LUNDIN GOLD

Building a Leading Gold Company Through Responsible Mining

Annual Report 2018

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of Lundin Gold Inc. and its subsidiary companies (collectively, "Lundin Gold" or the "Company") for the year ended December 31, 2018 provides a detailed analysis of the Company's business and compares its financial results with those of the previous year.

This MD&A is dated as of February 19, 2018 and should be read in conjunction with the Company's audited consolidated financial statements and related notes thereto for the fiscal years ended December 31, 2018 and 2017. The audited consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). References to the "2018 Period" and "2017 Period" relate to the years ended December 31, 2018 and December 31, 2017, respectively.

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

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

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

HIGHLIGHTS AND ACTIVITIES

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

Fruta del Norte Project

- Overall engineering is 85% complete as of year-end and approximately 70% of Project capital expenditure has been committed.
- Underground development continued ahead of projections, both declines have reached the orebody and development of the primary levels have begun.
- Site earthworks is 75% complete, including completion of the River and North Access roads and construction of the tailings dam is underway.
- The process plant construction is well progressed with concrete 62% complete and mechanical equipment (grinding mills and carbon-in-leach tank) erection started in the fourth quarter
- Surface mobile equipment is on site and the mine operating fleet began arriving on site in the fourth quarter.
- The Bomboiza to site powerline construction started and by year-end was 27% complete. Work is also underway on the site-wide electrical distribution network including power lines, main and mine substations.
- Key permits received and agreements signed for the powerline and Mountain Pass Quarry.
- Updated mine plan and re-estimate of the Project's capital cost and operating cost completed.

Financing

- Drew the final $110 million under the gold prepay and stream credit facilities with Orion Mine Finance Group ("Orion") and Blackstone Tactical Opportunities.
- Closed a $400 million equity private placement financing with Newcrest Mining Limited ("Newcrest"), Zebra Holdings and Investments S.à.r.l. and Lorito Holdings S.à.r.l. (the "Lundin Family Trusts"), and Orion.
- Closed a $350 million senior secured project finance debt facility with a syndicate of seven lenders (the "Facility"), with first draw expected in the first quarter of 2019.

- Executed a gold concentrate offtake agreement with Boliden for approximately 50% of Fruta del Norte's gold concentrate production over its first eight years of operations.

Exploration

- Signed an earn-in agreement with Newcrest to form a joint venture company to explore eight early stage concessions to the north and south of Fruta del Norte, which exclude the large block of concessions surrounding the Fruta del Norte deposit.
- Completed 6,245 metres ("m") of drilling in six drill holes at the El Puma target, located in the southern Suarez Pull-Apart basin ("Suarez Basin" or the "Basin"). Results indicated epithermal indicator elements; however, no significant mineralization was found. The drilling indicated that further follow-up drilling is required.
- Mapping, geochemical sampling and permitting required for future drilling continues on a number of epithermal gold-silver targets.

Corporate

- Istvan Zollei of Orion and Michael Nossal and Craig Jones of Newcrest joined the board of the Company pursuant to board representation rights as part of the equity financing.

THE FRUTA DEL NORTE PROJECT

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

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

Activities in 2018

Fruta del Norte Project

In 2018, progress continued on the Project in all areas of engineering, procurement and construction.

Mine Development

- As at December 31, 2018 a total of 4.5 km of underground mine development had been completed.
- Average advance rate in 2018 on declines and primary development was 9.8 m per day versus a target of 6.6 m per day, while advance rates on total development including auxiliary work was 11.6 m per day versus a target of 7.9 m per day.
- Advance rates exceeded planned rates due to better than expected ground conditions, lower than anticipated water inflows and greater productivity from the mine contractor.
- The mine operating equipment fleet started to arrive in the fourth quarter of 2018.
- Over 200 mining operator trainees began the Company's training program. The first group of 100 mining operator trainees began the final part of their training program, which takes place on site and includes classroom sessions and experience with simulators and in the field.

Site Earthworks

- As of December 31, 2018, earthworks was 75% complete.
- Projects that were completed in 2018 include:
    - River Road which connects the camp to the plant site.
    - North Access Road, which improves logistics and shortens the distance to the national highway system.
    - Process plant and paste plant site preparations.
    - Ventilation shaft access road and platform.
    - Three major water storage and sedimentation ponds as part of the overall site water management..
- Tailings storage facility is well underway.

Process Plant Construction

- Site-wide concrete 69% complete and process plant concrete 62% complete.
- Site-wide steel 38% complete and process plant steel 18% complete.
- Process plant mechanical equipment (grinding mills and carbon-in-leach tank) erection started in the fourth quarter of 2018.
- Majority of process plant equipment has been delivered with the remainder in transit from factories.

Site-Wide Infrastructure

- Infrastructure completed and in use includes: mobile equipment maintenance shop, mine compressor station, mine wash bay, mine fuel station, tailings maintenance shop and process plant maintenance shop.
- Infrastructure under construction includes: mine dry and administration building, laboratory, reagent storage building and gatehouse.
- On site electrical distribution is under construction. In addition, the mine substation is substantially complete, the main Fruta del Norte power substation concrete is done, and main transformers are placed on the foundations.

Powerline

- The Company made significant progress on the 42 km powerline connecting the Project to the national grid and obtained the following permits and agreements:
    - Construction permit from the Ministry of Energy and Non-Renewable Natural Resources
    - Requisite access rights obtained from all landowners
    - Execution of Cooperation Agreement for the Taday to Bomboiza powerline and substation with La Corporación Eléctrica del Ecuador (CELEC).
- Powerline construction started in September and is progressing on three fronts with 28 out of 107, or 22% of powerline infrastructure, being complete as of December 31, 2018.
- Bomboiza substation connection equipment has been ordered and detailed engineering is underway.

Construction Camp

- The new 1,000-person construction camp was completed.
- The new kitchen and dining room is done and is feeding on average 1,500 people per day.

<u>Exploration</u>

- Lundin Gold signed an earn-in agreement with Newcrest to form a joint venture company to explore eight early stage concessions. These concessions are to the north and south of Fruta del Norte and exclude the large block of concessions surrounding the Fruta del Norte deposit. Newcrest can earn up to a 50% interest in the joint venture company by spending $20 million over a five-year period.
- Diamond drilling was completed at the El Puma target located in the southern Suarez Basin, with a total of 6,245 m in six drill holes. A buried vein, breccia and shear hosted epithermal quartz-carbonate-sulfide system was intersected along the interpreted western edge of the Basin. Assays received from the drilling are variably anomalous in the epithermal pathfinder elements silver, arsenic, antimony, lead and zinc but not significantly anomalous in gold.
- Exploration has focused on mapping and sampling geochemical anomalies to develop them into drill targets. This activity has primarily been conducted on targets in the central and southern Suarez Basin for Fruta del Norte style epithermal gold-silver systems. The Suarez Basin is a 16 km "pull-apart" structure that hosts the buried Fruta del Norte deposit at its northern end.
- Data for a helicopter ZTEM (Z-Tipper Axis Electromagnetic) resistivity geophysical survey of the Suarez Basin and surrounding terrain was received and interpreted. This system utilizes the earth's natural electromagnetic fields and can be used to map large, deeply buried targets and structures. The data has helped define the Basin's structure and the porphyry bodies that lie below, which are interpreted to be the heat engines for the overlying epithermal systems.

Environment, Heath and Safety and Community

Environment and Permitting

- Obtained Environmental Licence for the power transmission line.
- The permits granted and agreements signed for the Mountain Pass Quarry including:
  - Environmental licence, water permit and administrative act; and,
  - Exploitation agreement.
- Continued to advance several SENAGUA water permits.
- Submitted explosives storage magazine expansion and explosive importation permits.
- Received Ministry of Transport approval for Zamora River bridge design.
- Numerous inspections were completed by the Ministry of Environment during the year with zero major non-compliances recorded.

Health and Safety

- As of year-end, over 3.5 million hours have been incurred without a lost time accident.
- The total-incident rate was 0.40 at year end versus a target of 0.80.

Community

- During 2018, the Company continued to invest in numerous projects in the local communities, such as road maintenance, programs for the students and elderly and programs directing at helping small businesses. The activities focused on local hiring, local procurement and economic diversification. As of year-end, the Company estimates that 54% of its employees were from local communities. Lundin Gold's local procurement program resulted in the purchase of approximately $2.3 million per month in goods and services during 2018. The economic diversification activities focused on agricultural programs in the province of Zamora-Chinchipe.

Other

- The Company completed an updated mine plan and re-estimate of the Project's capital cost and operating cost. This resulted in an increase in the Project's NPV 5% ($786 million from $717 million) and IRR (17.5% from 16.3%). The new capital cost estimate increased only marginally by $8.0 million to $692 million. At the same time, the estimated all-in, life of mine sustaining cost dropped to $583 per ounce of gold from $609 per ounce of gold.

SELECTED ANNUAL FINANCIAL INFORMATION

(Expressed in thousands of U.S. dollars, except share and per share amounts)	2018	2017	2016
Derivative loss for the year	$ (15,731)	$ (18,034)	$ -
Net loss for the year	$ (22,068)	$ (41,140)	$ (62,814)
Basic and diluted loss per share	$ (0.12)	$ (0.35)	$ (0.59)
Weighted-average number of common shares outstanding	191,390,673	119,174,612	108,675,136
Total assets	$ 1,012,461	$ 481,729	$ 278,906

The loss during the year ended December 31, 2018 is lower compared to the previous year due to a foreign exchange gain of $17.0 million compared to a minimal amount in 2017 from the Company's substantial holdings of U.S. dollar cash at its Canadian entities. As the functional currency of these Canadian entities is the Canadian dollar, a strengthening of the U.S. dollar against the Canadian dollar during the period generates an unrealized gain in terms of Canadian dollars. In addition, the Company recorded a derivative loss from the fair value revaluations of its long-term debt of $15.7 million in 2018 compared to a derivative loss of $18.0 million in 2017 which is more fully explained below.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Derivative gain (loss) for the period	$ (28,508)	$ 17,924	$ 18,846	$ (23,993)
Net income (loss) for the period	$ (23,491)	$ 7,270	$ 19,741	$ (25,588)
Basic income (loss) per share	$ (0.11)	$ 0.03	$ 0.09	$ (0.20)
Diluted income (loss) per share	(0.11)	0.03	0.09	(0.20)
Weighted-average number of common shares outstanding				
Basic	213,163,980	213,163,980	213,163,980	124,861,126
Diluted	213,163,980	213,707,572	213,754,928	124,861,126
Additions to property, plant and equipment	$ 113,841	$ 84,765	$ 77,278	$ 66,250
Total assets	$ 1,012,461	$ 1,007,287	$ 994,583	$ 988,889
Long-term debt	$ 364,252	$ 351,591	$ 349,032	$ 376,218
Working capital	$ 153,186	$ 290,398	$ 377,265	$ 460,329

	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Derivative gain (loss) for the period	$ (14,135)	$ (8,281)	$ 4,382	$ -
Net income (loss) for the period	$ (19,505)	$ (16,032)	$ 785	$ (6,387)
Basic income (loss) per share	$ (0.16)	$ (0.13)	$ 0.01	$ (0.05)
Diluted income (loss) per share	$ (0.16)	$ (0.13)	$ 0.01	$ (0.05)
Weighted-average number of common shares outstanding				
Basic	119,666,840	119,417,366	118,857,521	118,743,908
Diluted	119,666,840	119,417,366	119,880,477	118,743,908
Additions to property, plant and equipment	$ 55,543	$ 38,635	$ 26,731	$ 15,003
Total assets	$ 481,729	$ 434,198	$ 460,838	$ 295,795
Long-term debt	$ 217,940	$ 163,591	$ 150,997	$ -
Working capital	$ 26,794	$ 66,196	$ 107,024	$ (18,776)

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

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 fourth quarter of 2018, the Company recorded a derivative loss of $28.5 million compared to a derivative loss of $14.1 million in the fourth quarter of 2017 as more fully explained below. This increase in the derivative loss is offset by a foreign exchange gain of $8.6 million in the fourth quarter of 2018 from the Company's substantial holdings of U.S. dollar cash by its Canadian entities compared to a foreign exchange gain of $0.1 million in the fourth quarter of 2017. As the functional currency of these Canadian entities is the Canadian dollar, a strengthening of the U.S. dollar against the Canadian dollar during the period generates an unrealized gain in terms of Canadian dollars.

Derivative gains or losses

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2018, the Company had cash of $167.5 million and working capital of $153.2 million compared to cash of $35.0 million and working capital of $26.8 million at December 31, 2017. The change in cash was primarily due to net proceeds from the private placement in March 2018 of $396.4 million and the final drawdown of $110 million under the gold prepay and stream credit facilities. This is offset by costs incurred for the development of the Fruta del Norte Project of $280.2 million, general and administration costs of $16.7 million and exploration expenditures of $6.2 million. The Company incurred higher general and administrative costs mainly due to the payment of performance incentives in the year, which also included payments deferred from 2017, to the Company's employees and the commencement of the mine operator training program.

The Company has successfully financed the Fruta del Norte Project with a project financing package of $300 million in May 2017 comprising of the gold prepay and stream credit facilities, a $400 million private placement in March 2018, and the Facility of $350 million secured in July 2018. The initial draw down of the Facility is expected to occur in the first quarter of 2019 and is subject to customary conditions precedent and establishing a cost overrun facility (the "COF") for which terms have been substantially agreed, is subject to acceptance by the Company's lenders and is in the final documentation stage.

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

TRANSACTIONS WITH RELATED PARTIES

During the 2018 Period, the Company paid $0.3 million (2017 – $0.4 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 Vancouver offices for the Company's management, investor relations personnel and support staff. Namdo charges a service fee and recovers out of pocket expenses related to the Company.

FINANCIAL INSTRUMENTS

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

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

Currency risk

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

Credit risk

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

Interest rate risk

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

Liquidity risk

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

Commodity price risk

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

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

COMMITMENTS

Significant capital expenditures contracted as at December 31, 2018 but not recognized as liabilities are as follows:

		Development costs
2019	$	160,893
2020		7,506
2021		-
Total	$	168,399

OFF-BALANCE SHEET ARRANGEMENTS

During the 2018 Period and the year ended December 31, 2017 there were no off-balance sheet transactions. The Company has not entered into any specialized financial arrangements to minimize its currency risk.

OUTSTANDING SHARE DATA

As at the date of this MD&A, there were 213,163,980 common shares issued and outstanding and stock options outstanding to purchase a total of 5,902,900 common shares for a total of 219,066,880 common shares outstanding on a fully-diluted basis.

OUTLOOK

The Company is focused on advancing the Project on schedule through to first gold production in the fourth quarter of 2019. The following activities are planned over the next twelve months:

- Completing detailed engineering.
- Completing contractor mine development, initiating work on the south ventilation raise and completing two of the mine dewatering wells.
- Completing training and hiring of mine and plant operations personnel.
- Commencing mine operations and mining ore per mine plan.
- Completing process plant and water treatment plant construction.
- Completing the construction of the power transmission line and connection to the national grid at the Bomboiza substation and completing the site electrical distribution facilities.
- Completing construction of the tailing storage facility including tailings and reclaim water systems.
- Commencing and substantial advancing the construction of the paste plant.
- Commissioning and beginning plant operations, including the planned pouring first gold.
- Obtaining final permits to start operations.
- Obtaining permits and starting construction for the Zamora River bridge near El Pindal.

The Company has substantially agreed to the terms of the COF with a provider. Completion of the COF is a condition precedent to the initial draw down of the Facility, expected to occur in the first quarter of 2019. The COF is subject to acceptance by the Company's lenders and is at the final documentation stage.

Exploration continues to focus on developing drilling targets through mapping and geochemical sampling of several targets. Drill permitting continues for a number of epithermal gold-silver target areas around the Suarez basin.

ADOPTION OF NEW ACCOUNTING STANDARDS

During the year ended December 31, 2018, the Company adopted the following new accounting standards:

i. IFRS 15, Revenue from Contracts with Customers

The IASB issued a new standard for the recognition of revenue. This replaced IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

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

ii. IFRS 9, Financial Instruments

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

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

The adoption of IFRS 9 has resulted in adjustments to the amounts recognised in the audited consolidated financial statements. Refer to the Company's audited consolidated financial statements for the year ended December 31, 2018 for further details.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are presented in Note 3 in the Notes to the audited consolidated financial statements for the year ended December 31, 2018.

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

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

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

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Company uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at initial recognition and at the end of each reporting period. Refer to Note 18 of the audited consolidated financial statements for the year ended December 31, 2018 for further details on the methods and assumptions utilized.

Valuation of mineral properties

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

Utilization of tax losses

The Company is subject to income taxes in a number of jurisdictions. At present all of the entities are creating tax losses. These tax losses are only recognized to the extent that expected future taxable profits are available. As at December 31, 2018, the Company has not recognized any tax losses on its financial statements.

Stock-based compensation

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

Decommissioning and site restoration

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

CHANGES IN ACCOUNTING POLICIES

New standards and interpretations not yet adopted

IFRS 16, Leases

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

The accounting for lessors will not significantly change.

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

QUALIFIED PERSON

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

FINANCIAL INFORMATION

The report for the three months ended March 31, 2019 is expected to be published on or about May 10, 2019.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2018, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

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

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2018, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

RISKS FACTORS

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

Community Relations
The Company's relationship with communities in which it operates is critical to the construction and operation of the Project. FDN is located near rural communities, some of which contain groups that have been opposed to mining activities from time to time in the past, which may affect Lundin Gold's ability to develop FDN in the short and long term. Furthermore, local communities may be influenced by external entities, groups or organizations opposed to mining activities. In recent years, anti-mining nongovernmental organization ("**NGO**") and indigenous group activities in Ecuador have increased. These communities, NGOs and indigenous groups have taken such actions as road closures and work stoppages. Such actions by communities and NGOs may have a material adverse effect on Lundin Gold's operations at FDN and on its financial position, cash flow and results of operations.

Mining and Processing
As the Company approaches operations, the Company's business operations will be subject to risks and hazards inherent in the mining industry, including, but not limited to, unanticipated variations in grade and other geological problems, surface and ground water conditions, water balance and water chemistry, backfill quality or availability, underground conditions, metallurgy, ore hardness and other processing issues, critical equipment or process failure, the lack of availability of input materials and equipment, disruption to power supply, ground subsidence, the occurrence of rock wall or ramp collapses, landslides, accidents, labour force disruptions, supply chain/logistics disruptions, force majeure events, unanticipated transportation costs, and weather conditions, any of which can materially and adversely affect, among other things, the safety of personnel, the development of properties, production quantities and rates, costs and expenditures, production commencement dates, project completion, contractual obligations and financial covenants.

The Company's processing facilities will be dependent upon continuous mine feed to remain in operation. Significant disruption in either mine feed or processing throughput, whether due to equipment failures, adverse weather conditions, supply interruptions, labour force disruptions or other causes, may have an immediate adverse effect on results of operations of the Company and its ability to comply with the requirements of its project financing.

Infrastructure
Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, and power sources are important elements of infrastructure, which affect capital and operating costs. The lack of availability on acceptable terms or the delay in the availability of any one or more of these items could prevent or delay the development of FDN. If adequate infrastructure is not available in a timely manner, there is a risk that (i) the development of FDN will not be completed on a timely basis, or at all, (ii) the resulting operations will not achieve the anticipated production volume or (iii) the anticipated construction costs and ongoing operating costs associated with the development of FDN will be higher than anticipated. Furthermore, unusual or infrequent weather phenomena, sabotage, community uprisings, government or other interference in the maintenance or provision of necessary infrastructure could adversely affect the development of FDN and Lundin Gold's future operations and profitability.

Environment
All phases of mining development and operations and exploration are subject to extensive environmental regulation. These regulations mandate, among other things, the preparation of environmental assessments before commencing certain operations, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste.

Some laws and regulations may impose penalties for environmental contamination, which could subject the Company to liability for the conduct of others or for its own actions that followed all applicable laws at the time such actions were taken. Environmental legislation is evolving in a manner that will result in stricter standards and enforcement, increased fines and penalties for non-compliance, potential to temporary shutdown of a portion or all of the operations at FDN until non-compliance is corrected, more stringent environmental assessments of proposed projects and mine closure

plans and a heightened degree of responsibility for companies and their officers, directors and employees. Any future changes in environmental regulation could adversely affect the Company's ability to conduct its operations.

The Company may need to address contamination at FDN in the future, either for existing environmental conditions or for leaks or discharges that may arise from ongoing operations or other contingencies. Contamination from hazardous substances at FDN may subject it to material liability for the investigation or remediation of contamination, as well as for claims seeking to recover for related property damage, personal injury or damage to natural resources.

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

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

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

Title Matters and Surface Rights and Access
There is a risk that title to the mining concessions, the surface rights and access rights comprising FDN and the necessary infrastructure, may be deficient or subject to dispute. The procurement or enforcement of such rights can be costly and time consuming. In areas where there are local populations or land owners, it may be necessary, as a practical matter, to negotiate surface access. Despite having the legal right to access the surface and carry on construction and mining activities, Lundin Gold may not be able to negotiate satisfactory agreements with existing landowners/occupiers for such access, and therefore it may be unable to carry out activities as planned. In addition, in circumstances where such access is denied, or no agreement can be reached, Lundin Gold may need to rely on the assistance of local officials or the courts in such jurisdictions, which may delay or impact mining activities as planned. There is also a risk that the Company's exploration, development and mining authorizations and surface rights may be challenged or impugned by third parties. In addition, there is a risk that Lundin Gold will not be able to renew some or all its licenses in the future. Inability to renew a license could result in the loss of any project located within that license.

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

Financing Requirements
Lundin Gold's project financing, including the gold prepay and stream credit facilities, the Facility and the funding from the private placement in March 2018, is dedicated principally to funding the construction and development of the Project. Until such time as Lundin Gold generates revenues and cash flow from the Project, it has no other source of funding and will require additional capital to fund costs and activities not related to the Project. If Lundin Gold raises additional capital by issuing equity, such financing may dilute the interests of shareholders and reduce the value of their investment. Moreover, Lundin Gold may not be successful in locating suitable additional or alternate financing when

required or at all or, if available, Lundin Gold may incur substantial fees and costs and the terms of such financing might not be favourable to Lundin Gold. A failure to raise capital when needed could have a material adverse effect on Lundin Gold's business, financial condition and results of operations.

Ability to Maintain Obligations or Comply with Debt
Lundin Gold is subject to restrictive covenants under the gold prepay and stream credit facilities and the Facility. The Company's project financing is secured by a first ranking charge over the assets of project subsidiaries, by a pledge of the shares of project subsidiaries and by guarantees of Lundin Gold and project subsidiaries. In addition, Lundin Gold may from time to time enter into other arrangements to borrow money to fund its development plans for FDN, and such arrangements may include covenants that have similar obligations or that restrict its business in some way.

Events may occur in the future, including events out of Lundin Gold's control, that could cause Lundin Gold to fail to satisfy its obligations under the gold prepay and stream credit facilities and the Facility or other debt instruments that may arise. In such circumstances, Lundin Gold may not be able to access funding under the Facility or amounts drawn under Lundin Gold's debt agreements may become due and payable before the agreed maturity date, and Lundin Gold may not have the financial resources to repay such amounts when due. If Lundin Gold were to default on its obligations under either the gold prepay and stream credit facilities or the Facility or other secured debt instruments in the future, the lender(s) under such debt instruments could enforce their security and seize Lundin Gold's assets.

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

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

Health and Safety
Exploration and mining development and operating activities represent inherent safety hazards and maintaining the health and safety of the Company's employees and contractors is of paramount importance to the Company. Health and safety hazard assessments are carried out regularly throughout the lifecycle of the Company's activities, and robust policies, procedures and controls are in place. Notwithstanding continued efforts to adhere to the Company's "zero harm" policy, safety incidents may still occur. Significant potential risks include, but are not limited to, surface or underground fires, rock falls underground, blasting accidents, vehicle accidents, fall from heights, contact with energized sources, and exposure to infectious disease. Employees involved in exploration activities in remote areas may also be exposed to attacks by individuals or violent opposition by local communities that may place the employees at risk of harm. Any incident resulting in serious injury or death could result in litigation and/or regulatory action (including, but not limited to suspension of development activities and/or fines and penalties), or otherwise adversely affect the Company's reputation and ability to meet its objectives.

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

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

fluctuations in the prices of this commodity may affect Lundin Gold's future operations and potential profitability. Such decreased revenues may also increase the requirements for capital.

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

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

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

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

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

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

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

Market Price of the Company's Shares
Securities of mineral companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic conditions in North America and globally, and market perceptions of the attractiveness of particular industries or sectors. The price of the Company's Shares is also likely to be significantly affected by short-term changes in gold price, other mineral prices, currency exchange fluctuations, or its financial condition or results of exploration activities on its projects. Other

factors unrelated to the performance of the Company that may have an effect on the price of the Company's Shares include: the extent of analyst coverage available to investors concerning the business of the Company may be limited if investment banks with research capabilities do not follow the Company; lessening in trading volume and general market interest in the Company's Shares may affect an investor's ability to trade significant numbers of Shares of the Company; the size of the Company's public float and whether it is included in market indices may limit the ability of some institutions to invest in the Company's Shares; and, a substantial decline in the price of the Shares of the Company that persists for a significant period of time could cause the Company's Shares to be delisted from an exchange, further reducing market liquidity. If an active market for the Shares does not continue, the liquidity of an investor's investment may be limited, and the price of the Company's Shares may decline. If an active market does not exist, investors may lose their entire investment in the Company. As a result of any of these factors, the market price of the Company's Shares at any given point in time may not accurately reflect the long-term value of the Company. Securities class-action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Control of Lundin Gold
As at the date hereof, Newcrest and Zebra, Nemesia S.à.r.l. and Lorito, who report their security holdings as joint actors, are control persons of Lundin Gold. As long as these shareholders maintain their significant positions in Lundin Gold, they will have the ability to exercise influence with respect to the affairs of Lundin Gold and significantly affect the outcome of matters upon which shareholders are entitled to vote.

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

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

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

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

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

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

Exploration and Development Risks
The Company has the rights to 26 mineral concessions in addition to the concession which hosts FDN. The exploration for, and development of, new mineral deposits involves significant risks which, even with a combination of careful evaluation, experience and knowledge, may not be eliminated. Few exploration properties are ultimately developed into producing mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including but not limited to: the particular attributes of the deposit, such as quantity and quality of the minerals, metallurgy and proximity to infrastructure and labour; mineral prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, and environmental protection. There is a risk that the exploration and development efforts and expenditures made by Lundin Gold will not result in any new discoveries of other mineral occurrences or new estimates of Mineral Resources or Mineral Reserves.

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

Artisanal and Illegal Mining
Mining by illegal and artisanal miners occurs on some of Lundin Gold's mineral concessions in Ecuador. While this activity is monitored by both the Company and the government, the operations of artisanal and illegal miners could interfere with Lundin Gold's activities and could result in conflicts. These potential activities could cause damage to FDN, including pollution, environmental damage or personal injury or death, for which Lundin Gold could potentially be held responsible. The presence of artisanal and illegal miners can lead to project delays and disputes regarding the development or operation of gold deposits. Artisanal and illegal mining can also result in mine stoppages, environmental issues and could have a material adverse effect on Lundin Gold's results of operations or financial condition.

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

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

Insurance and Uninsured Risks
The business of Lundin Gold is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unexpected geological conditions, ground or slope failures, cave-ins,

rock bursts, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties, personal injury or damage to the properties of Lundin Gold or the properties of others, delays in mining, monetary losses and possible legal liability. Lundin Gold's current insurance does not cover all the potential risks associated with an exploration or development company's operations. Lundin Gold may also be unable to maintain insurance to cover certain risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Lundin Gold or to other companies in the mining and exploration industry on acceptable terms. Lundin Gold might also become subject to liability for pollution or other hazards which it may not be insured against or which Lundin Gold may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Lundin Gold to incur significant costs that could have a material adverse effect upon its consolidated financial performance and results of operations.

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

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

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

Climate Change
Due to changes in local and global climate conditions, many analysts and scientists predict an increase in the frequency of extreme weather events such as floods, droughts, forest and brush fires and extreme storms. Such events could materially disrupt the Company's operations if they affect the Project site, impact local infrastructure or threaten the health and safety of the Company's employees and contractors. As a result, any such event could result in material economic harm to Lundin Gold. Increased environmental regulation and/or the use of fiscal policy by regulators in response to concerns over climate change and other environmental impacts, such as additional taxes levied on activities deemed harmful to the environment, could have a material adverse effect on Lundin Gold's financial condition or results of operations.

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

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

FORWARD LOOKING STATEMENTS

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

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

This MD&A contains forward-looking information in a number of places, such as in statements pertaining to: the timing of first gold production, the results of the project update and the timing and progress of the development, construction and operation of FDN, the timing and progress of the development and construction the power line, the timing and success of permitting and regulatory approvals and the award of certain purchase orders and contracts and the acquisition of easements, the success of the Company's exploration plans and activities, exploration and development expenditures and reclamation costs, project financing and future sources of liquidity, capital expenditures and requirements, future tax payments and rates, cash flows and their uses.

Lundin Gold's actual results could differ materially from those anticipated. Management has identified the following risk factors which could have a material impact on the Company or the trading price of its shares: 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 this MDA.

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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive 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 a summary of significant accounting policies.

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.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or 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 on the other information that we obtained prior to the date of this auditor's report, 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. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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.

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia
February 19, 2019

LUNDIN GOLD INC.

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

	Note		December 31, 2018		December 31, 2017
ASSETS					
Current assets					
Cash and cash equivalents		$	167,513	$	35,018
Other current assets	4		31,485		12,726
			198,998		47,744
Non-current assets					
VAT recoverable and other long-term assets	5		26,877		-
Property, plant and equipment	6		480,921		142,598
Mineral properties	7		240,665		246,387
Advance royalty	8		65,000		45,000
		$	1,012,461	$	481,729
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	9	$	45,812	$	20,950
Non-current liabilities					
Long-term debt	10		364,252		217,940
Reclamation provisions	11		4,353		7,990
			414,417		246,880
EQUITY					
Share capital	12		857,279		460,856
Equity-settled share-based payment reserve	13		12,125		9,547
Accumulated other comprehensive loss			(35,353)		(11,364)
Deficit			(236,007)		(224,190)
			598,044		234,849
		$	1,012,461	$	481,729

Approved by the Board of Directors

/s/ Ron F. Hochstein
Ron F. Hochstein

/s/ Ian W. Gibbs
Ian W. Gibbs

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

LUNDIN GOLD INC.

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

	Note	Years Ended December 31, 2018	2017
EXPENSES			
Exploration		$ 6,205	$ 6,433
General and administration:			
Corporate social responsibility		1,548	532
Depreciation		107	73
Investor relations		290	271
Municipal taxes		802	585
Office and general		2,562	2,120
Professional fees		3,995	4,468
Regulatory and transfer agent		215	235
Salaries and benefits		5,063	2,931
Stock-based compensation	13	2,578	2,369
Training		1,243	-
Travel		982	720
Loss before other items		25,590	20,737
OTHER ITEMS			
Foreign exchange gain		(16,972)	(16)
Interest income		(4,642)	(115)
Other expense		2,361	2,500
Derivative loss	10	15,731	18,034
Net loss for the year		$ 22,068	$ 41,140
OTHER COMPREHENSIVE LOSS			
Items that may be reclassified to net loss			
Currency translation adjustment		17,473	(177)
Items that will not be reclassified to net loss			
Derivative gain related to the Company's own credit risk	10	(4,129)	-
Other		394	163
Comprehensive loss for the year		$ 35,806	$ 41,126
Basic and diluted loss per common share		$ 0.12	$ 0.35
Weighted-average number of common shares outstanding		191,390,673	119,174,612

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

LUNDIN GOLD INC.

Consolidated Statements of Changes in Equity
(Expressed in thousands of U.S. Dollars, except number of common shares)

	Note	Number of Common Shares	Share Capital	Equity-settled Share-based Payment Reserve	Accumulated Other Comprehensive Loss	Deficit	Total
Balance December 31, 2016		118,685,535	$ 456,750	$ 7,422	$ (11,378)	$ (183,050)	$ 269,744
Exercise of stock options	13	302,500	1,442	(487)	-	-	955
Share consideration for mining concession	7	430,938	1,600	-	-	-	1,600
Share consideration for debenture		247,867	1,064	-	-	-	1,064
Stock-based compensation	13	-	-	2,612	-	-	2,612
Currency translation adjustment		-	-	-	177	-	177
Other		-	-	-	(163)	-	(163)
Net loss for the year		-	-	-	-	(41,140)	(41,140)
Balance December 31, 2017		119,666,840	$ 460,856	$ 9,547	$ (11,364)	$ (224,190)	$ 234,849
Balance, January 1, 2018		119,666,840	$ 460,856	$ 9,547	$ (11,364)	$ (224,190)	$ 234,849
Impact of adopting IFRS 9 on January 1, 2018	2	-	-	-	(10,251)	10,251	-
Balance, January 1, 2018 (restated)		119,666,840	460,856	9,547	(21,615)	(213,939)	234,849
Proceeds from equity financing, net		93,497,140	396,423	-	-	-	396,423
Stock-based compensation	13	-	-	2,578	-	-	2,578
Currency translation adjustment		-	-	-	(17,473)	-	(17,473)
Other		-	-	-	3,735	-	3,735
Net loss for the year		-	-	-	-	(22,068)	(22,068)
Balance December 31, 2018		213,163,980	$ 857,279	$ 12,125	$ (35,353)	$ (236,007)	$ 598,044

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, 2018	2017
OPERATING ACTIVITIES			
Net loss for the year		$ (22,068)	$ (41,140)
Item not affecting cash:			
Stock-based compensation	13	2,578	2,446
Depreciation		123	73
Derivative loss	10	15,731	18,034
Unrealized foreign exchange loss (gain)		(16,925)	2
Other expense (income)		2,263	(7)
		(18,298)	(20,592)
Changes in non-cash working capital items:			
Other current assets		(12,802)	(1,489)
Accounts payable and accrued liabilities		(1,032)	(6,394)
Net cash used for operating activities		(32,132)	(28,475)
FINANCING ACTIVITIES			
Proceeds from long-term debt	10	110,000	190,000
Transaction costs	10	(735)	(7,068)
Net proceeds from equity financing	12	396,423	-
Proceeds from exercise of stock options		-	955
Net proceeds from draw downs of debenture		-	28,600
Repayment of debenture		-	(28,600)
Non-cash finance cost of debenture		-	-
Change in non-cash working capital items:			
Deferred project finance costs	4	(13,902)	(2,374)
Net cash provided by financing activities		491,786	181,513
INVESTING ACTIVITIES			
Payment of advance royalty	8	(20,000)	(20,000)
Acquisition and development of property, plant and equipment	6	(280,216)	(105,376)
Acquisition of mineral properties	7	-	(1,173)
Change in VAT receivable and other long-term assets		(26,877)	-
Net cash used for investing activities		(327,093)	(126,549)
Effect of foreign exchange rate differences on cash		(66)	26
Net increase in cash and cash equivalents		132,495	26,515
Cash and cash equivalents, beginning of year		35,018	8,503
Cash and cash equivalents, end of year		$ 167,513	$ 35,018

Supplemental cash flow information (Note 16)

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

1. Nature of operations

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

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

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

In May 2016, the Company completed a feasibility study for the Fruta del Norte Project and has since commenced its development. It currently has no sources of revenues. The Company's continuing operations and the underlying value and recoverability of the amount shown for the mineral interests and property, plant and equipment are dependent upon the ability of the Company to develop the Fruta del Norte Project and on future profitable production.

The Company closed a project financing package of $300 million in May 2017 (See Note 10), a $400 million private placement in March 2018 (See Note 12), and a senior secured project finance facility of $350 million in July 2018 (the "Facility"). The initial draw down of the Facility is not expected to occur until the first quarter of 2019 and is subject to customary conditions precedent and establishment of a cost overrun facility.

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 19, 2019.

The following entities are included in these consolidated financial statements:

		Ordinary shares held	
	Country of incorporation	December 31, 2018	December 31, 2017
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%	-
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%

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

3. Summary of significant accounting policies

The Company's principal accounting policies are outlined below:

(a) Basis of consolidation

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

(b) Foreign currency translation

Transactions and balances

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

Group companies

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

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

(c) Critical accounting estimates and judgments

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

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

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

3. Summary of significant accounting policies (continued)

Fair value of financial instruments – The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Company uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at initial recognition and at the end of each reporting period. Refer to Note 18 for further details on the methods and assumptions utilized.

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

Utilization of tax losses – The Company is subject to income taxes in a number of jurisdictions. At present all of the entities are creating tax losses. These tax losses are only recognized to the extent that expected future taxable profits are available. As at December 31, 2018, the Company has not recognized any tax losses on its financial statements.

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

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

(d) Segment reporting

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

(e) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets 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 through profit or loss are recognized immediately in profit or loss.

3. Summary of significant accounting policies (continued)

Financial assets

Effective January 1, 2018, 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.

Impairment of financial assets

From January 1, 2018, 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

Effective January 1, 2018, the Company classifies its financial liabilities according to the following measurement categories:

i. FVPL

Liabilities that are (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) 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.

3. Summary of significant accounting policies (continued)

A financial liability that is not a financial liability held for trading or contingent consideration of an acquired in a business combination 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 profit or 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 profit or 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.

iii. Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with revenue recognition policies.

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.

(g) Property, plant and equipment

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

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

3. Summary of significant accounting policies (continued)

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

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

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

Exploration and evaluation costs are those costs required to find a mineral property and determine commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether Inferred mineral resources can be upgraded to Measured and Indicated mineral resources and whether Measured and Indicated mineral resources can be converted to Proven and Probable reserves.

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

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

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

Mineral properties are valued at cost after initial recognition. Costs associated with acquiring a mineral property are capitalized as incurred.

(i) Impairment of non-financial assets

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

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

(j) Provisions

Asset retirement obligations

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

3. Summary of significant accounting policies (continued)

(k) Current and deferred income tax

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

i. Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries 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.

(l) Share capital

Common shares are classified as equity.

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

(m) Stock-based compensation

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

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

3. Summary of significant accounting policies (continued)

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

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

(n) Loss per share

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

(o) Comprehensive loss

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

(p) Adoption of new IFRS pronouncements

i. IFRS 15, Revenue from Contracts with Customers

The IASB issued a new standard for the recognition of revenue. This replaced IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

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

ii. IFRS 9, Financial Instruments

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

Under IFRS 9, the Company's long-term debt has been designated as financial liabilities at fair value. Upon adoption of IFRS 9, the component of fair value changes relating to the Company's own credit risk is recognised in Other Comprehensive Loss.

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

3. Summary of significant accounting policies (continued)

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

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

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

	Measurement category		Carrying amount		
	2017 (IAS 39)	2018 (IFRS 9)	Original	New	Difference
Financial assets					
Cash	Loans and receivables	Amortized cost	$ 35,018	$ 35,018	-
Other current assets	Loans and receivables	Amortized cost	12,726	12,726	-
Financial liabilities					
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	20,950	20,950	-
Long-term debt	FVPL	FVPL	217,940	217,940	-

(q) Pronouncements issued but not yet effective

IFRS 16, Leases

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

The accounting for lessors will not significantly change.

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

4. Other current assets

	December 31, 2018	December 31, 2017
Prepaid expenses and deposits	$ 9,531	$ 2,428
Deferred transaction costs	21,954	10,298
	$ 31,485	$ 12,726

Deferred transaction costs include upfront and advisory fees incurred to secure the Facility 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.

5. VAT receivable and other long-term assets

	December 31, 2018	December 31, 2017
VAT recoverable	$ 24,665	$ -
Other long-term assets	2,212	-
	$ 26,877	$ -

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

6. Property, plant and equipment

Cost	**Development Costs**	**Land and buildings**	**Machinery and equipment**	**Vehicles**	**Furniture and office equipment**	**Total**
Balance, January 1, 2017	$ -	$ 4,458	$ 4,112	$ 976	$ 352	$ 9,898
Additions	130,388	-	2,784	1,991	749	135,912
Cumulative translation adjustment	184	-	-	-	2	186
Balance, December 31, 2017	130,572	4,458	6,896	2,967	1,103	145,996
Additions	321,264	-	11,296	8,936	638	342,134
Cumulative translation adjustment	(713)	-	-	-	(7)	(720)
Balance, December 31, 2018	$ 451,123	$ 4,458	$ 18,192	$ 11,903	$ 1,734	$ 487,410

6. Property, plant and equipment (continued)

Accumulated depreciation	Development Costs	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2017	$ -	$ 207	$ 1,189	$ 504	$ 176	$ 2,076
Depreciation and amortization	-	102	700	408	110	1,320
Cumulative translation adjustment	-	-	-	-	2	2
Balance, December 31, 2017	-	309	1,889	912	288	3,398
Depreciation and amortization	-	102	1,441	1,247	307	3,097
Cumulative translation adjustment	-	-	-	-	(6)	(6)
Balance, December 30, 2018	$ -	$ 411	$ 3,330	$ 2,159	$ 589	$ 6,489
Net book value						
As at December 31, 2017	$ 130,572	$ 4,149	$ 5,007	$ 2,055	$ 815	$ 142,598
As at December 31, 2018	$ 451,123	$ 4,047	$ 14,862	$ 9,744	$ 1,145	$ 480,921

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

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

	December 31, 2018	December 31, 2017
Stock-based compensation (Note 13)	$ -	$ 166
Depreciation and amortization	2,974	1,246
Share consideration for debenture	-	1,064
Accretion of transaction and derivative costs (Note 10)	33,371	9,049
Accretion of reclamation provision	-	276
	$ 36,345	$ 11,801

7. Mineral properties

Cost	Fruta del Norte Project	Fruta del Norte restoration asset (Note 11)	Total
Balance, January 1, 2017	$ 236,337	$ 537	$ 236,874
Additions	2,773	6,740	9,513
Balance, December 31, 2017	239,110	7,277	246,387
Adjustments to restoration asset (Note 10)	-	(5,998)	(5,998)
Other	-	276	276
Balance, December 31, 2018	$ 239,110	$ 1,555	$ 240,665

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

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

8. Advance royalty

On December 14, 2016, the Company executed the Exploitation Agreement ("EA") for the Fruta del Norte Project with the Government of Ecuador. The EA, combined with the existing laws and regulations and an Investment Protection Agreement executed on December 19, 2016, establishes the fiscal terms and conditions for the development of the Fruta del Norte Project. As required under the EA, the Company made the final advance royalty payment in December 2018. In aggregate, advance royalty payments of $65 million have been paid as at December 31, 2018.

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

9. Accounts payable and accrued liabilities

	December 31, 2018	December 31, 2017
Accounts payable	$ 12,869	$ 6,804
Accrued liabilities	32,943	14,146
	$ 45,812	$ 20,950

10. Long-term debt

As at December 31, 2018, the long-term debt consisted of the following:

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Principal	$ 150,000	$ 150,000	$ -	$ 300,000
Interest accrued and capitalized at stated rate of 7.5%	14,754	14,344	-	29,098
Transaction costs	(3,993)	(2,841)	-	(6,834)
Derivative fair value adjustments	6,763	17,335	17,890	41,988
Total	$ 167,524	$ 178,838	$ 17,890	$ 364,252

Derivative fair value adjustments reflect the revaluation of the long-term debt at fair value as at December 31, 2018, including a portion of the cost of derivatives which are part of the long-term debt. The derivative loss related to the Company's own credit risk included in other comprehensive loss includes the impact of the difference between the Company's own credit risk at the time of entering into the long-term debt and the balance sheet date.

(a) Gold prepay credit facility (the "Prepay Loan")

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

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

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

(b) Stream loan credit facility (the "Stream Loan")

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

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

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

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

10. Long-term debt (continued)

(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.

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

11. Reclamation provisions

The Company's provisions relate to the rehabilitation of the Fruta del Norte project. The reclamation provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments. At December 31, 2018, the Company applied a pre-tax discount rate of 9.1% (2017 – 12.9%) and an inflation rate of 2.5% (2017 – 3.3%). The estimated total future liability for reclamation and remediation costs on an undiscounted basis and adjusted for an estimate of future inflation is approximately $22.5 million (2017 – $43.8 million). The revised reclamation and remediation cost estimate to rehabilitate the Fruta del Norte Project reflects more closely and is better aligned with the Company's experience at the Fruta del Norte Project as well as the Company's update of the project estimate announced on September 19, 2018.

	December 31,	
	2018	2017
Balance, beginning of year	$ 7,990	$ 974
Present value of new obligations incurred in the year	2,480	6,740
Change in discount rate, amount, and timing of cash flows	(8,478)	-
Accretion of liability component of obligations	2,361	276
	$ 4,353	$ 7,990

12. 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, 2017		118,685,535	$	456,750
Stock options exercised		302,500		955
Transfer from equity-settled share-based payment reserve		-		487
Share consideration for mining concession	7	430,938		1,600
Share consideration for debenture		247,867		1,064
Balance at December 31, 2017		119,666,840		460,856
Proceeds from equity financing, net		93,497,140		396,423
Balance at December 31, 2018		213,163,980	$	857,279

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

The total gross proceeds raised under the Private Placement were $400 million. Share issue costs of $3.6 million were paid resulting in net proceeds of $396.4 million received by the Company in relation to the Private Placement.

From the Private Placement, Newcrest Mining Limited acquired and holds 27.1% of the Company's outstanding shares.

13. Stock options

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

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

13. Stock options (continued)

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

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Number of Common Shares	Weighted exercise price (CAD)	Number of Common Shares	Weighted exercise price (CAD)
Balance, beginning of year	4,625,500	$ 4.44	3,834,500	$ 4.18
Granted	1,277,400	5.13	1,319,000	5.16
Cancelled / Expired	-	-	(225,500)	4.68
Exercised[(1)]	-	-	(302,500)	4.01
Balance outstanding, end of year	5,902,900	$ 4.59	4,625,500	$ 4.44
Balance exercisable, end of year	4,236,980	$ 4.38	2,805,400	$ 4.18

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

The following table summarizes information concerning outstanding and exercisable options at December 31, 2018:

	Outstanding options			**Exercisable options**		
Range of exercise prices (CAD)	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CAD)	Number of options outstanding	Weighted average remaining contractual life (life)	Weighted average exercise price (CAD)
$ 3.69 to 4.00	1,735,500	0.9646	$ 3.90	1,735,500	0.9646	$ 3.90
$ 4.01 to 5.94	4,167,400	3.1364	4.88	2,501,480	2.6450	4.71
	5,902,900	2.4979	$ 4.59	4,236,980	1.9567	$ 4.38

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:

	2018	2017
Risk-free interest rate	1.95%	1.10%
Expected stock price volatility	60.87%	61.85%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	$2.73	$2.71

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, 2018, the Company recorded stock-based compensation expense of $2.6 million (2017 – $2.6 million) of which $2.6 million (2017 – $2.4 million) has been allocated to general and administration expenses and nil (2017 – $0.2 million) to property, plant and equipment.

14. Related party transactions

(a) Related party expenses

During the years ended December 31, 2018 and December 31, 2017, the Company incurred the following:

Payee	Nature	Note	December 31, 2018	December 31, 2017
Namdo	Management fees	i	$ 306	$ 351

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 and directors is shown below.

	December 31, 2018	December 31, 2017
Salaries and benefits	$ 3,896	$ 2,383
Stock-based compensation	1,916	2,158
	$ 5,812	$ 4,541

15. Income taxes

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

	December 31, 2018	December 31, 2017
Loss before income taxes	$ (22,068)	$ (41,140)
Canadian federal and provincial income tax rates	27.00%	26.00%
Income tax expense based on the above rates	(5,958)	(10,696)
Increase (decrease) due to:		
Differences in foreign tax rates	1,576	1,290
Non-deductible costs	2,678	1,463
Losses and temporary differences for which an income tax asset has not been recognized	5,600	7,943
Non-taxable portion of capital gains	(3,896)	-
Benefits of losses and temporary differences not previously recognized	-	-
Income tax expense	$ -	$ -

15. Income taxes (continued)

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

	December 31, 2018	December 31, 2017
Non-capital losses - Canada	$ 30,018	$ 28,089
Net-capital losses - Canada	6,597	12,423
Mineral properties	108,307	90,659
Share issuance costs	3,980	2,981
Liabilities	46,739	22,252
Other	1,709	2,083
	$ 197,350	$ 158,487

As at December 31, 2018, the Company has the following tax losses which may be used to reduce future taxable income:

Year of expiry	**Canada**
2019	$ -
2020	-
2021	-
2022	-
2023 and onwards	36,615
Total	$ 36,615

16. Supplemental cash flow information

	December 31, 2018	December 31, 2017
Interest received	$ 4,642	$ 115
Taxes paid	-	-
Changes in accounts payable and accrued liabilities related to:		
Acquisition of property, plant and equipment (Note 6)	25,573	18,735

The following table sets forth the changes in liabilities arising from financing activities for the year ended December 31, 2018.

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Balance, December 31, 2017	$ 118,575	$ 83,365	$ 16,000	$ 217,940
Cash inflows	35,000	75,000	-	110,000
Cash outflows	(735)	-	-	(735)
Change in derivative fair values	3,434	10,597	1,890	15,921
Other changes [(1)]	11,250	9,876	-	21,126
Balance, December 31, 2018	$ 167,524	$ 178,838	$ 17,890	$ 364,252

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

17. 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. On a monthly basis, the Chief Executive Officer receives information on investment activities in Ecuador and the balance of cash on hand. During the year ended December 31, 2018 and December 31, 2017, all exploration expenditures were incurred in Ecuador. In addition, as at December 31, 2018, materially all the non-current assets of the Company and $44.1 million (December 31, 2017 – $18.8 million) of the cash are located in Ecuador. The balance of the cash is located in Canada.

18. Financial instruments and risk management

The Company's financial instruments consist of cash and cash equivalents, other current assets and other long-term assets, which are categorized as financial assets measured at amortized cost, and accounts payable and accrued liabilities, which are categorized as financial liabilities measured at amortized cost. Due to the short-term nature of the current assets and liabilities, their carrying amount is considered to be the same as their fair value. For VAT recoverable and other long-term assets, the fair values are also not significantly different to their carrying amounts. In addition, the Company has long-term debt all of which have been classified as financial liabilities measured at fair value.

(a) Fair value measurements and hierarchy

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

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

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

(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, 2018. Each of these financial instruments are classified as Level 3 as their valuation includes significant unobservable inputs.

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Balance, December 31, 2017	$ 118,575	$ 83,365	$ 16,000	$ 217,940
Principal drawn during the period	35,000	75,000	-	110,000
Interest accrued and capitalized at stated rate of 7.5%	11,351	11,231	-	22,582
Transaction costs incurred	(1,450)	(1,533)	-	(2,983)
Accretion of transaction costs	614	178	-	792
Derivative fair value adjustments from:				
Other current assets	(1,806)	(3,872)	-	(5,678)
Derivative fair value adjustments recognized in:				
Property, plant and equipment	4,650	5,347	-	9,997
Derivative loss	2,928	10,913	1,890	15,731
Other comprehensive loss	(2,338)	(1,791)	-	(4,129)
Balance, December 31, 2018	$ 167,524	$ 178,838	$ 17,890	$ 364,252

(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 life of mine production schedule and 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.

18. Financial instruments and risk management (continued)

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 December 31, 2018	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Long-term debt	$ 364,252	Expected volatility	14% to 24%	An increase or decrease in expected volatility of 5% would increase or decrease the fair value of long-term debt and derivative loss by $4.2 million or $5.3 million, respectively
		Risk-adjusted discount rate	9% to 11%	An increase or decrease in risk-adjusted discount rate of 1% would decrease or increase the fair value of long-term debt and comprehensive income by $18.3 million or $19.7 million, respectively

(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.

(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. Expenditures in Ecuador are primarily denominated in U.S. dollars while its capital 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 $2.6 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.

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. Refer to Note 18(c) for the impact of changes in interest rates on the fair value of the Company's long-term debt.

18. Financial instruments and risk management (continued)

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 10.

Commodity price risk

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

The fair value of long-term debt which is accounted for at fair value through profit or loss is impacted by fluctuations of commodity prices. 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 derivative loss by $15.7 million or $16.6 million, respectively.

19. Capital risk management

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

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

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

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

20. Commitments

Significant capital expenditures contracted as at December 31, 2018 but not recognized as liabilities are as follows:

		Development costs
2019	$	160,893
2020		7,506
2021		-
Total	$	168,399

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

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

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