

# LUNDINGOLD

Building a Leading Gold Company  
Through Responsible Mining

Q2 2019



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# LUNDIN GOLD INC.

Management's Discussion and Analysis

Six Months Ended June 30, 2019

(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)

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## INTRODUCTION

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This Management's Discussion and Analysis ("MD&A") of Lundin Gold Inc. and its subsidiary companies (collectively, "Lundin Gold" or the "Company") provides a detailed analysis of the Company's business and compares its financial results for the three and six months ended June 30, 2019 with those of the same period from the previous year.

This MD&A is dated as of August 9, 2019 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes thereto for the three and six months ended June 30, 2019, which are prepared in accordance with IAS 34: Interim Financial Statements, and the Company's audited annual consolidated financial statements and related notes thereto, which are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and the MD&A for the fiscal year ended December 31, 2018. References to the "2019 Period" and "2018 Period" relate to the six months ended June 30, 2019 and June 30, 2018, respectively.

Other continuous disclosure documents, including the Company's press releases, quarterly and annual reports and annual information form, are available through its filings with the securities regulatory authorities in Canada at [www.sedar.com](http://www.sedar.com).

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

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

## SECOND QUARTER 2019 HIGHLIGHTS AND ACTIVITIES

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The following provides an overview of key accomplishments and milestones achieved in the second quarter of 2019:

### *Fruta del Norte Project*

The Fruta del Norte Project continued to progress on budget and on schedule with peak construction workforce reached near the end of the quarter. More specific highlights during the quarter were as follows:

- Detailed engineering was completed with only construction support engineering ongoing.
- Approximately 92% of the total projected capital expenditure has been committed.
- Overall construction progress was 78% complete.
- Underground development continued ahead of projections, including access to the South Vent Raise.
- Owner's crews started mining the first production stope and owner mining is ramping up with additional crews being added as more production stopes become available.
- Construction of the process plant continued with work ongoing in all of the trades in order to facilitate wet commissioning starting early in the third quarter.
- Powerline construction from the Bomboiza substation to site is 90% complete overall.
- Work on the Bomboiza substation for the connection to the national power grid is 40% complete.
- Construction of the tailings dam is progressing on schedule.
- Training and hiring for operations progressing with the key positions substantially filled.

### *Financing*

- Completed an initial (\$159 million) and a second drawdown (\$142 million) under the senior secured project finance debt facility (the "Facility").



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### *Corporate*

- On August 9, 2019, Michael Nossal of Newcrest Mining Limited ("Newcrest") resigned from the board and was replaced on the board by Tamara Brown as Newcrest's nominee. Ms. Brown is a mining industry professional with over 20 years of experience in the mining and financial sectors. She is currently Vice President, Investor Relations and Corporate Development (Americas) for Newcrest.

### *Exploration*

- Mapping and sampling continued at several targets around (both inside and outside) the Suarez basin, while drill permitting is in progress for Fruta del Norte- type epithermal gold-silver priority targets in the central and southern Suarez basin.

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## THE FRUTA DEL NORTE PROJECT

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

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

### *Activities in the Second Quarter of 2019*

#### Fruta del Norte Project

During the second quarter of 2019 the project reached peak construction which will continue into the third quarter of 2019 until first gold and ramp up of production commences.

#### *Mine Development*

- As at June 30, 2019 a total of 8.0 kilometres ("km") of underground mine development had been completed, of which 2,067 metres was completed during the quarter.
- Underground development continued ahead of projections, including access to the South Vent Raise.
- Owner's mine crews started mining the first transverse long hole production stope on June 16, 2019 and owner mining is planned to continue to ramp up with additional crews being added as more production stopes become available.
- Pump testing was completed on the two surface mine dewatering wells with indication of low pumping levels during the testing period to date. These results are consistent with that lower than anticipated water flow rates encountered in the underground mine.
- The second cohort of 110 operations trainees completed their training and is being incorporated into mining and process plant operations teams.

#### *Construction*

- As of quarter end earthworks was 87% complete, concrete 96%, steel 83%, mechanical 73%, piping 59%, electrical 82% and instrumentation 65%.
- Process plant construction is on track for commissioning of systems beginning in the third quarter of 2019.

#### *Site-Wide Infrastructure*

- The laboratory, reagent storage building, plant security building, and plant dry and lunchroom facilities are nearing completion pending delivery and installation of equipment.
- On site electrical distribution network is substantially complete and the first power distribution lines on site were energized. Work progresses on the main Fruta del Norte power substation and emergency power generation system.

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## *Off Site Infrastructure*

- Construction of the 42 km powerline connecting the Project to Ecuador's national power grid is progressing well with 93% of the towers completed and only eight towers remaining to be erected and all easements in place.
- Powerline cable stringing was 65% complete.
- Bomboiza substation connection construction work advanced to 40% completion with the powerline expected to be connected in the third quarter of 2019.
- Earthworks for the accesses to the Zamora River bridge were completed in the quarter.
- Bridge steel supply contract was awarded and fabrication underway.
- Bridge erection contract repricing received and will be awarded in the next quarter.

## *Tailings Storage Facility*

- Construction of the tailings dam progressed significantly with dam earthworks 72% complete.
- Dam liner installation commenced during the quarter.

## Health and Safety, Environment, and Community

### *Health and Safety*

- The Total Recordable Incident Rate ("TRIR") for the project at the end of the quarter was 0.63 per 200,000 hours worked.

### *Environment and Permitting*

- Successfully completed the bi-annual environmental compliance audit for the 42 km powerline with no impact on the license or operations.
- Received the hazardous chemicals permit for importation of cyanide.

### *Community*

- Lundin Gold's Responsible Mining program continued to focus on economic diversification and the transition from construction to operations during the quarter.
- As of quarter end, the Company estimates that 45% of its employees were from the Province of Zamora Chinchipe.
- Lundin Gold's procurement programs resulted in the purchase of approximately \$2 million per month in goods and services from the local communities in the first half of 2019.

### Exploration

- Additional mapping and sampling have been completed southwest of the Suarez pull-apart basin.
- Permitting in preparation for scout drill testing continues with the plan to mobilize a rig to the Barbasco epithermal gold-silver target as soon as permits are received.

# LUNDIN GOLD INC.

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## SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Derivative gain (loss) for the period	\$ (24,745)	\$ 468	\$ (28,508)	\$ 17,924
Net income (loss) for the period	\$ (30,797)	\$ (7,711)	\$ (23,491)	\$ 7,270
Basic income (loss) per share	\$ (0.14)	\$ (0.04)	\$ (0.11)	\$ 0.03
Diluted income (loss) per share	\$ (0.14)	\$ (0.04)	\$ (0.11)	\$ 0.03
Weighted-average number of common shares outstanding				
Basic	222,535,083	216,061,503	213,163,980	213,163,980
Diluted	222,535,083	216,061,503	213,163,980	213,707,572
Additions to property, plant and equipment	\$ 118,520	\$ 124,069	\$ 113,841	\$ 84,765
Total assets	\$ 1,343,799	\$ 1,062,931	\$ 1,012,461	\$ 1,007,287
Long-term debt	\$ 722,689	\$ 388,106	\$ 364,252	\$ 351,591
Working capital	\$ 222,056	\$ 59,889	\$ 153,186	\$ 290,398
	2018 Q2	2018 Q1	2017 Q4	2017 Q3
Derivative gain (loss) for the period	\$ 18,846	\$ (23,993)	\$ (14,135)	\$ (8,281)
Net income (loss) for the period	\$ 19,741	\$ (25,588)	\$ (19,505)	\$ (16,032)
Basic income (loss) per share	\$ 0.09	\$ (0.20)	\$ (0.16)	\$ (0.13)
Diluted income (loss) per share	\$ 0.09	\$ (0.20)	\$ (0.16)	\$ (0.13)
Weighted-average number of common shares outstanding				
Basic	213,163,980	124,861,126	119,666,840	119,417,366
Diluted	213,754,928	124,861,126	119,666,840	119,417,366
Additions to property, plant and equipment	\$ 77,278	\$ 66,250	\$ 55,543	\$ 38,635
Total assets	\$ 994,583	\$ 988,889	\$ 481,729	\$ 434,198
Long-term debt	\$ 349,032	\$ 376,218	\$ 217,940	\$ 163,591
Working capital	\$ 377,265	\$ 460,329	\$ 26,794	\$ 66,196

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

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Since the second quarter of 2017 the Company's fluctuations in the quarterly results are mainly driven by derivative gains or losses from the valuation of the Company's long-term debt. More specifically, during the second quarter of 2019, the Company recorded a derivative loss of \$24.7 million compared to a derivative gain of \$18.8 million in the second quarter of 2018 as more fully explained below. In addition, with the hiring of operating personnel and starting in the fourth quarter of 2018, the Company is now incurring training costs as training programs for operations have begun. The Company also recognized a foreign exchange loss of \$0.4 million during the second quarter of 2019 compared to a foreign exchange gain of \$7.1 million in the second quarter of 2018. Foreign exchange gains or losses are driven by the quantum the Company's U.S. dollar cash held by its Canadian entities and movements in the foreign exchange rate. As the functional currency of the Canadian entities is the Canadian dollar, a weakening of the U.S. dollar against the Canadian dollar during the period generates an unrealized loss in terms of Canadian dollars.

The loss in the 2019 Period is higher by \$32.7 million compared to that of the 2018 Period mainly due to the revaluation of the Company's long-term debt which resulted in a derivative loss of \$24.3 million in the 2019 Period compared to a derivative loss of \$5.1 million in the 2018 Period as more fully explained below. The Company also recognized a foreign exchange loss of \$2.9 million in the 2019 Period compared to a foreign exchange gain of \$13.4 million in the 2018 Period as noted above. This is partially offset by the recognition of other income of \$2.5 million relating to the recovery of capital outflow tax paid from the Company's repatriation of capital from Ecuador in the third quarter of 2017.

## *Derivative gains or losses*

The Company did not repay or increase its gold prepay and stream credit facilities during the 2019 Period which are accounted for as financial liabilities measured at fair value. These balances are valued using Monte Carlo simulation valuation models. The key inputs used by the Monte Carlo simulation include: the gold and silver forward curve based on Comex futures, the Company's expectation about long-term gold yields, gold and silver volatility, risk-free rate of return, risk-adjusted discount rate, and production expectations. Relatively small variations in these inputs can give rise to significant variations in the fair value of financial liabilities; hence, the large derivative gains and losses recorded in the accounts to date. Due to the strengthening of gold and silver prices during the 2019 Period, the Company recognized significant derivative losses on the valuation of its gold prepay and stream credit facilities.

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## LIQUIDITY AND CAPITAL RESOURCES

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As at June 30, 2019, the Company had cash of \$251.5 million and a working capital of \$222.1 million compared to cash of \$167.5 million and a working capital balance of \$153.2 million at December 31, 2018. The change in cash was due to drawdowns from the Facility totalling \$301.0 million, which will be used to fund the construction of the Fruta del Norte Project, and net proceeds of \$33.9 million from an equity financing in March 2019. This is offset by costs incurred for the development of the Fruta del Norte Project of \$217.5 million, general and administration costs of \$10.8 million and exploration expenditures of \$2.0 million. In addition, the Company received proceeds of \$0.8 million for the issuance of shares and warrants (with terms described below) to Newcrest under the anti-dilution rights related to its 27.3% shareholding in the Company.

As at June 30, 2019, the Company has \$49 million remaining under the Facility available to be drawn at its option. In addition, at the end of March the Company entered into a \$75 million cost overrun facility (the "COF") with Nemesis S.à.r.l. ("Nemesis"), a company owned by a trust whose settlor was the late Adolf H. Lundin. In accordance with the terms of the COF, the Company issued Nemesis 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 C\$5.98. The fair value of the common shares and Warrants at time of issuance was used to calculate the value of the fees for the COF paid to Nemesis. Lundin Gold is required to issue an additional 300,000 common shares to Nemesis as a condition precedent to the first utilization of the COF. The COF is available once the Facility is fully drawn and can only be used to fund a potential cost overrun related to the development of the Fruta del Norte Project.

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

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## TRANSACTIONS WITH RELATED PARTIES

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During the 2019 Period, the Company paid \$0.1 million (2018 – \$0.2 million) to Namdo Management Services Ltd. ("Namdo"), a private corporation associated with an officer of the Company. The Company occupies office space in the Namdo offices in Vancouver for the Company's management, investor relations personnel and support staff. Namdo charges a service fee and recovers out of pocket expenses related to the Company.

## FINANCIAL INSTRUMENTS

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

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

### *Currency risk*

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

### *Credit risk*

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash is held in large financial institutions with a high investment grade rating.

### *Interest rate risk*

The Company is subject to interest rate risk with respect to the fair value of long-term debt which are accounted for at fair value through profit or loss and on the Facility for which interest payments are affected by movements to the LIBOR rate.

### *Liquidity risk*

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

### *Commodity price risk*

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

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

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## OFF-BALANCE SHEET ARRANGEMENTS

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During the 2019 Period and the year ended December 31, 2018 there were no off-balance sheet transactions. The Company has not entered into any specialized financial arrangements to minimize its currency risk.

## OUTSTANDING SHARE DATA

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As at the date of this MD&A, there were 222,813,100 common shares issued and outstanding, stock options outstanding to purchase a total of 7,205,700 common shares and outstanding warrants to purchase a total of 411,441 common shares for a total of 230,430,241 common shares outstanding on a fully-diluted basis.

## OUTLOOK

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The Company is focused on advancing the Project on schedule through to first gold production in the fourth quarter of 2019. Peak workforce will continue into the third quarter and begin ramping down as we approach the fourth quarter of 2019. The following activities are planned going forward:

- Completing process plant construction.
- Completing wet and hot commissioning.
- Development of production areas and mining ore from the stopes and store in stockpiles until mill startup.
- Completion of mine development contractor scope.
- Commencement of the south ventilation raise and installation of permanent ventilation fans.
- Bringing into service the laboratory, reagent storage and plant ancillary buildings.
- Completing construction and energization of the Bomboiza substation and powerline to site.
- Completing the tailing storage facility to level for commencement of operations.
- Advancing paste plant construction.
- Starting construction of the Zamora River bridge.
- Obtaining remaining permits required for operations.

Preparation and permitting for exploration drilling continue with the objective of scout drill testing the Barbasco epithermal gold-silver target later this year. Additional mapping and sampling of selected targets is ongoing.

## ADOPTION OF NEW ACCOUNTING STANDARDS

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During the 2019 Period, the Company adopted the following new accounting standard:

*i. IFRS 16, Leases*

IFRS 16 has resulted in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

As the Company does not currently have any leases other than short-term or low value leases, there was no impact by the adoption of this new standard.



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## CRITICAL ACCOUNTING ESTIMATES

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The adoption of certain accounting policies requires the Company to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain. For a complete discussion of accounting estimates deemed most crucial by the Company, refer to the Company's annual 2018 Management's Discussion and Analysis.

## RISKS AND UNCERTAINTIES

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

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out in the Company's Annual Information Form dated March 27, 2019 (the "AIF") which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## QUALIFIED PERSON

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

## FINANCIAL INFORMATION

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The report for the three and nine months ended September 30, 2019 is expected to be published on or about November 8, 2019.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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### *Disclosure controls and procedures*

Management, including the Chief Executive Officer and the Chief Financial Officer, are responsible for the design of the Company's disclosure controls and procedures in order to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

### *Internal controls over financial reporting*

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

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

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As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, beginning January 1, 2019 and ending June 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## FORWARD LOOKING STATEMENTS

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Certain of the information and statements in this MD&A are considered "forward-looking information" or "forward-looking statements" as those terms are defined under Canadian securities laws (collectively referred to as "forward-looking statements"). Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "believes", "anticipates", "expects", "is expected", "scheduled", "estimates", "pending", "intends", "plans", "forecasts", "targets", or "hopes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "will", "should" "might", "will be taken", or "occur" and similar expressions) are not statements of historical fact and may be forward-looking statements.

By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. Lundin Gold believes that the expectations reflected in this forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct. Forward-looking information should not be unduly relied upon. This information speaks only as of the date of this MD&A, and the Company will not necessarily update this information, unless required to do so by securities laws.

This MD&A contains forward-looking information in a number of places, such as in statements pertaining to: the timing of first gold and commercial production and the progress of the development, construction and operation of the Project, improvements to site logistics and completion of site and powerline infrastructure and the acquisition of land and surface rights, the success of the Company's exploration plans and activities, exploration and development expenditures and reclamation costs, timing and success of permitting and regulatory approvals, project financing and future sources of liquidity, capital expenditures and requirements, future tax payments and rates, cash flows and their uses.

Lundin Gold's actual results could differ materially from those anticipated. Management has identified the following risk factors which could have a material impact on the Company or the trading price of its shares: risks associated with the Company's community relationships; risks and hazards inherent in mining and processing; lack of availability of or interference with infrastructure; risks related to Lundin Gold's compliance with increasingly strict environmental laws and liability for environmental contamination; risks related political and economic instability in Ecuador; deficient or vulnerable title to mining concessions and surface rights; risk to shareholders of dilution from future equity financings; failure to maintain its obligations under the gold prepay and stream credit facilities or the Facility and other debt; shortages of critical resources, such as skilled labour and supplies, consumables and equipment; inherent safety hazards and risk to the health and safety of the Company's employees and contractors; volatility in the price of gold; the cost of compliance or failure to comply with applicable laws; the timely receipt of regulatory approvals, permits and licenses; risks associated with the performance of the Company's contractors; the imprecision of Mineral Reserve and Resource estimates; dependence on key personnel; volatility in the market price of the Company's shares; the potential influence of the Company's largest shareholders; uncertainty with the tax regime in Ecuador; measures required to protect endangered species; exploration and development risks; the Company's reliance on one project; risks related to artisanal and illegal mining; the reliance of the Company on its information systems and the risk of cyber-attacks on those systems; the ability to obtain adequate insurance; uncertainty as to reclamation and decommissioning; the uncertainty regarding risks posed by climate change; the ability of Lundin Gold to ensure compliance with anti-bribery and anti-corruption laws; the potential for litigation; and limits of disclosure and internal controls.

There can be no assurance that such statements will prove to be accurate, as Lundin Gold's actual results and future events could differ materially from those anticipated in this forward-looking information as a result of the factors discussed under the heading "Risk Factors" in the AIF available at [www.sedar.com](http://www.sedar.com).

# LUNDIN GOLD INC.

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

	Note	June 30, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 251,500	\$ 167,513
VAT recoverable and other current assets	3	21,630	31,485
		273,130	198,998
<b>Non-current assets</b>			
VAT recoverable and other long-term assets	4	44,711	26,877
Property, plant and equipment	5	720,293	480,921
Mineral properties		240,665	240,665
Advance royalty		65,000	65,000
		\$ 1,343,799	\$ 1,012,461
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	6	\$ 51,074	\$ 45,812
<b>Non-current liabilities</b>			
Long-term debt	7	722,689	364,252
Reclamation provisions		4,552	4,353
		778,315	414,417
<b>EQUITY</b>			
Share capital	8	895,562	857,279
Equity-settled share-based payment reserve	9	13,612	12,125
Accumulated other comprehensive loss		(69,175)	(35,353)
Deficit		(274,515)	(236,007)
		565,484	598,044
		\$ 1,343,799	\$ 1,012,461

Commitments (Note 13)

Approved by the Board of Directors

/s/ Ron F. Hochstein  
Ron F. Hochstein

/s/ Ian W. Gibbs  
Ian W. Gibbs

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

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# LUNDIN GOLD INC.

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

	Note	Three months ended June 30,		Six months ended June 30,	
		2019	2018	2019	2018
<b>EXPENSES</b>					
Exploration		\$ 683	\$ 1,567	\$ 2,037	\$ 4,199
General and administration:					
Corporate social responsibility		299	400	593	772
Depreciation		27	28	55	52
Investor relations		88	85	149	151
Municipal taxes		240	213	240	213
Office and general		620	966	1,162	1,267
Professional fees		866	1,247	2,580	2,258
Regulatory and transfer agent		139	74	255	170
Salaries and benefits		950	896	3,256	3,230
Stock-based compensation		1,091	796	1,952	1,327
Training		870	110	2,374	110
Travel		99	209	237	344
Loss before other items		5,972	6,591	14,890	14,093
<b>OTHER ITEMS</b>					
Foreign exchange gain (loss)		(386)	7,130	(2,894)	13,403
Interest income		405	1,142	1,252	1,307
Other income		-	-	2,500	-
Accretion expense		(99)	(786)	(199)	(1,317)
Derivative gain (loss)	7	(24,745)	18,846	(24,277)	(5,147)
Net income (loss) for the period		\$ (30,797)	\$ 19,741	\$ (38,508)	\$ (5,847)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
<b>Items that may be reclassified to net income (loss)</b>					
Currency translation adjustment		1,283	(7,281)	3,587	(13,694)
<b>Items that will not be reclassified to net income (loss)</b>					
Derivative gain (loss) related to the Company's own credit risk		(21,303)	16,640	(37,409)	(8,006)
Comprehensive income (loss)		\$ (50,817)	\$ 29,100	\$ (72,330)	\$ (27,547)
<b>Income (loss) per common share</b>					
Basic		\$ (0.14)	\$ 0.09	\$ (0.18)	\$ (0.03)
Diluted		(0.14)	0.09	(0.18)	(0.03)
<b>Weighted-average number of common shares</b>					
Basic		222,535,083	213,163,980	219,316,177	169,256,483
Diluted		222,535,083	213,754,928	219,316,177	169,256,483

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

**LUNDIN GOLD**



# LUNDIN GOLD INC.

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

	Note	Number of common shares	Share capital	Equity-settled share-based payment reserve	Other reserves	Deficit	Total
Balance, January 1, 2018		119,666,840	\$ 460,856	\$ 9,547	\$ (11,364)	\$ (224,190)	\$ 234,849
Impact of adopting IFRS 9 on January 1, 2018		-	-	-	(10,251)	10,251	-
Balance, January 1, 2018 (restated)		119,666,840	460,856	9,547	(21,615)	(213,939)	234,849
Proceeds from equity financing, net	8	93,497,140	396,452	-	-	-	396,452
Stock-based compensation	9	-	-	1,327	-	-	1,327
Other comprehensive loss		-	-	-	(21,700)	-	(21,700)
Net loss for the period		-	-	-	-	(5,847)	(5,847)
Balance, June 30, 2018		213,163,980	\$ 857,308	\$ 10,874	\$ (43,315)	\$ (219,786)	\$ 605,081
Balance, January 1, 2019		213,163,980	\$ 857,279	\$ 12,125	\$ (35,353)	\$ (236,007)	\$ 598,044
Proceeds from equity financing, net	8	8,625,000	33,940	-	-	-	33,940
Consideration for cost overrun facility	7	300,000	1,221	373	-	-	1,594
Exercise of stock options		530,000	2,459	(977)	-	-	1,482
Exercise of anti-dilution rights	8, 9	165,120	663	139	-	-	802
Stock-based compensation	9	-	-	1,952	-	-	1,952
Other comprehensive loss		-	-	-	(33,822)	-	(33,822)
Net loss for the period		-	-	-	-	(38,508)	(38,508)
Balance, June 30, 2019		222,784,100	\$ 895,562	\$ 13,612	\$ (69,175)	\$ (274,515)	\$ 565,484

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

**LUNDINGOLD**

# LUNDIN GOLD INC.

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

	Six months ended June 30,	
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (38,508)	\$ (5,847)
Items not affecting cash:		
Stock-based compensation	1,952	1,327
Depreciation	72	52
Derivative loss	24,277	5,147
Unrealized foreign exchange loss (gain)	2,274	(13,385)
Other expense	199	1,297
	(9,734)	(11,409)
Changes in non-cash working capital items:		
VAT recoverable and other current assets	(625)	(4,443)
Accounts payable and accrued liabilities	27	(401)
Net cash used for operating activities	(10,332)	(16,253)
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt (Note 7)	301,000	110,000
Transaction costs (Note 7)	(4,708)	(735)
Net proceeds from equity financing (Note 8)	33,940	396,452
Proceeds from exercise of stock options	1,482	-
Proceeds from exercise of anti-dilution rights (Note 8 and 9)	802	-
Net cash provided by financing activities	332,516	505,717
<b>INVESTING ACTIVITIES</b>		
Acquisition and development of property, plant and equipment	(217,478)	(121,037)
Change in VAT receivable and other long-term assets	(21,896)	(9,898)
Net cash used for investing activities	(239,374)	(130,935)
Effect of foreign exchange rate differences on cash	1,177	(59)
Net increase in cash and cash equivalents	83,987	358,470
Cash and cash equivalents, beginning of period	167,513	35,018
Cash and cash equivalents, end of period	\$ 251,500	\$ 393,488
<b>Supplemental information</b>		
Interest received	\$ 1,252	\$ 1,306
Interest paid	(2,621)	-
Change in accounts payable and accrued liabilities related to:		
Acquisition of property, plant and equipment	4,883	4,945

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

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

## 1. Nature of operations

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

The common shares of the Company are listed for trading on the Toronto Stock Exchange (the “TSX”) and Nasdaq Stockholm under the symbol “LUG”. The Company was originally incorporated in British Columbia and continued under the Canada Business Corporations Act in 2002.

The Company’s head office is located at Suite 2000, 885 W. Georgia Street, Vancouver, BC, and it has a corporate office in Quito, Ecuador.

The Company is developing the Fruta del Norte Project and currently has no sources of revenues. Based on estimated costs, the project is fully financed, first gold is anticipated before the end of 2019 and commercial production in the second quarter of 2020. The Company’s continuing operations and the underlying value and recoverability of the amount shown for the mineral interests and property, plant and equipment are dependent upon the ability of the Company to complete the development of the Fruta del Norte Project and on future profitable production.

## 2. Basis of preparation and consolidation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board (“IASB”), applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting. As a result, they do not conform in all respects with the disclosure requirements for annual financial statements under IFRS and should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2018.

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

In preparing these unaudited condensed consolidated interim financial statements, the Company applied the same accounting policies and key sources of estimation uncertainty as those that were applied to the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2018.

These financial statements were approved for issue by the Board of Directors on August 9, 2019.

## 3. VAT recoverable and other current assets

	June 30, 2019	December 31, 2018
VAT recoverable	\$ 4,100	\$ -
Prepaid expenses and deposits	8,524	9,531
Deferred transaction costs	6,906	21,954
Other current assets	2,100	
	<u>\$ 21,630</u>	<u>\$ 31,485</u>

Deferred transaction costs include upfront and advisory fees incurred to secure the senior debt facility (the “Facility”), the cost overrun facility (the “COF”), and ongoing stand-by fees. These costs will be reclassified to long-term debt on a pro-rata basis upon each draw down of the Facility or the COF, as applicable.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

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

	June 30, 2019	December 31, 2018
VAT recoverable	\$ 41,571	\$ 24,665
Other long-term assets	3,140	2,212
	<b>\$ 44,711</b>	<b>\$ 26,877</b>

VAT paid in Ecuador by the Company after January 1, 2018 will be refunded or applied as a credit against other taxes payable after the Company begins to generate export sales.

## 5. Property, plant and equipment

Cost	Construction- in-progress	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
<b>Balance, January 1, 2018</b>	\$ 130,572	\$ 4,458	\$ 6,896	\$ 2,967	\$ 1,103	\$ 145,996
Additions	321,264	-	11,296	8,936	638	342,134
Cumulative translation adjustment	(713)	-	-	-	(7)	(720)
<b>Balance, December 31, 2018</b>	451,123	4,458	18,192	11,903	1,734	487,410
Additions	218,130	257	17,608	6,184	410	242,589
Cumulative translation adjustment	174	-	-	-	3	177
<b>Balance, June 30, 2019</b>	<b>\$ 669,427</b>	<b>\$ 4,715</b>	<b>\$ 35,800</b>	<b>\$ 18,087</b>	<b>\$ 2,147</b>	<b>\$ 730,176</b>



# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

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

Accumulated depreciation	Construction-in-progress	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
<b>Balance, January 1, 2018</b>	\$ -	\$ 309	\$ 1,889	\$ 912	\$ 288	\$ 3,398
Depreciation and amortization	-	102	1,441	1,247	307	3,097
Cumulative translation adjustment	-	-	-	-	(6)	(6)
<b>Balance, December 31, 2018</b>	-	411	3,330	2,159	589	6,489
Depreciation and amortization	-	51	1,497	1,640	203	3,391
Cumulative translation adjustment	-	-	-	-	3	3
<b>Balance, June 30, 2019</b>	\$ -	\$ 462	\$ 4,827	\$ 3,799	\$ 795	\$ 9,883
<b>Net book value</b>						
<b>As at December 31, 2018</b>	\$ 451,123	\$ 4,047	\$ 14,862	\$ 9,744	\$ 1,145	\$ 480,921
<b>As at June 30, 2019</b>	\$ 669,427	\$ 4,253	\$ 30,973	\$ 14,288	\$ 1,352	\$ 720,293

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

	June 30, 2019	December 31, 2018
Depreciation and amortization	\$ 3,320	\$ 2,974
Capitalized interest and accretion of transaction and derivative costs (Note 7)	16,908	33,371
	\$ 20,228	\$ 36,345

## 6. Accounts payable and accrued liabilities

	June 30, 2019	December 31, 2018
Accounts payable	\$ 10,793	\$ 12,869
Accrued liabilities	40,281	32,943
	\$ 51,074	\$ 45,812

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

## 7. Long-term debt

As at June 30, 2019, the long-term debt consisted of the following:

	June 30, 2019	December 31, 2018
Gold prepay credit facility (a)	\$ 196,938	\$ 167,524
Stream loan credit facility (b)	223,773	178,838
Offtake derivative liability (c)	21,743	17,890
Senior debt facility (d)	280,235	-
	<b>\$ 722,689</b>	<b>\$ 364,252</b>

The gold prepay and the stream loan credit facilities were fully drawn at June 30, 2019 and December 31, 2018. 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 is comprised of the following:

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Principal	\$ 150,000	\$ 150,000	\$ -	\$ 300,000
Interest accrued and capitalized at stated rate of 7.5%	20,410	20,000	-	40,410
Transaction costs	(3,686)	(2,752)	-	(6,438)
Derivative fair value adjustments	30,214	56,525	21,743	108,482
<b>Total</b>	<b>\$ 196,938</b>	<b>\$ 223,773</b>	<b>\$ 21,743</b>	<b>\$ 442,454</b>

Derivative fair value adjustments reflect the revaluation of the long-term debt at fair value as at June 30, 2019, including a portion of the cost of derivatives which are part of the long-term debt. The derivative loss related to the Company’s own credit risk recorded in other comprehensive loss includes the impact of the difference between the Company’s own credit risk at the time of entering into the long-term debt and the balance sheet date (see also note 12).

### (a) Gold prepay credit facility

The Prepay Loan is a secured loan facility of \$150 million 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. The quarterly payments are equivalent to the value of 11,500 oz. of gold based on the gold spot price at the time of the payment date. The excess of the quarterly repayments over the principal and interest components, if any, is a variable additional charge (the “Finance Charge”). If the average gold price in the fiscal quarter prior to repayment date is greater than \$1,436 or less than \$1,062, the repayments are reduced or increased by 15%, respectively. In addition, the Company has an option to defer the initial quarterly instalment for up to four quarters by increasing the gold equivalent deliveries by 1,000 oz. for each deferred quarter.

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

### (b) Stream loan credit facility

The Stream Loan is a secured loan facility of \$150 million with a stated interest rate of 7.5% per annum with interest accruing based upon the outstanding balance.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

## 7. Long-term debt (continued)

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

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

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

### (c) Offtake commitment

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

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

### (d) Senior debt facility (the “Facility”)

	Tranche A		Tranche B		Total
Principal	\$	215,000	\$	86,000	\$ 301,000
Interest accrued		153		42	195
Transaction costs		(15,561)		(5,399)	(20,960)
Total	\$	199,592	\$	80,643	\$ 280,235

The Facility is a senior secured loan of up to \$350 million, comprised of two tranches: a \$250 million senior commercial facility (“Tranche A”) and a \$100 million senior covered facility under a raw material guarantee (“Tranche B”). 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 at the end of 2020 and maturing in June 2026. As at June 30, 2019, the Company has drawn down \$215.0 million and \$86.0 million from Tranche A and Tranche B, respectively.

### (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 is available once the Facility is fully drawn and can only be used to fund a potential cost overrun related to the development of the Fruta del Norte Project.

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.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

## 8. Share capital

Authorized:

- Unlimited number of common shares without par value
- Unlimited number of preference shares without par value

A continuity summary of the issued and outstanding common shares and the associated dollar amounts is presented below:

	Note	Number of common shares	Share capital
Balance at January 1, 2018		119,666,840	\$ 460,856
Proceeds from equity financing, net	(a)	93,497,140	396,423
Balance at December 31, 2018		213,163,980	857,279
Proceeds from equity financing, net	(b)	8,625,000	33,940
Consideration for cost overrun facility	7	300,000	1,221
Exercise of stock options		530,000	2,459
Exercise of anti-dilution rights	(c)	165,120	663
Balance at June 30, 2019		222,784,100	\$ 895,562

- (a) On March 26, 2018, the Company closed a \$400 million private placement financing (the "Private Placement") which resulted in the issuance of 69,284,065 common shares at a price of CAD\$5.50 per share and 24,213,075 common shares at a price of CAD\$5.25 per share. Share issue costs of \$3.5 million were paid resulting in net proceeds of \$396.5 million received by the Company in relation to the Private Placement.
- (b) On March 1, 2019, the Company closed a CAD\$46.6 million bought deal equity financing (the "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 Bought Deal.
- (c) During the six months ended June 30, 2019, the Company issued 165,120 common shares to Newcrest Mining Limited ("Newcrest") at a price of CAD\$5.37 per share for total proceeds of \$0.7 million under its anti-dilution rights granted as part of the Private Placement following the issuance of shares to the COF provider (see note 7) and the exercise of stock options.



# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

## 9. Stock-based compensation and share purchase warrants

### (a) Stock-based compensation

The Company has adopted an omnibus incentive plan (the “Plan”) approved at the June 3, 2019 annual general and special meeting of shareholders which replaces its rolling stock-based compensation plan. The 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 Plan. Under the Plan, the Company may grant stock options, restricted share units and deferred share units (collectively, the “Awards”). Subject to specific provisions under the Plan, the eligibility, vesting period, term, and number of Awards are granted at the discretion of the Company’s board of directors. No Awards were granted under the Plan as at June 30, 2019.

Stock options granted and outstanding under a pre-existing stock option plan (the “Option Plan”) have an expiry date of five years from date of grant and vest over a period of 24 months from date of grant. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option agreement. No additional stock options can be granted under the Option Plan.

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.

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.

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

	Three months ended June 30, 2019		Year ended December 31, 2018	
	Number of stock options	Weighted average exercise price (CAD)	Number of stock options	Weighted average exercise price (CAD)
Balance, beginning of period	5,902,900	\$ 4.59	4,625,500	\$ 4.44
Granted	1,861,800	5.35	1,277,400	5.13
Exercised <sup>(1)</sup>	(530,000)	3.75	-	-
Balance outstanding, end of period	7,234,700	\$ 4.85	5,902,900	\$ 4.59
Balance exercisable, end of period	4,609,950	\$ 4.60	4,236,980	\$ 4.38

<sup>(1)</sup> The weighted average share price on the exercise date for the stock options exercised during the six months ended June 30, 2019 was CAD\$5.34.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

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

The following table summarizes information concerning outstanding and exercisable options at June 30, 2019:

Range of exercise prices (CAD)	Outstanding options			Exercisable options		
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CAD)	Number of options outstanding	Weighted average remaining contractual life (life)	Weighted average exercise price (CAD)
\$ 3.69 to 4.50	2,518,500	1.19	\$ 4.05	2,518,500	1.19	\$ 4.05
\$ 4.51 to 5.94	4,716,200	3.72	5.28	2,091,450	2.85	5.27
	7,234,700	2.84	\$ 4.85	4,609,950	1.94	\$ 4.60

The fair value based method of accounting was applied to stock options granted to employees, including directors, and non-employees on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	June 30, 2019	December 31, 2018
Risk-free interest rate	1.81%	1.95%
Expected stock price volatility	57.18%	60.87%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	\$2.69	\$2.73

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

During the six months ended June 30, 2019, the Company recorded stock-based compensation expense of \$2.0 million (2018 – \$1.3 million).

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

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

### (b) Share Purchase Warrants

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

	Six months ended June 30, 2019		Year ended December 31, 2018	
	Number of warrants	Weighted average exercise price (CAD)	Number of warrants	Weighted average exercise price (CAD)
Balance, beginning of period	-	\$ -	-	\$ -
Consideration for cost overrun facility (Note 7)	300,000	5.98	-	-
Anti-dilution rights exercised by Newcrest	111,441	5.98	-	-
Balance outstanding, end of period	411,441	\$ 5.98	-	\$ -

- i. 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 granted as part of the Private Placement (see Note 8) following the issuance of Warrants to the COF provider (see Note 7). 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 following table summarizes information concerning outstanding warrants at June 30, 2019:

Exercise price (CAD)	Number of warrants outstanding	Remaining contractual life (years)
\$ 5.98	411,441	2.75

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:

	June 30, 2019	December 31, 2018
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.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

## 10. Related party transactions

### (a) Related party expenses

During the six months ended June 30, 2019 and June 30, 2018, the Company incurred the following:

Payee	Nature	Note	June 30, 2019	June 30, 2018
Namdo	Management fees	i	\$ 148	\$ 155

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

### (b) Key management compensation

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

	June 30, 2019	June 30, 2018
Salaries, bonuses and benefits	\$ 2,576	\$ 2,647
Stock-based compensation	1,401	1,014
	\$ 3,977	\$ 3,661

## 11. Segmented information

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

The Company's primary business activity is the advancement of the Fruta del Norte Project in Ecuador. Materially all of the Company's non-current assets and non-current liabilities relate to the Fruta del Norte Project. In addition, the Company conducts exploration activities and maintains a number of concessions in Ecuador outside of the Fruta del Norte Project. Materially all of the Company's administrative costs are incurred by the Canadian parent.



# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

## 11. 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 Project	Other concessions	Corporate and other	Total
<b>As at June 30, 2019</b>				
Current assets	\$ 217,761	\$ 98	\$ 55,271	\$ 273,130
Non-current assets	1,070,669	-	-	1,070,669
Total assets	1,288,430	98	55,271	1,343,799
Current liabilities	50,430	319	325	51,074
Non-current liabilities	727,241	-	-	727,241
Total liabilities	777,671	319	325	778,315
<b>For the three months ended June 30, 2019</b>				
Capital expenditures	118,520	-	-	118,520
Exploration expenditures	-	683	-	683
General and administration and other items	27,560	33	2,521	30,114
Net loss for the period	27,560	716	2,521	30,797
<b>For the six months ended June 30, 2019</b>				
Capital expenditures	242,589	-	-	242,589
Exploration expenditures	-	2,037	-	2,037
General and administration and other items	30,228	33	6,210	36,471
Net loss for the period	30,228	2,070	6,210	38,508

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## 11. Segmented information (continued)

	Fruta del Norte Project	Other concessions	Corporate and other	Total
<b>As at June 30, 2018</b>				
Current assets	\$ 45,398	\$ 275	\$ 357,048	\$ 402,721
Non-current assets	591,862	-	-	591,862
Total assets	637,260	275	357,048	994,583
Current liabilities	24,332	607	517	25,456
Non-current liabilities	364,046	-	-	364,046
Total liabilities	388,378	607	517	389,502
<b>For the three months ended June 30, 2018</b>				
Capital expenditures	77,278	-	-	143,528
Exploration expenditures	-	1,567	-	1,567
General and administration and other items	(24,581)	6	3,267	(21,308)
Net loss (income) for the period	(24,581)	1,573	3,267	(19,741)
<b>For the six months ended June 30, 2018</b>				
Capital expenditures	143,528	-	-	143,528
Exploration expenditures	-	4,199	-	4,199
General and administration and other items	971	12	665	1,648
Net loss for the period	971	4,211	665	5,847

## 12. Financial instruments

The Company's financial instruments consist of cash, cash equivalents and receivables, which are categorized as financial assets at amortized cost, and accounts payable and accrued liabilities, which are categorized as financial liabilities at amortized cost. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments. In addition, the 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.

# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

## 12. Financial instruments (continued)

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

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

The following table sets forth the Company's financial liabilities measured at fair value on a recurring basis by level within the fair value hierarchy for the six months ended June 30, 2019. Each of these financial instruments are classified as Level 3 as their valuation includes significant unobservable inputs.

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
<b>Balance, December 31, 2018</b>	\$ 167,524	\$ 178,838	\$ 17,890	\$ 364,252
Interest accrued and capitalized at stated rate of 7.5%	5,656	5,656	-	11,312
Accretion of transaction costs	308	89	-	397
<b>Derivative fair value adjustments recognized in:</b>				
Property, plant and equipment	2,215	2,592	-	4,807
Derivative loss (gain)	8,540	11,884	3,853	24,277
Other comprehensive loss	12,695	24,714	-	37,409
<b>Balance, June 30, 2019</b>	\$ 196,938	\$ 223,773	\$ 21,743	\$ 442,454

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

The financial liabilities above were valued using Monte Carlo simulation valuation models. The key inputs used by the Monte Carlo simulation include: the gold forward curve based on Comex futures, gold volatility, risk-free rate of return, risk-adjusted discount rate, and production expectations. In addition, in valuing the Stream Loan, the silver forward curve based on Comex futures, silver volatility, and the gold/silver correlation were used.

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

	Fair value at June 30, 2019	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Long-term debt	\$ 442,454	Expected volatility	8% to 21%	An increase or decrease in expected volatility of 5% would increase or decrease fair value by \$5.8 million or \$7.4 million, respectively
		Risk-adjusted discount rate	8% to 9%	An increase or decrease in risk-adjusted discount rate of 1% would decrease or increase fair value by \$21.0 million or \$22.5 million, respectively

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# LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at June 30, 2019

(Unaudited – Prepared by Management)

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

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## 12. Financial instruments (continued)

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(d) Valuation processes

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

## 13. Commitments

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Significant capital expenditures contracted as at June 30, 2019 but not recognized as liabilities are as follows:

		Development Costs
12 months ending June 30, 2020	\$	113,517
July 1, 2020 onward		11,051
Total	\$	124,568

# **Corporate Information**

## **BOARD OF DIRECTORS**

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

## **OFFICERS**

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

## **OFFICES**

### **CORPORATE HEAD OFFICE Lundin Gold Inc.**

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

### **REGIONAL HEAD OFFICE**

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

### **COMMUNITY OFFICE**

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

## **STOCK EXCHANGE LISTINGS**

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

## **SHARE REGISTRAR AND TRANSFER AGENT**

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

## **AUDITOR**

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

## **ADDITIONAL INFORMATION**

Further information about Lundin  
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