

LUNDIN GOLD INC.

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

	Note	September 30, 2020	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		\$ 68,760	\$ 75,684
Trade receivables and other current assets	3	91,772	63,706
Inventories	4	64,161	-
Advance royalty		14,488	9,790
		239,181	149,180
Non-current assets			
VAT recoverable and other long-term assets		65,432	39,435
Advance royalty		44,596	54,699
Property, plant and equipment	5	868,116	924,982
Mineral properties		234,745	240,665
		\$ 1,452,070	\$ 1,408,961
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 40,226	\$ 58,802
Current portion of long-term debt	6	167,783	57,578
		208,009	116,380
Non-current liabilities			
Long-term debt	6	640,987	821,008
Other non-current liabilities	8	1,896	-
Reclamation provisions		4,731	4,751
		855,623	942,139
EQUITY			
Share capital	7	951,164	899,903
Equity-settled share-based payment reserve	8	14,226	14,118
Accumulated other comprehensive income (loss)		31,934	(92,247)
Deficit		(400,877)	(354,952)
		596,447	466,822
		\$ 1,452,070	\$ 1,408,961

Commitments (Note 16)

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 Income (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,	
		2020	2019	2020	2019
Revenues	5(b)	\$ 118,904	\$ -	\$ 168,906	\$ -
Cost of goods sold					
Operating expenses		32,381	-	56,605	-
Royalty expenses		6,884	-	9,720	-
Depletion and amortization		16,888	-	25,052	-
		56,153	-	91,377	-
Income from mining operations		62,751	-	77,529	-
Other expenses (income)					
Corporate administration	9	2,066	6,065	14,989	18,918
Exploration		476	328	2,157	2,365
Suspension of operations	1, 10	-	-	29,304	-
Finance expense (income)	11	14,262	(260)	32,010	(1,512)
Other expense (income)		157	(184)	(1,317)	409
Derivative loss	6	18,010	33,723	46,311	58,000
		34,971	39,672	123,454	78,180
Net income (loss) for the period		\$ 27,780	\$ (39,672)	\$ (45,925)	\$ (78,180)
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that may be reclassified to net income (loss)					
Currency translation adjustment		1,370	(710)	(2,526)	2,877
Items that will not be reclassified to net income (loss)					
Derivative gain (loss) related to the Company's own credit risk	6	(1,152)	(7,187)	126,707	(44,596)
Comprehensive income (loss)		\$ 27,998	\$ (47,569)	\$ 78,256	\$ (119,899)
Income (loss) per common share					
Basic		\$ 0.12	\$ (0.18)	\$ (0.20)	\$ (0.35)
Diluted		0.12	(0.18)	(0.20)	(0.35)
Weighted-average number of common shares					
Basic		229,936,873	222,953,642	226,647,415	220,541,990
Diluted		233,264,544	222,953,642	226,647,415	220,541,990

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, 2019		213,163,980	\$ 857,279	\$ 12,125	\$ (35,353)	\$ (236,007)	\$ 598,044
Proceeds from equity financing, net	7	8,625,000	33,940	-	-	-	33,940
Consideration for cost overrun facility	6	300,000	1,221	373	-	-	1,594
Exercise of stock options		831,800	3,963	(1,514)	-	-	2,449
Exercise of anti-dilution rights	7	308,322	1,502	139	-	-	1,641
Stock-based compensation	8	-	-	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
Balance, January 1, 2020		223,631,212	\$ 899,903	\$ 14,118	\$ (92,247)	\$ (354,952)	\$ 466,822
Proceeds from equity financing, net	7	4,772,500	41,419	-	-	-	41,419
Exercise of stock options		1,011,200	4,988	(1,777)	-	-	3,211
Exercise of anti-dilution rights	7	583,105	4,854	-	-	-	4,854
Stock-based compensation	8	-	-	1,885	-	-	1,885
Other comprehensive income		-	-	-	124,181	-	124,181
Net loss for the period		-	-	-	-	(45,925)	(45,925)
Balance, September 30, 2020		229,998,017	\$ 951,164	\$ 14,226	\$ 31,934	\$ (400,877)	\$ 596,447

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)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
OPERATING ACTIVITIES					
Net income (loss) for the period		\$ 27,780	\$ (39,672)	\$ (45,925)	\$ (78,180)
Items not affecting cash:					
Depletion and amortization		16,897	33	27,567	105
Stock-based compensation		512	867	3,757	2,819
Derivative loss		18,010	33,723	46,311	58,000
Unrealized foreign exchange loss (gain)		950	242	(676)	2,516
Finance expense (income)	11	12,184	(260)	29,932	(1,512)
Other expense		-	100	-	299
		76,333	(4,967)	60,966	(15,953)
Changes in non-cash working capital items:					
Trade receivables and other current assets		(51,447)	(3,858)	(66,217)	(4,483)
Inventories	4	(10,789)	-	(11,926)	-
Advance royalty		2,911	-	4,139	-
Accounts payable and accrued liabilities		6,321	464	31,309	491
Interest received		56	260	354	1,512
Net cash provided by (used for) operating activities		23,385	(8,101)	18,625	(18,433)
FINANCING ACTIVITIES					
Net proceeds from equity financing	7	-	-	41,419	33,940
Proceeds from long-term debt	6	-	-	-	301,000
Repayments of long-term debt	6	(1,873)	-	(3,005)	-
Interest paid	6	(9,714)	(2,689)	(23,018)	(5,340)
Transaction costs paid	6	-	(283)	-	(4,991)
Proceeds from exercise of stock options		199	967	3,211	2,449
Proceeds from exercise of anti-dilution rights	7	666	839	4,854	1,641
Net cash provided by (used for) financing activities		(10,722)	(1,166)	23,461	328,699
INVESTING ACTIVITIES					
Acquisition and development of property, plant and equipment, net of sales		(13,718)	(100,754)	(35,389)	(315,581)
Change in VAT receivable and other long-term assets		(4,248)	(10,324)	(11,764)	(32,220)
Net cash used for investing activities		(17,966)	(111,078)	(47,153)	(347,801)
Effect of foreign exchange rate differences on cash		(142)	(920)	(1,857)	257
Decrease in cash and cash equivalents		(5,445)	(121,265)	(6,924)	(37,278)
Cash and cash equivalents, beginning of period		74,205	251,500	75,684	167,513
Cash and cash equivalents, end of period		\$ 68,760	\$ 130,235	\$ 68,760	\$ 130,235

Supplemental cash flow information (Note 13)

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, 2020

(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 its mining concessions in Ecuador, which include the Fruta del Norte underground gold mine (“Fruta del Norte”).

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

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

The Company substantially completed the development of Fruta del Norte and achieved commercial production in February 2020. Due to growing concerns regarding the spread of COVID-19 in Ecuador and the impacts of increasing efforts by governments at all levels to slow the spread of COVID-19, the Company temporarily suspended operations at Fruta del Norte on March 22, 2020. Following three months of suspension of operations, the Company announced the re-start of operations in early July. With the re-start of operations, the Company expects to generate net sale receipts well in excess of its obligations due in the next twelve months.

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

2. Basis of preparation 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, 2019.

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, 2019.

These financial statements were approved for issue by the Board of Directors on November 9, 2020.

LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at September 30, 2020

(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)

3. Trade receivables and other current assets

	September 30, 2020	December 31, 2019
Trade receivables (a)	\$ 59,885	\$ 20,936
VAT recoverable (b)	13,795	26,804
Prepaid expenses and deposits	14,388	12,056
Deferred transaction costs (c)	3,704	3,750
Other current assets	-	160
	\$ 91,772	\$ 63,706

- (a) Trade receivables represent the value of concentrate sold as at period end for which the funds are not yet received. Consistent with industry standards, these sales generally have relatively long payment terms and are not settled until two to four months after export. There is no recorded allowance for credit losses. In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the counterparty, with the concentration of the credit risk limited due to the nature of the counterparties involved and a history of no credit losses.
- (b) VAT paid in Ecuador by the Company after January 1, 2018 will be refunded or applied as a credit against other taxes payable based on export sales. As the Company is generating sales, a portion of the VAT recoverable has been reclassified as current assets.
- (c) Deferred transaction costs include upfront and advisory fees incurred to secure the cost overrun facility (the "COF"), and ongoing stand-by fees. These costs will be reclassified to long-term debt on a pro-rata basis should the Company utilize the COF.

4. Inventories

	September 30, 2020	December 31, 2019
Ore stockpile	\$ 2,112	\$ -
Production inventory	23,155	-
Materials and supplies	38,894	-
	\$ 64,161	\$ -

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(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

Cost	Construction-in-progress	Mine and plant facilities	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2019	\$ 451,123	\$ 4,458	\$ 18,192	\$ 11,903	\$ 1,734	\$ 487,410
Additions	415,735	257	26,478	7,994	763	451,227
Cumulative translation adjustment	369	-	-	-	4	373
Balance, December 31, 2019	867,227	4,715	44,670	19,897	2,501	939,010
Additions (a)	17,527	-	868	106	22	18,523
Reclassifications (b)	(863,975)	814,560	-	-	-	(49,415)
Cumulative translation adjustment	-	(329)	-	-	(2)	(331)
Balance, September 30, 2020	\$ 20,779	\$ 818,946	\$ 45,538	\$ 20,003	\$ 2,521	\$ 907,787
Accumulated depreciation	Construction-in-progress	Mine and plant facilities	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2019	\$ -	\$ 411	\$ 3,330	\$ 2,159	\$ 589	\$ 6,489
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
Depletion and amortization	-	18,825	3,484	2,888	448	25,645
Cumulative translation adjustment	-	-	-	-	(2)	(2)
Balance, September 30, 2020	\$ -	\$ 19,338	\$ 10,453	\$ 8,353	\$ 1,527	\$ 39,671
Net book value						
As at December 31, 2019	\$ 867,227	\$ 4,202	\$ 37,701	\$ 14,432	\$ 1,420	\$ 924,982
As at September 30, 2020	\$ 20,779	\$ 799,608	\$ 35,085	\$ 11,650	\$ 994	\$ 868,116

LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at September 30, 2020

(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)

- (a) Included in the additions to construction-in-progress are the following:

	September 30, 2020	December 31, 2019
Depreciation and amortization	\$ 1,507	\$ 7,405
Capitalized interest and accretion of transaction and derivative costs (Note 6)	10,556	35,257
	\$ 12,063	\$ 42,662

January and February 2020 sales of \$52.4 million have been recognized as a reduction of capitalized construction costs under property, plant and equipment.

- (b) The Company achieved commercial production at Fruta del Norte in February 2020. In making this determination, management considered a number of factors, including completion of substantially all construction development activities in accordance with design and a production ramp up period where mill feed, in terms of tonnes of ore, equalled an average of 70% of mill capacity over a 90 day period. With this achievement and continued handover of assets to operations, substantially all of Construction-in-Progress as at February 28, 2020 was either reclassified to Mine and Plant Facilities (\$813.9 million) or recognized as Opening Inventory (\$49.4 million), as applicable, and depletion commenced on mine and plant facilities. Effective March 1, 2020, revenues, cost of goods sold, and debt service costs (Note 6 and 11) are recognized in the condensed consolidated statements of income (loss) and comprehensive income (loss). Costs of remaining areas of construction, not essential to operations, will continue to be captured as Construction-in-progress until ready for their intended use.

6. Long-term debt

	September 30, 2020	December 31, 2019
Gold prepay credit facility (a)	\$ 235,936	\$ 234,917
Stream loan credit facility (b)	218,678	290,124
Offtake derivative liability (c)	24,870	26,856
Senior debt facility (d)	329,286	326,689
	\$ 808,770	\$ 878,586
Current portion	167,783	57,578
Long-term	\$ 640,987	\$ 821,008

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Notes to the condensed consolidated interim financial statements as at September 30, 2020

(Unaudited – Prepared by Management)

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6. Long-term debt (continued)

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 as at September 30, 2020:

	Gold prepay credit facility	Stream loan credit facility	Offtake derivative liability	Total
Principal	\$ 150,000	\$ 146,995	\$ -	\$ 296,995
Interest accrued and capitalized at stated rate of 7.5%	34,723	25,971	-	60,694
Transaction costs	(2,918)	(2,520)	-	(5,438)
Derivative fair value adjustments	54,131	48,232	24,870	127,233
Total	\$ 235,936	\$ 218,678	\$ 24,870	\$ 479,484

Derivative fair value adjustments reflect the revaluation of the above financial instruments at fair value as at September 30, 2020, including a portion of the cost of derivatives which are part of the long-term debt. The derivative gain or loss related to the Company’s own credit risk recorded in other comprehensive 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 15).

(c) Gold prepay credit facility

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

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

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

(d) Stream loan credit facility

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

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

With the start of commercial production in February 2020, the Company made principal and interest payments under the Stream Loan totaling \$3.0 million and \$8.3 million, respectively, to the end of September 30, 2020 (see Note 15). As at September 30, 2020, the estimated fair value equivalent to 342,988 oz. of gold and 5,929,502 oz. of silver remains outstanding under the Stream Loan.

The Company has the option to repay (i) 50% of the remaining Stream Loan on June 30, 2024 for \$150 million and / or (ii) the other 50% of the remaining Stream Loan on June 30, 2026 for \$225 million.

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(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)

6. Long-term debt (continued)

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

(e) Offtake commitment

The lender 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 is 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.

Sales under the Offtake Agreement commenced after Fruta del Norte started production of doré.

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

As at September 30, 2020	Tranche A	Tranche B	Total
Principal	\$ 250,000	\$ 100,000	\$ 350,000
Transaction costs, net of amortization	(15,429)	(5,285)	(20,714)
Total	\$ 234,571	\$ 94,715	\$ 329,286

The Facility is a senior secured loan 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 September 30, 2020. The annual interest rate is the three or six-month LIBOR plus an average margin of approximately 5.05% for Tranche A and 2.50% for Tranche B. Tranche A and Tranche B are subject to risk mitigation and guarantee fees of 2.00% and 3.15%, respectively. The Facility is repayable in variable quarterly instalments starting at the end of 2020 and maturing in June 2026.

During the nine months ended September 30, 2020, the Company paid \$14.7 million (2019 – \$5.3 million) of interest relating to the Facility.

(g) Cost overrun facility (the “COF”)

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

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

Under the long-term debt, the Company, together with its subsidiaries related to Fruta del Norte (collectively, the “FDN Subsidiaries”), are subject to a number of 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.

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7. 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, 2019		213,163,980	\$ 857,279
Proceeds from equity financing, net	(a)	8,625,000	33,940
Consideration for cost overrun facility	6	300,000	1,221
Exercise of stock options		1,121,800	5,340
Exercise of anti-dilution rights	(b)	420,432	2,123
Balance at December 31, 2019		223,631,212	899,903
Proceeds from equity financing, net	(c)	4,772,500	41,419
Exercise of stock options		1,011,200	4,988
Exercise of anti-dilution rights	(b)	583,105	4,854
Balance at September 30, 2020		229,998,017	\$ 951,164

- (a) On March 1, 2019, the Company closed a CAD\$46.6 million bought deal equity financing (the “2019 Bought Deal”) by issuing 8,625,000 shares, which included the exercise in full of the over-allotment option of an additional 1,125,000 shares, at a price of CAD\$5.40 per share. Share issue costs of \$1.2 million were paid resulting in net proceeds of \$33.9 million received by the Company in relation to the 2019 Bought Deal.
- (b) During the nine months ended September 30, 2020, the Company issued 583,105 common shares to Newcrest Mining Limited (“Newcrest”) at a weighted average price of CAD\$11.57 per share for total proceeds of \$4.9 million. During the year ended December 31, 2019, 420,432 common shares were issued at a weighted average price of CAD\$6.72 per share for total proceeds of \$2.1 million. Both issuances were completed in accordance with Newcrest’s anti-dilution rights granted as part of its initial investment into the Company.
- (c) On June 11, 2020, the Company closed a bought deal equity financing (the “2020 Bought Deal”) by issuing 4,772,500 shares of the Company at a price of CAD\$12.05 per share for gross proceeds of CAD\$57.5 million (\$42.4 million), which included the exercise in full of the over-allotment option of an additional 622,500 shares. Share issue costs of \$1.0 million were paid resulting in net proceeds of \$41.4 million received by the Company in relation to the 2020 Bought Deal.

LUNDIN GOLD INC.

Notes to the condensed consolidated interim financial statements as at September 30, 2020

(Unaudited – Prepared by Management)

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8. Stock-based compensation and share purchase warrants

(a) Stock-based compensation

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

Restricted share units entitle the recipient, upon settlement, to receive common shares or, subject to provisions under the Plan, the cash equivalent or a combination thereof. Subject to specific provisions under the Omnibus Plan, the eligibility, vesting period, and number of Awards are granted at the discretion of the Company’s board of directors. The Company’s board of directors may also grant restricted share units that include performance criteria which vests based on a multiplier (“PSUs”).

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

i. Stock options

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

During the nine months ended September 30, 2020, 821,800 stock options were granted under the Omnibus Plan which have an expiry date of five years and vest over a period of three years from date of grant.

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

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

	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Number of stock options	Weighted average exercise price (CAD)	Number of stock options	Weighted average exercise price (CAD)
Balance, beginning of period	6,508,200	\$ 4.91	5,902,900	\$ 4.59
Granted	821,800	12.60	1,861,800	5.35
Cancelled	(28,900)	12.60	(134,700)	5.18
Exercised ⁽¹⁾	(1,011,200)	4.22	(1,121,800)	3.95
Balance outstanding, end of period	6,289,900	\$ 5.99	6,508,200	\$ 4.91
Balance exercisable, end of period	4,698,250	\$ 4.98	4,573,650	\$ 4.74

⁽¹⁾ The weighted average share price on the exercise date for the stock options exercised during the nine months ended September 30, 2020 and year ended December 31, 2019 were CAD\$10.08 and CAD\$6.81, respectively.

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

The following table summarizes information concerning outstanding and exercisable options at September 30, 2020:

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)
\$ 3.75 to 5.21	3,371,100	1.39	\$ 4.78	3,371,100	1.39	\$ 4.78
\$ 5.22 to 12.60	2,918,800	3.29	7.38	1,327,150	2.55	5.49
	6,289,900	2.27	\$ 5.99	4,698,250	1.72	\$ 4.98

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, 2020	December 31, 2019
Risk-free interest rate	1.38%	1.81%
Expected stock price volatility	28.28%	57.18%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	\$3.46	\$2.69

The equity-settled share-based payment reserve 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, 2020, the Company recorded stock-based compensation expense of \$1.8 million (2019 – \$2.8 million).

ii. Restricted share units with performance criteria (“PSUs”)

During the nine months ended September 30, 2020, the Company granted 148,000 PSUs to eligible employees which vest three years from date of grant subject to continued employment and certain performance conditions being met. The number of PSUs that vest will be adjusted using a multiplier that is based on total shareholder return by the Company’s shares over the three-year period relative to a peer group as defined by the Company’s board of directors. Each vested PSU entitles the recipient to a payment of one common share or cash with an equivalent market value, at the recipient’s option. If the recipient elects a cash payout, the market value is determined as the volume weighted average trading price of the Company’s shares on the TSX for the five trading days immediately preceding the vesting date.

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

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

	September 30, 2020	December 31, 2019
Risk-free interest rate	0.61%	-
Average expected volatility of the Company and its peer group	57.00%	-
Expected life	2.40 years	-
Expected dividend yield	-	-
Weighted-average fair value per PSU outstanding	\$10.40	-

The Company recorded a liability of \$1.5 million to recognize the estimated fair value as at September 30, 2020 of the PSUs.

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

During the nine months ended September 30, 2020, the Company granted 29,500 Cash RSUs to eligible employees which vest three years from date of grant subject to continued employment. Each vested Cash RSU entitles the recipient to a payment in cash based on the market value of one common share at the end of the three-year period. The market value is determined as the volume weighted average trading price of the Company's shares on the TSX for the five trading days immediately preceding the vesting date.

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

	September 30, 2020	December 31, 2019
Risk-free interest rate	0.26%	-
Expected stock price volatility	49.02%	-
Expected life	2.40 years	-
Expected dividend yield	-	-
Weighted-average fair value per Cash RSU outstanding	\$11.08	-

The Company recorded a liability of \$0.3 million to recognize the estimated fair value as at September 30, 2020 of the cash settled RSUs.

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

During the nine months ended September 30, 2020, the Company granted 34,600 Share RSUs to eligible employees. Of these, 31,500 Share RSUs vest on the earlier of December 31, 2020 or termination of employment. The remaining 3,100 Share RSUs vest three years from date of grant subject to continued employment. Each vested Share RSU entitles the recipient to a payment in shares upon vesting.

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

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

	September 30, 2020	December 31, 2019
Risk-free interest rate	0.29%	-
Expected stock price volatility	66.62%	-
Expected life	0.49 years	-
Expected dividend yield	-	-
Weighted-average fair value per Share RSU outstanding	\$10.24	-

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

During the nine months ended September 30, 2020, the Company recorded stock-based compensation expense of \$0.2 million (2019 – nil).

(b) Share Purchase Warrants

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

	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Number of warrants	Weighted average exercise price (CAD)	Number of warrants	Weighted average exercise price (CAD)
Balance, beginning of period	411,441	\$ 5.98	-	\$ -
Consideration for cost overrun facility (Note 6)	-	-	300,000	5.98
Anti-dilution rights exercised by Newcrest	-	-	111,441	5.98
Balance outstanding, end of period	411,441	\$ 5.98	411,441	\$ 5.98

- v. The Company issued 111,441 warrants to Newcrest at a price of CAD\$1.66 per warrant for total proceeds of CAD\$0.2 million under its anti-dilution rights following the issuance of Warrants to the COF provider (see Note 6). 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, 2020:

Exercise price (CAD)	Number of warrants outstanding	Remaining contractual life (years)
\$ 5.98	411,441	1.50

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

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

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

9. Administration

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Corporate social responsibility	\$ 195	\$ 262	\$ 617	\$ 855
Depreciation	-	24	-	79
Investor relations	59	88	188	237
Municipal taxes	9	985	48	1,225
Office and general	296	592	1,011	1,754
Professional fees	101	1,120	2,207	3,700
Regulatory and transfer agent	28	59	270	314
Salaries and benefits	844	915	6,518	4,171
Stock-based compensation	512	867	3,757	2,819
Training	-	986	216	3,360
Travel	22	167	157	404
	\$ 2,066	\$ 6,065	\$ 14,989	\$ 18,918

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10. Suspension of operations

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Salaries and benefits	\$ -	\$ -	\$ 13,003	\$ -
Maintenance	-	-	4,364	-
Fixed administrative costs	-	-	4,062	-
Site services	-	-	2,197	-
COVID-19 expenditures	-	-	1,455	-
Other costs	-	-	1,734	-
Depreciation and amortization	-	-	2,489	-
	-	-	\$ 29,304	\$ -

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

11. Finance expense (income)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest expense	\$ 9,802	\$ -	\$ 24,333	\$ -
Other finance costs	3,407	-	5,449	-
Accretion of transaction costs	1,109	-	2,582	-
Interest income	(56)	(260)	(354)	(1,512)
	\$ 14,262	\$ (260)	\$ 32,010	\$ (1,512)

With the achievement of commercial production, effective March 1, 2020, debt service costs are recognized in the condensed consolidated statements of income (loss) and comprehensive income (loss) (Note 5(b)).

12. Related party transactions

(a) Related party expenses

During the nine months ended September 30, 2020 and September 30, 2019, the Company incurred the following:

Payee	Nature	Note	September 30, 2020	September 30, 2019
Namdo	Management fees	i	\$ 219	\$ 223

- 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.

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12. Related party transactions (continued)

(b) Key management compensation

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

	September 30, 2020		September 30, 2019	
Salaries, bonuses and benefits	\$	5,781	\$	3,299
Stock-based compensation		3,122		2,010
	\$	8,903	\$	5,309

13. Supplemental cash flow information

	Three months ended September 30, 2020		September 30, 2019		Nine months ended September 30, 2020		September 30, 2019	
Change in trade receivables and other current assets related to:								
Sales recognized as a reduction of property, plant and equipment	\$	-	\$	-	\$	20,936	\$	-
Change in accounts payable and accrued liabilities related to:								
Acquisition of property, plant and equipment		(9,928)		(4,447)		(49,865)		436

14. 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.

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14. 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, 2020				
Current assets	\$ 189,199	\$ 540	\$ 49,442	\$ 239,181
Non-current assets	1,212,889	-	-	1,212,889
Total assets	1,402,088	540	49,442	1,452,070
Current liabilities	207,451	46	512	208,009
Non-current liabilities	645,718	-	1,896	647,614
Total liabilities	853,169	46	2,408	855,623
For the three months ended September 30, 2020				
Capital expenditures	3,790	-	-	3,790
Revenues	118,904	-	-	118,904
Income from mining operations	62,751	-	-	62,751
Corporate administration	(363)	(8)	(1,695)	(2,066)
Exploration expenditures	-	(476)	-	(476)
Suspension of operations	-	-	-	-
Finance expense (income)	(14,313)	-	51	(14,262)
Other expense	(10)	-	(147)	(157)
Derivative loss	(18,010)	-	-	(18,010)
Net income (loss) for the period	30,055	(484)	(1,791)	27,780
For the nine months ended September 30, 2020				
Capital expenditures	18,523	-	-	18,523
Revenues	168,906	-	-	168,906
Income from mining operations	77,529	-	-	77,529
Corporate administration	(3,359)	(46)	(11,584)	(14,989)
Exploration expenditures	-	(2,157)	-	(2,157)
Suspension of operations	(29,304)	-	-	(29,304)
Finance income (expense)	(32,345)	-	335	(32,010)
Other income	31	-	1,286	1,317
Derivative loss	(46,311)	-	-	(46,311)
Net loss for the period	(33,759)	(2,203)	(9,963)	(45,925)

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14. Segmented information (continued)

	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
Corporate administration	(3,497)	(5)	(2,563)	(6,065)
Exploration expenditures	-	(328)	-	(328)
Finance income (expense)	67	8	185	260
Other income (expense)	122	-	62	184
Derivative loss	(33,723)	-	-	(33,723)
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
Corporate administration	(10,102)	(38)	(8,778)	(18,918)
Exploration expenditures	-	(2,365)	-	(2,365)
Finance income	1,031	8	473	1,512
Other expense	(188)	-	(221)	(409)
Derivative loss	(58,000)	-	-	(58,000)
Net loss for the period	(67,259)	(2,395)	(8,526)	(78,180)

15. 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:

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15. Financial instruments (continued)

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

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

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

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

The following table sets forth the Company's financial liabilities measured at fair value on a recurring basis by level within the fair value hierarchy for the nine months ended September 30, 2020 and 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, 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
Principal paid	-	(3,005)	-	(3,005)
Interest paid	-	(8,282)	-	(8,282)
Interest accrued at stated rate of 7.5%	8,562	8,502	-	17,064
Accretion of transaction costs	461	144	-	605
Derivative fair value adjustments recognized in:				
Property, plant and equipment	735	866	-	1,601
Derivative loss (gain)	33,651	14,646	(1,986)	46,311
Other comprehensive income	(42,390)	(84,317)	-	(126,707)
Balance, September 30, 2020	\$ 235,936	\$ 218,678	\$ 24,870	\$ 479,484

(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 gold forward prices, gold volatility, risk-free rate of return, risk-adjusted discount rate, and production expectations. In addition, in valuing the Stream Loan, the silver forward prices, silver volatility, and the gold/silver correlation were used.

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15. Financial instruments (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 September 30, 2020	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Long-term debt \$	479,484	Expected volatility	17% to 43%	An increase or decrease in expected volatility of 5% would increase or decrease fair value by \$5.4 million or \$6.3 million, respectively
		Risk-adjusted discount rate	13% to 15%	An increase or decrease in risk-adjusted discount rate of 1% would decrease or increase fair value by \$13.5 million or \$14.2 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.

16. Commitments

Significant capital expenditures contracted as at September 30, 2020 but not recognized as liabilities are as follows:

	Capital Expenditures
12 months ending September 30, 2021	\$ 9,893
October 1, 2021 onward	-
Total	\$ 9,893