

LUNDINGOLD

Building a Leading Gold Company
Through Responsible Mining

Annual Report 2017



Message from the President

Dear Shareholders,

Lundin Gold had a very successful 2017 by all measures. We met key goals that are keeping the development of our Fruta del Norte gold project on budget and on schedule. With these accomplishments, I am proud to say that our goal of first production by the end of 2019 remains on track.

Financing was the most significant challenge facing the Project in 2017. The development and construction of Fruta del Norte has and will continue to require significant amounts of capital. During the Spring of 2017 the Company secured a critical financing package of US\$300 million in debt and a commitment to US\$100 to US\$150 million in future equity participations with the Orion Mine Finance Group and Blackstone Tactical Opportunities. This cornerstone investment in the Project was a vote of confidence for our management team and for Fruta del Norte. It was also an important indicator of growing support for mining investment in Ecuador. In real terms, the investment has allowed Lundin Gold to move forward at full speed with construction without hesitation.



Ron F. Hochstein - President and CEO

Our financing efforts have continued. We started 2018 with two significant financing announcements, a bank commitment of US\$300 million for a senior debt facility and an equity private placement of US\$400 million. With the closing of these two transactions, expected before the end of the second quarter of this year, we will have substantially completed the funding of the Project, based on current estimates.

Another key success in 2017 was the completion of an internal project update in May. Our team took a hard look at the feasibility study completed in 2016 to identify ways to optimize the development and the construction of the Project. Because of this review, Lundin Gold generated a revised mine plan and updated capital and operating costs estimates and embraced a new execution plan based on a self-perform approach. The optimization resulted in first gold production moving forward several months (originally first quarter 2020, to fourth quarter 2019) and an increase in average annual gold production, which is anticipated to exceed 300,000 ounces over 15 years as opposed to 13 years in the feasibility study. This update has become our road map for the development of Fruta del Norte.

The Fruta del Norte site was completely transformed during the year through the hard work of our Project team. At the start of 2017, the mine development contract was awarded, including construction of the mine portals, soft tunneling work and the development of the twin declines in preparation for operations. The contractor was mobilized to site quickly; construction of the mine portals began on May 1, 2017 and was followed by the start of soft tunneling in September. In December, mine development transitioned from soft tunneling to hard rock in both declines.

In the Fall, long-lead time processing plant equipment was ordered, and detailed engineering contracts for the process plant, tailings facility and water management were awarded. Lundin Gold also awarded an engineering, and construction contract for the power transmission line from the Bomboiza substation to Fruta del Norte. The related Environmental Impact Assessment was approved in December, and the environmental license was granted at the start of the new year. We expect construction to start in the second quarter of this year.

Key infrastructure at site was completed during the year as well, including a major camp expansion to accommodate the rapid growth in personnel at site. By the end of the year, the Company had over 700 of its own employees rotating through site. The temporary construction camp increases capacity by approximately 1,000 people, giving us the room we need as construction ramps up.

With the foundation laid in 2017, we expect the development of Fruta del Norte to continue at its current pace. Most important, our success in moving the Project forward has been achieved without compromising Lundin Gold's commitment to responsible mining. Everyday at Lundin Gold, we strive to conduct all our activities according to our fundamental principles of working safely, environmental stewardship and respect.

I look forward to updating you on our progress this year.



Ron F. Hochstein
President & Chief Executive Officer

Quito, Ecuador
March 19, 2018



LUNDIN GOLD INC.

Management's Discussion and Analysis

Year Ended December 31, 2017

(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") for the year ended December 31, 2017 provides a detailed analysis of the Company's business and compares its financial results with those of the previous year.

This MD&A is dated as of February 15, 2018 and should be read in conjunction with the Company's audited consolidated financial statements and related notes thereto for the fiscal years ended December 31, 2017 and 2016. The audited consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). References to the "2017 Period" and "2016 Period" relate to the years ended December 31, 2017 and December 31, 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.

Lundin Gold, headquartered in Vancouver, Canada, is developing its wholly-owned Fruta del Norte gold project ("Fruta del Norte Project", "FDN" 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.

HIGHLIGHTS AND ACTIVITIES

The following provides an overview of the key milestones and accomplishments in the past year and to date in 2018.

Fruta del Norte Project

In May 2017, the Company completed an extensive update for the Project. The update was based on advancing the designs and estimates from the Technical Report entitled "Fruta del Norte - NI 43-101 Technical Report on Feasibility Study" (the "Technical Report") filed by the Company in June 2016. The results included a revised mine plan, updated capital and operating cost estimates and a new execution plan based on a self-perform approach.

During the year, the following milestones were met:

- Mine development contract was awarded, and development of the underground mine started. Soft tunneling was completed in December 2017 and mine development is now into hard rock.
- Key site infrastructure to support mine development was completed.
- All major process plant equipment packages were awarded.
- Mobile equipment packages, including underground mine scoop trams and haul trucks, were awarded.
- Construction of a 1,000-person camp was started and is nearing completion.
- Engineering, procurement and construction ("EPC") contract for the power line from Bomboiza substation to site was awarded.
- Approval of the power line Environmental Impact Assessment ("EIA") and the grant of the Environmental Licence.

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Financing

- In May 2017, the Company closed a project finance package of \$400-450 million (the "Financing") with Orion Mine Finance Group and Blackstone Tactical Opportunities (the "Lenders"). The Financing is 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. As of January 17, 2018, the full amount of the Prepay Loan and Stream Loan had been drawn. The Lenders also committed to participate in future equity financings of the Company required to fund Fruta del Norte, 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.
- In January 2018, the Company received commitments from a syndicate of five senior lenders (the "Senior Lenders") for a senior secured project finance facility (the "Senior Debt Facility") of \$300 million to further fund the development and construction of Fruta del Norte.

Exploration

- Targets in preparation for drill testing were better defined, with geochemical sampling and mapping completed on epithermal gold-silver targets within the Suarez pull-apart basin that hosts the Fruta del Norte deposit (the "Basin"), an epithermal gold-silver target outside of the basin and two porphyry copper targets.
- A 4,000 metre exploration drill program at the El Puma epithermal target ("El Puma") began in November 2017. El Puma is located approximately 12 kilometres ("km") south of Fruta del Norte.
- A ZTEM geophysical survey was completed on the Basin area.

Corporate

- On March 16, 2017, Ms. Chantal Gosselin was appointed to the Board of Directors. Ms. Gosselin brings over 25 years of combined experience in the mining industry and capital markets.

THE FRUTA DEL NORTE PROJECT

Lundin Gold's properties in Southeast Ecuador consists of 32 mining concessions covering an area of approximately 70,400 hectares. From this, the Project is comprised of four concessions covering an area of approximately 4,900 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 to deliver first gold in the fourth quarter of 2019 and achieve commercial production in the second quarter of 2020.

Activities in 2017

Fruta del Norte Project

Work on the Fruta del Norte Project progressed across all areas, including completion of basic engineering and start of detailed engineering, procurement, underground development, civil earthworks and surface construction. In addition, the Company completed a project update that was based on advancing the design and estimates from the Technical Report. The results included a revised mine plan, updated capital and operating costs and a new execution plan based on a self-perform approach.

Mine Development

- In February 2017, the Company awarded the mine development contract for portal, soft tunneling and underground development to a 50/50 consortium comprised of: Ingenieria y Construcciones Mas Errazuriz Limitada y Filiales ("Mas Errazuriz") of Chile and Sevilla y Martinez Ingenieros C.A. Semaica ("Semaica") of Ecuador (together, the "Consortium").
- The Consortium mobilized to site and construction of the mine portals began on May 1, 2017 followed by the start of soft tunneling in September 2017.
- In December 2017, mine development transitioned from soft tunneling to hard rock in both tunnels. Tunnel declines are now referred to as K'isa (which means fruit in Quechua) and Kuri (which means gold in Schuar). Drilling and blasting in hard rock commenced on December 7 in K'isa and December 17 in Kuri.

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Detailed Engineering

- Detailed engineering with Ausenco Engineering Canada Inc. (process plant), Klohn Crippen Berger Ltd. (tailings) and SRK Consulting (Canada) Inc. (site-wide water management) is well underway.

Procurement

- In October 2017, Lundin Gold awarded long-lead time grinding equipment packages, including the SAG and ball mills and the flotation and filtration packages to Outotec Chile S.A.
- In November 2017, the purchase of the underground mine load and haul equipment and the majority of the surface mobile equipment was awarded to various suppliers.
- The gravity circuit, CIL and detox tanks, and ADR plant and gold room packages were awarded to FLSmidth USA Inc. in December 2017.
- TelSmith Inc. was awarded the crushing packages for both the process plant and the aggregate quarry in early January 2018.

Power line

- Basic engineering, environmental baseline studies and land surveys for the 230-kilovolt power line to connect Fruta del Norte to the national grid were completed.
- In October 2017, the EPC contract for the power transmission line from the Bomboiza substation to the site was awarded to a 50/50 consortium comprised of two Ecuadorian companies: Cointec S.A. Ingenieros Contratistas and Energía y Petróleos Enerpetrol, S.A.
- The EIA for the power line received final approval in December 2017 and the Environmental Licence was granted in January 2018. Easement agreements have been reached with 91% of affected landholders, and detailed engineering and procurement is well underway.

Major Earthworks

- The earthworks for the mine portal area was completed and work on the process plant site commenced and was focussed on preparing for the start of pouring grinding mill foundations in the first quarter of 2018.
- A second earthworks contractor was mobilized in December 2017 at El Pindal, where the North Access Road will link to the national highway system. Approximately 6 km remains to be built to connect the North Access Road from either side.

Construction Camp

- 1,000-person construction camp is nearing completion. Work commenced on a new kitchen and dining room and it is anticipated to be in use in the second quarter of 2018.

Environment and Permitting

The Company continued with ongoing permitting activities. During the year, the Company received the Las Peñas camp domestic water permit and the environmental register for the private section of the North Access Road. Preparation of the EIA for the Mountain Pass Quarry was completed and submitted in October 2017. In addition, the Company continued to pursue the issuance of the project domestic and industrial water permits.

Land Acquisition

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 of Fruta del Norte. 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.

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Exploration

- Geochemical sampling and mapping has better defined several epithermal gold-silver targets within the Basin. The targets are 7 to 12km south of the Fruta del Norte deposit in the 16km long by 2km wide Basin.
- Outside of the Basin, mapping and geochemical sampling has advanced a diatreme epithermal gold-silver target and two porphyry copper targets.
- Diamond drilling began in November on the El Puma target, with two holes completed and a third hole in progress.
- A helicopter ZTEM (Z-Tipper Axis Electromagnetic) resistivity geophysical survey of the Basin and surrounding terrain was completed in December with the processing of data to be completed during first quarter of 2018.

SELECTED ANNUAL FINANCIAL INFORMATION

(Expressed in thousands of U.S. dollars, except share and per share amounts)	2017	2016	2015
Net loss for the year	\$ (41,140)	\$ (62,814)	\$ (45,324)
Basic and diluted loss per share	\$ (0.35)	\$ (0.59)	\$ (0.45)
Weighted-average number of common shares outstanding	119,174,612	108,675,136	101,219,763
Total assets	\$ 481,729	\$ 278,906	\$ 267,400

The loss during the year ended December 31, 2017 is lower compared to the previous year due to the commencement of capitalization of expenses relating to the development of Fruta del Norte, which started in the first quarter of 2017 and one-time costs incurred in 2016. This is offset by a derivative loss of \$18.0 million from the fair value revaluations of the long-term debt and an increase in professional fees due to ongoing costs relating to project finance initiatives.

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).

(Expressed in thousands of U.S. dollars, except share and per share amounts)	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Net income (loss) for the period	\$ (19,505)	\$ (16,032)	\$ 784	\$ (6,387)
Basic income (loss) per share	\$ (0.16)	\$ (0.13)	\$ 0.01	\$ (0.05)
Diluted income (loss) per share	(0.16)	(0.13)	0.01	(0.05)
Weighted-average number of common shares outstanding				
Basic	119,666,840	119,417,366	118,857,521	118,743,908
Diluted	119,666,840	119,417,366	119,880,477	118,743,908
Property, plant and equipment	\$ 142,598	\$ 87,312	\$ 49,043	\$ 22,569
Total assets	\$ 481,729	\$ 434,198	\$ 460,838	\$ 295,795
Long-term debt	\$ 217,940	\$ 163,591	\$ 150,997	\$ -
Working capital	\$ 26,794	\$ 66,196	\$ 107,024	\$ (18,776)

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	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Net loss for the period	\$ (23,889)	\$ (11,785)	\$ (12,431)	\$ (14,709)
Basic and diluted loss per share	\$ (0.20)	\$ (0.10)	\$ (0.12)	\$ (0.15)
Weighted-average number of common shares outstanding	118,682,274	113,331,975	101,264,883	101,260,268
Property, plant and equipment	\$ 7,822	\$ 7,947	\$ 8,188	\$ 8,305
Total assets	\$ 278,906	\$ 300,195	\$ 249,636	\$ 253,617
Working capital	\$ 1,022	\$ 49,903	\$ (8,535)	\$ 2,922

To date, the Company has not generated production revenue. The only income generated by the Company is interest income on its cash deposits and a derivative gain on the change in fair value of the Company's long-term debt.

The Company's net loss in the current quarter is lower compared to the net loss during the fourth quarter of 2016 mainly due to the commencement of capitalization of expenses relating to the development of Fruta del Norte and the one-time costs noted above. This is offset by a derivative loss from the fair value revaluation of the long-term debt of \$14.1 million.

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, non-performance risk, and production expectations.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2017, the Company had cash of \$35.0 million and working capital of \$26.8 million compared to cash of \$8.5 million and working capital of \$1.0 million at December 31, 2016. The change in cash was primarily due to proceeds from the Financing of which \$190 million had been drawn, offset by costs incurred for the development of the Fruta del Norte Project of \$126.5 million and exploration expenditures of \$6.4 million.

Short-term credit facility

On January 16, 2017, the Company obtained a \$35 million unsecured short-term credit facility from an insider of the Company (the "Debenture"). All amounts outstanding under the Debenture were repaid in full on July 14, 2017.

The Company issued an aggregate of 60,000 common shares on January 16, 2017 as consideration for the Debenture, in lieu of fees. No interest was payable in cash during the term of the Debenture. The Company also issued 187,867 common shares as consideration for amounts drawn under the Debenture. The value of all shares issued, in the amount of \$1.1 million, was capitalized to property, plant and equipment.

The Financing

On May 30, 2017, the Company's operating subsidiary, Aurelian Ecuador S.A. ("Aurelian"), which holds Fruta del Norte, closed the Financing comprised of the Prepay Loan for \$150 million, the Stream Loan for \$150 million and an offtake agreement. 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

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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. As of December 31, 2017, \$190 million has been advanced under the Financing. The remaining \$110 million was drawn down in January 2018.

(a) Prepay Loan

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 December 31, 2017, \$115 million had 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 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. 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.

(b) Stream Loan

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 December 31, 2017, \$75 million had 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. 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.

The Senior Debt Facility

In January 2018, the Company received commitments from the Senior Lenders for the Senior Debt Facility to fund the development and construction of Fruta del Norte. The Senior Debt Facility will include two tranches: Tranche A of \$100 million, to be guaranteed by an export credit agency ("ECA") satisfactory to the Senior Lenders, and Tranche B of \$200 million. The term of the Senior Debt Facility is expected to be eight and a half years. There are no mandatory requirements for gold hedging associated with the Senior Debt Facility. The Senior Debt Facility is subject to completion of definitive documentation, which will include customary project finance terms, fees and conditions, a comprehensive intercreditor agreement and completion of ongoing due diligence.

The Company 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 Project and on future profitable production.

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Development activities for Fruta del Norte 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. Although the Company has received commitments for \$300 million under the Senior Debt Facility, this transaction is subject to completion of definitive documentation as noted above. A failure to raise capital when required could delay the on-going development of the Fruta del Norte Project and would have a material adverse effect on Lundin Gold's business, financial condition and results of operations.

TRANSACTIONS WITH RELATED PARTIES

During the 2017 Period, the Company paid \$0.4 million (2016 – \$0.3 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. In addition, during the 2017 Period, the Company paid \$0.1 million (2016 – \$0.1 million) to Bofill Mir & Alvarez Jana Abogados, a law firm which provides legal services to the Company and of which a director of the Company is a partner. The Company also paid \$0.1 million (2016 – \$0.1 million) 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.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, cash equivalents and receivables, which are categorized as loans and receivables, and accounts payable and accrued liabilities, which are categorized as 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.

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.

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.

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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 senior lenders, strategic and other potential investors (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.

COMMITMENTS AND CONTINGENCIES

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

	Advance royalty		Development costs		Total
2018	\$	20,000	\$	83,427	\$ 103,427
2019		-		38,491	38,491
2020		-		-	-
Total	\$	20,000	\$	121,918	\$ 141,918

OFF-BALANCE SHEET ARRANGEMENTS

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.

OUTSTANDING SHARE DATA

As at the date of this MD&A, there were 119,666,840 common shares issued and outstanding and stock options outstanding to purchase a total of 4,625,500 common shares for a total of 124,292,340 common shares outstanding on a fully-diluted basis.

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:

- Advancing detailed engineering of the process plant, tailings storage facility and site-wide water management.
- Completing the North Access and River roads.

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- Complete the process plant earthworks, substantially complete the process plant concrete and start steel and equipment erection.
- Advancing underground hard rock development.
- Begin construction of the 42 km 230kV power line to connect the Project to the national grid.
- Approval of the Mountain Pass Quarry EIA and granting of the Environmental License.
- Awarding the contract for the design and supply of paste plant and water treatment plant.
- Start construction of the tailings storage facility diversion ditch and dam construction.

During the next several months, the Company will also continue to work with its financial advisors to complete the funding for the construction of Fruta del Norte.

Exploration is focused on diamond drilling, which continues on El Puma. Other targets may be drill tested during 2018 depending on results and permitting. Mapping and geochemical sampling will continue on selected targets to aid drill targeting and prioritization.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are presented in Note 3 in the Notes to the audited consolidated financial statements for the year ended December 31, 2017.

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

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

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

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 16 of the audited consolidated financial statements for the year ended December 31, 2017 for further details on the methods and assumptions utilized.

Valuation of mineral properties

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

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Utilization of tax losses

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

Stock-based compensation

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

Decommissioning and site restoration

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

CHANGES IN ACCOUNTING POLICIES

New standards and interpretations not yet adopted

IFRS 15, Revenue from Contracts with Customers

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

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

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

IFRS 15 will be effective for financial years commencing on or after January 1, 2018. This new standard does not affect the Company's financial statements as the Company has yet to generate any revenues.

IFRS 9, Financial Instruments

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

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and will impact the accounting for the Company's long-term debt. In accordance with this new standard, changes in the fair value of the Company's long-term debt related to changes in the Company's credit risk will be presented separately in Other Comprehensive Loss. This change will be applied retroactively.

IFRS 16, Leases

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

The accounting for lessors will not significantly change.

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

QUALIFIED PERSON

The technical information relating to 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.

Full details of the Feasibility Study can be found in The Technical Report. The Technical Report is available for review under the Company's profile on SEDAR (www.sedar.com) and on the Company's website (www.lundin的角度.com).

FINANCIAL INFORMATION

The report for the three months ended March 31, 2018 is expected to be published on or about May 11, 2018.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2017, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

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Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2017, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

RISKS FACTORS

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

Financing Requirements

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

Ability to Maintain Obligations under the Financing and Other Debt

Lundin Gold and its subsidiaries are subject to restrictive covenants under the Financing. The Prepay and the Stream Loans are secured by a first ranking charge over the assets of the Project Subsidiaries, by a pledge of the shares of the Project Subsidiaries and by guarantees of Lundin Gold and the Project Subsidiaries. In addition, Lundin Gold may from time to time enter into other arrangements to borrow money to fund its development plans for FDN, and such arrangements may include covenants that have similar obligations or that restrict its business in some way. Events may occur in the future, including events out of Lundin Gold's control, that could cause Lundin Gold to fail to satisfy its obligations under the Financing or other debt instruments that may arise. In such circumstances, the amounts drawn under Lundin Gold's debt agreements may become due and payable before the agreed maturity date, and Lundin Gold may not have the financial resources to repay such amounts when due. If Lundin Gold were to default on its obligations under the Financing or other secured debt instruments in the future, the lender(s) under such debt instruments could enforce their security and seize Lundin Gold's assets.

Instability in Ecuador

The Company is subject to certain risks and possible political and economic instability specific to Ecuador, arising from political unrest, labour disputes, invalidation of government orders, permits or property rights, risk of corruption, military repression, war, civil disturbances, criminal and terrorist acts, arbitrary changes in laws, expropriation, nationalization, renegotiation or nullification of existing agreements and changes to monetary or taxation policies. The occurrence of any of these risks may adversely affect the mining industry, mineral exploration and mining activities generally or the Company and, among impacts, could result in the impairment or loss of mineral concessions or other mineral rights.

Exploration, development or production may also be affected to varying degrees by government regulations with respect to, but not limited to, restrictions on future exploitation and production, price controls, export controls, income taxes, labour and immigration, and by delays in obtaining or the inability to obtain necessary permits, opposition to mining from environmental and other non-governmental organizations, limitations on foreign ownership, expropriation of property, ownership of assets, environmental legislation, labour relations, limitations on repatriation of income and return of capital, high rates of inflation, increased financing costs and site safety. These factors may affect both Lundin Gold's ability to undertake exploration and development activities in respect of future properties in the manner

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contemplated, as well as its ability to continue to explore, develop and operate those properties in which it has an interest or in respect of which it has obtained exploration and development rights to date.

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

Gold Price

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

A decrease in the gold price could negatively impact Lundin Gold's business, financial condition and results of operations in a number of ways. The development of FDN requires substantial additional capital. Variations in the gold price may impact the availability and the terms of additional financing required to develop the Project. The estimation of economically viable identified Mineral Reserves requires certain assumptions, including gold price. A revised estimate of identified Mineral Reserves due to a substantial decline in the gold price could result in the decrease in the estimates of the Company's Mineral Reserves, subsequent write downs and negative impact on mine life. If FDN is developed to production, the majority of Lundin Gold's revenue will be derived from the sale of gold. Therefore, fluctuations in the prices of this commodity may affect Lundin Gold's future operations and potential profitability. Such decreased revenues may also increase the requirements for capital.

Government or Regulatory Approvals

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

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

Contractor Performance

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

Risks with Underground Development

The Company's activities related to the development of the mine at FDN are subject to risks inherent in the mining industry generally, including unexpected problems associated with increased water flow, water quality retention and treatment, surface and underground conditions, equipment performance, accidents, labour disputes, force majeure risks and natural disasters. Particularly with underground development, inherent risks include variations in rock structure and strength as it impacts on construction of the mine, de-watering and water handling requirements and unexpected local ground conditions. Hazards, such as unusual or unexpected rock formations, rock bursts, pressures, collapses, flooding or other conditions, may be encountered during construction. Such risks could result in personal

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injury or fatality; damage to or destruction of the mine, processing facilities or equipment; environmental damage; delays, suspensions or permanent cessation of activities; monetary losses; and possible legal liability.

Title Matters and Surface Rights and Access

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

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

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

Shortages of Critical Resources

Lundin Gold's ability to acquire critical resources such as supplies, consumables and equipment due to worldwide demand may cause unanticipated cost increases and delays in delivery times, thereby impacting operating costs, capital expenditures and development schedules.

In addition, as Lundin Gold continues with the development of FDN and its activities increase, Lundin Gold will require additional skilled labour, such as construction, operations, financial and geologic personnel. There is a risk that Lundin Gold will not be successful in attracting, training and retaining qualified personnel as competition for persons with these skill sets increases and availability in country is limited. If Lundin Gold is not successful in attracting, training and retaining qualified personnel, the development of FDN and the efficiency of Lundin Gold's operations could be impaired, which could have an adverse impact on Lundin Gold's future cash flows, earnings, results of operations and financial condition.

Key Talent Retention

Recruiting and retaining qualified personnel is critical to Lundin Gold's success. Lundin Gold is dependent on the services of key executives, including its President and Chief Executive Officer, and other highly skilled and experienced executives and personnel focused on managing Lundin Gold's interests. The number of persons skilled in the financing, development and management of mining properties is limited and competition for such persons is intense. The inability of Lundin Gold to successfully attract and retain highly skilled and experienced executives and personnel could have a material adverse effect on Lundin Gold's business, financial condition and results of operations.

Community Relations

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

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important elements of infrastructure, which affect capital and operating costs. The lack of availability on acceptable terms or the delay in the availability of any one

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or more of these items could prevent or delay the development of FDN. If adequate infrastructure is not available in a timely manner, there is a risk that (i) the development of FDN will not be completed on a timely basis, or at all, (ii) the resulting operations will not achieve the anticipated production volume or (iii) the anticipated construction costs and ongoing operating costs associated with the development of FDN will be higher than anticipated. Furthermore, unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of necessary infrastructure could adversely affect Lundin Gold's operations and profitability.

Market Price of the Company's Common Shares

Securities of mineral companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic conditions in North America and globally, and market perceptions of the attractiveness of particular industries or sectors. The price of the Company's common shares is also likely to be significantly affected by short-term changes in gold prices, other mineral prices, currency exchange fluctuations, or its financial condition or results of exploration activities on its projects. Other factors unrelated to the performance of the Company that may have an effect on the price of the Company's common shares include: the extent of analyst coverage available to investors concerning the business of the Company may be limited if investment banks with research capabilities do not follow the Company; lessening in trading volume and general market interest in the Company's common shares may affect an investor's ability to trade significant numbers of common shares of the Company; the size of the Company's public float and whether or not it is included in market indices may limit the ability of some institutions to invest in the Company's common shares; and, a substantial decline in the price of the common shares of the Company that persists for a significant period of time could cause the Company's common shares to be delisted from an exchange, further reducing market liquidity. If an active market for the common shares of the Company does not continue, the liquidity of an investor's investment may be limited, and the price of the Company's common shares may decline. If an active market does not exist, investors may lose their entire investment in the Company. As a result of any of these factors, the market price of the Company's common shares at any given point in time may not accurately reflect the long-term value of the Company. Securities class-action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Tax Regime in Ecuador

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

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

Measures to Protect Endangered Species

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

Non-Compliance and Compliance Costs

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

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There is a risk that the Company may fail to comply with a legal or regulatory requirement, which may lead to the revocation of certain rights or to penalties or fees and in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. In addition, the Company may be required to compensate those suffering loss or damage arising from its non-compliant activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws. Any of the foregoing may have a material adverse effect on the Company or the development of FDN.

Exploration and Development Risks

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

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

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

Mineral Reserve and Resource Estimates

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

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

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

Dependence on Single Project

Currently, Lundin Gold currently has only one project, Fruta del Norte, and, in the absence of additional mineral projects, it is solely dependent upon its development for its future revenue and profits. Should the development of FDN not be possible or practicable for political, engineering, technical or economic reasons, then Lundin Gold's business and financial position will be significantly and adversely affected.

Artisanal and Illegal Mining

Mining by illegal and artisanal miners occurs on some of Lundin Gold's mineral concessions in Ecuador. While this activity is monitored by both the Company and the government, the operations of artisanal and illegal miners could interfere with Lundin Gold's activities and could result in conflicts. These potential activities could cause damage to

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FDN, including pollution, environmental damage or personal injury or death, for which Lundin Gold could potentially be held responsible. The presence of artisanal and illegal miners can lead to project delays and disputes regarding the development or operation of gold deposits. Artisanal and illegal mining can also result in mine stoppages, environmental issues and could have a material adverse effect on Lundin Gold's results of operations or financial condition.

Reclamation Obligations

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

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

Information Systems and Cyber Security

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

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

Industry Competition

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

Insurance and Uninsured Risks

The business of Lundin Gold is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unexpected geological conditions, ground or slope failures, cave-ins, rock bursts, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties, personal injury or damage to the properties of Lundin Gold or the properties of others, delays in mining, monetary losses and possible legal liability. Lundin Gold's current insurance does not cover all the potential risks associated with an exploration or development company's operations. Lundin Gold may also be unable to maintain insurance to cover certain risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting

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liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Lundin Gold or to other companies in the mining and exploration industry on acceptable terms. Lundin Gold might also become subject to liability for pollution or other hazards which it may not be insured against or which Lundin Gold may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Lundin Gold to incur significant costs that could have a material adverse effect upon its consolidated financial performance and results of operations.

Violation of Anti-Bribery Laws

Lundin Gold is required to comply with anti-corruption and anti-bribery laws which apply to its business. If Lundin Gold finds itself subject to an enforcement action or is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions imposed on Lundin Gold, resulting in a material adverse effect on Lundin Gold.

Claims and Legal Proceedings

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

Internal Controls

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

Control of Lundin Gold

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

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

LUNDIN GOLD INC.

Management's Discussion and Analysis

Year Ended December 31, 2017

(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)

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 gold production, the results of the project update and the timing and progress of the development, construction and operation of FDN, the timing and progress of the development and construction the power line, the timing and success of permitting and regulatory approvals and the award of certain purchase orders and contracts and the acquisition of easements, the success of the Company's exploration plans and activities, exploration and development expenditures and reclamation costs, 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 Financing 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; 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 and 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; limits of disclosure and internal controls; and the potential influence of the Company's largest shareholders.

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



February 15, 2018

Independent Auditor's Report

To the Shareholders of Lundin Gold Inc.

We have audited the accompanying consolidated financial statements of Lundin Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lundin Gold Inc. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants

LUNDIN GOLD INC.

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

	Note	December 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash		\$ 35,018	\$ 8,503
Other current assets	4	12,726	707
		47,744	9,210
Non-current assets			
Property, plant and equipment	5	142,598	7,822
Mineral properties	6	246,387	236,874
Advance royalty	7	45,000	25,000
		\$ 481,729	\$ 278,906
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 20,950	\$ 8,188
Non-current liabilities			
Long-term debt	9	217,940	-
Reclamation provisions	10	7,990	974
		246,880	9,162
EQUITY			
Share capital	11	460,856	456,750
Equity-settled share-based payment reserve	12	9,547	7,422
Accumulated other comprehensive loss		(11,364)	(11,378)
Deficit		(224,190)	(183,050)
		234,849	269,744
		\$ 481,729	\$ 278,906

Nature of operations and Liquidity (Note 1)
Subsequent events (Note 1, 9)

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 consolidated financial statements.

LUNDIN GOLD INC.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in thousands of U.S. Dollars, except share and per share amounts)

	Note	Years Ended December 31,	
		2017	2016
EXPENSES			
Project evaluation		\$ -	\$ 33,964
Exploration		6,433	8,259
General and administration:			
Depreciation		73	26
Corporate social responsibility		532	682
Investor relations		271	896
Municipal taxes		585	521
Office and general		2,120	1,876
Professional fees		4,468	3,603
Regulatory and transfer agent		235	171
Salaries and benefits		2,931	3,602
Stock-based compensation	12	2,369	2,208
Travel		720	1,000
Loss before other items		20,737	56,808
OTHER ITEMS			
Other expense		2,369	6,006
Derivative loss	9	18,034	-
Net loss for the year		\$ 41,140	\$ 62,814
OTHER COMPREHENSIVE LOSS			
Items that may be subsequently reclassified to net loss			
Currency translation adjustment		(177)	825
Other		163	(20)
Comprehensive loss for the year		\$ 41,126	\$ 63,619
Basic and diluted loss per common share		\$ 0.35	\$ 0.58
Weighted-average number of common shares outstanding		119,174,612	108,675,136

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

LUNDIN GOLD INC.

Consolidated Statements of Changes in Equity
(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	Accumulated Other Comprehensive Loss	Deficit	Total
Balance December 31, 2015		101,260,268	\$ 386,676	\$ 5,013	\$ (10,573)	\$ (120,236)	\$ 260,880
Proceeds from equity financing, net	11	17,250,000	69,261	-	-	-	69,261
Exercise of stock options	12	136,000	641	(226)	-	-	415
Share consideration for debenture		39,267	172	-	-	-	172
Stock-based compensation	12	-	-	2,635	-	-	2,635
Currency translation adjustment		-	-	-	(825)	-	(825)
Other		-	-	-	20	-	20
Net loss for the year		-	-	-	-	(62,814)	(62,814)
Balance December 31, 2016		118,685,535	\$ 456,750	\$ 7,422	\$ (11,378)	\$ (183,050)	\$ 269,744
Exercise of stock options	12	302,500	1,442	(487)	-	-	955
Share consideration for mining concession	6	430,938	1,600	-	-	-	1,600
Share consideration for debenture	8	247,867	1,064	-	-	-	1,064
Stock-based compensation	12	-	-	2,612	-	-	2,612
Currency translation adjustment		-	-	-	177	-	177
Other		-	-	-	(163)	-	(163)
Net loss for the year		-	-	-	-	(41,140)	(41,140)
Balance December 31, 2017		119,666,840	\$ 460,856	\$ 9,547	\$ (11,364)	\$ (224,190)	\$ 234,849

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

LUNDIN GOLD INC.

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

	Note	Years Ended December 31,	
		2017	2016
OPERATING ACTIVITIES			
Net loss for the year		\$ (41,140)	\$ (62,814)
Item not affecting cash:			
Stock-based compensation	12	2,446	2,635
Depreciation and accretion		73	1,109
Derivative loss	9	18,034	-
Other income		(5)	(751)
		(20,592)	(59,821)
Changes in non-cash working capital items:			
Other current assets		(1,489)	(95)
Accounts payable and accrued liabilities		(6,394)	2,525
Net cash used for operating activities		(28,475)	(57,391)
FINANCING ACTIVITIES			
Proceeds from long-term debt	9	190,000	-
Transaction costs	9	(7,068)	-
Net proceeds from equity financing	11	-	69,261
Proceeds from exercise of stock options		955	415
Net proceeds from draw downs of debenture	8	28,600	8,000
Repayment of debenture	8	(28,600)	(8,000)
Non-cash finance cost of debenture		-	172
Change in non-cash working capital items:			
Deferred project finance costs		(2,374)	-
Net cash provided by financing activities		181,513	69,848
INVESTING ACTIVITIES			
Payment of advance royalty	7	(20,000)	(25,000)
Acquisition and development of property, plant and equipment	5	(105,376)	-
Acquisition of mineral properties	6	(1,173)	(395)
Net cash used for investing activities		(126,549)	(25,395)
Effect of foreign exchange rate differences on cash		26	81
Net increase (decrease) in cash		26,515	(12,857)
Cash, beginning of year		8,503	21,360
Cash, end of year		\$ 35,018	\$ 8,503
Supplemental information			
Interest received		115	180
Taxes paid		-	-
Changes in accounts payable and accrued liabilities related to:			
Acquisition of property, plant and equipment	5	18,735	-

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

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2017

(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)

1. Nature of operations and Liquidity

Lundin Gold Inc. together with its subsidiaries (collectively referred to as “Lundin Gold” or the “Company”) is focused on 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 are entirely dependent upon the ability of the Company to obtain the necessary financing to develop the Fruta del Norte Project 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 of \$400 to \$450 million in May 2017 (See Note 9) and received commitments for a senior secured project finance facility of \$300 million in January 2018. 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. Although the Company has received commitments for a senior secured project finance facility of \$300 million, the transaction is subject to completion of definitive documentation, which will include customary project finance terms, fees and conditions, a comprehensive intercreditor agreement and completion of ongoing due diligence. A failure to raise capital when required could delay the on-going development of the Fruta del Norte Project and would have a material adverse effect on Lundin Gold’s business, financial condition and results of operations.

2. Basis of preparation

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

These consolidated financial statements were approved for issue by the Board of Directors on February 15, 2018.

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2017

(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)

2. Basis of preparation (continued)

The following entities are included in these consolidated financial statements:

	Country of incorporation	Ordinary shares held	
		December 31, 2017	December 31, 2016
Aurelian Resources Inc.	Canada	100%	100%
Aurelian Resources Corporation Ltd.	Canada	100%	100%
Aurelian Exploration Inc.	Canada	100%	-
Aurelian Menor Inc.	Canada	100%	-
Aurelian Ecuador S.A.	Ecuador	100%	100%
AurelianEcuador Holding S.A.	Ecuador	100%	100%
Ecoaurelian Agrícola S.A.	Ecuador	100%	100%
Aurelianmenor S.A.	Ecuador	100%	-

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

3. Summary of significant accounting policies

The Company's principal accounting policies are outlined below:

(a) Basis of consolidation

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

(b) Foreign currency translation

Transactions and balances

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

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2017

(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)

3. Summary of significant accounting policies (continued)

Group companies

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

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

(c) Critical accounting estimates and judgments

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

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

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

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 16 for further details on the methods and assumptions utilized.

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

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

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

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2017

(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)

3. Summary of significant accounting policies (continued)

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

(d) *Segment reporting*

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

(e) *Financial instruments*

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

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

i. *Loans and receivables*

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

ii. *Financial liabilities at amortized cost*

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

iii. *Financial liabilities at fair value*

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.

Impairment of financial assets

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

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2017

(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)

3. Summary of significant accounting policies (continued)

Objective evidence of impairment could include the following:

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

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

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

(f) *Cash*

Cash includes cash on hand and deposits held with banks.

(g) *Property, plant and equipment*

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

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

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

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

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

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

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

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

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

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

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2017

(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)

3. Summary of significant accounting policies (continued)

(i) *Impairment of non-financial assets*

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

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

(j) *Provisions*

Asset retirement obligations

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

(k) *Current and deferred income tax*

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

i. *Current tax*

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

ii. *Deferred tax*

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

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

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

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(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)

3. Summary of significant accounting policies (continued)

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

(l) *Share capital*

Common shares are classified as equity.

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

(m) *Stock-based compensation*

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

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

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

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

(n) *Loss per share*

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

(o) *Comprehensive loss*

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

(p) *Pronouncements issued but not yet effective*

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

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

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

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3. Summary of significant accounting policies (continued)

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

IFRS 15 will be effective for financial years commencing on or after January 1, 2018. This new standard does 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.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and will impact the accounting for the Company's long-term debt. In accordance with this new standard, changes in the fair value of the Company's long-term debt related to changes in the Company's credit risk will be presented separately in Other Comprehensive Loss. This change will be applied retroactively.

iii. IFRS 16, Leases

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

The accounting for lessors will not significantly change.

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

4. Other current assets

	December 31, 2017	December 31, 2016
Prepaid expenses and deposits	\$ 2,428	\$ 707
Deferred transaction and derivative costs (Note 9)	10,298	-
	\$ 12,726	\$ 707

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5. Property, plant and equipment

Cost	Development Costs	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2016	\$ -	\$ 4,442	\$ 4,112	\$ 741	\$ 336	\$ 9,631
Additions	-	145	-	235	14	394
Disposals and other	-	(129)	-	-	-	(129)
Cumulative translation adjustment	-	-	-	-	2	2
Balance, December 31, 2016	-	4,458	4,112	976	352	9,898
Additions	130,388	-	2,784	1,991	749	135,912
Cumulative translation adjustment	184	-	-	-	2	186
Balance, December 31, 2017	\$ 130,572	\$ 4,458	\$ 6,896	\$ 2,967	\$ 1,103	\$ 145,996
Accumulated depreciation						
Balance, January 1, 2016	\$ -	\$ 105	\$ 603	\$ 286	\$ 80	\$ 1,074
Depreciation and amortization	-	102	586	218	96	1,002
Cumulative translation adjustment	-	-	-	-	-	-
Balance, December 31, 2016	-	207	1,189	504	176	2,076
Depreciation and amortization	-	102	700	408	110	1,320
Cumulative translation adjustment	-	-	-	-	2	2
Balance, December 30, 2017	\$ -	\$ 309	\$ 1,889	\$ 912	\$ 288	\$ 3,398
Net book value						
As at December 31, 2016	\$ -	\$ 4,251	\$ 2,923	\$ 472	\$ 176	\$ 7,822
As at December 31, 2017	\$ 130,572	\$ 4,149	\$ 5,007	\$ 2,055	\$ 815	\$ 142,598

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

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5. Property, plant and equipment (continued)

Included in the additions to developments costs are the following non-cash items:

	December 31, 2017	December 31, 2016
Stock-based compensation (Note 12)	\$ 166	\$ -
Depreciation and amortization	1,246	-
Share consideration for debenture (Note 8)	1,064	-
Accretion of transaction and derivative costs (Note 9)	9,049	-
Accretion of reclamation provision	276	-
	\$ 11,801	\$ -

6. Mineral properties

Cost	Fruta del Norte Project	Fruta del Norte restoration asset (Note 10)	Total
Balance, January 1, 2016	\$ 236,337	\$ 537	\$ 236,874
Additions	-	-	-
Balance, December 31, 2016	236,337	537	236,874
Additions	2,773	6,740	9,513
Balance, December 31, 2017	\$ 239,110	\$ 7,277	\$ 246,387

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 of 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. Advance royalty

On December 14, 2016, the Company executed the Exploitation Agreement ("EA") for the Fruta del Norte Project with the Government of Ecuador. The EA, combined with the existing laws and regulations and an Investment Protection Agreement executed on December 19, 2016, establishes the fiscal terms and conditions for the development of the Fruta del Norte Project. As required under the EA, the Company made an advance royalty payment of \$20 million in December 2017. Advance royalty payments totalling \$45 million have been paid as at December 31, 2017. The third and final advance royalty payment of \$20 million will be paid in December 2018.

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

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8. Debenture

On January 16, 2017, the Company obtained a \$35 million unsecured short-term credit facility from an insider of the Company (the "Debenture"). All amounts outstanding under the Debenture were repaid in full on July 14, 2017.

The Company issued an aggregate of 60,000 common shares on January 16, 2017 as consideration for the Debenture in lieu of fees. No interest was payable in cash during the term of the Debenture. The Company also issued 187,867 common shares as consideration for amounts drawn under the Debenture. The value of all shares issued in the amount of \$1.1 million was capitalized to property, plant and equipment.

9. 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.

As at December 31, 2017, \$190 million had been advanced under the Financing. The remaining \$110 million was drawn down in January 2018.

Transaction costs incurred associated to the Financing totalled \$7.1 million of which \$2.2 million has been recorded as Other Current Assets since only a portion of the available Financing was drawn down and outstanding at December 31, 2017.

As at December 31, 2017, the long-term debt consisted of the following:

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Principal	\$ 115,000	\$ 75,000	\$ -	\$ 190,000
Interest accrued and capitalized at stated rate of 7.5%	3,403	3,113	-	6,516
Transaction costs	(3,157)	(1,486)	-	(4,643)
Derivative fair value adjustments	3,329	6,738	16,000	26,067
Total	\$ 118,575	\$ 83,365	\$ 16,000	\$ 217,940

Derivative fair value adjustments reflect the revaluation of the long-term debt at fair value as at December 31, 2017, including a portion of the cost of derivatives which are part of the long-term debt. A portion of the cost has been recorded in Other Current Assets since only a portion of the available long-term debt was drawn down and outstanding at December 31, 2017.

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Notes to the consolidated financial statements as at December 31, 2017

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9. Long-term debt (continued)

(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 December 31, 2017, \$115 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 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 December 31, 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 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.

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10. Reclamation provisions

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 December 31, 2017, the Company applied a pre-tax discount rate of 12.9% (2016 – 14.0%) and an inflation rate of 3.3% (2016 – 3.7%). The estimated total future liability for reclamation and remediation costs on an undiscounted basis is approximately \$43.8 million.

	December 31,	
	2017	2016
Balance, beginning of year	\$ 974	\$ 867
Fair value of new obligations incurred in the year	6,740	-
Accretion of liability component of obligations	276	107
	\$ 7,990	\$ 974

11. 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:

		Number of common shares	Share capital
Balance at January 1, 2016		101,260,268	\$ 386,676
Equity financing, net	(a)	17,250,000	69,261
Stock options exercised		136,000	415
Transfer from equity-settled share-based payment reserve		-	226
Share consideration for debenture		39,267	172
Balance at December 31, 2016		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	5	430,938	1,600
Share consideration for debenture	7	247,867	1,064
Balance at December 31, 2017		119,666,840	\$ 460,856

- (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\$82.5 million (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.

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11. Share capital (continued)

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

The total gross proceeds raised under the Offering was CAD\$94.9 million (\$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.

12. Stock options

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

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

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

	Year Ended December 31, 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 year	3,834,500	\$ 4.18	2,122,500	\$ 3.91
Granted	1,319,000	5.16	2,092,000	4.43
Cancelled / Expired	(225,500)	4.68	(244,000)	4.08
Exercised ⁽¹⁾	(302,500)	4.01	(136,000)	4.03
Balance outstanding, end of year	4,625,500	\$ 4.44	3,834,500	\$ 4.18
Balance exercisable, end of year	2,805,400	\$ 4.18	1,528,650	\$ 3.95

⁽¹⁾ The weighted average share price on the exercise date for the stock options exercised during the year ended December 31, 2017 and December 31, 2016 were CAD\$5.07 and CAD\$5.61, respectively.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2017:

Outstanding options				Exercisable options		
Range of exercise prices (CAD)	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CAD)	Number of options outstanding	Weighted average remaining contractual life (life)	Weighted average exercise price (CAD)
\$ 3.69 to 4.00	1,735,500	1.9646	\$ 3.90	1,735,500	1.9646	\$ 3.90
\$ 4.01 to 5.94	2,890,000	3.6436	4.77	1,069,900	3.4509	4.65
	4,625,500	3.0136	\$ 4.44	2,805,400	2.5314	\$ 4.18

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12. 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:

	2017	2016
Risk-free interest rate	1.10%	0.54%
Expected stock price volatility	61.85%	60.85%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	\$2.71	\$2.25

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

During the year ended December 31, 2017, the Company recorded stock-based compensation expense of \$2.6 million (2016 – \$2.6 million) of which \$2.4 million (2016 – \$2.2 million) has been allocated to general and administration expenses; nil (2016 – \$0.2 million) to project evaluation expenses; nil (2016 – \$0.2 million) to exploration expenses; and \$0.2 million (2016 – nil) to property, plant and equipment.

13. Related party transactions

(a) Related party expenses

During the years ended December 31, 2017 and December 31, 2016, the Company incurred the following:

Payee	Nature	Note	December 31, 2017	December 31, 2016
Namdo	Management fees	i	\$ 351	\$ 325
BMAJ	Legal fees	ii	56	98
Lundin S.A.	Office and administration	iii	127	116

- 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 which provides legal services to the Company and of which a director of the Company is a partner.
- 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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13. Related party transactions (continued)

(b) Key management compensation

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

	December 31, 2017		December 31, 2016	
Salaries and benefits	\$	2,383	\$	3,141
Stock-based compensation		2,158		2,292
	\$	4,541	\$	5,433

14. Income taxes

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

	December 31, 2017		December 31, 2016	
Loss before income taxes	\$	(41,140)	\$	(62,814)
Canadian federal and provincial income tax rates		26.00%		26.00%
Income tax expense based on the above rates		(10,696)		(16,332)
Increase (decrease) due to:				
Differences in foreign tax rates		1,290		1,915
Non-deductible costs		1,463		2,060
Losses and temporary differences for which an income tax asset has not been recognized		7,943		12,460
Non-taxable portion of capital gains		-		(103)
Benefits of losses and temporary differences not previously recognized		-		-
Income tax expense	\$	-	\$	-

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

	December 31, 2017		December 31, 2016	
Non-capital losses - Canada	\$	28,089	\$	21,885
Net-capital losses - Canada		12,423		11,363
Mineral properties		90,659		84,203
Share issuance costs		2,981		4,272
Liabilities		22,252		1,236
Other		2,083		199
	\$	158,487	\$	123,158

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15. Segmented information

The Company's primary business activity is the advancement of the Fruta del Norte gold project in Ecuador. During the years ended December 31, 2017 and December 31, 2016, all project evaluation and exploration expenses were incurred in Ecuador. In addition, materially all of the non-current assets and liabilities of the Company are located in Ecuador.

16. Financial instruments and risk management

a) Measurement categories and fair values

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

The Company's financial instruments consist of cash, cash equivalents and receivables, which are categorized as loans and receivables, and accounts payable and accrued liabilities, 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.

b) Fair value 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.

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.

	December 31, 2017	December 31, 2016
Gold prepay credit facility	\$ 118,575	\$ -
Stream loan credit facility	83,365	-
Offtake derivative liability	16,000	-
	\$ 217,940	\$ -

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.

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16. Financial instruments and risk management (continued)

c) Financial risk management

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

Currency risk

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

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash is held in 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.

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 (Note 1).

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.

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2017

(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)

17. Capital risk management

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

In the management of capital, the Company considers items included in shareholders' equity and long-term debt.

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

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

18. Commitments

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

	Advance royalty		Development costs		Total
2018	\$	20,000	\$	83,427	\$ 103,427
2019		-		38,491	38,491
2020		-		-	-
Total	\$	20,000	\$	121,918	\$ 141,918

Corporate Information

BOARD OF DIRECTORS

Lukas H. Lundin, Chairman
Vaud, Switzerland
Carmel Daniele
London, United Kingdom
Ian Gibbs
British Columbia, Canada
Chantal Gosselin
Ontario, Canada
Ashley Heppenstall
Hong Kong, China
Ron F. Hochstein
British Columbia, Canada
Paul McRae
Algarve, Portugal
Pablo Mir
Santiago, Chile

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.
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Toll Free: 1-888-689-7842
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REGIONAL HEAD OFFICE

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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-Chinchipe,
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:
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