LUNDIN GOLD

Building a leading Gold Company
through responsible mining

Q4 2019

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of Lundin Gold Inc. and its subsidiary companies (collectively, "Lundin Gold" or the "Company") provides a detailed analysis of the Company's business and compares its financial results for the year ended December 31, 2019 with those of the same period from the previous year.

This MD&A is dated as of February 20, 2020 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, 2019 and 2018. 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 "2019 Period" and "2018 Period" relate to the years ended December 31, 2019 and December 31, 2018, respectively.

Other continuous disclosure documents, including the Company's news 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, owns the Fruta del Norte gold project ("Fruta del Norte" or the "Project") in southeast Ecuador. Fruta del Norte is among the largest and highest-grade gold projects in the world, which is now in production.

The Company's board and management team have extensive expertise in mine operations and are dedicated to advancing Fruta del Norte responsibly. 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 Fruta del Norte will benefit its shareholders, the Government and the people of Ecuador.

HIGHLIGHTS AND ACTIVITIES

The Company has achieved commercial production at Fruta del Norte ahead of schedule in 2020. In making this determination, management considered a number of factors including completion of substantially all construction development activities in accordance with design and a production ramp up period which achieved operating results at an average throughput of 70% of the mill capacity for a period of 90 consecutive days.

In 2019, the Company achieved substantial completion of the development of Fruta del Norte, including first ore through the plant and gold production. The following provides an overview of key accomplishments and milestones achieved in the past year.

Fruta del Norte

- Received key permits from La Secretaría Nacional del Agua (SENAGUA) in November 2019, which were required in order to move Fruta del Norte into production.
- Completed the construction of and energized the powerline from the Bomboiza substation to Fruta del Norte to connect the project to the national electricity grid.
- Completed construction of the process plant, and substantially completed tailings storage facility and onsite infrastructure.
- Advanced construction on the paste plant and bridge over the Zamora River at Los Encuentros.
- Completed contractor mine development and demobilized contractor. The mine is now under full owner operations.
- Continued underground development ahead of projections, with raise boring of the south ventilation raise and permanent ventilation fan installation remaining.
- Continued mine production on plan with approximately 153,000 tonnes of ore stockpiled at year end.
- Initiated process plant operations and started the ramp up phase.
- Produced a total of 28,678 ounces ("oz") of gold by the end of 2019.
- Exported initial production of both gold concentrate and doré to a smelter and a refinery, respectively, in December 2019 resulting in $20.9 million of concentrate sales.

- Received an award from the United Nations Global Compact Canada ("UNGCC") for the Company's commitment to education and training programs and the Company's efforts to create a network of local suppliers.

Financing
- Senior secured project finance debt facility (the "Facility") was fully drawn during the year.
- Entered into a $75 million cost overrun facility (the "COF") with an insider of the Company.
- Completed a bought deal equity offering of 8,625,000 common shares (the "Bought Deal") for aggregate gross proceeds of C$46.6 million on March 1, 2019.

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

Exploration
- Detailed follow-up mapping and sampling occurred on several targets within the central Suarez Pull-Apart basin (the "Basin"). The drill permitting process continues.

Fruta del Norte

Lundin Gold's properties in Southeast Ecuador consists of 30 metallic mineral concessions and three materials concessions covering an area of approximately 64,786 hectares. From this, the Fruta del Norte Project is comprised of seven concessions covering an area of approximately 5,566 hectares and is located approximately 140 km east-northeast of the City of Loja.

Development of Fruta del Norte has stayed on budget and subsequent to year-end, Fruta del Norte achieved commercial production.

Activities in 2019

In November of 2019, the inauguration ceremony of Fruta del Norte was held at site and the Project formally marked the commencement of operations and gold production.

Mine Development
- As at December 31, 2019, a total of 13 kilometres ("km") of underground mine development had been completed versus a target of 11.9 km. The mine contractor was demobilized earlier in the year, and the mine is now under full owner operations.
- Raise boring of the south ventilation raise and permanent ventilation fan installation is ongoing and expected to be completed in the second quarter of 2020.
- Mine production continues to ramp up and is on plan. As at December 31, 2019, 153,000 tonnes of ore were stockpiled on surface.

Construction
- Overall construction progress was 99.2% complete at year end.
- Paste plant, Zamora River bridge and permanent explosives magazine are the only remaining projects to be completed. The paste plant is expected to be in operation in the first half of 2020 and the bridge is anticipated be completed by the third quarter of 2020.

Site-Wide Infrastructure
- All significant ancillary facilities were completed.
- On site substation and electrical power distribution network was substantially completed and energized.

Off Site Infrastructure

- Bomboiza substation connection construction work was completed, and the powerline to the Project was completed and energized in early October.

Tailings Storage Facility

- Construction of the tailings dam is substantially complete with some minor liner work and the seepage pond remaining.
- The tailings liner, reclaim water barge and pipelines are complete and operational.

Operations

- Commenced ramp up of operations with the focus on increasing throughput and recoveries to design levels.
- A total of 28,678 oz of gold was produced by the end of 2019.
    - Of the total gold production, 3,411 oz were produced in the form of doré and 25,267 oz produced as concentrate.
    - 3,400 tonnes of concentrate were produced of which 2,676 tonnes were shipped and sold to a smelter in Finland by year end generating sales of $20.9 million.

Updated Life of Mine ("LOM") and All-In Sustaining Cost Estimate ("AISC")

- An update of Fruta del Norte's LOM plan ("LOMP") from the Updated Project Estimate ("UPE") previously announced in September 2018 was completed.
- The updated LOMP resulted in an increase in the projected average annual gold production from 310,000 ozs to 325,000 ozs per year and a reduction in the anticipated mine life from 15 to 14 years. There were no material changes to the estimates of mineral reserves.
- The update resulted in a slight increase in forecasted LOM ASIC from the UPE estimate of $583/oz to $621/oz of gold, representing a 6.5% or $38 increase. Approximately $26/oz, or 68% of this increase, is due to revised price assumptions for gold ($1,400/oz from $1,250/oz) and silver ($15/oz from $20/oz), which increased estimates of royalties and production taxes and decreased estimates of by-product credits, respectively.

<u>Health and Safety, Environment, and Community</u>

Health and Safety

- The Total Recordable Incident Rate at the end of the year was 0.56 per 200,000 hours worked.
- There were nineteen medical incidents and five lost time incidents recorded during the year.

Environment and Permitting

- In November 2019, the Administrative Act and Industrial Water Permits required for operations were received from SENAGUA.

Community

- The Company, together with the Lundin Foundation, was recognized by the UNGCC for its contributions to achieving the UN Sustainable Development Goals. This award highlighted the significant positive impacts of the education, training, and local procurement programs associated with Fruta del Norte.
- Lundin Gold's Responsible Mining program focused on transition of local employees, as construction was completed resulting in workforce reductions.
- Lundin Gold completed community presentations according to the Awareness and Preparedness for Emergencies at the Local Level (APELL) process relating to the transportation of cyanide.
- As of end of the year, 45% of Company employees and 48% of all workers including contractors were from the Zamora Chinchipe province.
- Lundin Gold's local procurement programs resulted in the purchase of approximately $2.4 million per month in goods and services from the local communities during the year.

<u>Exploration</u>

- Further work was conducted at the Barbasco epithermal gold-silver target in the central Basin, this included detailed mapping and sampling as well as 3D modeling. The Barbasco target is a large (3.8km long) epithermal pathfinder (As and Sb), alteration and ZTEM electrical resistivity (low) anomaly in the Basin conglomerates; it occupies a similar structural position to Fruta del Norte within the Basin and is considered the priority target for scout drill testing.

- Mapping and sampling was also conducted on the La Negra and El Copal targets which lie 1 km Northwest and North of the Barbasco target and also occur within the prospective Basin sediments. They are characterised by weak epithermal alteration and pathfinder geochemistry.
- A review of the Puente-Princesa target west of Barbasco was also conducted, with the focus on the mercury anomaly within the Basin sediments.
- Permitting in preparation for scout drill testing continues with the plan to mobilize drill rigs to the Barbasco target as soon as the permits are received.

SELECTED ANNUAL FINANCIAL INFORMATION

(Expressed in thousands of U.S. dollars, except share and per share amounts)		2019		2018		2017
Derivative loss for the year	$	(93,120)	$	(15,731)	$	(18,034)
Net loss for the year	$	(118,945)	$	(22,068)	$	(41,140)
Basic and diluted loss per share	$	(0.54)	$	(0.12)	$	(0.35)
Weighted-average number of common shares outstanding		221,247,101		191,390,673		119,174,612
Total assets	$	1,408,961	$	1,012,461	$	481,729

The loss during the year ended December 31, 2019 is higher compared to the previous year due to an increase in the derivative loss from $15.7 million to $93.1 million. This is the result of a change in fair value of the Company's gold prepay and stream credit facilities which is more fully explained below. In addition, the Company's substantial holdings of U.S. dollar cash at its Canadian entities decreased in 2019 compared to 2018 as cash was utilized to develop Fruta del Norte. As a result, the Company only generated $1.8 million of interest income and a foreign exchange loss of $2.9 million compared to an unrealized foreign exchange gain of $17.0 million as well as interest income of $4.6 million in 2018. Foreign exchange gains or losses are driven by the amount of U.S. dollar cash in the Company's 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 a period generates an unrealized gain in terms of Canadian dollars.

During the 2019 Period, training costs increased by $2.1 million. This is due to the extensive training programs for operations implemented by the Company with the Lundin Foundation, which commenced in the third quarter of 2018 and completed in the third quarter of 2019. Stock-based compensation increased by $0.9 million during the 2019 Period due to an increase in the number of stock options granted in 2019 compared to 2018. Professional fees increased by $0.5 million due to the recognition of annual costs for the maintenance of the Facility signed in July 2018 and municipal taxes, which are calculated based on total assets, increased by $0.4 million due to the increase in the Company's total assets from the development of Fruta del Norte. These increases are offset by a decrease in exploration costs since the Company did not conduct a drilling program in the 2019 Period.

Derivative gains or losses

The Company did not repay or increase its gold prepay and stream credit facilities during the 2019 Period. The variation in the amount of these debt obligations is due to a change in their estimated fair values during the 2019 Period as they are accounted for as financial liabilities measured at fair value. This variation is recorded as a derivative gain or loss in the applicable period. The fair values calculated under the Company's accounting policies are based on numerous estimates noted below as of the balance sheet date and are, therefore, subject to further future variations until the debt obligations will actually be repaid by the Company.

These balances are valued using Monte Carlo simulation valuation models. The key inputs used by the Monte Carlo simulation include: the gold and silver forward curve based on Comex futures, the Company's expectation about long-term gold yields, gold and silver volatility, risk-free rate of return, risk-adjusted discount rate, and production expectations. Relatively small variations in some of 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.

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

Two key drivers of current fair values are gold and silver prices because future repayments under the gold prepay and stream credit facilities are based on forward gold and silver price estimates at time of repayment. During periods of increasing gold and silver prices as in the 2019 Period, their forecast forward prices will also generally increase. This results in a higher estimated fair value of the debt obligations at the current balance sheet date and the recognition of derivative losses, although it does not necessarily reflect the amounts that will actually be repaid when the obligations become due in the future. It should also be noted that the potentially more significant impact of the same change in forward gold and silver prices on the value of future production and revenues forecast to be generated during the same periods when the debt obligations will be repaid cannot be recognized because of the inherent uncertainty and risks associated with actually realizing such production and sales.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	2019 Q4	2019 Q3	2019 Q2	2019 Q1
Derivative gain (loss) for the period	$ (35,120)	$ (33,723)	$ (24,745)	$ 468
Net loss for the period	$ (40,765)	$ (39,672)	$ (30,797)	$ (7,711)
Basic loss per share	$ (0.18)	$ (0.18)	$ (0.14)	$ (0.04)
Diluted loss per share	$ (0.18)	$ (0.18)	$ (0.14)	$ (0.04)
Weighted-average number of common shares outstanding				
Basic	223,339,447	222,953,642	222,535,083	216,061,503
Diluted	223,339,447	222,953,642	222,535,083	216,061,503
Additions to property, plant and equipment	$ 98,642	$ 109,996	$ 118,520	$ 124,069
Total assets	$ 1,408,961	$ 1,344,528	$ 1,343,799	$ 1,062,931
Long-term debt	$ 878,586	$ 772,526	$ 722,689	$ 388,106
Working capital	$ 32,800	$ 124,586	$ 222,056	$ 59,889

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

		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

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 gold prepay and stream credit facilities on a fair value basis under the Company's accounting policies and IFRS. More specifically, during the fourth quarter of 2019, the Company recorded a derivative loss of $35.1 million compared to a derivative loss of $28.5 million in the fourth quarter of 2018. Other than for the effect of derivative losses, the increase in the Company's net loss during the fourth quarter of 2019 compared to the fourth quarter of 2018 is driven by a foreign exchange loss of $0.3 million compared to a foreign exchange gain of $8.6 million which was driven by the Company's substantial holdings of U.S. dollar cash at its Canadian entities in 2018 from the US$400 million private placement in March 2018. As the functional currency of the Canadian entities is the Canadian dollar, a weakening of the U.S. dollar against the Canadian dollar during a period generates an unrealized loss in terms of Canadian dollars.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2019, the Company had cash of $75.7 million and a working capital of $32.8 million compared to cash of $167.5 million and a working capital balance of $153.2 million at December 31, 2018. The change in cash was due to costs incurred, net of sales generated, for the development of Fruta del Norte of $408.6 million, general and administration costs of $19.4 million and exploration expenditures of $3.7 million. This is offset by drawdowns from the Facility totalling $350.0 million, which is being used to fund the construction of Fruta del Norte, and net proceeds of $33.9 million from an equity financing in March 2019. In addition, the Company received proceeds of $3.3 million from the exercise of stock options and $2.3 million for the issuance of shares and warrants to Newcrest under the anti-dilution rights related to its shareholding in the Company.

As at December 31, 2019, the Facility was fully drawn. In 2019, the Company entered into a $75 million cost overrun facility (the "COF") with Nemesia S.à.r.l. ("Nemesia"), a company owned by a trust whose settlor was the late Adolf H. Lundin, which is available to be drawn to fund a potential cost overrun related to the development of Fruta del Norte. The Company expects the current cash balance and proceeds from sales to be sufficient to complete the development of Fruta del Norte and does not expect to utilize the COF.

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 transition Fruta del Norte to commercial production and on future profitable operations.

TRANSACTIONS WITH RELATED PARTIES

During the 2019 Period, the Company paid $0.3 million (2018 – $0.3 million) to Namdo Management Services Ltd. ("Namdo"), a private corporation associated with an officer of the Company. The Company occupies office space in the Namdo offices in Vancouver for the Company's management, investor relations personnel and support staff. Namdo charges a service fee and recovers out of pocket expenses related to the Company.

FINANCIAL INSTRUMENTS

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

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

Currency risk

Lundin Gold is a Canadian company and its capital is typically raised in Canadian dollars, with foreign operations in Ecuador. The majority of its expenditures are incurred in Ecuador which are primarily denominated in U.S. dollars. These expenditures are funded by utilizations under the Company's long-term debt and sales proceeds which are in U.S. dollars. As such, the Company is not subject to significant risk due to fluctuations in exchange rates.

Credit risk

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

Interest rate risk

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

Liquidity risk

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

Commodity price risk

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

The fair value of the gold prepay and the stream credit facilities, which is accounted for at fair value through profit or loss, is impacted by fluctuations of commodity prices.

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COMMITMENTS

Significant capital expenditures contracted as at December 31, 2019 but not recognized as liabilities are as follows:

		Development costs
2020	$	31,759
2021		-
2022		-
Total	$	31,759

OFF-BALANCE SHEET ARRANGEMENTS

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

OUTSTANDING SHARE DATA

As at the date of this MD&A, there were 224,215,362 common shares issued and outstanding, stock options outstanding to purchase a total of 5,924,050 common shares and outstanding warrants to purchase a total of 411,441 common shares for a total of 230,550,853 common shares outstanding on a fully-diluted basis.

OUTLOOK

The Company will be focused on ramping-up of operations to achieve name plate capacity by the end of the year. Also, the Company plans to complete the remaining construction activities and demobilize and close out the construction phase of the Project.

- Complete paste plant and permanent explosives magazine construction.
- Complete the Zamora River Bridge construction.
- Complete the permanent mine ventilation system.
- Closeout and demobilization of the construction team and activities.

Mapping and sampling of various drill targets is ongoing, with a significant scout drilling program planned once permits are received.

ADOPTION OF NEW ACCOUNTING STANDARDS

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

i. Revenue recognition

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

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

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

Doré sales

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

Concentrate sales

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

As at December 31, 2019, sales of $20.9 million have been recognized as a reduction of capitalized construction costs under property, plant and equipment.

ii. Inventories

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

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

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

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

iii. IFRS 16, Leases

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

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

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, 2019.

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 17 of the audited consolidated financial statements for the year ended December 31, 2019 for further details on the methods and assumptions utilized.

Commercial production

The determination of when a mine is operating in the manner intended by management (referred to as "commercial production") is a matter of significant judgement. In making this determination, management considers specific facts and circumstances. These factors include, but are not limited to, whether substantially all construction development activities have been completed in accordance with design and commissioning which achieves consistent operating results for a period of time in relation to mill capacity. As at December 31, 2019, commercial production had not been achieved at Fruta del Norte.

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. Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet and what tax rate is expected to be applied in the year when the related temporary differences reverse. Deferred tax liabilities arising from temporary differences are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. As the Company has not had any history of taxable profits as at December 31, 2019, 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 Fruta del Norte. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the country in which the project is located, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

QUALIFIED PERSON

The technical information relating to Fruta del Norte 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, 2020 is expected to be published on or about May 7, 2020.

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, 2019, 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, 2019, 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 relationships with communities in which it operates and other stakeholders are critical to ensure the future success of Fruta del Norte and the exploration and development of the Company's other concessions. The Company's mineral concessions, including Fruta del Norte, are 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 the operations at Fruta del Norte and its exploration and development activities on its other concessions 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 civil unrest, road closures and work stoppages. Such actions may have a material adverse effect on Lundin Gold's operations at Fruta del Norte and on its exploration activities and on its financial position, cash flow and results of operations. While the Company is committed to operating in a socially responsible manner, there can be no assurance that the Company's efforts in this respect will mitigate against this potential risk.

Operating Risks

The Company's operations are 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, geotechnical incidents such as ground subsidence or 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 exploration and development of concessions, production quantities and rates, costs and expenditures, contractual obligations and financial covenants.

Production Estimates

Forecasts of future production are estimates based on interpretation and assumptions, and actual production may be less than estimated. Unless otherwise noted, the Company's production forecasts are based on full production being achieved from Fruta del Norte. Lundin Gold's ability to achieve and maintain full production rates at Fruta del Norte is subject to a number of risks and uncertainties. The Company's production estimates are dependent on, among other things, the accuracy of Mineral Reserve and Mineral Resource estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions, physical characteristics of ores, such as hardness and the presence or absence of particular metallurgical characteristics, the accuracy of estimated rates and costs of mining and processing and mill availability, and the receipt and maintenance of permits. The Company's actual production may vary from its estimates for a variety of reasons, including those identified under the heading "Operating Risks". The failure of the Company to achieve its production estimates could have a material adverse effect on the Company's prospects, results of operations and financial condition.

New Mining Operations

The first few years of production from Fruta del Norte are subject to a number of inherent risks. It is not unusual in the mining industry for new mining operations to experience unexpected problems during the early stages of the production phase, including failure of equipment, machinery, the processing circuit or other processes to perform as designed or intended, inadequate water, insufficient ore stockpile or grade, and failure to deliver adequate tonnes of ore to the mill, any of which could result in delays, slowdowns or suspensions and require more capital than anticipated. In addition, estimated mineral reserves and mineral resources and anticipated costs, including, without limitation, operating expenses, cash costs and all-in sustaining costs, anticipated mine life, projected production, anticipated production rates and other projected economic and operating parameters may not be realized, and the level of future metal prices needed to ensure commercial viability may deteriorate. Consequently, there is a risk that Fruta del Norte may encounter problems or be subject to delays or suspensions during the early stages of the production phase, which may or have other material adverse consequences for Lundin Gold, including its operating results, cash flow and financial condition.

Environmental Compliance

All of Lundin Gold's exploration, development and production activities are subject to extensive environmental regulation. These regulations address, among other things, the emissions into the air, discharges into water, management of waste, management of tailings, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations.

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 Fruta del Norte 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 Fruta del Norte 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 Fruta del Norte 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, local legal proceedings and referendums seeking to suspend mining activities, risk of corruption, military repression, war, civil disturbances, criminal and terrorist acts, hostage taking, changes in laws, expropriation, nationalization, renegotiation or nullification of existing concessions, agreements, licenses or permits 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 laws, regulations or policies are beyond the control of Lundin Gold and may adversely affect its business. The Company faces the risk that governments may adopt substantially different policies, which might extend to the expropriation of assets or increased government participation in the mining sector. In addition, changes in resource development or investment policies, increases in taxation rates, higher mining fees and royalty payments, revocation or cancellation of mining concession rights or shifts in political attitudes in Ecuador may adversely affect Lundin Gold's business.

Gold Price

The Company's earnings, cash flow and financial condition are subject to risk due to fluctuations in the market price of gold. Gold prices have historically fluctuated widely. 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 significant decline in the gold price could cause Fruta del Norte operations to be uneconomic. Depending on the price of gold, the Company's cash flow may be insufficient to meet its operating needs, debt obligations and capital expenditures, and as a result the Company could experience financial difficulties and may suspend some or all of mining activities or otherwise revise its mine plan and exploration and development plans. In addition, (i) there is a time lag between the shipment of gold and final pricing, and changes in pricing can impact the Company's revenue and working capital position, and (ii) cash costs and all-in sustaining costs of gold production are calculated net of silver by-product credits, and therefore may also be impacted by downward fluctuations in the price of silver. Any of these factors could result in a material adverse effect on the Company's results of operations and financial condition.

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.

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 the Project subsidiaries, by a pledge of the shares of the Project subsidiaries and by guarantees of Lundin Gold and the Project subsidiaries. In addition, Lundin Gold may from time to time enter into other arrangements to borrow money to fund its operations at Fruta del Norte or the exploration and development activities on its other concessions, 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, the Facility or other debt instruments that may arise. In such circumstances, 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, 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.

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 Company's exploration, development or exploitation activities. If adequate infrastructure is not available in a timely manner, there is a risk that (i) the operations at Fruta del Norte will not achieve anticipated production, (ii) the operating costs associated with Fruta del Norte will be higher than anticipated, or (iii) the Company's exploration and development activities will be not carried out as anticipated, or at all. 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 operations at Fruta del Norte, cash flow and Lundin Gold's profitability.

Title Matters and Surface Rights and Access

There is a risk that title to the mining concessions, the surface rights and access rights comprising Fruta del Norte and its related 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 landowners, it may be necessary, as a practical matter, to negotiate or enforce surface access. Despite having the legal right to access the surface and carry on 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 exploration or 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. 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 Fruta del Norte is located. Future laws and actions could have a material adverse effect on Lundin Gold's operations at Fruta del Norte or on its financial position, cash flow and results of operations.

Financing Requirements

A substantial portion of Lundin Gold's revenues and cash flows are committed to satisfying its obligations under the gold prepay and stream credit facilities and the Facility. To the extent that Lundin Gold does not generate (i) sufficient revenues and cash flow to satisfy its debt obligations or (ii) surplus revenues and cash flow from the Project, it will require additional capital to fund its debt obligations and costs and activities not related to the Project, respectively. 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.

Shortages of Critical Resources

Disruptions in the supply of products or services required for the Company's activities could adversely affect the Company's operations, financial condition and results of operations. This may be the result of industry-wide shortages of certain goods or services, interruption in transportation methods of certain goods or the risk of failure of certain long-lead items. The Company's costs may also be affected by the prices of commodities and other inputs it consumes or uses in its operations. The prices and availability of such commodities and inputs are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control. Increases in the price for materials consumed in the Company's mining and production activities could materially adversely affect the Company's 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 and unsafe road conditions or events, fall from heights, contact with energized sources, and exposure to infectious disease. Employees involved in 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.

Government or Regulatory Approvals

Lundin Gold's exploration and development activities and its operations depend on its ability to obtain, maintain 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, maintain 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, maintain or renew its Rights or its Rights may not be obtainable on reasonable terms or on a timely basis. It is possible that previously issued Rights may become suspended or revoked for a variety of reasons, including through government or court action. 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 Fruta del Norte.

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 Fruta del Norte 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 during production do not reach anticipated rates.

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 Recruitment and 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, operations 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. The Company does not maintain any key man insurance with respect to any of its officers or directors.

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, currency exchange fluctuations, or its financial condition or results of operations and 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 the Lundin Family Trust 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 result 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 and Critical Habitats

Ecuador is a country with a diverse and fragile ecosystem and the national government, regional governments, indigenous groups and NGOs are vigilant in their protection of endangered species and critical habitats. The existence or discovery of an endangered species or critical habitats at Fruta del Norte may 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 take additional measures to protect the species or to cease its activities at Fruta del Norte temporarily or permanently, which would impact production from Fruta del Norte and would have an adverse economic impact on the Company, which could be material. The existence or discovery of an endangered species or critical habitat at Fruta del Norte could also ignite NGO and local community opposition to Fruta del Norte, which could impact operations at Fruta del Norte and the Company's financial condition and 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 operation of Fruta del Norte.

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

Exploration and Development Risks

The Company has the rights to 26 metallic mineral concessions targeted for exploration outside of the Fruta del Norte Project. 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

The only material property interest of the Company is Fruta del Norte. Unless the Company acquires additional property interests or advances its other exploration properties, any adverse developments affecting Fruta del Norte could have a material adverse effect upon the Company and would materially and adversely affect the profitability, financial performance and results of operations of the Company. While the Company may seek to develop and acquire additional mineral properties that are consistent with its business objectives, there can be no assurance that Lundin Gold will be able to identify suitable additional mineral properties or, if it does identify suitable properties, that it will have sufficient financial resources to acquire such properties or that such properties will be available on terms acceptable to the Company or at all.

Illegal Mining

Mining by a illegal miners occurs on and near 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 Fruta del Norte, including pollution, environmental damage or personal injury or death, for which Lundin Gold could potentially be held responsible. The presence of illegal miners can lead to project delays and disputes regarding the development or operation of gold deposits. 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

Exploration, development and production operations on mineral properties involve numerous risks including, but not limited to, unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, landslides, earthquakes and other environmental occurrences, risks relating to the storage and shipment of precious metal concentrates or doré bars, and political and social instability. Such occurrences could result in damage to mineral properties, damage to underground development, damage to production or infrastructure facilities, personal injury or death, environmental damage to Lundin Gold's properties or the properties of others, delays in the ability to undertake exploration and development, monetary losses and possible legal liability. Should such liabilities arise, they could reduce or eliminate future profitability and result in increasing costs and a decline in the value of the Company's Common Shares.

Although Lundin Gold maintains insurance to protect against certain risks in such amounts as it considers reasonable, its insurance policies do not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these 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, development and production may not be available to the Company 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 the Company may elect not to insure against because of premium costs or other reasons.

Insurance limits currently in place may not be sufficient to cover losses arising from insured events. Losses from any of the above events may cause the Company to incur significant costs that could have a material adverse effect upon its 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 Fruta del Norte 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 and Corruption Laws

The Company's operations are governed by, and involve interactions with, many levels of government in numerous countries. The Company is required to comply with anti-corruption and anti-bribery laws, including the Criminal Code, the Canadian Corruption of Foreign Public Officials Act and the U.S. Foreign Corrupt Practices Act, as well as similar laws in the countries in which Lundin Gold conducts its business. In recent years, there has been a general increase in both the frequency of enforcement and the severity of penalties under such laws, resulting in greater scrutiny and punishment to companies convicted of violating anti-corruption and anti-bribery laws. Furthermore, a company may be found liable for violations not only by its employees, but also by its contractors and third-party agents. Although Lundin Gold has adopted steps to mitigate such risks, such measures may not always be effective in ensuring that the Company, its employees, contractors and third-party agents will comply strictly with such laws. If the Company finds itself subject to an enforcement action or is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions imposed on the Company resulting in a material adverse effect on the Company's reputation and results of its operations.

Climate Change

Changes in climate conditions could adversely affect Lundin Gold's business and operations through the impact of (i) more extreme temperatures, precipitation levels and other weather events; (ii) changes to laws and regulations related to climate change; and (iii) changes in the price or availability of goods and services required in its business.

Climate change may lead to more extreme in temperatures, precipitation levels and other weather events. Extreme high or low temperatures could impact the operation of equipment and the safety of personnel at Fruta del Norte, which could result in damage to equipment, injury to personnel and production disruptions. Increased in precipitation levels or extreme weather events, such as severe storms or floods, which may be more probable and more extreme due to climate change, may negatively impact operations, disrupt production, lead to water management challenges or breach of containment facilities. Significant capital investment may be required to address these occurrences and to adapt to changes in average operating conditions caused by these changes to the climate.

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.

Climate change may lead to changes in the price and availability of goods and services required for Fruta del Norte's operations, which requires the regular supply of consumables such as diesel, electricity, sodium cyanide and other supplies to operate efficiently. The Company's operations also depend on service providers to transport these consumables and other goods to Fruta del Norte and to transport doré and concentrate produced by the Company to refiners and smelters, respectively. The effects of extreme weather described above and changes in legislation and regulation on the Company's suppliers and their industries may cause limited availability or higher price for these goods and services, which could result in higher costs or production disruptions.

We can provide no assurance that efforts to mitigate the risks of climate changes will be effective and that the physical risks of climate change will not have an adverse effect on the Company's operations and profitability.

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.

Security

The Company is exposed to various levels of safety and security risks which could result in injury or death, theft or damage to property, work stoppages, or blockades of its mining operations. Risks and uncertainties include, but are not limited to, terrorism, hostage taking, local drug gang activities, military repression, labour unrest and war or civil unrest. Opposition to mining could arise and such opposition may be violent. Resistance or unrest in Ecuador could have a material adverse effect on our operations and profitability.

Availability of Workforce and Labour Relations

The Company's gold production and its exploration and development activities depend upon the efforts of Lundin Gold's employees and contractors. The Company competes with mining and other companies on a global basis to attract and retain employees at all levels with appropriate technical skills and operating experience necessary to operate its mines. The conduct of the Company's operations is dependent on access to skilled labour. Access to skilled labour may prove particularly challenging for Lundin Gold given the remote location of Fruta del Norte and local laws which impose thresholds for the representation of certain groups people on Lundin Gold's workforce in Ecuador and the ability of foreign skilled labour to obtain visas to work in Ecuador. Shortages of suitably qualified personnel could have a material adverse effect on the Company's business and results of operations.

Lundin Gold's operations at Fruta del Norte depend upon the efforts of its employees, and the Company's operations would be adversely affected if it failed to maintain satisfactory labour relations. The Company's labour force is not unionized, and the introduction of a labour union could result in a disruption to production and/or higher costs and reduced flexibility. In addition, relations between the Company and its employees may be affected by changes in labour and employment laws. Changes in such legislation or in the relationship between the Company and its employees may have a material adverse effect on the Company's business, results of operations, financial condition or prospects.

Conflicts of Interest

Certain directors and officers of Lundin Gold are or may become associated with other mining and/or mineral exploration and development companies, which may give rise to conflicts of interest. Directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve such a contract. In addition, directors and officers are required to act honestly and in good faith with a view to the best interests of the Company. Some of the directors and officers of the Company have either other full-time employment or other business or time restrictions placed on them and, accordingly, the Company will not be the only business enterprise of these directors and officers. Further, any failure of the directors or officers of the Company to address these conflicts in an appropriate manner or to allocate opportunities that they become aware of to the Company could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

Dividends

Any payments of dividends on the Common Shares will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company, restrictions under gold prepay and stream credit facilities and the Facility, and other factors which the Board may consider appropriate in the circumstance. It is unlikely that the Company will pay dividends in the immediate or foreseeable future.

Social Media and Reputation

As a result of the increased usage and the speed and global reach of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users, companies today are at much greater risk of losing control over how they are perceived in the marketplace. Damage to reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity (for example, with respect to handling of environmental matters or Lundin Gold's dealings with community groups), whether true or not. The Company places a great emphasis on protecting its image and reputation but does not ultimately have direct control over how it is perceived by others. Reputation loss may lead to increased challenges in developing and maintaining community relations, maintaining a positive relationship with government authorities, decreased investor confidence and an impediment to the overall success of Fruta del Norte in Ecuador, thereby having a material adverse impact on financial performance, cash flows and growth prospects.

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 achievement of commercial production and the timing of name-plate production, scheduling, gold and silver price and exchange rate assumptions, cash flow forecasts, projected capital and operating costs, metal or mineral recoveries, mine life and production rates, the timing of permits and commencement of exploration, completion of construction and infrastructure development, completion of commissioning and close out of the construction phase of the project and utilization of the COF.

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 community relations, operating risks, production estimates, new mining operations, environmental compliance, instability in Ecuador, gold price, ability to maintain obligations or comply with debt, infrastructure, title matters and surface rights and access, financing requirements, shortages of critical supplies, health and safety, government and regulatory approval, Mineral Reserve and Resource estimates, key talent recruitment and retention, market price of the Company's shares, control of Lundin Gold, tax regime in Ecuador, measures to protect endangered species, non-compliance and compliance costs, exploration and development risks, dependence on a single project, illegal mining, information systems and cyber security, insurance and uninsured risks, reclamation obligations, violation of antibribery and corruption laws, climate change, claims and legal proceedings, internal controls, security, availability of workforce and labour relations, conflicts of interest, dividends and social media and reputation.

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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- 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.

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 20, 2020

LUNDIN GOLD INC.

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

	Note	December 31, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		$ 75,684	$ 167,513
VAT recoverable and other current assets	4	63,706	31,485
Advance royalty	7	9,790	-
		149,180	198,998
Non-current assets			
VAT recoverable and other long-term assets	5	39,435	26,877
Property, plant and equipment	6	924,982	480,921
Mineral properties		240,665	240,665
Advance royalty	7	54,699	65,000
		$ 1,408,961	$ 1,012,461
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	$ 58,802	$ 45,812
Current portion of long-term debt	9	57,578	-
		116,380	45,812
Non-current liabilities			
Long-term debt	9	821,008	364,252
Reclamation provisions	10	4,751	4,353
		942,139	414,417
EQUITY			
Share capital	11	899,903	857,279
Equity-settled share-based payment reserve	12	14,118	12,125
Accumulated other comprehensive loss		(92,247)	(35,353)
Deficit		(354,952)	(236,007)
		466,822	598,044
		$ 1,408,961	$ 1,012,461

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, 2019	2018
EXPENSES			
Exploration		$ 3,733	$ 6,205
General and administration:			
Corporate social responsibility		1,140	1,548
Depreciation		96	107
Investor relations		281	290
Municipal taxes		1,225	802
Office and general		2,578	2,562
Professional fees		4,510	3,995
Regulatory and transfer agent		338	215
Salaries and benefits		5,269	5,063
Stock-based compensation	12	3,491	2,578
Training		3,359	1,243
Travel		726	982
Loss before other items		26,746	25,590
OTHER ITEMS			
Foreign exchange loss (gain)		2,944	(16,972)
Interest income		(1,763)	(4,642)
Other income		(2,500)	-
Accretion expense		398	2,361
Derivative loss	9	93,120	15,731
Net loss for the year		$ 118,945	$ 22,068
OTHER COMPREHENSIVE LOSS			
Items that may be reclassified to net loss			
Currency translation adjustment		(4,134)	17,473
Items that will not be reclassified to net loss			
Derivative loss (gain) related to the Company's own credit risk	9	61,238	(4,129)
Other		(210)	394
Comprehensive loss for the year		$ 175,839	$ 35,806
Basic and diluted loss per common share		$ 0.54	$ 0.12
Weighted-average number of common shares outstanding		221,247,101	191,390,673

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

LUNDIN GOLD INC.

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

	Note	Number of common shares		Share capital		Equity-settled share-based payment reserve		Other reserves		Deficit		Total
Balance January 1, 2018		119,666,840	$	460,856	$	9,547	$	(11,364)	$	(224,190)	$	234,849
Impact of adopting IFRS 9 on January 1, 2018		-		-		-		(10,251)		10,251		-
Balance, January 1, 2018 (restated)		119,666,840		460,856		9,547		(21,615)		(213,939)		234,849
Proceeds from equity financing, net	11	93,497,140		396,423		-		-		-		396,423
Stock-based compensation	12	-		-		2,578		-		-		2,578
Other comprehensive loss		-		-		-		(13,738)		-		(13,738)
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
Proceeds from equity financing, net	11	8,625,000		33,940		-		-		-		33,940
Consideration for cost overrun facility	9	300,000		1,221		373		-		-		1,594
Exercise of stock options	12	1,121,800		5,340		(2,010)		-		-		3,330
Exercise of anti-dilution rights	11	420,432		2,123		139		-		-		2,262
Stock-based compensation	12	-		-		3,491		-		-		3,491
Other comprehensive loss		-		-		-		(56,894)		-		(56,894)
Net loss for the year		-		-		-		-		(118,945)		(118,945)
Balance December 31, 2019		223,631,212	$	899,903	$	14,118	$	(92,247)	$	(354,952)	$	466,822

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, 2019	2018
OPERATING ACTIVITIES			
Net loss for the year		$ (118,945)	$ (22,068)
Item not affecting cash:			
Stock-based compensation	12	3,491	2,578
Depreciation		130	123
Derivative loss	9	93,120	15,731
Unrealized foreign exchange loss (gain)		2,637	(16,925)
Other expense (income)		398	2,263
		(19,169)	(18,298)
Changes in non-cash working capital items:			
VAT recoverable and other current assets		(2,726)	(12,802)
Accounts payable and accrued liabilities		589	(1,032)
Net cash used for operating activities		(21,306)	(32,132)
FINANCING ACTIVITIES			
Proceeds from long-term debt	9	350,000	110,000
Transaction costs	9	-	(735)
Net proceeds from equity financing	11	33,940	396,423
Proceeds from exercise of stock options		3,330	-
Proceeds from exercise of anti-dilution rights		2,262	-
Change in non-cash working capital items:			
Deferred project finance costs	4	(5,541)	(13,902)
Net cash provided by financing activities		383,991	491,786
INVESTING ACTIVITIES			
Payment of advance royalty	7	-	(20,000)
Acquisition and development of property, plant and equipment	6	(408,565)	(305,789)
Change in non-cash working capital items:			
VAT recoverable and other current assets		(59,733)	(26,877)
Accounts payable and accrued liabilities		12,426	25,573
Net cash used for investing activities		(455,872)	(327,093)
Effect of foreign exchange rate differences on cash		1,358	(66)
Net increase (decrease) in cash and cash equivalents		(91,829)	132,495
Cash and cash equivalents, beginning of year		167,513	35,018
Cash and cash equivalents, end of year		$ 75,684	$ 167,513

Supplemental cash flow information (Note 15)

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

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

1. Nature of operations

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

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

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

The Company is advancing Fruta del Norte to commercial production. 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 advance Fruta del Norte through to commercial production and on future profitable production.

2. Basis of preparation

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

These consolidated financial statements were approved for issue by the Board of Directors on February 20, 2020.

The following entities are included in these consolidated financial statements:

		Ordinary shares held	
	Country of incorporation	December 31, 2019	December 31, 2018
Aurelian Resources Inc.	Canada	100%	100%
Aurelian Resources Corporation Ltd.	Canada	100%	100%
Aurelian Exploration Inc.	Canada	100%	100%
Aurelian Menor Inc.	Canada	100%	100%
Condor Finance Corp.	Canada	100%	100%
Aurelian Ecuador S.A.	Ecuador	100%	100%
AurelianEcuador Holding S.A.	Ecuador	100%	100%
Ecoaurelian Agricola S.A.	Ecuador	100%	100%
Aurelianmenor S.A.	Ecuador	100%	100%
SurNorte Ventures Pte. Ltd.	Singapore	100%	-
SurNorte Holdings I Pte. Ltd.	Singapore	100%	-
SurNorte Holdings II Pte. Ltd.	Singapore	100%	-
SurNorte S.A.	Ecuador	100%	-

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

3. Summary of significant accounting policies

The Company's principal accounting policies are outlined below:

(a) Basis of consolidation

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

(b) Foreign currency translation

Transactions and balances

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

Group companies

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

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

(c) Critical accounting estimates and judgments

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

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

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

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 17 for further details on the methods and assumptions utilized.

Commercial production – The determination of when a mine is operating in the manner intended by management (referred to as "commercial production") is a matter of significant judgement. In making this determination, management considers specific facts and circumstances. These factors include, but are not limited to, whether substantially all construction development activities have been completed in accordance with design and a period of commissioning which achieves consistent operating results for a period of time in relation to design capacity. As at December 31, 2019, commercial production had not been achieved at Fruta del Norte.

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 recoverable amount. 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. Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet and what tax rate is expected to be applied in the year when the related temporary differences reverse. Deferred tax liabilities arising from temporary differences are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. As the Company has not had any history of taxable profits as at December 31, 2019, 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 Fruta del Norte. The future obligations for decommissioning and site restoration activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the country in which the project is located, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The decommissioning and site restoration provisions are more uncertain the further into the future the mine closure activities are to be carried out.

(d) Segment reporting

The Company's primary reporting segments are based on the nature of its operations, being the development of Fruta del Norte and other exploration activities in Ecuador, and corporate activities in Canada. The office in Canada provides support to the operations in Ecuador with respect to treasury and finance, regulatory reporting and corporate administration.

(e) Financial instruments

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

3. Summary of significant accounting policies (continued)

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.

Financial assets

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

i. *Amortized cost*

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

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

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

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

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

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

Impairment of financial assets

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

Financial liabilities

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

i. *FVPL*

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

A financial liability is classified as held for trading if:

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

3. Summary of significant accounting policies (continued)

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

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

The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income. The remaining amount of change in the fair value of liability is recognised in 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.

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.

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

Depreciation methods and estimated useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

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

3. Summary of significant accounting policies (continued)

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

(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. Upon commencement of commercial production, mineral properties are depreciated based on recoverable reserves on a unit of production basis.

(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 recorded immediately if the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

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

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

3. Summary of significant accounting policies (continued)

(j) Provisions

Asset retirement obligations

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

(k) Current and deferred income tax

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

i. Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries 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 are shown in equity as a deduction from the proceeds.

3. Summary of significant accounting policies (continued)

(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 and share units) of the Company.

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

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

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

(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) New accounting policy

Revenue recognition

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

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

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

Doré sales

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

3. Summary of significant accounting policies (continued)

Concentrate sales

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

As at December 31, 2019 and until Fruta del Norte reaches commercial production, sales are recognized as a reduction of capitalized construction costs under property, plant and equipment.

Inventories

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

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

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

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

(q) Adoption of new IFRS pronouncements

IFRS 16, Leases

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

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

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

4. VAT recoverable and other current assets

	December 31, 2019	December 31, 2018
VAT recoverable	$ 26,804	$ -
Trade receivables	20,936	-
Prepaid expenses and deposits	12,056	9,531
Deferred transaction costs	3,750	21,954
Other current assets	160	-
	$ 63,706	$ 31,485

VAT paid in Ecuador by the Company after January 1, 2018 will be refunded or applied as a credit against other taxes payable based on export sales. As the Company is generating sales, a portion of the VAT recoverable has been reclassified as current assets.

Deferred transaction costs include upfront and advisory fees incurred to secure the senior debt facility (the “Facility”), cost overrun facility (the “COF”), and ongoing stand-by fees. In 2019, costs relating to the Facility were reclassified to long-term debt as the Facility was fully drawn. Costs relating to the COF will be reclassified to long-term debt on a pro-rata basis should the Company draw down the COF.

5. VAT recoverable and other long-term assets

	December 31, 2019	December 31, 2018
VAT recoverable (Note 4)	$ 35,643	$ 24,665
Other long-term assets	3,792	2,212
	$ 39,435	$ 26,877

6. Property, plant and equipment

Cost	Construction-in-progress	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2018	$ 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
Additions	415,735	257	26,478	7,994	763	451,227
Cumulative translation adjustment	369	-	-	-	4	373
Balance, December 31, 2019	$ 867,227	$ 4,715	$ 44,670	$ 19,897	$ 2,501	$ 939,010

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

6. Property, plant and equipment (continued)

Accumulated depreciation	Construction-in-progress	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2018	$ -	$ 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 31, 2018	-	411	3,330	2,159	589	6,489
Depreciation and amortization	-	102	3,639	3,306	488	7,535
Cumulative translation adjustment	-	-	-	-	4	4
Balance, December 31, 2019	$ -	$ 513	$ 6,969	$ 5,465	$ 1,081	$ 14,028
Net book value						
As at December 31, 2018	$ 451,123	$ 4,047	$ 14,862	$ 9,744	$ 1,145	$ 480,921
As at December 31, 2019	$ 867,227	$ 4,202	$ 37,701	$ 14,432	$ 1,420	$ 924,982

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

	December 31, 2019	December 31, 2018
Depreciation and amortization	$ 7,405	$ 2,974
Capitalized interest and accretion of transaction and derivative costs (Note 9)	35,257	33,371
	$ 42,662	$ 36,345

As at December 31, 2019, sales of $20.9 million have been recognized as a reduction of capitalized construction costs under property, plant and equipment.

7. Advance royalty

Advance royalties are deductible against future royalties on sales payable to the Government of Ecuador at a rate equal to the lesser of 50% of the actual future royalties payable in a six-month period or 10% of the total advance royalty payment. As the Company is generating sales, a portion of the advance royalty payment has been reclassified as current assets.

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

8. Accounts payable and accrued liabilities

		December 31, 2019		December 31, 2018
Accounts payable	$	25,306	$	12,869
Accrued liabilities		33,496		32,943
	$	58,802	$	45,812

9. Long-term debt

As at December 31, 2019, the long-term debt consisted of the following:

		December 31, 2019		December 31, 2018
Gold prepay credit facility (a)	$	234,917	$	167,524
Stream loan credit facility (b)		290,124		178,838
Offtake derivative liability (c)		26,856		17,890
Senior debt facility (d)		326,689		-
	$	878,586	$	364,252
Current portion		57,578		-
Long-term	$	821,008	$	364,252

The gold prepay and the stream loan credit facilities were fully drawn at December 31, 2019 and December 31, 2018. The gold prepay credit facility (the "Prepay Loan"), stream loan credit facility (the "Stream Loan"), and the offtake derivative liability are accounted for as financial liabilities at fair value through profit or loss and are comprised of the following:

		Gold prepay credit facility		**Stream loan credit facility**		**Offtake derivative liability**		**Total**
Principal	$	150,000	$	150,000	$	-	$	300,000
Interest accrued and capitalized at stated rate of 7.5%		26,160		25,750		-		51,910
Transaction costs		(3,378)		(2,663)		-		(6,041)
Derivative fair value adjustments		62,135		117,037		26,856		206,028
Total	$	234,917	$	290,124	$	26,856	$	551,897

Derivative fair value adjustments reflect the revaluation of the long-term debt at fair value as at December 31, 2019, including a portion of the cost of derivatives which are part of the long-term debt. The derivative loss related to the Company's own credit risk recorded in other comprehensive loss includes the impact of the difference between the Company's own credit risk at the time of entering into the long-term debt and the balance sheet date (see also note 17).

(a) Gold prepay credit facility

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

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

9. Long-term debt (continued)

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

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

(b) Stream loan credit facility

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

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 Fruta del Norte, up to a maximum of 350,000 oz. of gold and six million oz. of silver. The Gold Base Price and Silver Base Price will increase by 1% per annum starting on the third anniversary of the commercial production date. The excess of the monthly repayments over the principal and interest components, if any, will be a Finance Charge.

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

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

(c) Offtake Commitment

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

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

(d) Senior debt facility

	Tranche A	Tranche B	Total
Principal	$ 250,000	$ 100,000	$ 350,000
Accrued interest	48	13	61
Transaction costs	(17,405)	(5,967)	(23,372)
Total	$ 232,643	$ 94,046	$ 326,689

The Facility is a senior secured loan of up to $350 million, comprised of two tranches: a $250 million senior commercial facility (“Tranche A”) and a $100 million senior covered facility under a raw material guarantee (“Tranche B”) both of which were fully drawn as at December 31, 2019. The annual interest rate is the three or six-month LIBOR plus an average margin of approximately 5.05% for Tranche A and 2.50% for Tranche B. Tranche A and Tranche B are subject to risk mitigation and guarantee fees of 2.00% and 3.15%, respectively. The Facility is repayable in variable quarterly instalments starting at the end of 2020 and maturing in June 2026.

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9. Long-term debt (continued)

(e) Cost overrun facility (the “COF”)

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

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

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

10. Reclamation provision

The Company’s reclamation provision relates to the rehabilitation of Fruta del Norte. The reclamation provision has been calculated based on total estimated rehabilitation costs and discounted back to its present value. The pre-tax discount rate and inflation rate are adjusted annually and reflect current market assessments. At December 31, 2019, the Company applied a pre-tax discount rate of 9.1% (2018 – 9.1%) and an inflation rate of 2.5% (2018 – 2.5%). The estimated total future liability for reclamation and remediation costs on an undiscounted basis and adjusted for an estimate of future inflation is approximately $22.5 million (2018 – $22.5 million).

	December 31, 2019	December 31, 2018
Balance, beginning of year	$ 4,353	$ 7,990
Present value of new obligations incurred in the year	-	2,480
Change in discount rate, amount, and timing of cash flows	-	(8,478)
Accretion of liability component of obligations	398	2,361
	$ 4,751	$ 4,353

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

11. Share capital

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, 2018	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
Proceeds from equity financing, net	8,625,000		33,940
Consideration for cost overrun facility	300,000		1,221
Exercise of stock options	1,121,800		5,340
Exercise of anti-dilution rights	420,432		2,123
Balance at December 31, 2019	223,631,212	$	899,903

(a) On March 26, 2018, the Company closed a $400 million private placement financing (the "Private Placement") which resulted in the issuance of 69,284,065 common shares at a price of CAD$5.50 per share and 24,213,075 common shares at a price of CAD$5.25 per share. Share issue costs of $3.5 million were paid resulting in net proceeds of $396.5 million received by the Company in relation to the Private Placement.

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

(c) During the year ended December 31, 2019, the Company issued 420,432 common shares to Newcrest Mining Limited ("Newcrest") at a weighted average price of CAD$6.72 per share for total proceeds of $2.1 million under its anti-dilution rights granted as part of the Private Placement following the issuance of shares to the COF provider (see note 9) and the exercise of stock options.

12. Stock-based compensation and share purchase warrants

(a) Stock-based compensation

The Company has adopted an omnibus incentive plan (the "Plan") approved at the June 3, 2019 annual general and special meeting of shareholders which replaces its rolling stock-based compensation plan. The Plan allows for the reservation of a maximum 8.5% of the common shares issued and outstanding at any given time for issuance under the Plan. Under the Plan, the Company may grant stock options, restricted share units and deferred share units (collectively, the "Awards"). Subject to specific provisions under the Plan, the eligibility, vesting period, term, and number of Awards are granted at the discretion of the Company's board of directors. No Awards have been granted under the Plan as at December 31, 2019.

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

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

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

Restricted share units entitle the recipient, upon settlement, to receive common shares or, subject to provisions under the Plan, the cash equivalent or a combination thereof.

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

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

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Number of Common Shares	Weighted exercise price (CAD)	Number of Common Shares	Weighted exercise price (CAD)
Balance, beginning of year	5,902,900	$ 4.59	4,625,500	$ 4.44
Granted	1,861,800	5.35	1,277,400	5.13
Cancelled / Expired	(134,700)	5.18	-	-
Exercised[1]	(1,121,800)	3.95	-	-
Balance outstanding, end of year	6,508,200	$ 4.91	5,902,900	$ 4.59
Balance exercisable, end of year	4,573,650	$ 4.74	4,236,980	$ 4.38

[1] The weighted average share price on the exercise date for the stock options exercised during the year ended December 31, 2019 was CAD$6.81.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2019:

	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 4.50	2,016,000	0.8014	$ 4.07	2,016,000	0.8014	$ 4.07
$ 4.51 to 5.94	4,492,200	3.1296	5.28	2,557,650	2.5420	5.28
	6,508,200	2.4084	$ 4.91	4,573,650	1.7748	$ 4.74

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:

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

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

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

The 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, 2019, the Company recorded stock-based compensation expense of $3.5 million (2018 – $2.6 million).

(b) Share Purchase Warrants

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

	Year ended December 31, 2019		Year ended December 31, 2018	
	Number of warrants	Weighted average exercise price (CAD)	Number of warrants	Weighted average exercise price (CAD)
Balance, beginning of year	-	$ -	-	$ -
Consideration for cost overrun facility (Note 9)	300,000	5.98	-	-
Anti-dilution rights exercised by Newcrest	111,441	5.98	-	-
Balance outstanding, end of year	411,441	$ 5.98	-	$ -

i. The Company issued 111,441 warrants to Newcrest at a price of CAD$1.66 per warrant for total proceeds of CAD$0.2 million under its anti-dilution rights granted as part of the Private Placement (see Note 11) following the issuance of Warrants to the COF provider (see Note 9). Each warrant has a term of three years from the date of issue and is exercisable for a common share upon payment of the exercise price of CAD$5.98. The following table summarizes information concerning outstanding warrants at December 31, 2019:

Exercise price (CAD)	Number of warrants outstanding	Remaining contractual life (years)
$ 5.98	411,441	2.25

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

	December 31, 2019	December 31, 2018
Risk-free interest rate	1.78%	-
Expected stock price volatility	50.63%	-
Expected life	3 years	-
Expected dividend yield	-	-
Weighted-average fair value per warrant granted (CAD)	$1.66	-

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

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13. Related party transactions

(a) Related party expenses

During the years ended December 31, 2019 and December 31, 2018, the Company incurred the following:

Payee	Nature	Note		December 31, 2019		December 31, 2018
Namdo	Management fees	i	$	298	$	306

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, 2019		December 31, 2018
Salaries, bonuses and benefits	$	3,950	$	3,896
Stock-based compensation		2,508		1,916
	$	6,458	$	5,812

14. Income taxes

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

		December 31, 2019		2018
Loss before income taxes	$	(118,945)	$	(22,068)
Canadian federal and provincial income tax rates		27.00%		27.00%
Income tax expense based on the above rates		(32,115)		(5,958)
Increase (decrease) due to:				
Differences in foreign tax rates		5,220		1,576
Non-deductible costs		2,180		2,678
Losses and temporary differences for which an income tax asset has not been recognized		24,743		5,600
Non-taxable portion of capital gains		(28)		(3,896)
Benefits of losses and temporary differences not previously recognized		-		-
Income tax expense	$	-	$	-

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14. Income taxes (continued)

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

	December 31, 2019	2018
Non-capital losses - Canada	$ 23,360	$ 30,018
Net-capital losses - Canada	8,924	6,597
Mineral properties	111,506	108,307
Share issuance costs	3,766	3,980
Liabilities	224,094	46,739
Other	2,383	1,709
	$ 374,033	$ 197,350

As at December 31, 2019, the Company has the following tax losses which may be used to reduce future taxable income:

Year of expiry	**Canada**
2020	$ -
2021	-
2022	-
2023	-
2024 and onwards	32,284
Total	$ 32,284

Deferred tax assets and liabilities recognized

	December 31, 2019	2018
Net-capital losses - Canada	$ 146	$ -
Unrealized foreign exchange gains	(146)	-
	$ -	$ -

15. Supplemental cash flow information

	December 31, 2019	2018
Interest received	$ 1,763	$ 4,642
Interest paid	(12,982)	-
Taxes paid	-	-

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

15. Supplemental cash flow information (continued)

The following table sets forth the changes in liabilities arising from financing activities for the year ended December 31, 2019.

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Senior debt facility	Total
Balance, December 31, 2018	$ 167,524	$ 178,838	$ 17,890	$ -	$ 364,252
Cash inflows	-	-	-	350,000	350,000
Cash outflows	-	-	-	-	-
Change in derivative fair values	55,372	99,702	8,966	-	164,040
Other changes (1)	12,021	11,584	-	(23,311)	294
Balance, December 31, 2019	$ 234,917	$ 290,124	$ 26,856	$ 326,689	$ 878,586

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

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

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16. Segmented information (continued)

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

	Fruta del Norte	Other concessions	Corporate and other	Total
As at December 31, 2019				
Current assets	$ 96,653	$ 137	$ 52,390	$ 149,180
Non-current assets	1,259,781	-	-	1,259,781
Total assets	1,356,434	137	52,390	1,408,961
Current liabilities	115,168	624	588	116,380
Non-current liabilities	825,759	-	-	825,759
Total liabilities	940,927	624	588	942,139
For the year ended December 31, 2019				
Capital expenditures	451,227	-	-	451,227
Exploration expenditures	-	3,733	-	3,733
General and administration and other items	102,387	31	12,794	115,212
Net loss for the year	102,387	3,764	12,794	118,945

	Fruta del Norte	Other concessions	Corporate and other	Total
As at December 31, 2018				
Current assets	$ 75,297	$ 49	$ 123,652	$ 198,998
Non-current assets	813,309	154	-	813,463
Total assets	888,606	203	123,652	1,012,461
Current liabilities	45,208	320	284	45,812
Non-current liabilities	368,605	-	-	368,605
Total liabilities	413,813	320	284	414,417
For the year ended December 31, 2018				
Capital expenditures	342,134	-	-	342,134
Exploration expenditures	-	6,205	-	6,205
General and administration and other items	10,506	4	5,353	15,863
Net loss for the year	10,506	6,209	5,353	22,068

17. Financial instruments and risk management

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

(a) Fair value measurements and hierarchy

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

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

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

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

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

17. Financial instruments and risk management (continued)

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

The following table sets forth the Company's financial liabilities measured at fair value on a recurring basis by level within the fair value hierarchy for the year ended December 31, 2019. Each of these financial instruments are classified as Level 3 as their valuation includes significant unobservable inputs.

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Balance, January 1, 2018	$ 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
Interest accrued and capitalized at stated rate of 7.5%	11,406	11,406	-	22,812
Accretion of transaction costs	615	178	-	793
Derivative fair value adjustments recognized in:				
Property, plant and equipment	4,460	5,222	-	9,682
Derivative loss	31,806	52,348	8,966	93,120
Other comprehensive loss	19,106	42,132	-	61,238
Balance, December 31, 2019	$ 234,917	$ 290,124	$ 26,856	$ 551,897

(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.

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17. 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, 2019	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Long-term debt	$ 551,897	Expected volatility	10% to 25%	An increase or decrease in expected volatility of 5% would increase or decrease the fair value of long-term debt and derivative loss by $6.5 million or $8.8 million, respectively
		Risk-adjusted discount rate	6% to 8%	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 $23.4 million or $24.8 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 $0.3 million in net loss for the year.

Credit risk

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

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

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17. 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 9.

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 $28.4 million or $28.8 million, respectively.

18. 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.

19. Commitments

Significant capital expenditures contracted as at December 31, 2019 but not recognized as liabilities are as follows:

		Development costs
2020	$	31,759
2021		-
2022		-
Total	$	31,759

Corporate Information

BOARD OF DIRECTORS

Lukas H. Lundin, Chairman
Geneva, Switzerland
Tamara Brown
Toronto, Canada
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
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

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Nasdaq Stockholm
Trading Symbol: LUG

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