

LUNDIN GOLD INC.

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

	Note	September 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		\$ 130,235	\$ 167,513
VAT recoverable and other current assets	3	36,583	31,485
Advance royalty	6	4,530	-
		171,348	198,998
Non-current assets			
VAT recoverable and other long-term assets	4	43,706	26,877
Property, plant and equipment	5	828,339	480,921
Mineral properties		240,665	240,665
Advance royalty	6	60,470	65,000
		\$ 1,344,528	\$ 1,012,461
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 46,762	\$ 45,812
Non-current liabilities			
Long-term debt	7	772,526	364,252
Reclamation provisions		4,652	4,353
		823,940	414,417
EQUITY			
Share capital	8	897,905	857,279
Equity-settled share-based payment reserve	9	13,942	12,125
Accumulated other comprehensive loss		(77,072)	(35,353)
Deficit		(314,187)	(236,007)
		520,588	598,044
		\$ 1,344,528	\$ 1,012,461

Commitments (Note 13)

Approved by the Board of Directors

/s/ Ron F. Hochstein
Ron F. Hochstein

/s/ Ian W. Gibbs
Ian W. Gibbs

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

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LUNDIN GOLD INC.

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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
EXPENSES					
Exploration		\$ 328	\$ 792	\$ 2,365	\$ 4,991
General and administration:					
Corporate social responsibility		262	379	855	1,151
Depreciation		24	27	79	79
Investor relations		88	40	237	191
Municipal taxes		985	589	1,225	802
Office and general		592	637	1,754	2,014
Professional fees		1,120	567	3,700	2,825
Regulatory and transfer agent		59	35	314	205
Salaries and benefits		915	922	4,171	4,152
Stock-based compensation		867	704	2,819	2,031
Training		986	349	3,360	349
Travel		167	200	404	544
Loss before other items		6,393	5,241	21,283	19,334
OTHER ITEMS					
Foreign exchange gain (loss)		258	(5,024)	(2,636)	8,379
Interest income		260	1,115	1,512	2,422
Other income		26	-	2,526	-
Accretion expense		(100)	(1,504)	(299)	(2,821)
Derivative gain (loss)	7	(33,723)	17,924	(58,000)	12,777
Net income (loss) for the period		\$ (39,672)	\$ 7,270	\$ (78,180)	\$ 1,423
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that may be reclassified to net income (loss)					
Currency translation adjustment		(710)	5,108	2,877	(8,586)
Items that will not be reclassified to net income (loss)					
Derivative loss related to the Company's own credit risk		(7,187)	(12,096)	(44,596)	(20,102)
Comprehensive income (loss)		\$ (47,569)	\$ 282	\$ (119,899)	\$ (27,265)
Income (loss) per common share					
Basic		\$ (0.18)	\$ 0.03	\$ (0.35)	\$ 0.01
Diluted		(0.18)	0.03	(0.35)	0.01
Weighted-average number of common shares					
Basic		222,953,642	213,163,980	220,541,990	184,053,148
Diluted		222,953,642	213,707,572	220,541,990	184,646,495

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

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LUNDIN GOLD INC.

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

	Note	Number of common shares	Share capital	Equity-settled share-based payment reserve	Other reserves	Deficit	Total
Balance, January 1, 2018		119,666,840	\$ 460,856	\$ 9,547	\$ (11,364)	\$ (224,190)	\$ 234,849
Impact of adopting IFRS 9 on January 1, 2018		-	-	-	(10,251)	10,251	-
Balance, January 1, 2018 (restated)		119,666,840	460,856	9,547	(21,615)	(213,939)	234,849
Proceeds from equity financing, net	8	93,497,140	396,452	-	-	-	396,452
Stock-based compensation	9	-	-	2,031	-	-	2,031
Other comprehensive loss		-	-	-	(28,688)	-	(28,688)
Net loss for the period		-	-	-	-	1,423	1,423
Balance, September 30, 2018		213,163,980	\$ 857,308	\$ 11,578	\$ (50,303)	\$ (212,516)	\$ 606,067
Balance, January 1, 2019		213,163,980	\$ 857,279	\$ 12,125	\$ (35,353)	\$ (236,007)	\$ 598,044
Proceeds from equity financing, net	8	8,625,000	33,940	-	-	-	33,940
Consideration for cost overrun facility	7	300,000	1,221	373	-	-	1,594
Exercise of stock options		831,800	3,963	(1,514)	-	-	2,449
Exercise of anti-dilution rights	8, 9	308,322	1,502	139	-	-	1,641
Stock-based compensation	9	-	-	2,819	-	-	2,819
Other comprehensive loss		-	-	-	(41,719)	-	(41,719)
Net loss for the period		-	-	-	-	(78,180)	(78,180)
Balance, September 30, 2019		223,229,102	\$ 897,905	\$ 13,942	\$ (77,072)	\$ (314,187)	\$ 520,588

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

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LUNDIN GOLD INC.

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

Nine months ended September 30,
2019 2018

OPERATING ACTIVITIES

Net income (loss) for the period	\$	(78,180)	\$	1,423
Items not affecting cash:				
Stock-based compensation		2,819		2,031
Depreciation		105		88
Derivative loss (gain)		58,000		(12,777)
Unrealized foreign exchange loss (gain)		2,516		(8,363)
Other expense		299		2,754
		(14,441)		(14,844)
Changes in non-cash working capital items:				
VAT recoverable and other current assets		(4,483)		(22,440)
Accounts payable and accrued liabilities		491		(696)
Net cash used for operating activities		(18,433)		(37,980)

FINANCING ACTIVITIES

Proceeds from long-term debt (Note 7)		301,000		110,000
Transaction costs (Note 7)		(4,991)		(735)
Net proceeds from equity financing (Note 8)		33,940		396,452
Proceeds from exercise of stock options		2,449		-
Proceeds from exercise of anti-dilution rights (Note 8 and 9)		1,641		-
Net cash provided by financing activities		334,039		505,717

INVESTING ACTIVITIES

Acquisition and development of property, plant and equipment		(320,921)		(193,290)
Change in VAT receivable and other long-term assets		(32,220)		(17,856)
Net cash used for investing activities		(353,141)		(211,146)
Effect of foreign exchange rate differences on cash		257		(10)
Net increase (decrease) in cash and cash equivalents		(37,278)		256,581
Cash and cash equivalents, beginning of period		167,513		35,018
Cash and cash equivalents, end of period	\$	130,235	\$	291,599

Supplemental information

Interest received	\$	1,512	\$	2,422
Interest paid		(5,340)		-
Change in accounts payable and accrued liabilities related to:				
Acquisition of property, plant and equipment		436		8,210

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

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LUNDIN GOLD INC.

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

(Unaudited – Prepared by Management)

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

1. Nature of operations

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

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

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

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

2. Basis of preparation and consolidation

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

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

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

These financial statements were approved for issue by the Board of Directors on November 8, 2019.

3. VAT recoverable and other current assets

	September 30, 2019	December 31, 2018
VAT recoverable	\$ 15,433	\$ -
Prepaid expenses and deposits	13,163	9,531
Deferred transaction costs	7,170	21,954
Other current assets	817	-
	<u>\$ 36,583</u>	<u>\$ 31,485</u>

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

LUNDIN GOLD INC.

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

(Unaudited – Prepared by Management)

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

4. VAT recoverable and other long-term assets

	September 30, 2019	December 31, 2018
VAT recoverable	\$ 40,305	\$ 24,665
Other long-term assets	3,401	2,212
	\$ 43,706	\$ 26,877

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

5. Property, plant and equipment

Cost	Construction- in-progress	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
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	319,955	257	24,328	7,486	559	352,585
Cumulative translation adjustment	117	-	-	-	2	119
Balance, September 30, 2019	\$ 771,195	\$ 4,715	\$ 42,520	\$ 19,389	\$ 2,295	\$ 840,114

LUNDIN GOLD INC.

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

(Unaudited – Prepared by Management)

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

5. Property, plant and equipment (continued)

Accumulated depreciation	Construction-in-progress	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
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	-	77	2,517	2,350	340	5,284
Cumulative translation adjustment	-	-	-	-	2	2
Balance, September 30, 2019	\$ -	\$ 488	\$ 5,847	\$ 4,509	\$ 931	\$ 11,775
Net book value						
As at December 31, 2018	\$ 451,123	\$ 4,047	\$ 14,862	\$ 9,744	\$ 1,145	\$ 480,921
As at September 30, 2019	\$ 771,195	\$ 4,227	\$ 36,673	\$ 14,880	\$ 1,364	\$ 828,339

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

	September 30, 2019	December 31, 2018
Depreciation and amortization	\$ 5,179	\$ 2,974
Capitalized interest and accretion of transaction and derivative costs (Note 7)	26,049	33,371
	\$ 31,228	\$ 36,345

LUNDIN GOLD INC.

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

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6. Advance royalty

Advance royalty payments totalling \$65 million are deductible against future royalties 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 expects to begin generating sales in the next twelve months, a portion of the advance royalty payment has been reclassified as current assets.

7. Long-term debt

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

	September 30, 2019	December 31, 2018
Gold prepay credit facility (a)	\$ 208,904	\$ 167,524
Stream loan credit facility (b)	255,448	178,838
Offtake derivative liability (c)	27,398	17,890
Senior debt facility (d)	280,776	-
	\$ 772,526	\$ 364,252

The gold prepay and the stream loan credit facilities were fully drawn at September 30, 2019 and December 31, 2018. The gold prepay credit facility (the "Prepay Loan"), stream loan credit facility (the "Stream Loan"), and the offtake derivative liability are accounted for as financial liabilities at fair value through profit or loss and is comprised of the following:

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Principal	\$ 150,000	\$ 150,000	\$ -	\$ 300,000
Interest accrued and capitalized at stated rate of 7.5%	23,285	22,875	-	46,160
Transaction costs	(3,532)	(2,708)	-	(6,240)
Derivative fair value adjustments	39,151	85,281	27,398	151,830
Total	\$ 208,904	\$ 255,448	\$ 27,398	\$ 491,750

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

(a) Gold prepay credit facility

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

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

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(Unaudited – Prepared by Management)

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7. Long-term debt (continued)

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

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

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

(c) Offtake commitment

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

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

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

	Tranche A	Tranche B	Total
Principal	\$ 215,000	\$ 86,000	\$ 301,000
Transaction costs	(15,016)	(5,208)	(20,224)
Total	\$ 199,984	\$ 80,792	\$ 280,776

The Facility is a senior secured loan of up to \$350 million, comprised of two tranches: a \$250 million senior commercial facility (“Tranche A”) and a \$100 million senior covered facility under a raw material guarantee (“Tranche B”). The annual interest rate is the three or six-month LIBOR plus an average margin of approximately 5.05% for Tranche A and 2.50% for Tranche B. Tranche A and Tranche B are subject to risk mitigation and guarantee fees of 2.00% and 3.15%, respectively. The Facility is repayable in variable quarterly instalments starting at the end of 2020 and maturing in June 2026. As at September 30, 2019, the Company has drawn down \$215.0 million and \$86.0 million from Tranche A and Tranche B, respectively.

(e) Cost overrun facility (the “COF”)

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

LUNDIN GOLD INC.

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

(Unaudited – Prepared by Management)

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

7. Long-term debt (continued)

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.

8. Share capital

Authorized:

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

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

	Note	Number of common shares	Share capital
Balance at January 1, 2018		119,666,840	\$ 460,856
Proceeds from equity financing, net	(a)	93,497,140	396,423
Balance at December 31, 2018		213,163,980	857,279
Proceeds from equity financing, net	(b)	8,625,000	33,940
Consideration for cost overrun facility	7	300,000	1,221
Exercise of stock options		831,800	3,963
Exercise of anti-dilution rights	(c)	308,322	1,502
Balance at September 30, 2019		223,229,102	\$ 897,905

(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 nine months ended September 30, 2019, the Company issued 308,322 common shares to Newcrest Mining Limited ("Newcrest") at a weighted average price of CAD\$6.49 per share for total proceeds of \$1.5 million under its anti-dilution rights granted as part of the Private Placement following the issuance of shares to the COF provider (see note 7) and the exercise of stock options.

LUNDIN GOLD INC.

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

(Unaudited – Prepared by Management)

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9. Stock-based compensation and share purchase warrants

(a) Stock-based compensation

The Company has adopted an omnibus incentive plan (the “Plan”) approved at the June 3, 2019 annual general and special meeting of shareholders which replaces its rolling stock-based compensation plan. The Plan allows for the reservation of a maximum 8.5% of the common shares issued and outstanding at any given time for issuance under the Plan. Under the Plan, the Company may grant stock options, restricted share units and deferred share units (collectively, the “Awards”). Subject to specific provisions under the Plan, the eligibility, vesting period, term, and number of Awards are granted at the discretion of the Company’s board of directors. No Awards have been granted under the Plan as at September 30, 2019.

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

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

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

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

	Nine months ended September 30, 2019		Year ended December 31, 2018	
	Number of stock options	Weighted average exercise price (CAD)	Number of stock options	Weighted average exercise price (CAD)
Balance, beginning of period	5,902,900	\$ 4.59	4,625,500	\$ 4.44
Granted	1,861,800	5.35	1,277,400	5.13
Cancelled	(38,500)	5.22	-	-
Exercised ⁽¹⁾	(831,800)	3.93	-	-
Balance outstanding, end of period	6,894,400	\$ 4.87	5,902,900	\$ 4.59
Balance exercisable, end of period	4,598,540	\$ 4.67	4,236,980	\$ 4.38

⁽¹⁾ The weighted average share price on the exercise date for the stock options exercised during the nine months ended September 30, 2019 was CAD\$6.39.

LUNDIN GOLD INC.

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

(Unaudited – Prepared by Management)

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

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

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

Range of exercise prices (CAD)	Outstanding options			Exercisable options		
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CAD)	Number of options outstanding	Weighted average remaining contractual life (life)	Weighted average exercise price (CAD)
\$ 3.69 to 4.50	2,301,000	0.97	\$ 4.06	2,301,000	0.97	\$ 4.06
\$ 4.51 to 5.94	4,593,400	3.46	5.28	2,297,540	2.81	5.29
	6,894,400	2.63	\$ 4.87	4,598,540	1.89	\$ 4.67

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:

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

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

During the nine months ended September 30, 2019, the Company recorded stock-based compensation expense of \$2.8 million (2018 – \$2.0 million).

LUNDIN GOLD INC.

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

(Unaudited – Prepared by Management)

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

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

(b) Share Purchase Warrants

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

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

- i. The Company issued 111,441 warrants to Newcrest at a price of CAD\$1.66 per warrant for total proceeds of CAD\$0.2 million under its anti-dilution rights granted as part of the Private Placement (see Note 8) following the issuance of Warrants to the COF provider (see Note 7). Each warrant has a term of three years from the date of issue and is exercisable for a common share upon payment of the exercise price of CAD\$5.98. The following table summarizes information concerning outstanding warrants at September 30, 2019:

Exercise price (CAD)	Number of warrants outstanding	Remaining contractual life (years)
\$ 5.98	411,441	2.50

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:

	September 30, 2019	December 31, 2018
Risk-free interest rate	1.78%	-
Expected stock price volatility	50.63%	-
Expected life	3 years	-
Expected dividend yield	-	-
Weighted-average fair value per warrant granted (CAD)	\$1.66	-

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

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10. Related party transactions

(a) Related party expenses

During the nine months ended September 30, 2019 and September 30, 2018, the Company incurred the following:

Payee	Nature	Note	September 30, 2019	September 30, 2018
Namdo	Management fees	i	\$ 223	\$ 231

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

(b) Key management compensation

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

	September 30, 2019	September 30, 2018
Salaries, bonuses and benefits	\$ 3,299	\$ 3,297
Stock-based compensation	2,010	1,534
	\$ 5,309	\$ 4,831

11. Segmented information

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

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

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11. Segmented information (continued)

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

	Fruta del Norte Project	Other concessions	Corporate and other	Total
As at September 30, 2019				
Current assets	\$ 117,166	\$ 555	\$ 53,627	\$ 171,348
Non-current assets	1,173,180	-	-	1,173,180
Total assets	1,290,346	555	53,627	1,344,528
Current liabilities	45,660	413	689	46,762
Non-current liabilities	777,178	-	-	777,178
Total liabilities	822,838	413	689	823,940
For the three months ended September 30, 2019				
Capital expenditures	109,996	-	-	109,996
Exploration expenditures	-	328	-	328
General and administration and other items	37,031	(3)	2,316	39,344
Net loss for the period	37,031	325	2,316	39,672
For the nine months ended September 30, 2019				
Capital expenditures	352,585	-	-	352,585
Exploration expenditures	-	2,365	-	2,365
General and administration and other items	67,259	30	8,526	75,815
Net loss for the period	67,259	2,395	8,526	78,180

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11. Segmented information (continued)

	Fruta del Norte Project	Other concessions	Corporate and other	Total
As at September 30, 2018				
Current assets	\$ 47,900	\$ 393	\$ 270,540	\$ 318,833
Non-current assets	688,292	162	-	688,454
Total assets	736,192	555	270,540	1,007,287
Current liabilities	28,003	134	298	28,435
Non-current liabilities	372,785	-	-	372,785
Total liabilities	400,788	134	298	401,220
For the three months ended September 30, 2018				
Capital expenditures	84,765	-	-	84,765
Exploration expenditures	-	792	-	792
General and administration and other items	(10,796)	(8)	2,742	(8,062)
Net loss (income) for the period	(10,796)	784	2,742	(7,270)
For the nine months ended September 30, 2018				
Capital expenditures	228,293	-	-	228,293
Exploration expenditures	-	4,991	-	4,991
General and administration and other items	(9,825)	4	3,407	(6,414)
Net loss (income) for the period	(9,825)	4,995	3,407	(1,423)

12. Financial instruments

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

(a) Fair value measurements and hierarchy

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

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

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

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12. Financial instruments (continued)

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

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

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

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Balance, December 31, 2018	\$ 167,524	\$ 178,838	\$ 17,890	\$ 364,252
Interest accrued and capitalized at stated rate of 7.5%	8,531	8,531	-	17,062
Accretion of transaction costs	461	133	-	594
Derivative fair value adjustments recognized in:				
Property, plant and equipment	3,338	3,908	-	7,246
Derivative loss (gain)	14,942	33,550	9,508	58,000
Other comprehensive loss	14,108	30,488	-	44,596
Balance, September 30, 2019	\$ 208,904	\$ 255,448	\$ 27,398	\$ 491,750

(c) Valuation inputs and relationships to fair value

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

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

	Fair value at September 30, 2019	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Long-term debt	\$ 491,750	Expected volatility	14% to 28%	An increase or decrease in expected volatility of 5% would increase or decrease fair value by \$5.6 million or \$7.5 million, respectively
		Risk-adjusted discount rate	6% to 9%	An increase or decrease in risk-adjusted discount rate of 1% would decrease or increase fair value by \$22.4 million or \$23.8 million, respectively

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12. Financial instruments (continued)

(d) Valuation processes

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

13. Commitments

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

		Development Costs
12 months ending September 30, 2020	\$	79,448
October 1, 2020 onward		-
Total	\$	79,448