



Independent auditor's report

To the Shareholders of Lundin Gold Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lundin Gold Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were

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

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="254 573 876 672">Fair value of the gold prepay credit facility, stream loan credit facility and offtake derivative liability</p> <p data-bbox="254 703 876 829"><i>Refer to note 3 – Summary of significant accounting policies, note 9 – Long-term debt and note 20 – Financial instruments and risk management to the consolidated financial statements.</i></p> <p data-bbox="254 850 876 1312">The Company has a gold prepay credit facility, a stream loan credit facility and an offtake derivative liability (together, fair value financial liabilities), which management measured as financial liabilities at fair value through profit or loss. As at December 31, 2020, these fair value financial liabilities were valued at \$248.8 million, \$268.5 million and \$32.3 million, respectively, and management recorded a combined change in fair values of these liabilities of \$137.0 million and (\$128.1) million during the year in net loss and other comprehensive income (loss), respectively. Management used Monte Carlo simulation valuation models to determine the fair values of these fair value financial liabilities.</p> <p data-bbox="254 1344 876 1797">The significant assumptions used in the Monte Carlo simulation valuation models include: the gold forward prices, gold price volatility, the risk-free rate of return, risk-adjusted discount rates and the projected life of mine production schedule. In addition, in valuing the stream loan credit facility, the silver forward prices, silver price volatility, and the gold/silver price correlation were also used as significant assumptions by management. The Monte Carlo simulation valuation models were prepared by an independent valuation specialist and the projected life of mine production schedule was based on information compiled and reviewed by qualified persons (together, management's experts).</p>	<p data-bbox="876 573 1529 640">Our approach to addressing the matter included the following procedures, among others:</p> <ul data-bbox="876 672 1529 1797" style="list-style-type: none"><li data-bbox="876 672 1529 882">• With the assistance of professionals with specialized skill and knowledge in the field of financial instrument valuation, developed an independent point estimate of the fair values of the gold prepay credit facility, stream loan credit facility and offtake derivative liability, which included:<ul data-bbox="941 903 1529 1260" style="list-style-type: none"><li data-bbox="941 903 1529 1113">– Independently developing expectations related to the gold forward prices, gold price volatility, the risk-free rate of return, the risk-adjusted discount rates, the silver forward prices, silver price volatility, and the gold/silver price correlation based on external market and industry data.<li data-bbox="941 1144 1529 1260">– Comparing the independent point estimates to management's estimates to evaluate the reasonableness of management's estimates.<li data-bbox="876 1281 1529 1407">• Developing the independent point estimates also involved assessing the reasonableness of the projected life of mine production schedule, which involved:<ul data-bbox="941 1428 1529 1797" style="list-style-type: none"><li data-bbox="941 1428 1529 1554">– Comparing the gold and silver production volumes deducted from the stream loan credit liability up to December 31, 2020 to actual production volumes.<li data-bbox="941 1575 1529 1797">– Comparing the future production volumes included in the projected life of mine production schedule on a total and annual basis, to the available quantities of recoverable reserves and resources.



Key audit matter	How our audit addressed the key audit matter
<p>We considered this a key audit matter due to (i) the significant judgments made by management, including the use of management's experts, when developing the key inputs used in the valuation of the fair value financial liabilities; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures related to the significant assumptions; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.</p>	<ul style="list-style-type: none">- Using the work of qualified persons in performing the procedures to evaluate the reasonableness of the estimates associated with the available quantity of recoverable reserves and resources. As a basis for using this work, the qualified persons' competence, capability and objectivity were evaluated, their work performed was understood and the appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the assumptions and methods and findings.• Tested the disclosures, including the sensitivity analysis, made in the consolidated financial statements with regards to the valuation of the fair value financial liabilities.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.



In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mark Platt.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
February 24, 2021

LUNDIN GOLD INC.

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

	Note	December 31, 2020	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		\$ 79,592	\$ 75,684
Trade receivables and other current assets	4	136,497	63,706
Inventories	5	59,910	-
Advance royalty	7	13,000	9,790
		288,999	149,180
Non-current assets			
VAT recoverable and other long-term assets	4	71,655	39,435
Advance royalty	7	41,461	54,699
Property, plant and equipment	6	872,148	924,982
Mineral properties		231,097	240,665
		\$ 1,505,360	\$ 1,408,961
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 53,821	\$ 58,802
Current portion of long-term debt	9	178,575	57,578
		232,396	116,380
Non-current liabilities			
Long-term debt	9	678,519	821,008
Other non-current liabilities	12	1,631	-
Reclamation provisions	10	5,956	4,751
		918,502	942,139
EQUITY			
Share capital	11	951,725	899,903
Equity-settled share-based payment reserve	12	14,732	14,118
Accumulated other comprehensive income (loss)		22,511	(92,247)
Deficit		(402,110)	(354,952)
		586,858	466,822
		\$ 1,505,360	\$ 1,408,961

Commitments (Note 22)

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

	Note	Years Ended December 31,	
		2020	2019
Revenues	6(b)	\$ 358,156	\$ -
Cost of goods sold			
Operating expenses		112,132	-
Royalty expenses		20,750	-
Depletion and depreciation		52,888	-
		185,770	-
Income from mining operations		172,386	-
Other expenses (income)			
Corporate administration	13	17,801	23,013
Exploration		2,805	3,733
Suspension of operations	14	29,304	-
Finance expense (income)	15	44,942	(1,763)
Other expense		924	842
Derivative loss	20(b)	136,984	93,120
		232,760	118,945
Net loss before tax		(60,374)	(118,945)
Income tax recovery			
Deferred income tax recovery	17	13,216	-
Net loss for the year		\$ (47,158)	\$ (118,945)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified to net loss			
Currency translation adjustment		194	4,134
Items that will not be reclassified to net loss			
Derivative gain (loss) related to the Company's own credit risk	20(b)	128,089	(61,238)
Deferred income tax expense on accumulated other comprehensive income	17	(13,216)	-
Other		(309)	210
Comprehensive income (loss) for the year		\$ 67,600	\$ (175,839)
Basic and diluted loss per common share		\$ (0.21)	\$ (0.54)
Weighted-average number of common shares outstanding		227,500,029	221,247,101

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	Other reserves	Deficit	Total
Balance January 1, 2019		213,163,980	\$ 857,279	\$ 12,125	\$ (35,353)	\$ (236,007)	\$ 598,044
Proceeds from equity financing, net	11	8,625,000	33,940	-	-	-	33,940
Consideration for cost overrun facility	9	300,000	1,221	373	-	-	1,594
Exercise of stock options	12	1,121,800	5,340	(2,010)	-	-	3,330
Exercise of anti-dilution rights	11	420,432	2,123	139	-	-	2,262
Stock-based compensation	12	-	-	3,491	-	-	3,491
Other comprehensive loss		-	-	-	(56,894)	-	(56,894)
Net loss for the year		-	-	-	-	(118,945)	(118,945)
Balance December 31, 2019		223,631,212	\$ 899,903	\$ 14,118	\$ (92,247)	\$ (354,952)	\$ 466,822
Proceeds from equity financing, net	11	4,772,500	41,419	-	-	-	41,419
Exercise of stock options	12	1,074,650	5,318	(1,887)	-	-	3,431
Exercise of anti-dilution rights	11	609,975	5,085	-	-	-	5,085
Stock-based compensation	12	-	-	2,501	-	-	2,501
Other comprehensive loss		-	-	-	114,758	-	114,758
Net loss for the year		-	-	-	-	(47,158)	(47,158)
Balance December 31, 2020		230,088,337	\$ 951,725	\$ 14,732	\$ 22,511	\$ (402,110)	\$ 586,858

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,	
		2020	2019
OPERATING ACTIVITIES			
Net loss for the year		\$ (47,158)	\$ (118,945)
Item not affecting cash:			
Depletion and depreciation		55,411	130
Stock-based compensation	12	4,061	3,491
Derivative loss	20(b)	136,984	93,120
Unrealized foreign exchange loss		2,333	2,637
Finance expense (income)		42,733	(1,763)
Income tax recovery		(13,216)	-
Other expense		-	398
		181,148	(20,932)
Changes in non-cash working capital items:			
Trade receivables and other current assets		(110,141)	(2,726)
Inventories		(11,158)	-
Advance royalty		8,762	-
Accounts payable and accrued liabilities		44,631	589
Interest received		402	1,763
Net cash provided by (used for) operating activities		113,644	(21,306)
FINANCING ACTIVITIES			
Net proceeds from equity financing	11	41,419	33,940
Proceeds from long-term debt	9	-	350,000
Repayments of long-term debt	9	(35,412)	-
Interest paid	9	(42,294)	(12,982)
Transaction costs paid	9	-	(5,541)
Proceeds from exercise of stock options		3,431	3,330
Proceeds from exercise of anti-dilution rights	11	5,085	2,262
Net cash provided by (used for) financing activities		(27,771)	371,009
INVESTING ACTIVITIES			
Acquisition and development of property, plant and equipment, net of sales	6	(58,766)	(404,093)
Change in VAT receivable and other long-term assets		(20,878)	(38,797)
Net cash used for investing activities		(79,644)	(442,890)
Effect of foreign exchange rate differences on cash		(2,321)	1,358
Net increase (decrease) in cash and cash equivalents		3,908	(91,829)
Cash and cash equivalents, beginning of year		75,684	167,513
Cash and cash equivalents, end of year		\$ 79,592	\$ 75,684

Supplemental cash flow information (Note 18)

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, 2020

(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

Lundin Gold Inc. together with its subsidiaries (collectively referred to as “Lundin Gold” or the “Company”) is focused on its Fruta del Norte gold operation and developing its portfolio of mineral concessions in Ecuador.

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.

The Company substantially completed the development of Fruta del Norte and achieved commercial production in February 2020. The continued operations at Fruta del Norte are dependent on the extent to which the COVID-19 pandemic is being controlled, consequential actions by local, provincial, and national governments, and the effectiveness of the international supply chain and personnel travel. Therefore, the Company cannot be certain that an escalation of the COVID-19 pandemic would not have an impact on operations or on the Company’s financial position in the future. The Company’s continuing operations and the underlying value and recoverability of the amount shown for the mineral interests and property, plant and equipment are ultimately dependent upon the ability of the Company to operate the mine without extended interruptions and on future profitable production.

2. Basis of preparation

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

These consolidated financial statements were approved for issue by the Board of Directors on February 24, 2021.

The following entities are included in these consolidated financial statements:

	Country of incorporation	Ordinary shares held	
		December 31, 2020	December 31, 2019
Aurelian Resources Inc.	Canada	100%	100%
Aurelian Resources Corporation Ltd.	Canada	100%	100%
Aurelian Exploration Inc.	Canada	100%	100%
Aurelian Menor Inc.	Canada	100%	100%
Condor Finance Corp.	Canada	100%	100%
Aurelian Ecuador S.A.	Ecuador	100%	100%
AurelianEcuador Holding S.A.	Ecuador	100%	100%
Ecoaurelian Agricola S.A.	Ecuador	100%	100%
Aurelianmenor S.A.	Ecuador	100%	100%
SurNorte Ventures Pte. Ltd.	Singapore	100%	100%
SurNorte Holdings I Pte. Ltd.	Singapore	100%	100%
SurNorte Holdings II Pte. Ltd.	Singapore	100%	100%
SurNorte S.A.	Ecuador	100%	100%

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

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2020

(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

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 statement of loss.

Group companies

The functional currency of the significant subsidiary of the Company, Aurelian Ecuador S.A., and certain other entities 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:

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2020

(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)

Mineral reserves and resources – The Company estimates its mineral reserves and resources based on information compiled and reviewed by qualified persons as defined in accordance with NI 43-101 requirements. The estimation of mineral reserves and resources requires judgment to interpret geological data and metallurgical testing, design of appropriate mining methods, recovery methods and establishment of a life of mine production schedule. The estimation of recoverable reserves is also based on assumptions such as capital costs, operating costs and metal pricing. New geological data or changes in the above assumptions may change the economic viability of reserves and may, ultimately, result in the reserves being revised. Changes in the reserve or resource estimates may impact the fair value of financial instruments, the valuation of property, plant and equipment and mineral properties, the depletion and depreciation of property, plant and equipment and mineral properties, utilization of tax losses and decommissioning and site restoration provisions.

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 significant assumptions that are mainly based on market conditions existing at initial recognition and at the end of each reporting period. Refer to Note 20 for further details on the methods and significant assumptions used.

Commercial production – The determination of when a mine is operating in the manner intended by management (referred to as “commercial production”) is a matter of significant judgement. In making this determination, management considered specific facts and circumstances. These factors included, but were not limited to, whether substantially all construction development activities had been completed in accordance with design and a period of commissioning which achieved consistent operating results for a period of time in relation to design capacity.

Valuation of mineral properties, property, plant, and equipment – The Company carries the acquisition costs of its mineral properties, property, plant, and equipment at cost less depletion and depreciation and any impairment losses. The Company undertakes a periodic review of the carrying values of these assets and whenever events or changes in circumstances indicate that their carrying values may exceed their recoverable amount. In undertaking this review, management of the Company is required to make significant judgments, including estimates of mineral reserves and resources. These judgments are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of these assets.

Utilization of tax losses – The Company is subject to income taxes in a number of jurisdictions and has had a history of tax losses. These tax losses are only recognized to the extent that expected future taxable profits are available. Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet and what tax rate is expected to be applied in the year when the related temporary differences reverse. Deferred tax liabilities arising from temporary differences are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. As the Company has not yet had a history of taxable profits as at December 31, 2020, the Company has not recognized any tax losses on its financial statements except those expected to be utilized as a result of cumulative derivative gains within other comprehensive income.

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, 2020

(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 provisions – The Company has obligations for site restoration and decommissioning related to Fruta del Norte. 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 nature of its operations, being the operation of Fruta del Norte, exploration activities in Ecuador, and corporate activities in Canada. The office in Canada provides support to the operations in Ecuador with respect to treasury and finance, 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 and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities measured at fair value through profit or loss are recognized immediately in the statement of loss.

Financial assets

The Company classifies its financial assets according to the following measurement categories:

i. *Amortized cost*

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost.

ii. *Fair value through other comprehensive loss ("FVOCI")*

Assets that are held for both collection of contractual cash flows and future potential sale, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive loss.

iii. *Fair value through profit or loss ("FVPL")*

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2020

(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)

Impairment of financial assets

The Company assesses the expected credit losses associated with its financial assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Financial liabilities

The Company classifies its financial liabilities according to the following measurement categories:

i. FVPL

Liabilities that are (i) held for trading or (ii) so designated, are measured at FVPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company may manage together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability that is not a financial liability held for trading may be designated as FVPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as FVPL.

The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income. The remaining amount of change in the fair value of liability is recognised in the statement of loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to the statement of loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

ii. Amortized cost

Liabilities not measured at FVPL are measured subsequently at amortized cost using the effective interest method.

Financial liabilities are derecognized when, and only when, the Company's obligations are discharged, cancelled or have expired.

(f) Cash

Cash includes cash on hand and deposits held with banks.

LUNDIN GOLD INC.

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3. Summary of significant accounting policies (continued)

(g) Inventories

Ore stockpiles, in-circuit and finished metal inventory are valued at the lower of weighted average production cost and net realizable value. Production costs include the cost of raw materials, direct labour, mine-site overhead expenses and applicable depreciation and depletion of mineral properties, plant and equipment. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert the inventories into saleable form and estimated costs to sell.

Ore stockpile inventory represents ore on the surface or underground that has been extracted from the mine and is available for further processing. In-circuit inventory represents material in the mill circuit that is in the process of being converted into a saleable form. Finished metal inventory represents doré and concentrate located at the mine, in transit to and at port and doré at refineries.

Materials and supplies inventories are valued at the lower of weighted average cost and net realizable value. Replacement costs of materials and spare parts are generally used as the best estimate of net realizable value.

Any write-downs of inventory to net realizable value are recorded within cost of sales in the statement of earnings. If there is a subsequent increase in the value of inventory, the previous write-downs to net realizable value are reversed up to cost to the extent that the related inventory has not been sold.

(h) Property, plant and equipment

Property, plant and equipment are carried 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 a majority of asset classes is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. Mine and plant facilities are depleted using a unit of production method over the total recoverable ounces. The estimated useful lives of property, plant and equipment are as follows:

Buildings	15 to 20 years
Machinery and equipment	10 years
Vehicles	5 years
Furniture and office equipment	3 to 10 years
Mine and plant facilities	based on total recoverable reserves on a unit of production basis

Depreciation methods and estimated useful lives and residual values are reviewed annually and when facts and circumstances require a re-estimate.

The Company reviews the estimated total recoverable reserves annually and when events and circumstances indicate that such a review should be made. Changes to estimated total recoverable reserves are accounted for prospectively.

Expenditures on major maintenance or repairs, including the cost of the replacement of parts of assets and overhaul costs or where an asset or part of an asset is replaced, the expenditure is capitalized and the remaining carrying amount of the item repaired, overhauled or replaced is derecognized when it is probable that future economic benefits associated with the item will be available to the Company. All other costs are expensed as incurred.

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3. Summary of significant accounting policies (continued)

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any related gain or loss is determined as the difference between the net disposal proceeds or residual value, as applicable, and the carrying amount of the asset, and is recognized in the statement of earnings.

(i) *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. Technical feasibility and commercial viability generally coincides with the establishment of proven and probable mineral reserves. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, any such future costs, including costs incurred to increase proven and probable reserves, are capitalized as development costs within mineral properties.

After initial recognition, mineral properties are valued at cost less accumulated depletion and any impairment losses. Costs associated with acquiring a mineral property are capitalized as incurred. Upon commencement of commercial production, mineral properties are depleted based on total recoverable reserves on a unit of production basis.

The Company reviews the estimated total recoverable reserves annually and when events and circumstances indicate that such a review should be made. Changes to estimated total recoverable reserves are accounted for prospectively.

(j) *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 recorded immediately if 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).

Value in use is determined as the present value of the future cash flows expected to be derived from continuing use of an asset or cash generating unit in its present form. These estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit for which estimates of future cash flows have not been adjusted.

Fair value is the price that would be received from selling an asset or cash generating unit in an orderly transaction between market participants at the measurement date. Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash generating unit. Estimated future after tax cash flows are calculated using estimated future prices, mineral reserves and resources and operating and capital costs. All inputs used are those that an independent market participant would consider appropriate.

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3. Summary of significant accounting policies (continued)

Non-financial assets that have been impaired in prior periods are reviewed for possible reversal of the impairment at each reporting date. When identified, a reversal of an impairment loss is recognized in earnings immediately.

(k) *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.

(l) *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 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, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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Notes to the consolidated financial statements as at December 31, 2020

(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)

(m) Share capital

Common shares are classified as equity.

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

(n) 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 and share units) of the Company.

Stock options and share units 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 and share units are recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the stock options and share units 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.

(o) 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.

(p) Comprehensive income (loss)

Comprehensive income (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 derivative gains (losses) related to the Company's own credit risk on financial liabilities measured at fair value through profit or loss. The Company's comprehensive income (loss), components of other comprehensive income (loss) and cumulative translation adjustments are presented in the consolidated statements of loss and comprehensive income (loss) and the statements of changes in equity.

(q) Revenue recognition

Revenues are recognized when all of the following criteria are met:

- Control has been transferred to the customer;
- Neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, has been retained;
- The amount of revenue can be reliably measured;
- It is probable that the economic benefits associated with the sale will flow to the Company; and
- The costs incurred or to be incurred in respect of the sale can be reliably measured.

These conditions are generally satisfied when title passes to the customer.

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Notes to the consolidated financial statements as at December 31, 2020

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3. Summary of significant accounting policies (continued)

Doré sales

Revenues are recorded at the time of physical delivery, which is also the date that title of the gold and silver passes to the customer. For gold, the sales price is determined in accordance with the terms of the offtake commitment (Note 9). For silver, the sales price is fixed on the date of sale based on the silver spot price.

Concentrate sales

Based on the terms of concentrate sales contracts with independent smelting companies, revenues are recorded when the concentrate is loaded on vessels for shipment to the customers, which is also the date that title passes to the customer. Sales prices are provisionally set at that time based on the then market prices and adjusted for variations between the provisional price and the actual final price determined approximately 30 to 60 days after concentrates are unloaded at the port of discharge in accordance with the smelting contracts.

4. Trade receivables and other current assets

	December 31, 2020	December 31, 2019
Trade receivables (a)	\$ 93,023	\$ 20,936
VAT recoverable (b)	16,711	26,804
Prepaid expenses and deposits	23,059	12,056
Deferred transaction costs (c)	3,704	3,750
Other current assets	-	160
	<u>\$ 136,497</u>	<u>\$ 63,706</u>

- (a) Trade receivables represent the value of concentrate sold as at period end for which the funds are not yet received. Consistent with industry standards, these sales generally have relatively long payment terms and are not settled until two to four months after export. There is no recorded allowance for credit losses. In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the counterparty, with the concentration of the credit risk limited due to the nature of the counterparties involved and a history of no credit losses.
- (b) VAT paid in Ecuador by the Company after January 1, 2018 will be refunded or applied as a credit against other taxes payable based on export sales. As the Company is generating sales, a portion of the VAT recoverable has been classified as current assets.
- (c) Deferred transaction costs include upfront and advisory fees incurred to secure the cost overrun facility (the "COF"). These costs will be reclassified to long-term debt on a pro-rata basis should the Company utilize the COF. Should the COF expire without being utilized, these costs will be expensed directly to the Company's statement of loss.

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Notes to the consolidated financial statements as at December 31, 2020

(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)

5. Inventories

	December 31, 2020	December 31, 2019
Ore stockpile	\$ 1,979	\$ -
Gold in circuit	3,320	-
Doré and concentrate	13,786	-
Materials and supplies	40,825	-
	\$ 59,910	\$ -

6. Property, plant and equipment

Cost	Construction- in-progress	Mine and plant facilities	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2019	\$ 451,123	\$ 4,458	\$ 18,192	\$ 11,903	\$ 1,734	\$ 487,410
Additions	415,735	257	26,478	7,994	763	451,227
Cumulative translation adjustment	369	-	-	-	4	373
Balance, December 31, 2019	867,227	4,715	44,670	19,897	2,501	939,010
Additions (a)	29,360	-	10,211	2,121	138	41,830
Reclassifications (b)	(890,488)	841,073	-	-	-	(49,415)
Cumulative translation adjustment	-	230	-	-	2	232
Balance, December 31, 2020	\$ 6,099	\$ 846,018	\$ 54,881	\$ 22,018	\$ 2,641	\$ 931,657

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Notes to the consolidated financial statements as at December 31, 2020

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6. Property, plant and equipment (continued)

Accumulated depletion and depreciation	Construction-in-progress	Mine and plant facilities	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2019	\$ -	\$ 411	\$ 3,330	\$ 2,159	\$ 589	\$ 6,489
Depletion and depreciation	-	102	3,639	3,306	488	7,535
Cumulative translation adjustment	-	-	-	-	4	4
Balance, December 31, 2019	-	513	6,969	5,465	1,081	14,028
Depletion and depreciation	-	36,200	4,806	3,884	589	45,479
Cumulative translation adjustment	-	-	-	-	2	2
Balance, December 31, 2020	\$ -	\$ 36,713	\$ 11,775	\$ 9,349	\$ 1,672	\$ 59,509
Net book value						
As at December 31, 2019	\$ 867,227	\$ 4,202	\$ 37,701	\$ 14,432	\$ 1,420	\$ 924,982
As at December 31, 2020	\$ 6,099	\$ 809,305	\$ 43,106	\$ 12,669	\$ 969	\$ 872,148

(a) Included in the additions to Construction-in-Progress are the following:

	December 31, 2020	December 31, 2019
Depletion and depreciation	\$ 1,507	\$ 7,405
Capitalized interest and accretion of transaction and derivative costs (Note 9)	10,556	35,257
	\$ 12,063	\$ 42,662

Sales in January and February 2020 totaling \$52.4 million (2019 – \$20.9 million) have been recognized as a reduction of capitalized Construction-in-Progress costs.

(b) The Company achieved commercial production at Fruta del Norte in February 2020. In making this determination, management considered a number of factors, including completion of substantially all construction development activities in accordance with design and a production ramp up period where mill feed, in terms of tonnes of ore, equalled an average of 70% of mill capacity over a 90 day period. With this achievement and continued handover of assets to operations, substantially all of Construction-in-Progress has either been reclassified to Mine and Plant Facilities (\$841 million) or recognized as Opening Inventory as at February 29, 2020 (\$49.4 million), as applicable, and depletion commenced on mine and plant facilities. Effective March 1, 2020, revenues, cost of goods sold, and debt service costs (Note 9 and 15) are recognized in the consolidated statements of loss and comprehensive income (loss). Costs of remaining areas of construction, not essential to operations, will continue to be captured as Construction-in-progress until ready for their intended use.

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7. Advance royalty

Advance royalties are deductible against royalties on sales payable to the Government of Ecuador 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. As the Company is generating sales, a portion of the advance royalty payment has been classified as current assets.

8. Accounts payable and accrued liabilities

	December 31, 2020		December 31, 2019	
Accounts payable	\$	14,229	\$	25,306
Accrued liabilities		39,592		33,496
	\$	53,821	\$	58,802

9. Long-term debt

	December 31, 2020		December 31, 2019	
Gold prepay credit facility (a)	\$	248,828	\$	234,917
Stream loan credit facility (b)		268,471		290,124
Offtake derivative liability (c)		32,308		26,856
Senior debt facility (d)		307,487		326,689
	\$	857,094	\$	878,586
Less: current portion				
Gold prepay credit facility		68,174		14,784
Stream loan credit facility		50,041		21,894
Offtake derivative liability		4,488		1,753
Senior debt facility		55,872		19,147
Long-term portion	\$	678,519	\$	821,008

The gold prepay credit facility (the "Prepay Loan"), stream loan credit facility (the "Stream Loan"), and the offtake derivative liability are accounted for as financial liabilities at fair value through profit or loss and are comprised of the following as at December 31, 2020.

	Gold prepay credit facility		Stream loan credit facility		Offtake derivative liability		Total
Principal	\$	142,105	\$	145,233	\$	-	\$ 287,338
Interest accrued and capitalized at stated rate of 7.5%		27,114		23,867		-	50,981
Transaction costs		(2,764)		(2,473)		-	(5,237)
Derivative fair value adjustments		82,373		101,844		32,308	216,525
Total	\$	248,828	\$	268,471	\$	32,308	\$ 549,607

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Notes to the consolidated financial statements as at December 31, 2020

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9. Long-term debt (continued)

Derivative fair value adjustments reflect the revaluation of the financial instruments at fair value as at December 31, 2020, including a portion of the cost of derivatives which are part of the long-term debt. The derivative gain or loss related to the Company's own credit risk recorded in other comprehensive income (loss) includes the impact of the difference between the Company's own credit risk at the time of entering into the long-term debt and the balance sheet date (see also Note 20).

(a) Gold prepay credit facility

The Prepay Loan is a secured loan facility with a stated interest rate of 7.5% per annum with interest accruing based upon the outstanding balance.

The Prepay Loan is amortized and repayable over 19 quarters starting December 31, 2020. Quarterly payments are equivalent to the value of 9,775 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 due quarterly and the balance of interest accrued to that date, if any, is a variable additional charge (the "Finance Charge"). If the average gold price in the fiscal quarter prior to repayment date is less than \$1,436 per oz. or less than \$1,062 per oz., repayments will be based on 11,500 oz. or 13,225 oz. of gold, respectively.

The Company made the first principal and interest payments under the Prepay Loan totaling \$7.9 million and \$10.4 million, respectively, on December 31, 2020 (see Note 20).

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

(b) Stream loan credit facility

The Stream Loan is a secured loan facility with a stated interest rate of 7.5% per annum with interest accruing based upon the outstanding balance.

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 due monthly and the balance of interest accrued to that date, if any, will be a Finance Charge.

With the start of commercial production in February 2020, the Company made principal and interest payments under the Stream Loan totaling \$4.8 million and \$13.2 million, respectively, to the end of December 31, 2020 (see Note 20). As at December 31, 2020, based on the projected life of mine production and other significant assumptions (see Note 20), the estimated fair value equivalent to 338,876 oz. of gold and 5,899,553 oz. of silver remains outstanding under the Stream Loan.

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 Company has elected to measure the Stream Loan as a financial liability measured at fair value through profit or loss.

(c) Offtake Commitment

The lender of the Prepay Loan and Stream Loan has 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 is satisfied first through the sale of doré and then, if required, financial settlement.

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9. Long-term debt (continued)

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.

(d) Senior debt facility

	Tranche A	Tranche B	Total
Principal	\$ 233,750	\$ 93,500	\$ 327,250
Accrued interest	36	8	44
Transaction costs	(14,753)	(5,054)	(19,807)
Total	\$ 219,033	\$ 88,454	\$ 307,487

The Facility is a senior secured loan comprised of two tranches: a senior commercial facility ("Tranche A") and a senior covered facility under a raw material guarantee ("Tranche B") both of which were fully drawn as at December 31, 2020. The annual interest rate is the three or six-month LIBOR plus an average margin of approximately 5.05% for Tranche A and 2.50% for Tranche B. Tranche A and Tranche B are subject to risk mitigation and guarantee fees of 2.00% and 3.15%, respectively. The Facility is repayable in variable quarterly instalments starting December 31, 2020 and maturing in June 2026. In addition, accelerated quarterly principal repayments based on 30% of Fruta del Norte's free cash flow apply after completion date as defined under the Facility ("Completion"), which is forecast to occur in 2021.

During the year ended December 31, 2020, the Company paid \$22.8 million of principal and \$14.7 million (2019 – \$5.3 million) of interest relating to the Facility.

(e) Cost overrun facility (the "COF")

On March 29, 2019, the Company entered into a \$75 million COF with a related party of the Company by virtue of its shareholding in the Company in excess of 20%. The COF can only be used to fund a potential cost overrun related to Fruta del Norte until Completion and is currently undrawn.

In accordance with the terms of the COF, the Company issued the related party 300,000 common shares and 300,000 warrants ("Warrants") in lieu of fees. Each Warrant has a term of three years from the date of issue and is exercisable for a common share upon payment of the exercise price of CAD\$5.98. The Company is required to issue an additional 300,000 common shares to the related party as a condition precedent to the first utilization of the COF.

Under the long-term debt, the Company, together with its subsidiaries related to Fruta del Norte (collectively, the "FDN Subsidiaries"), are subject to a number of covenants while amounts remain outstanding. The long-term debt is secured by a charge over the FDN Subsidiaries' assets, pledges of the shares of the FDN Subsidiaries and guarantees of the Company and the FDN Subsidiaries.

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10. Reclamation provision

The Company's reclamation provision relates to the rehabilitation of Fruta del Norte. The reclamation provision has been calculated based on total estimated rehabilitation costs and discounted back to its present value. The pre-tax discount rate and inflation rate are adjusted annually and reflect current market assessments. At December 31, 2020, the Company applied a pre-tax discount rate of 9.4% (2019 – 9.1%) and an inflation rate of 1.8% (2019 – 2.5%). The estimated total future liability for reclamation and remediation costs on an undiscounted basis and adjusted for an estimate of future inflation is approximately \$22.8 million (2019 – \$22.5 million).

	December 31,	
	2020	2019
Balance, beginning of year	\$ 4,751	\$ 4,353
Change in discount rate, amount, and timing of cash flows	1,166	-
Accretion of liability component of obligations	39	398
	\$ 5,956	\$ 4,751

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, 2019	213,163,980	\$ 857,279
Proceeds from equity financing, net	8,625,000	33,940
Consideration for cost overrun facility	300,000	1,221
Exercise of stock options	1,121,800	5,340
Exercise of anti-dilution rights	420,432	2,123
Balance at December 31, 2019	223,631,212	899,903
Proceeds from equity financing, net	4,772,500	41,419
Exercise of stock options	1,074,650	5,318
Exercise of anti-dilution rights	609,975	5,085
Balance at December 31, 2020	230,088,337	\$ 951,725

- (a) On March 1, 2019, the Company closed a CAD\$46.6 million bought deal equity financing (the "2019 Bought Deal") by issuing 8,625,000 shares, which included the exercise in full of the over-allotment option of an additional 1,125,000 shares, at a price of CAD\$5.40 per share. Share issue costs of \$1.2 million were paid resulting in net proceeds of \$33.9 million received by the Company in relation to the 2019 Bought Deal.
- (b) On June 11, 2020, the Company closed a bought deal equity financing (the "2020 Bought Deal") by issuing 4,772,500 shares of the Company at a price of CAD\$12.05 per share for gross proceeds of CAD\$57.5 million (\$42.4 million), which included the exercise in full of the over-allotment option of an additional 622,500 shares. Share issue costs of \$1.0 million were paid resulting in net proceeds of \$41.4 million received by the Company in relation to the 2020 Bought Deal.

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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)

11. Share capital (continued)

- (c) During the year ended December 31, 2020, the Company issued 609,975 common shares to Newcrest Mining Limited ("Newcrest") at a weighted average price of CAD\$11.55 per share for total proceeds of \$5.1 million. During the year ended December 31, 2019, 420,432 common shares were issued at a weighted average price of CAD\$6.72 per share for total proceeds of \$2.1 million. All issuances were completed in accordance with Newcrest's anti-dilution rights granted as part of its initial investment in the Company.

12. Stock-based compensation and share purchase warrants

- (a) Stock-based compensation

The Company has adopted an omnibus incentive plan (the "Omnibus Plan") approved at the June 3, 2019 annual general and special meeting of shareholders which replaces its rolling stock-based compensation plan. The Omnibus Plan allows for the reservation of a maximum 8.5% of the common shares issued and outstanding at any given time for issuance under the Omnibus Plan. Under the Omnibus Plan, the Company may grant stock options, restricted share units and deferred share units (collectively, the "Awards"). Subject to specific provisions under the Omnibus Plan, the eligibility, vesting period, term, and number of Awards are granted at the discretion of the Company's board of directors.

Restricted share units entitle the recipient, upon settlement, to receive common shares or, subject to provisions under the Plan, the cash equivalent or a combination thereof. The Company's board of directors may also grant restricted share units that include performance criteria which vests based on a multiplier ("PSUs").

Deferred share units may only be granted to non-employee directors and are payable after termination of the recipient's service with the Company. Upon settlement, the recipient may receive common shares or, subject to provisions under the Plan, the cash equivalent or a combination thereof.

- i. Stock options

Stock options granted and outstanding under a pre-existing stock option plan (the "Option Plan") have an expiry date of five years and vest over a period of two years from date of grant. No additional stock options can be granted under the Option Plan.

During the year ended December 31, 2020, 821,800 stock options were granted under the Omnibus Plan which have an expiry date of five years and vest over a period of three years from date of grant.

Stock options are exercisable into one common share of the Company at the price specified in the terms of the option agreement.

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12. Stock-based compensation and share purchase warrants (continued)

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

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Number of Common Shares	Weighted exercise price (CAD)	Number of Common Shares	Weighted exercise price (CAD)
Balance, beginning of year	6,508,200	\$ 4.91	5,902,900	\$ 4.59
Granted	821,800	12.60	1,861,800	5.35
Cancelled / Expired	(28,900)	12.60	(134,700)	5.18
Exercised ⁽¹⁾	(1,074,650)	4.23	(1,121,800)	3.95
Balance outstanding, end of year	6,226,450	\$ 6.00	6,508,200	\$ 4.91
Balance exercisable, end of year	4,634,800	\$ 4.99	4,573,650	\$ 4.74

⁽¹⁾ The weighted average share price on the exercise date for the stock options exercised during the year ended December 31, 2020 was CAD\$10.19 (2019 – CAD\$6.81).

The following table summarizes information concerning outstanding and exercisable options at December 31, 2020:

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)	
\$ 3.75 to 5.21	3,319,850	1.15	\$ 4.79	3,319,850	1.15	\$ 4.79	
\$ 5.22 to 12.60	2,906,600	3.05	7.39	1,314,950	2.32	5.49	
	6,226,450	2.04	\$ 6.00	4,634,800	1.48	\$ 4.99	

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:

	2020	2019
Risk-free interest rate	1.38%	1.81%
Expected stock price volatility	28.28%	57.18%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	\$3.46	\$2.69

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, 2020, the Company recorded stock-based compensation expense of \$2.2 million (2019 – \$3.5 million) relating to stock options.

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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)

12. Stock-based compensation and share purchase warrants (continued)

ii. Restricted share units with performance criteria ("PSUs")

During the year ended December 31, 2020, the Company granted 148,000 PSUs to eligible employees which vest three years from date of grant subject to continued employment and certain performance conditions being met. The number of PSUs that vest will be adjusted using a multiplier that is based on total shareholder return by the Company's shares over the three-year period relative to a peer group as defined by the Company's board of directors. Each vested PSU entitles the recipient to a payment of one common share or cash with an equivalent market value, at the recipient's option. If the recipient elects a cash payout, the market value is determined as the volume weighted average trading price of the Company's shares on the TSX for the five trading days immediately preceding the vesting date.

The fair value of PSUs was measured based on Monte Carlo simulation with the following weighted-average assumptions:

	December 31, 2020	December 31, 2019
Risk-free interest rate	0.53%	-
Average expected volatility of the Company and its peer group	55.03%	-
Expected life	3 years	-
Expected dividend yield	-	-
Weighted-average fair value per PSU outstanding	\$8.12	-

The Company recorded a liability of \$1.2 million to recognize the estimated fair value as at December 31, 2020 of the PSUs.

iii. Restricted share units settled in cash ("Cash RSUs")

During the year ended December 31, 2020, the Company granted 29,500 Cash RSUs to eligible employees which vest three years from date of grant subject to continued employment of which 26,700 remain outstanding as at December 31, 2020. Each vested Cash RSU entitles the recipient to a payment in cash based on the market value of one common share at the end of the three-year period. The market value is determined as the volume weighted average trading price of the Company's shares on the TSX for the five trading days immediately preceding the vesting date.

The fair value of the Cash RSUs was measured based on the Black-Scholes option pricing model with the following weighted-average assumptions:

	December 31, 2020	December 31, 2019
Risk-free interest rate	0.26%	-
Expected stock price volatility	52.58%	-
Expected life	2.15 years	-
Expected dividend yield	-	-
Weighted-average fair value per Cash RSU outstanding	\$11.25	-

The Company recorded a liability of \$0.3 million to recognize the estimated fair value as at December 31, 2020 of the cash settled RSUs.

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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)

12. Stock-based compensation and share purchase warrants (continued)

iv. Restricted share units settled in shares ("Share RSUs")

During the year ended December 31, 2020, the Company granted 34,600 Share RSUs to eligible employees. Of these, 31,500 Share RSUs vested on December 31, 2020. The remaining 3,100 Share RSUs vest three years from date of grant subject to continued employment. Each vested Share RSU entitles the recipient to a payment in shares shortly after vesting.

The fair value of the Share RSUs was measured on the date of grant based on the Black-Scholes option pricing model with the following weighted-average assumptions:

	December 31, 2020	December 31, 2019
Risk-free interest rate	0.29%	-
Expected stock price volatility	66.62%	-
Expected life	0.49 years	-
Expected dividend yield	-	-
Weighted-average fair value per Share RSU outstanding	\$10.24	-

The fair value of Share RSUs measured at grant date are being amortized over the period during which the employees become unconditionally entitled to the Share RSUs.

During the year ended December 31, 2020, the Company recorded stock-based compensation expense of \$0.3 million (2019 – nil).

(b) Share Purchase Warrants

A continuity summary of the warrants granted and outstanding is presented below:

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number of warrants	Weighted average exercise price (CAD)	Number of warrants	Weighted average exercise price (CAD)
Balance, beginning of year	411,441	\$ 5.98	-	\$ -
Consideration for cost overrun facility (Note 9)	-	-	300,000	5.98
Anti-dilution rights exercised by Newcrest	-	-	111,441	5.98
Balance outstanding, end of year	411,441	\$ 5.98	411,441	\$ 5.98

The Company issued 111,441 warrants to Newcrest at a price of CAD\$1.66 per warrant for total proceeds of CAD\$0.2 million under its anti-dilution rights following the issuance of Warrants to the COF provider (see Note 9). Each warrant has a term of three years from the date of issue and is exercisable for a common share upon payment of the exercise price of CAD\$5.98.

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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)

12. Stock-based compensation and share purchase warrants (continued)

The following table summarizes information concerning outstanding warrants at December 31, 2020:

Exercise price (CAD)	Number of warrants outstanding	Remaining contractual life (years)
\$ 5.98	411,441	1.25

The fair value based method of accounting was applied to the warrants on date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	December 31, 2020	December 31, 2019
Risk-free interest rate	-	1.78%
Expected stock price volatility	-	50.63%
Expected life	-	3 years
Expected dividend yield	-	-
Weighted-average fair value per warrant granted (CAD)	-	\$1.66

The equity-settled share-based payment reserve includes the fair value of warrants as measured at grant date.

13. Administration

	December 31, 2020	December 31, 2019
Corporate social responsibility	\$ 814	\$ 1,140
Depreciation	-	96
Investor relations	219	281
Municipal taxes	48	1,225
Office and general	2,021	2,578
Professional fees	2,280	4,510
Regulatory and transfer agent	321	338
Salaries and benefits	7,654	5,269
Stock-based compensation	4,061	3,491
Training	216	3,359
Travel	167	726
	\$ 17,801	\$ 23,013

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14. Suspension of operations

	December 31, 2020	December 31, 2019
Salaries and benefits	\$ 13,003	\$ -
Maintenance	4,364	-
Fixed administrative costs	4,062	-
Site services	2,197	-
COVID-19 expenditures	1,455	-
Other costs	1,734	-
Depletion and depreciation	2,489	-
	\$ 29,304	\$ -

Due to growing concerns regarding the spread of COVID-19 in Ecuador and the impacts of increasing efforts by the governments at all levels to slow the spread of COVID-19, the Company temporarily suspended operations at Fruta del Norte on March 22, 2020. Following three months of suspension of operations in response to the COVID-19 pandemic, the Company re-started operations in early July. Costs during this suspension period have been presented separately and are comprised principally of salaries and benefits, maintenance, COVID-19 related costs, and ongoing indirect fixed costs such as insurance and property taxes.

15. Finance expense (income)

	December 31, 2020	December 31, 2019
Interest expense	33,940	-
Other finance costs	7,714	-
Accretion of transaction costs	3,690	-
Interest income	(402)	(1,763)
	\$ 44,942	\$ (1,763)

With the achievement of commercial production, effective March 1, 2020, debt service costs are recognized in the consolidated statements of loss and comprehensive income (loss) (Note 6(b)).

16. Related party transactions

(a) Related party expenses

During the years ended December 31, 2020 and December 31, 2019, the Company incurred the following:

Payee	Nature	Note	December 31, 2020	December 31, 2019
Namdo	Management fees	i	\$ 353	\$ 298

- i. Namdo Management Services Ltd. ("Namdo"), a company associated with an officer of the Company in 2020, provides services and office facilities to the Company pursuant to an agreement.

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Notes to the consolidated financial statements as at December 31, 2020

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16. Related party transactions (continued)

(b) Key management compensation

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

	December 31, 2020		December 31, 2019	
Salaries, bonuses and benefits	\$	6,576	\$	3,950
Stock-based compensation		3,283		2,508
	\$	9,859	\$	6,458

17. Income taxes

(a) Income tax expense

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

	December 31,	
	2020	2019
Net loss before tax	\$ (60,374)	\$ (118,945)
Canadian federal and provincial income tax rates	27.00%	27.00%
Expected income tax expense based on the above rates	(16,301)	(32,115)
Increase (decrease) due to:		
Differences in foreign tax rates	2,270	5,220
Non-deductible costs	7,308	2,180
Losses and temporary differences for which an income tax asset has not been recognized	1,233	24,743
Non-taxable portion of capital gains	35	(28)
Benefits of previously unrecognized deferred income tax assets	(7,761)	-
Income tax recovery	\$ (13,216)	\$ -

The Company recognized a deferred income tax recovery relating to deferred tax assets that are expected to be utilized as a result of cumulative derivative gains within other comprehensive income.

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17. Income taxes (continued)

(b) Deferred income taxes

Deferred tax assets and liabilities have been recognized on the statement of financial position as follows:

	December 31,	
	2020	2019
Long-term debt	\$ 13,762	\$ -
Mineral properties and property, plant and equipment	(13,762)	-
Net-capital losses – Canada	-	146
Unrealized foreign exchange gains	-	(146)
	\$ -	\$ -

Deductible temporary differences for which no deferred taxes assets have been recognized are as follows:

	December 31,	
	2020	2019
Non-capital losses - Canada	\$ 28,921	\$ 23,360
Net-capital losses - Canada	14,604	8,924
Non-capital losses - Ecuador	8,210	-
Long-term debt	153,972	224,094
Mineral properties and property, plant and equipment	24,536	111,506
Share issuance costs	3,049	3,766
Other	18,437	2,383
	\$ 251,729	\$ 374,033

As at December 31, 2020, the Company has the following tax losses which may be used to reduce future taxable income:

Year of expiry	Canada	Ecuador
2021	\$ -	\$ -
2022	-	-
2023	-	-
2024	-	-
2025 and onwards	28,921	8,210
Total	\$ 28,921	\$ 8,210

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18. Supplemental cash flow information

	December 31,	
	2020	2019
Change in trade receivables and other current assets related to:		
Sales recognized as a reduction of property, plant and equipment	\$ 20,936	\$ (20,936)
Change in accounts payable and accrued liabilities related to:		
Acquisition of property, plant and equipment	(49,935)	25,408

The following table sets forth the changes in liabilities arising from financing activities for the year ended December 31, 2020.

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Senior debt facility	Total
Balance, January 1, 2019	\$ 167,524	\$ 178,838	\$ 17,890	\$ -	\$ 364,252
Cash inflows	-	-	-	350,000	350,000
Cash outflows	-	-	-	-	-
Change in derivative fair values	55,372	99,702	8,966	-	164,040
Other changes ⁽¹⁾	12,021	11,584	-	(23,311)	294
Balance, December 31, 2019	\$ 234,917	\$ 290,124	\$ 26,856	\$ 326,689	\$ 878,586
Cash inflows	-	-	-	-	-
Cash outflows	(18,328)	(17,952)	-	(22,750)	(59,030)
Change in derivative fair values	20,238	(15,194)	5,452	-	10,496
Other changes ⁽¹⁾	12,001	11,493	-	3,548	27,042
Balance, December 31, 2020	\$ 248,828	\$ 268,471	\$ 32,308	\$ 307,487	\$ 857,094

⁽¹⁾ Other changes include non-cash movements and interest accruals which are presented as investing activities in the statement of cash flows.

19. Segmented information

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

The Company's primary business activity is the Fruta del Norte operating mine in Ecuador. Materially all of the Company's non-current assets and non-current liabilities relate to Fruta del Norte. In addition, the Company conducts exploration activities and maintains a number of concessions in Ecuador outside of Fruta del Norte.

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19. Segmented information (continued)

The following are summaries of the Company's current and non-current assets, current and non-current liabilities, and net losses by segment:

	Fruta del Norte	Other concessions	Corporate and other	Total
As at December 31, 2020				
Current assets	\$ 240,991	\$ 968	\$ 47,040	\$ 288,999
Non-current assets	1,216,361	-	-	1,216,361
Total assets	1,457,352	968	47,040	1,505,360
Current liabilities	231,570	170	656	232,396
Non-current liabilities	684,475	-	1,631	686,106
Total liabilities	916,045	170	2,287	918,502
For the year ended December 31, 2020				
Capital expenditures	41,830	-	-	41,830
Revenues	358,156	-	-	358,156
Income from mining operations	172,386	-	-	172,386
Corporate administration	(4,231)	(46)	(13,524)	(17,801)
Exploration expenditures	-	(2,805)	-	(2,805)
Suspension of operations	(29,304)	-	-	(29,304)
Finance income (expense)	(45,313)	-	371	(44,942)
Other expense	(7)	-	(917)	(924)
Derivative loss	(136,984)	-	-	(136,984)
Deferred income tax recovery	13,216	-	-	13,216
Net loss for the year	(30,237)	(2,851)	(14,070)	(47,158)
	Fruta del Norte	Other concessions	Corporate and other	Total
As at December 31, 2019				
Current assets	\$ 96,653	\$ 137	\$ 52,390	\$ 149,180
Non-current assets	1,259,781	-	-	1,259,781
Total assets	1,356,434	137	52,390	1,408,961
Current liabilities	115,168	624	588	116,380
Non-current liabilities	825,759	-	-	825,759
Total liabilities	940,927	624	588	942,139
For the year ended December 31, 2019				
Capital expenditures	451,227	-	-	451,227
Corporate administration	(11,870)	(39)	(11,104)	(23,013)
Exploration expenditures	-	(3,733)	-	(3,733)
Finance income	401	8	1,354	1,763
Other income (expense)	2,202	-	(3,044)	(842)
Derivative loss	(93,120)	-	-	(93,120)
Net loss for the year	(102,387)	(3,764)	(12,794)	(118,945)

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20. Financial instruments and risk management

The Company's financial instruments include cash, cash equivalents and receivables, which are categorized as financial assets at amortized cost, and accounts payable and accrued liabilities, which are categorized as financial liabilities at amortized cost. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments. In addition, the Gold Prepay Loan; Stream Loan; and offtake commitment have been classified as financial liabilities measured at fair value and the senior debt facility as a financial liability at amortized cost.

(a) Fair value measurements and hierarchy

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

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

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20. Financial instruments and risk management (continued)

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

The following table sets forth the Company's financial liabilities measured at fair value on a recurring basis by level within the fair value hierarchy for the year ended December 31, 2020. Each of these financial instruments are classified as Level 3 as their valuation includes significant unobservable inputs.

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Balance, January 1, 2019	\$ 167,524	\$ 178,838	\$ 17,890	\$ 364,252
Interest accrued and capitalized at stated rate of 7.5%	11,406	11,406	-	22,812
Accretion of transaction costs	615	178	-	793
Derivative fair value adjustments recognized in:				
Property, plant and equipment	4,460	5,222	-	9,682
Derivative loss	31,806	52,348	8,966	93,120
Other comprehensive loss	19,106	42,132	-	61,238
Change in derivative fair values	55,372	99,702	8,966	164,040
Balance, December 31, 2019	\$ 234,917	\$ 290,124	\$ 26,856	\$ 551,897
Principal paid	(7,895)	(4,767)	-	(12,662)
Interest paid	(10,433)	(13,185)	-	(23,618)
Interest accrued and capitalized at stated rate of 7.5%	11,387	11,302	-	22,689
Accretion of transaction costs	614	191	-	805
Derivative fair value adjustments recognized in:				
Property, plant and equipment	735	866	-	1,601
Derivative loss	59,961	71,571	5,452	136,984
Other comprehensive income	(40,458)	(87,631)	-	(128,089)
Change in derivative fair values	20,238	(15,194)	5,452	10,496
Balance, December 31, 2020	\$ 248,828	\$ 268,471	\$ 32,308	\$ 549,607

(c) Significant assumptions in valuation and relationship to fair value

The financial liabilities above were valued using Monte Carlo simulation valuation models. The significant assumptions used in the Monte Carlo valuation models include: the gold forward prices, gold price volatility, the risk-free rate of return, risk-adjusted discount rates, and the projected life of mine production schedule. In addition, in valuing the Stream Loan, the silver forward prices, silver price volatility, and the gold/silver price correlation were also used.

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20. Financial instruments and risk management (continued)

As the gold price and silver price volatilities and risk-adjusted discount rates are unobservable inputs, the financial liabilities above are classified within Level 3 of the fair value hierarchy. The following table summarizes the quantitative information about the significant unobservable inputs used in Level 3 fair value measurements.

	Fair value at December 31, 2020	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Financial liabilities measured at fair value	\$ 549,607	Gold price and silver price volatilities	16% to 43%	An increase or decrease in the expected volatilities of 5% would increase or decrease the fair value of long-term debt and derivative loss by \$5.4 million or \$6.2 million, respectively
		Risk-adjusted discount rates	13% to 15%	An increase or decrease in risk-adjusted discount rates of 1% would decrease or increase the fair value of long-term debt and comprehensive income by \$15.6 million or \$16.6 million, respectively

(d) Valuation processes

The valuation of financial instruments classified as Level 3 of the fair value hierarchy were prepared by an independent valuation specialist under the direct oversight of the Vice President, Finance ("VP Finance") of the Company. Discussions of valuation processes and results are held between the VP Finance, the Chief Financial Officer, and reported to the audit committee at least once every three months, in line with the Company's quarterly reporting periods.

(e) Financial risk management

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, with foreign operations in Ecuador. Revenues generated and expenditures incurred in Ecuador are primarily denominated in U.S. dollars, as are its loan facilities. However, equity capital, if needed, is typically raised in Canadian 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. Based on this exposure, a 2% change in the U.S. dollar exchange rate would give rise to an increase or decrease of approximately \$0.8 million in net loss for the year.

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash is held in large financial institutions with a high investment grade rating. The Company is also subject to credit risk associated with its trade receivables. The Company manages this risk by only selling to a small group of reputable customers with strong financial statements.

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20. Financial instruments and risk management (continued)

Interest rate risk

The Company is subject to interest rate risk with respect to the fair value of long-term debt which are accounted for at fair value through profit or loss and on the senior debt facilities for which interest payments are affected by movements to the LIBOR rate. Refer to Note 20(c) for the impact of changes in interest rates on the fair value of the Company's long-term debt.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. Cash flow forecasting is performed regularly to monitor the Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs at all times. In addition, management is actively involved in the review, planning and approval of significant expenditures and commitments.

The Company's accounts payable and accrued liabilities are due within twelve months. For the Company's long-term debt, terms of repayment are described in Note 9.

Commodity price risk

The Company is subject to commodity price risk from fluctuations in the market prices of 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 accounted for at fair value through profit or loss is impacted by fluctuations of commodity prices. Based on this exposure, an increase or decrease of 5% in gold and silver prices would increase or decrease the fair value of long-term debt and the derivative loss by \$28.8 million or \$28.7 million, respectively.

21. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and operate Fruta del Norte 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.

LUNDIN GOLD INC.

Notes to the consolidated financial statements as at December 31, 2020

(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)

22. Commitments

Significant capital expenditures contracted as at December 31, 2020 but not recognized as liabilities are as follows:

	Development costs	
2021	\$	11,009
2022		-
2023		-
Total	\$	11,009

The Company's sales are subject to a 5% net smelter royalty payable to the Government of Ecuador and a 1% net revenue royalty payable to third parties.