loss before other items		6,591	4,522	14,093	10,684
<b>OTHER ITEMS</b>					
Foreign exchange gain		7,130	733	13,403	693
Other income (expense)		356	192	(10)	7
Derivative gain (loss)	7	18,846	4,382	(5,147)	4,382
Net income (loss) for the period		\$ 19,741	\$ 785	\$ (5,847)	\$ (5,602)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
<b>Items that may be reclassified to net income (loss)</b>					
Currency translation adjustment		(7,281)	(773)	(13,694)	(710)
<b>Items that will not be reclassified to net income (loss)</b>					
Derivative gain (loss) related to the Company's own credit risk	7	16,640	-	(8,006)	-
Comprehensive income (loss)		\$ 29,100	\$ 12	\$ (27,547)	\$ (6,312)
Income (loss) per common share					
Basic		\$ 0.09	\$ 0.01	\$ (0.03)	\$ (0.05)
Diluted		0.09	0.01	(0.03)	(0.05)
Weighted-average number of common shares					
Basic		213,163,980	118,857,521	169,256,483	118,801,029
Diluted		213,754,928	119,880,477	169,256,483	118,801,029

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

**LUNDINGOLD**

# LUNDIN GOLD INC.

Condensed Consolidated Interim Statements of Changes in Equity  
(Unaudited – Prepared by Management)  
(Expressed in thousands of U.S. Dollars, except number of common shares)

	Note	Number of common shares	Share capital	Equity-settled share-based payment reserve	Other reserves	Deficit	Total
Balance, January 1, 2017		118,685,535	\$ 456,750	\$ 7,422	\$ (11,378)	\$ (183,050)	\$ 269,744
Exercise of stock options	10	39,000	182	(64)	-	-	118
Share consideration for debenture		177,290	777	-	-	-	777
Stock-based compensation	10	-	-	1,543	-	-	1,543
Currency translation adjustment		-	-	-	(710)	-	(710)
Net loss for the period		-	-	-	-	(5,602)	(5,602)
Balance, June 30, 2017		118,796,353	\$ 457,709	\$ 8,901	\$ (12,088)	\$ (188,652)	\$ 265,870
Balance, January 1, 2018		119,666,840	\$ 460,856	\$ 9,547	\$ (11,364)	\$ (224,190)	\$ 234,849
Impact of adopting IFRS 9 on January 1, 2018	2	-	-	-	(10,251)	10,251	-
Balance, January 1, 2018 (restated)		119,666,840	460,856	9,547	(21,615)	(213,939)	(234,849)
Proceeds from equity financing, net	9	93,497,140	396,452	-	-	-	396,452
Stock-based compensation	10	-	-	1,327	-	-	1,327
Other comprehensive loss		-	-	-	(21,700)	-	(21,700)
Net loss for the period		-	-	-	-	(5,847)	(5,847)
Balance, June 30, 2018		213,163,980	\$ 857,308	\$ 10,874	\$ (43,315)	\$ (219,786)	\$ 605,081

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

**LUNDINGOLD**

# LUNDIN GOLD INC.

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

	Six months ended June 30,	
	2018	2017
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (5,847)	\$ (5,602)
Items not affecting cash:		
Stock-based compensation	1,327	1,382
Depreciation	52	37
Derivative loss (gain)	5,147	(4,382)
Unrealized foreign exchange gain	(13,385)	(707)
Other expense	1,297	39
	(11,409)	(9,233)
Changes in non-cash working capital items:		
Other current assets	(4,443)	(1,140)
Accounts payable and accrued liabilities	(401)	(8,385)
Net cash used for operating activities	(16,253)	(18,758)
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt (Note 7)	110,000	150,000
Transaction costs (Note 7)	(735)	(4,465)
Net proceeds from equity financing (Note 9)	396,452	-
Proceeds from exercise of stock options	-	118
Proceeds from draw downs of debenture	-	28,600
Net cash provided by financing activities	505,717	174,253
<b>INVESTING ACTIVITIES</b>		
Acquisition and development of property, plant and equipment	(121,037)	(29,639)
Change in VAT receivable and other long-term assets	(9,898)	-
Net cash used for investing activities	(130,935)	(29,639)
Effect of foreign exchange rate differences on cash	(59)	(23)
Net increase in cash and cash equivalents	358,470	125,833
Cash and cash equivalents, beginning of period	35,018	8,503
Cash and cash equivalents, end of period	\$ 393,488	\$ 134,336
<b>Supplemental information</b>		
Interest received	\$ 1,306	\$ 7
Change in accounts payable and accrued liabilities related to:		
Transaction costs	-	1,666
Acquisition of property, plant and equipment	4,945	9,673

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

---

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## 1. Nature of operations

---

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 (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 and property, plant and equipment are dependent upon the ability of the Company to develop the Fruta del Norte Project and on future profitable production.

The Company closed a project financing package of \$300 million in May 2017 (See Note 7), a \$400 million private placement in March 2018 (See Note 9), and a senior secured project finance facility of \$350 million in July 2018 (the “Facility”). The initial draw down of the Facility is not expected to occur until the first quarter of 2019 and is subject to customary conditions precedent and establishing a cost overrun facility.

## 2. Basis of preparation and consolidation

---

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 (“IASB”), 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, 2017.

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, 2017 except as noted below.

These financial statements were approved for issue by the Board of Directors on August 10, 2018.

During the six months ended June 30, 2018, the Company adopted the following new accounting standards:

*i. IFRS 15, Revenue from Contracts with Customers*

The IASB issued a new standard for the recognition of revenue. This replaced 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.

This new standard did not affect the Company’s financial statements as the Company has yet to generate any revenues.



# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

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

### 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. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 *Financial Instruments: Disclosures*.

The Company's long-term debt is and under IFRS 9, continues to be classified as financial liabilities at fair value. Upon adoption of IFRS 9, the component of fair value changes relating to the Company's own credit risk is recognised in Other Comprehensive Loss. Amounts recorded in Other Comprehensive Loss related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Fair value changes relating to market risk are recognised in profit or loss.

The adoption of IFRS 9 has resulted in adjustments to the amounts recognised in the unaudited condensed consolidated interim financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The total impact on the Company's equity due to the recognition of fair value changes relating to the Company's own credit risk in Other Comprehensive Loss as at January 1, 2018 is as follows:

Cost	Accumulated other comprehensive loss	Deficit	Total
<b>Balance, January 1, 2018 – IAS 39</b>	\$ (11,364)	\$ (224,190)	\$ (235,554)
Derivative loss related to the Company's own credit risk	(10,251)	10,251	-
<b>Balance, January 1, 2018 – IFRS 9</b>	\$ (21,615)	\$ (213,939)	\$ (235,554)

Upon adoption of IFRS 9 on January 1, 2018, the financial instruments of the Company were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original	New	Difference
<b>Financial assets</b>					
Cash	Loans and receivables	Amortized cost	\$ 35,018	\$ 35,018	-
Other current assets	Loans and receivables	Amortized cost	12,726	12,726	-
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	20,950	20,950	-
Long-term debt	FVPL <sup>1</sup>	FVPL <sup>1</sup>	217,940	217,940	-

<sup>1</sup> FVPL = financial liabilities measured at fair value through profit or loss

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

## 3. Other current assets

	June 30, 2018	December 31, 2017
Prepaid expenses and deposits	\$ 12,127	\$ 2,428
Deferred transaction costs	7,004	10,298
	\$ 19,131	\$ 12,726

## 4. VAT receivable and other long-term assets

	June 30, 2018	December 31, 2017
VAT recoverable	\$ 8,842	\$ -
Other long-term assets	1,056	-
	\$ 9,898	\$ -

In December 2015, the Government of Ecuador passed legislation (Ley Orgánica de Incentivos para Asociaciones Público Privadas) to extend VAT recovery to the mining sector. As a result, VAT paid by the Company after January 1, 2018 will be refunded once the Company begins to generate export sales.

## 5. Property, plant and equipment

Cost	Construction- in-progress	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
<b>Balance, January 1, 2017</b>	\$ -	\$ 4,458	\$ 4,112	\$ 976	\$ 352	\$ 9,898
Additions	130,388	-	2,784	1,991	749	135,912
Cumulative translation adjustment	184	-	-	-	2	186
<b>Balance, December 31, 2017</b>	130,572	4,458	6,896	2,967	1,103	145,996
Additions	140,199	-	1,001	1,955	373	143,528
Cumulative translation adjustment	(258)	-	-	-	(4)	(262)
<b>Balance, June 30, 2018</b>	\$ 270,513	\$ 4,458	\$ 7,897	\$ 4,922	\$ 1,472	\$ 289,262

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

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

<b>Accumulated depreciation</b>												
<b>Balance, January 1, 2017</b>	\$	-	\$	207	\$	1,189	\$	504	\$	176	\$	2,076
Depreciation and amortization		-		102		700		408		110		1,320
Cumulative translation adjustment		-		-		-		-		2		2
<b>Balance, December 31, 2017</b>		-		309		1,889		912		288		3,398
Depreciation and amortization		-		51		436		383		127		997
Cumulative translation adjustment		-		-		-		-		(4)		(4)
<b>Balance, June 30, 2018</b>	\$	-	\$	360	\$	2,325	\$	1,295	\$	411	\$	4,391
<b>Net book value</b>												
<b>As at December 31, 2017</b>	\$	130,572	\$	4,149	\$	5,007	\$	2,055	\$	815	\$	142,598
<b>As at June 30, 2018</b>	\$	270,513	\$	4,098	\$	5,572	\$	3,627	\$	1,061	\$	284,871

In accordance with its accounting policies, the Company commenced capitalizing Project Evaluation expenditures in 2017. Construction-in-progress is not currently depreciated until the related assets are ready for its intended use.

Included in the additions to construction-in-progress are the following:

	June 30, 2018	December 31, 2017
Stock-based compensation (Note 10)	\$ -	\$ 166
Depreciation and amortization	946	1,246
Share consideration for debenture	-	1,064
Accretion of transaction and derivative costs (Note 7)	16,600	9,049
Accretion of reclamation provision	-	276
	\$ 17,546	\$ 11,801

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

## 6. Mineral properties

Cost	Fruta del Norte Project	Fruta del Norte restoration asset (Note 8)	Total
<b>Balance, January 1, 2017</b>	\$ 236,337	\$ 537	\$ 236,874
Additions	2,773	6,740	9,513
<b>Balance, December 31, 2017</b>	239,110	7,277	246,387
Additions	-	5,706	5,706
<b>Balance, June 30, 2018</b>	\$ 239,110	\$ 12,983	\$ 252,093

On August 4, 2017, the Company completed the acquisition of a 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 \$1.2 million in cash including taxes;
- Issued 430,938 common shares of the Company valued at \$1.6 million; and
- Allowed the vendor to retain a 2% net smelter royalty for any metallic minerals mined from the acquired concession.

## 7. Long-term debt

As at June 30, 2018, the long-term debt consisted of the following:

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Principal	\$ 150,000	\$ 150,000	\$ -	\$ 300,000
Interest accrued and capitalized at stated rate of 7.5%	9,004	8,594	-	17,598
Transaction costs	(4,300)	(2,930)	-	(7,230)
Derivative fair value adjustments	4,682	18,717	15,265	38,664
<b>Total</b>	<b>\$ 159,386</b>	<b>\$ 174,381</b>	<b>\$ 15,265</b>	<b>\$ 349,032</b>

Derivative fair value adjustments reflect the revaluation of the long-term debt at fair value as at June 30, 2018, including a portion of the cost of derivatives which are part of the long-term debt. The derivative loss related to the Company's own credit risk included in other comprehensive loss includes the impact of the difference between the Company's own credit risk at the time of entering into the long-term debt and the balance sheet date.

### (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, 2018, the full balance has been drawn under this facility.

---

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## 6. Long-term debt (continued)

---

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 gold spot price 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, the repayments are reduced or increased by 15%, respectively (the “Credit/Penalty”). In addition, the Company has an option to defer the initial quarterly instalment 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.

### (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, 2018, the full balance 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 will 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, will be 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.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

## 8. Restoration provision

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, 2018, the Company applied a pre-tax discount rate of 10.5% (2017 – 12.9%) and an inflation rate of 2.5% (2017 – 3.3%). The estimated total liability for reclamation and remediation costs on an undiscounted basis and adjusted for an estimate of future inflation is approximately \$60.5 million.

	June 30, 2018	December 31, 2017
Balance, beginning of year	\$ 7,990	\$ 974
Fair value of new obligations during the period	5,706	6,740
Accretion of liability component of obligations	1,318	276
	\$ 15,014	\$ 7,990

## 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, 2017		118,685,535	\$ 456,750
Stock options exercised		302,500	955
Transfer from equity-settled share-based payment reserve		-	487
Share consideration for mining concession	6	430,938	1,600
Share consideration for debenture		247,867	1,064
Balance at December 31, 2017		119,666,840	460,856
Proceeds from equity financing, net		93,497,140	396,452
Balance at June 30, 2018		213,163,980	\$ 857,308

- (a) On March 26, 2018, the Company closed a \$400 million private placement financing (the "Private Placement") which resulted in the issuance of 69,284,065 common shares at a price of CAD\$5.50 per share and 24,213,075 common shares at a price of CAD\$5.25 per share.

The total gross proceeds raised under the Private Placement was \$400 million. Share issue costs of \$3.5 million were paid resulting in net proceeds of \$396.5 million received by the Company in relation to the Private Placement.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

## 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, 2018		Year ended December 31, 2017	
	Number of common shares	Weighted exercise price (CAD)	Number of common shares	Weighted exercise price (CAD)
Balance, beginning of period	4,625,500	\$ 4.44	3,834,500	\$ 4.18
Granted	1,204,900	5.14	1,319,000	5.16
Cancelled / Expired	-	-	(225,500)	4.68
Exercised <sup>(1)</sup>	-	-	(302,500)	4.01
<b>Balance outstanding, end of period</b>	<b>5,830,400</b>	<b>\$ 4.59</b>	<b>4,625,500</b>	<b>\$ 4.44</b>
<b>Balance exercisable, end of period</b>	<b>3,874,500</b>	<b>\$ 4.29</b>	<b>2,805,400</b>	<b>\$ 4.18</b>

<sup>(1)</sup> The weighted average share price on the exercise date for the stock options exercised during the year ended December 31, 2017 was CAD\$5.07.

The following table summarizes information concerning outstanding and exercisable options at June 30, 2018:

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	1,735,500	1.47	\$ 3.90	1,735,500	1.47	\$ 3.90
\$ 4.01 to 5.94	4,094,900	3.61	4.88	2,139,000	2.98	4.60
	<b>5,830,400</b>	<b>2.97</b>	<b>\$ 4.59</b>	<b>3,874,500</b>	<b>2.30</b>	<b>\$ 4.29</b>

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

## 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:

	June 30, 2018	December 31, 2017
Risk-free interest rate	1.94%	1.10%
Expected stock price volatility	61.01%	61.85%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	\$2.74	\$2.71

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, 2018, the Company recorded stock-based compensation expense of \$1.3 million (2017 – \$1.5 million).

## 11. Related party transactions

### (a) Related party expenses

During the six months ended June 30, 2018 and June 30, 2017, the Company incurred the following:

Payee	Nature	Note	June 30, 2018	June 30, 2017
Namdo	Management fees	i	\$ 155	\$ 171

- 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.

### (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, 2018	June 30, 2017
Salaries, bonuses and benefits	\$ 2,647	\$ 1,276
Stock-based compensation	1,014	1,261
	\$ 3,661	\$ 2,537



---

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## 12. Segmented information

---

Operating segments are components of an entity that engage in business activities from which they incur expenses and whose operating results are regularly reviewed by a chief operating decision maker to make resource allocation decisions and to assess performance. The Chief Executive Officer is responsible for allocating resources and reviewing operating results of each operating segment on a periodic basis.

The Company's primary business activity is the advancement of the Fruta del Norte Project in Ecuador. During the six months ended June 30, 2018 and June 30, 2017, all exploration expenditures were incurred in Ecuador. In addition, materially all the non-current assets of the Company and \$36.7 million (December 31, 2017 – \$18.8 million) of the cash are located in Ecuador. The balance of the cash is located in Canada.

## 13. Financial instruments

---

The Company's financial instruments consist of cash, cash equivalents and receivables, which are categorized as financial assets at amortized cost, and accounts payable and accrued liabilities, which are categorized as financial liabilities at amortized cost. The fair value of these financial instruments 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.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

## 13. Financial instruments (continued)

### (b) Fair value measurements using significant unobservable inputs (Level 3)

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 for the six months ended June 30, 2018. Each of these financial instruments are classified as Level 3 as their valuation includes significant unobservable inputs.

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
<b>Balance, December 31, 2017</b>	118,575	83,365	16,000	217,940
Principal drawn during the period	35,000	75,000	-	110,000
Interest accrued and capitalized at stated rate of 7.5%	5,601	5,481	-	11,082
Transaction costs incurred	(1,450)	(1,533)	-	(2,983)
Accretion of transaction costs	307	89	-	396
Derivative fair value adjustments recognized in:				
Long-term debt	(1,806)	(3,872)	-	(5,678)
Property, plant and equipment	2,406	2,716	-	5,122
Derivative gain (loss)	(1,345)	7,227	(735)	5,147
Other comprehensive loss	2,098	5,908	-	8,006
<b>Balance, June 30, 2018</b>	159,386	174,381	15,265	349,032

### (c) Valuation inputs and relationships to fair value

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, gold volatility, risk-free rate of return, risk-adjusted discount rate, 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.

As the expected volatility and risk-adjusted discount rate are not observable inputs, the financial liabilities above are classified within Level 3 of the fair value hierarchy. The following table summarizes the quantitative information about the significant unobservable inputs used in Level 3 fair value measurements.

	Fair value at June 30, 2018	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Long-term debt \$	349,032	Expected volatility	10% to 21%	An increase or decrease in expected volatility of 5% would increase or decrease fair value by \$4.2 million or \$5.4 million, respectively
		Risk-adjusted discount rate	8% to 10%	An increase or decrease in risk-adjusted discount rate of 1% would decrease or increase fair value by \$19.8 million or \$21.3 million, respectively

---

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in U.S. Dollars unless otherwise noted. Tables are expressed in thousands of U.S. dollars, except share and per share amounts)

---

## 13. Financial instruments (continued)

---

(d) Valuation processes

The valuation of financial instruments classified as Level 3 of the fair value hierarchy was carried by an independent third party under the direct oversight of the vice president, finance (“VP Finance”) of the Company. Discussions of valuation processes and results are held between the VP Finance, the chief financial officer, and the audit committee at least once every three months, in line with the Company’s quarterly reporting periods.

## 14. Commitments

---

The Company has committed to the following future minimum payments excluding spending amounts which may be required to maintain the Company’s mineral properties in good standing:

	<b>Advance royalty</b>	<b>Construction of Fruta del Norte Project</b>	<b>Total</b>
12 months ending June 30, 2019	20,000	154,257	174,257
July 1, 2019 onward	-	21,746	21,746
<b>Total</b>	<b>\$ 20,000</b>	<b>\$ 176,003</b>	<b>\$ 196,003</b>

In July 2018, the Company signed an offtake agreement to sell approximately half of its gold concentrate production over its first eight years of operations to Boliden, a high-tech metal company with a network of mines and smelters across Europe.

# **Corporate Information**

## **BOARD OF DIRECTORS**

Lukas H. Lundin, Chairman  
*Geneva, Switzerland*  
Carmel Daniele  
*London, United Kingdom*  
Ian Gibbs  
*Vancouver, Canada*  
Chantal Gosselin  
*Toronto, Canada*  
Ashley Heppenstall  
*London, United Kingdom*  
Ron F. Hochstein  
*Vancouver, Canada*  
Craig Jones  
*Brisbane, Australia*  
Paul McRae  
*Algarve, Portugal*  
Michael Nossal  
*Melbourne, Australia*  
Istvan Zollei,  
*New York City, United States*

## **OFFICERS**

Ron F. Hochstein  
*President & Chief Executive Officer*  
Alessandro Bitelli  
*Executive Vice President &  
Chief Financial Officer*  
Sheila Colman  
*Vice President, Legal  
& Corporate Secretary*  
David Dicaire  
*Vice President, Projects*  
Nathan Monash  
*Vice President, Business  
Sustainability*  
Iliana Rodriguez  
*Vice President, Human Resources*  
Chester See  
*Vice President, Finance*

## **OFFICES**

### **CORPORATE HEAD OFFICE**

**Lundin Gold Inc.**  
885 West Georgia Street, Suite 2000  
Vancouver, British Columbia V6C 3E8  
Telephone: 604-689-7842  
Toll Free: 1-888-689-7842  
Facsimile: 604-689-4250

### **REGIONAL HEAD OFFICE**

**Aurelian Ecuador S.A.,  
a subsidiary of Lundin Gold Inc.**  
Av. Amazonas N37-29 y UNP Edificio  
Eurocenter, Piso 5  
Quito, Pichincha  
Ecuador  
Telephone: 593-2-299-6400

### **COMMUNITY OFFICE**

Calle 01 de Mayo  
SN y de Febiero  
Los Encuentros, Zamora-Chinchiipe,  
Ecuador

## **STOCK EXCHANGE LISTINGS**

The Toronto Stock Exchange  
Trading Symbol: LUG  
Nasdaq Stockholm  
Trading Symbol: LUG

## **SHARE REGISTRAR AND TRANSFER AGENT**

Computershare Investor Services Inc.  
510 Burrard Street, 3rd Floor  
Vancouver, B.C. V6C 3B9  
Telephone: 1-800-564-6253

## **AUDITOR**

PricewaterhouseCoopers LLP  
250 Howe St #700 Vancouver,  
BC V6C 3S7  
Telephone: 604-806-7000

## **ADDITIONAL INFORMATION**

Further information about Lundin Gold is available by contacting:  
Sabina Srubiski  
Manager, Investor Relations  
Telephone: 604-689-7842  
Toll Free: 1-888-689-7842  
info@lundingold.com



# LUNDIN GOLD

885 West Georgia Street, Suite 2000  
Vancouver, British Columbia, V6C 3E8  
Canada

Telephone: 604-689-7842  
Toll Free: 1-888-689-7842  
Facsimile: 604-689-4250  
[info@lundingold.com](mailto:info@lundingold.com)

Av. Amazonas N37-29 y UNP Edificio  
Eurocenter, Piso 5  
Quito, Pichincha, Ecuador

Telephone: 593-2-299-6400  
[www.lundingold.com](http://www.lundingold.com)



@LundinGold



@LundinGoldEC



Lundin Gold



Lundin Gold



Lundin Gold Ecuador