LUNDIN GOLD

Building a New Leading Gold Company

ANNUAL REPORT 2015

Message from the President

Lundin Gold Board of Directors on site at Frute del Norte in February, 2016

Dear Shareholders,

Lundin Gold has now completed its first full year of operations in Ecuador and is excited by the progress made towards developing the Fruta del Norte gold project, a significant high grade undeveloped gold project acquired from Kinross Gold Corporation at the end of 2014.

At the start of 2015, the Company set out to assemble a first rate management team, focussed on advancing the project. To lead the project, the Company brought experienced mining engineer formerly of Lucara Diamond Corp., Anthony George, P.Eng., on to the team early in the year as Vice President, Project Development. The Company also added Nathan Monash as Vice President, Business Sustainability, and Nicholas Teasdale as Vice President, Exploration, both of whom bring years of experience in the mining sector. Building on its expansion in 2014, the Board of Directors welcomed Ashley Heppenstall, the long-time CEO of Lundin Petroleum AB with extensive experience in project development and financing. Along with the appointments of Endeavour Financial as financial advisor and Norton Rose Fulbright LLP as legal advisor for the anticipated project financing, the Company has assembled a best-in-class team to see this project through development.

The preparation of a feasibility study is essential to the project's development, and the Company made great progress on the preparation of the feasibility study for Fruta del Norte last year; it is now on track to be released in the first half of this year. Activity in support of the feasibility study commenced immediately in 2015, starting with the appointment of a group of leading engineering firms with extensive gold experience and concluded with the completion of a near 14,000 metre drill program focused on geotechnical, hydrogeology, metallurgical and civils geotechnical and an extensive metallurgical test program carried out at laboratories in Canada and Chile. Environmental baseline studies, site fieldwork and document preparation in support of the feasibility study and the submissions in connection with the environment impact assessment also proceeded according to schedule in 2015. The feasibility study must be completed so that the Company can apply to move the FDN project's concession into the exploitation phase. This application must be filed by June 17, 2016.

The most significant event in 2015 was the successful negotiation of the exploitation agreement, which is one of the two key mining agreements that will determine the fiscal terms and conditions for the project. Negotiations with the Government of Ecuador began in August and advanced well during the year and, at the start of 2016, Lundin Gold and the Government of Ecuador successfully completed the negotiation of the definitive form of the exploitation agreement for the Fruta del Norte Project with fiscal terms significantly better than those previously considered. Both negotiating teams are working hard now to settle the investment protection agreement in the first half of 2016, which will provide long-term economic stability to the Company once the project goes into production. The Government of Ecuador continues to show its support for the development of Fruta del Norte by working with us on important regulatory changes as well, such as introducing sales tax credits for the mining sector starting in 2018.

The support of the Government was exhibited by a visit to the Project site by President Rafael Correa in February, 2016. He spoke to the large delegation of local community members and employees about the continued support of the Government of Ecuador for the mining industry and Lundin Gold.

With important ground work behind us in 2015, the Company is excited about the next steps in the development of Fruta del Norte. By mid-June, after completion of the feasibility study and the filing of the phase change application, the Government of Ecuador will have up to 60 days to approve the application. With the anticipated approval, Lundin Gold expects to focus on project financing, so that a production decision can be made by the start of 2017.

Thank you for your continued support.

Yours truly,

Ron F. Hochstein

President and CEO

Quito, Ecuador

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of Lundin Gold Inc. and its subsidiary companies (collectively, "Lundin Gold" or the "Company") for the year ended December 31, 2015 provides a detailed analysis of the Company's business and compares its financial results with those of the previous year.

This MD&A is dated as of February 22, 2016 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, 2015 and 2014. These 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 "2015 Period" and "2014 Period" relate to the years ended December 31, 2015 and December 31, 2014, respectively.

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

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: completion of the feasibility study for the Fruta del Norte Project, exploration and development expenditures and reclamation costs, the negotiation and signing of the investment protection agreement and signing of the exploitation agreement with the government, exploration plans, timing and success of permitting and regulatory approvals, future sources of liquidity, capital expenditures and requirements, expectations of market prices and costs, development, construction and operation of the Fruta del Norte Project, future tax payments and rates, cash flows and their uses and estimates of Mineral Resources.

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: the ability to arrange financing, the timely receipt of regulatory approvals, permits and licenses, risks related to carrying on business in an emerging market such as possible government instability and civil turmoil and economic instability, measures required to protect endangered species, deficient or vulnerable title to mining concessions and surface rights; the potential for litigation; volatility in the market price of the Company's shares; the risk to shareholders of dilution from future equity financings; the cost of compliance or failure to comply with applicable laws; difficulty complying with changing government regulations and policies, including without limitation, compliance with environment, health and safety regulations; illegal mining; uncertainty as to reclamation and decommissioning liabilities, unreliable infrastructure and local opposition to mining; the accuracy of the Mineral Resource estimates for the Fruta del Norte Project and the Company's reliance on one project; volatility in the price of gold; shortages of resources, such as labour, and the dependence on key personnel; the Company's lack of operating history in Ecuador and negative cash flow; the inadequacy of insurance; potential conflicts of interest for the Company's directors who are engaged in similar businesses; limitations of disclosure and internal controls; and the potential influence of the Company's largest shareholders.

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 MD&A.

HIGHLIGHTS AND ACTIVITIES

- On January 14, 2016, the Company announced the completion of negotiations of the definitive form of the exploitation agreement (the "Definitive EA") for the Fruta del Norte Project with the Government of Ecuador. Once signed, the Definitive EA, combined with existing laws and regulations, establishes the fiscal terms and conditions for the development of the Fruta del Norte Project.

- The metallurgical testwork was completed during the fourth quarter of 2015, and the results were announced in late January and confirmed the Gravity Float Leach (GFL) flowsheet for the Fruta del Norte Project. Gold recovery ranges from 91.7% to 94.2% with approximately 30% on average into doré with the remaining 70% into a final concentrate that ranges from 136.7 to 240.0 g/t Au. In addition, the results indicated that the concentrate produced will be readily saleable with impurities at controlled levels.

- Excellent progress on all feasibility study activities continued during the fourth quarter of 2015 with anticipated release of the feasibility study results in the second quarter of 2016.

- Progress continued on the environmental aspects of the Fruta del Norte Project, including completion of comprehensive baseline studies, project site fieldwork and document preparation in support of the feasibility study. An amendment to the mine Environmental Impact Assessment ("EIA") to include the anticipated plant and infrastructure is currently being reviewed on an informal basis by the Ministry of Environment and the formal review process is expected to begin in the first quarter of 2016. In addition, numerous permits required for development and exploration are proceeding according to schedule.

- The Company embarked on exploration activities on some of its higher priority concessions near the Fruta del Norte Project. During the quarter, field programs were carried out and geophysical (IP) programs were completed which helped define several high potential targets that are now drill ready, and identify new targets.

- In December 2015, the Government of Ecuador passed legislation (Ley Orgánica de Incentivos para Asociaciones Público Privadas) to extend Value-Added Tax ("VAT") recovery to the mining sector. As a result, VAT paid by the Company after January 1, 2018 will be refunded once the Company begins to generate export sales.

ABOUT LUNDIN GOLD

Lundin Gold is a Canadian mining company with its head office in Vancouver, British Columbia and a corporate office in Quito, Ecuador. The Company owns the Fruta del Norte Project located in Southeast Ecuador.

Lundin Gold was incorporated in British Columbia and then continued under the *Canada Business Corporations Act*. It is a reporting issuer in the Provinces of Alberta, British Columbia and Ontario. Lundin Gold's common shares are listed for trading on the TSX and Nasdaq Stockholm under the trading symbol "LUG".

In December 2014, the Company acquired the Fruta del Norte Project along with surrounding exploration concessions located in Southeast Ecuador. The Fruta del Norte Project is one of the largest and highest grade undeveloped gold projects in the world. The Company is advancing the Fruta del Norte Project in order to realize the significant potential of this asset and is currently working on the Fruta del Norte Project feasibility study, scheduled to be completed in the second quarter of 2016.

The Company believes that the value created will not only greatly benefit shareholders, but also the Government and people of Ecuador who are the Company's most important stakeholders in this project. Lundin Gold views its commitment to corporate social responsibility as a strategic advantage that enables it both to access and effectively manage business opportunities in increasingly complex environments. Lundin Gold is committed to addressing the challenge of sustainability - delivering value to its shareholders, while simultaneously providing economic and social benefits to impacted communities and minimizing its environmental footprint.

THE FRUTA DEL NORTE PROJECT

Lundin Gold's property in Southeast Ecuador consists of 33 mining concessions covering an area of approximately 75,000 hectares. From this, the Fruta del Norte Project is comprised of three concessions and covers an area of approximately 5,000 hectares and is located approximately 80 kilometres east of the City of Loja, which is the fourth largest city in Ecuador.

The Fruta del Norte Project is among the largest and highest grade undeveloped gold projects in the world. In October 2014, a Mineral Resource estimate was completed by RPA Inc. (the "FDN Report"), which was retained by the Company to independently review and audit the Mineral Resources at the Project in accordance with the requirements of National Instrument 43-101 - *Standards of Disclosure for Mineral Projects ("*NI 43-101"). The FDN Report uses a cut-off grade of 3.4 g/t Au and estimates:

- an Indicated Mineral Resource of 23.5 million tonnes at an average grade of 9.59 g/t Au and 12.9 g/t Ag for a total of 7.26 million ounces of gold and 9.73 million ounces of silver; and,

- an Inferred Mineral Resource of 14.5 million tonnes at an average grade of 5.46 g/t Au and 2.55 g/t Ag containing 2.55 million ounces of gold and 5.27 million ounces of silver.

A 1% net revenue royalty is payable on production from the La Zarza concession to a third party. There are no other third party royalties, back-in rights, payments, or other encumbrances affecting the Fruta del Norte Project.

The historical work carried out by prior owners, including Aurelian Resources Inc. and Kinross Gold Corporation, from its discovery in 2006 to 2014, has enabled Lundin Gold to proceed towards feasibility and ultimately a production decision.

In addition to the current Mineral Resource estimates, the Company believes that there is significant exploration potential at the Fruta del Norte Project and on the greater than 70,000 ha owned by the Company.

Activities in the Fourth Quarter of 2015

Progress on all feasibility study activities continued during the fourth quarter. Mine engineering and design was initiated in September and was substantively completed at year-end. This work is now going through peer review to support the inputs to the financial model and is expected to be completed during the second quarter of 2016.

The metallurgical testwork was completed during the fourth quarter of 2015, and the results were announced in late January and confirmed the Gravity Float Leach (GFL) flowsheet for the Fruta del Norte project. Gold recovery ranges from 91.7% to 94.2% with approximately 30% on average into doré with the remaining 70% into a final concentrate that ranges from 136.7 to 240.0 g/t Au (and 169.5 to 234.1 g/t Ag) resulting in the plant design criteria of 200 g/t Au (and 183 g/t Ag) over the life-of-mine. In addition, the results indicated that the concentrate produced will be readily saleable with impurities at controlled levels.

Progress continued on the environmental aspects of the Project, including completion of comprehensive baseline studies, project site fieldwork and document preparation in support of the feasibility study. An amendment to the mine EIA to include the anticipated plant and infrastructure is currently being informally reviewed by the Ministry of Environment and the formal process is expected to begin in the first quarter of 2016. In addition, numerous permits required for development and exploration are proceeding.

Exploration efforts during the fourth quarter focused on preparing some of our more prospective targets on high priority concessions near Fruta del Norte for drilling in 2016. Work completed included geophysics (IP), additional detailed mapping and prospecting.

The Company continued to work with the Government of Ecuador on the Definitive EA during the fourth quarter of 2015. On January 14, 2016, the Company announced the completion of negotiations of the Definitive EA with the Government of Ecuador.

The signing of the exploitation agreement is anticipated to occur within the required six months of approval of the election to change the Fruta del Norte Project's official status from economic evaluation phase to exploitation phase (the "Phase Change Application") by the Government of Ecuador. The Company must submit the Phase Change Application by June 17, 2016.

Key contract terms established by the signing of the Definitive EA are as follows:

- Through its wholly owned subsidiary in Ecuador, Lundin Gold has negotiated the right to develop and produce gold from the Fruta del Norte Project for 25 years, which may be renewed.

- The Company and the Government of Ecuador have agreed to an advance royalty payment of $65 million, with $25 million being due upon execution of the exploitation agreement. The balance of the payment will be due in two equal disbursements of $20 million on the first and second anniversaries of the execution of the exploitation agreement.

- Lundin Gold has agreed to pay the Government of Ecuador a royalty equal to 5% of net smelter revenues from production. The advance royalty payment is deductible against future royalties payable. It will be deductible against the lesser of 50% of the royalties payable or 20% of the total advance royalty payment.

- Extraordinary revenue tax (the "Windfall Tax") will be calculated in the event that market prices exceed a stipulated base price for gold and for silver. The Government of Ecuador will tax the difference between net smelter revenue and what revenue would be using the base price at a rate of 70%. The base price, which will be determined on a monthly basis, will be equal to the trailing 10-year average of the daily price of gold or silver, escalated by the U.S. Consumer Price Index, plus one standard deviation.

- The Windfall Tax will not apply until the Company has recouped all of the cumulative investment in the development of the Fruta del Norte Project since its inception plus the present value of the actual cumulative investment incurred from signing of the exploitation agreement until the start of production.

- The Government of Ecuador's share of cumulative benefits derived from the Fruta del Norte Project will not be less than 50%. To the extent that the Government of Ecuador's cumulative benefit falls below 50%, the Company will be required to pay an annual sovereign adjustment. Each year, the benefits to the Company will be calculated as the net present value of the actual cumulative free cash flows of the Fruta del Norte Project subsequent to the signing of the exploitation agreement, net of the cumulative investment incurred in the development of the Project from its inception until the date of the Agreement. The Government of Ecuador's benefit will be calculated as the present value of cumulative sum of taxes paid including corporate income taxes, royalties, Windfall Tax, labour profit sharing paid to the State, non-recoverable VAT, and any previous sovereign adjustment payments.

- A mechanism for correcting any economic imbalance to these key terms which are the result of changes in taxes, laws and regulations as provided under the agreement.

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

(Expressed in U.S. Dollars, unless otherwise noted)

SELECTED ANNUAL FINANCIAL INFORMATION

	2015	2014	2013
Operating expenses	$ (50,624,345)	$ (5,335,543)	$ (543,929)
Other income	5,300,483	4,586,819	284,513
Net loss for the year	(45,323,862)	(748,724)	(259,416)
Basic and diluted loss per share	$ (0.45)	$ (0.04)	$ (0.02)
Weighted-average number of common shares outstanding	101,219,763	18,380,162	14,831,758
Total assets	$ 267,399,530	$ 318,032,944	$ 21,363,517

The loss during the year ended December 31, 2015 is higher compared to the previous year as a result of project evaluation expenditures of $36.1 million incurred on the feasibility study and at the Fruta del Norte Project. This included approximately 14,000 metres of drilling to support mine and civil engineering, metallurgical test programs and site and environmental costs. General and administrative expenses are higher by $10.5 million as the Company increased its personnel and its activities in Ecuador to support the development of the Fruta del Norte Project and donated $2.0 million to the Lundin Foundation, a registered Canadian non-profit organization. The Lundin Foundation is carrying out economic development, training and small business development programs in Ecuador in conjunction with the Company. These expenses are offset by a gain on account of foreign exchange of $5.2 million. The gain is generated by the substantial holdings of U.S. dollars at the parent company level. As the functional currency of the parent company is the Canadian dollar, a strengthening of the U.S. dollar against the Canadian dollar during the year ended December 31, 2015 generates a gain in terms of Canadian dollars.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Operating expenses	$ (13,250,753)	$ (13,684,595)	$ (15,423,500)	$ (8,265,497)
Other income	489,812	2,081,708	(474,455)	3,203,418
Net loss for the period	(12,760,941)	(11,602,887)	(15,897,955)	(5,062,079)
Basic and diluted loss per share	$ (0.13)	$ (0.11)	$ (0.16)	$ (0.05)
Weighted-average number of common shares outstanding	101,260,268	101,239,398	101,201,982	101,176,268
Total assets	$ 267,399,530	$ 277,941,185	$ 294,612,037	$ 304,792,017
Working capital	$ 16,314,025	$ 28,324,350	$ 42,476,614	$ 56,317,859

	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Operating expenses	$ (1,843,500)	$ (1,013,367)	$ (1,151,234)	$ (1,327,442)
Other income	4,286,581	195,158	25,863	79,217
Net loss for the period	2,443,081	(818,209)	(1,125,371)	(1,248,225)
Basic and diluted loss per share	$ 0.09	$ (0.06)	$ (0.08)	$ (0.08)
Weighted-average number of common shares outstanding	27,971,149	14,831,758	14,831,758	14,831,758
Total assets	$ 318,032,944	$ 18,179,145	$ 19,865,087	$ 19,295,256
Working capital	$ 65,977,308	$ 17,707,223	$ 19,163,144	$ 19,240,766

The Company historically has only operated in the evaluation and exploration phase and therefore, has never generated production revenue. The only income generated by the Company is interest income on its cash deposits.

The current quarter's net loss is higher compared to the fourth quarter of 2014 as a result of project evaluation expenditures of $11.2 million incurred on the feasibility study and at the Fruta del Norte Project. The Company also incurred general and administrative expenditures of $1.6 million which includes $0.6 million in professional fees in connection with the negotiations with the Government of Ecuador. Exploration expenditures of $0.4 million were also incurred during the fourth quarter of 2015 as the Company completed geophysical (IP) programs on key targets.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2015, the Company had cash of $21.4 million and a working capital surplus of $16.3 million compared to cash of $70.9 million and a working capital surplus of $66.0 million at December 31, 2014. The decrease in cash of $49.5 million was due primarily to cash used in operating activities of $43.2 million and cash used in investing activities of $3.7 million. In addition, as a result of holding significant cash resources in Canadian dollars as at December 31, 2014 and the effect of the subsequent decline in the Canadian dollar relative to the U.S. dollar, a negative foreign exchange impact of $2.6 million was recorded during the year ended December 31, 2015.

Net cash used in operating activities of $43.2 million during the year ended December 31, 2015 was primarily driven by project evaluation expenses incurred relating to the feasibility study of the Fruta del Norte Project offset by changes in working capital items.

Net cash provided by financing activities was due to proceeds received from the exercise of stock options offset by the settlement of accounts payable and accrued liabilities relating to the private placement which was completed during the fourth quarter of 2014.

Net cash used in investing activities of $3.7 million was due to the settlement of accounts payable and accrued liabilities relating to the acquisition of Aurelian Resources Inc. and other property, plant and equipment expenditures.

Any potential development activities at the Fruta del Norte Project require substantial additional capital. As the Company does not have any sources of revenue, the Company expects to pursue various financing transactions or arrangements, including equity financing, debt financing, joint venturing of projects or other means. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to Lundin Gold. Moreover, Lundin Gold may not be successful in locating suitable financing when required or at all. A failure to raise capital when needed would have a material adverse effect on Lundin Gold's business, financial condition and results of operations. The ability to obtain needed financing may be impaired by a variety of factors such as the capital markets (both generally and in the gold industry in particular), the location of the Fruta del Norte Project in Ecuador and the price of gold.

TRANSACTIONS WITH RELATED PARTIES

During the 2015 Period, the Company paid $293,267 (2014 - $282,481) 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 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. In addition, during the 2015 period, the Company paid $107,321 to Bofill Mir & Alvarez Jana Abogados ("BMAJ"), a law firm of which a director of the Company is a partner. BMAJ assisted the Company with the negotiations of the Definitive EA with the Government of Ecuador.

FINANCIAL INSTRUMENTS

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

The Company's financial instruments are exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate and liquidity risk.

Currency risk

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

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash is held in a large Canadian financial institution with a high investment grade rating. The Company does not have any asset-backed commercial paper. The Company's receivables are made up of interest recoverable from large Canadian financial institutions.

(Expressed in U.S. Dollars, unless otherwise noted)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

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 which monitors 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.

COMMITMENTS AND CONTINGENCIES

The Company has committed to payments under various leases and other commitments. Excluding spending amount which may be required to maintain the Company's mineral properties in good standing, the future minimum payments are as follows:

2016	$	230,279
2017		237,079
Total	$	467,358

The Company is not currently involved in any litigation or proceedings. However, the Company is aware of a potential dispute concerning a historical asset. If the dispute cannot be amicably resolved, the aggregate amount of any potential liability is not expected to have a material adverse effect on the Company's financial position or results. However, in making this determination management has had to make assumptions about the probabilities of and amounts of potential cash flows, and changes in these assumptions could lead to different results. Management has also exercised its judgement in the application of IAS 37, and concluded that no further information relating to this potential dispute should be disclosed on the basis that additional disclosure could prejudice the Company's interests at this time.

OFF-BALANCE SHEET ARRANGEMENTS

During the year ended December 31, 2015 and the year ended December 31, 2014 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 101,260,268 common shares issued and outstanding and stock options outstanding to purchase a total of 2,122,500 common shares for a total of 103,382,768 common shares outstanding on a fully-diluted basis.

OUTLOOK

During the first quarter of 2016, the Company plans to continue the engineering and technical studies and environmental permitting at the Fruta del Norte Project with the goal of completing the feasibility study in the second quarter of 2016, obtaining all the necessary environmental permits in the third quarter of 2016 and reaching a production decision late 2016/early 2017.

By June 17, 2016, the Company must submit the Phase Change Application. The Government of Ecuador then has up to sixty (60) days to approve the Phase Change Application. Once the Phase Change Application is approved, the Company has up to six months to execute the exploitation agreement with the Government of Ecuador.
During 2016, the Company intends to work with its financial advisor and legal advisors to evaluate and put in place the debt financing component for the development of the Fruta del Norte Project. The Company intends to have its financing in place coincident with its production decision.

The Company may also undertake certain early works activities in order to optimize certain aspects of the project, reduce financing risk and carry out some field activities to facilitate a construction start in early 2017.

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, 2015.

Use of estimates

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:

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.

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

CHANGES IN ACCOUNTING POLICIES

New standards and interpretations not yet adopted

IFRS 15, Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach, entities will recognize transitional adjustments in retained earnings on the date of initial application without restating the comparative period. Entities will only need to apply the new rules to contracts that are not completed as of the date of initial application.

IFRS 15 will be effective for financial years commencing on or after January 1, 2017. The Company does not expect any impact from this new standard as the Company has yet to generate any revenues.

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Following the changes approved by the IASB in July 2014, the Company does not expect any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities.

IFRS 16, Leases

IFRS 16, Leases, is a new standard on lease accounting that results in substantially all leases being recorded on the statement of financial position of the lessee. This new standard will replace IAS 17. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the effect of this standard on its financial statements.

QUALIFIED PERSON

The technical information relating to the Fruta del Norte Project contained in this MD&A has been reviewed and approved by Anthony George P. Eng, a mining engineer and Lundin Gold's Vice-President Project Development, and Nicholas Teasdale, MAusIMM CP(Geo), Lundin Gold's Vice-President Exploration, both of whom are Qualified Persons under NI 43-101.

FINANCIAL INFORMATION

The report for the three months ended March 31, 2016 is expected to be published on May 9, 2016.

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, 2015, 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, 2015, 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 Lundin Gold's 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.

Financing Requirements
Any potential development activities at the Fruta del Norte Project require substantial additional capital. When such additional capital is required, Lundin Gold may need to pursue various financing transactions or arrangements, including equity financing, debt financing, joint venturing of projects or other means. Additional financing may not be available when needed or, if available, the terms of such financing might not be favourable to Lundin Gold and might involve substantial dilution to existing shareholders. Moreover, Lundin Gold may not be successful in locating suitable financing when required or at all. A failure to raise capital when needed would have a material adverse effect on Lundin Gold's business, financial condition and results of operations.

In addition, debt and other mezzanine financing may involve a pledge of assets and may be senior to interests of equity holders. Lundin Gold may incur substantial fees and costs in pursuing future capital requirements. The ability to obtain needed financing may be impaired by a variety of factors such as the capital markets (both generally and in the gold industry in particular), the location of the Fruta del Norte Project in Ecuador and the price of gold.

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

Furthermore, there is a risk that Lundin Gold will not be in a position to execute the exploitation agreement with the Government of Ecuador within the required timeframe. Additional Rights that are necessary to permit Lundin Gold to commercially exploit the Fruta del Norte Project deposit may be subject to unfavourable terms, may be delayed or may not be obtained at all. A delay in obtaining any such Rights, the imposition of unfavourable terms or conditions on any Rights or the denial of any Right may have a material adverse effect on Lundin Gold's business, financial condition, results of operations and prospects and, in particular, the development of the Fruta del Norte Project.

Instability in Ecuador
The Fruta del Norte Project is located in Ecuador, South America. As a result, the Project is subject to certain risks and possible political and economic instability specific to Ecuador, such as currency fluctuations, political unrest, labour disputes, invalidation of government orders, permits or property rights, risk of corruption including violations under applicable foreign corrupt practices laws, military repression, war, civil disturbances, criminal and terrorist acts, arbitrary changes in laws, expropriation, nationalization, renegotiation or nullification of existing agreements and changes to monetary or taxation policies. The occurrence of any of these risks may adversely affect the mining industry, mineral exploration and mining activities generally or the Company and, among impacts, could result in the impairment or loss of mineral concessions or other mineral rights.

Exploration, development or production may also be affected to varying degrees by government regulations with respect to, but not limited to, restrictions on future exploitation and production, price controls, export controls, income taxes, 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.

A federal election is scheduled for February 2017 and may result in a change in government. Any shifts in political attitudes or changes in laws that may result in, among other things, significant changes to mining laws or any other national legal body of regulations or policies are beyond the control of Lundin Gold and may adversely affect its business. Without the protection of a signed exploitation agreement, the Company faces the risk that future governments may adopt substantially different policies, which might extend to the expropriation of assets, increased government participation in the mining sector or renegotiation of existing agreements. 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.

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

Title Matters and Surface Rights and Access
There is a risk that title to the mining concessions and the surface rights comprising the Fruta del Norte Project may be deficient or subject to dispute. The procurement or enforcement of such rights can be costly and time consuming. In areas where there are local populations or land owners, it may be necessary, as a practical matter, to negotiate surface access. Despite having the legal right to access the surface and carry on 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 mining activities. 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.

Without the protection of a signed exploitation agreement, there is also a risk that applicable governments will revoke or significantly alter the conditions of the applicable exploration and mining authorizations and surface rights. In addition, such exploration and mining authorizations and surface rights may be challenged or impugned by third parties. In addition, there is a risk that Lundin Gold will not be able to renew some or all its licenses in the future. Inability to renew a license could result in the loss of any project located within that license. Furthermore, Lundin Gold may not be able to acquire any additional surface rights required on reasonable terms or at all.

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 the Fruta del Norte Project is located. Future laws and actions could have a material adverse effect on Lundin Gold's operations at the Fruta del Norte Project or on its financial position, cash flow and results of operations.

Claims and Legal Proceedings
Lundin Gold may be subject to claims or legal proceedings in multiple jurisdictions covering a wide range of matters that arise in the ordinary course of its current or previous business activities. These matters may give rise to legal uncertainties or have unfavourable results. Prior to obtaining its interest in the Fruta del Norte Project, Lundin Gold had business interests in a number of jurisdictions, including Canada, Cyprus and Russia. Lundin Gold may be involved in disputes with other parties in the future that may result in litigation or unfavourable resolution which could materially adversely impact Lundin Gold's financial position, cash flow and results of operations.

Market Price of the Company's Securities
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. The price of the Company's securities is also likely to be significantly affected by short-term changes in commodity prices, other mineral prices, currency exchange fluctuation, or in its financial condition or results of exploration on its projects. Other factors unrelated to the performance of the Company that may have an effect on the price of the Company's securities include the following: the extent of analytical coverage available to investors concerning the business of the Company may be limited if investment banks with research capabilities do not follow the Company's securities, lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of securities of the Company, the size of the Company's public float and its inclusion in market indices may limit the ability of some institutions to invest in the Company's securities, and a substantial decline in the price of the securities of the Company that persists for a significant period of time could cause the Company's securities to be delisted from an exchange, further reducing market liquidity. If an active market for the securities of the Company does not continue, the liquidity of an investor's investment may be limited and the price of the Company's securities 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 securities 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.

Dilution
If Lundin Gold raises additional funding by issuing additional equity securities, such financing may substantially dilute the interests of shareholders and reduce the value of their investment.

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

The legal and regulatory requirements in Ecuador applicable to mining activities are different from those in Canada. The officers and directors of the Company rely, to a great extent, on the Company's local legal counsel and local consultants and advisors in respect of legal, environmental compliance, banking, financing and tax matters in order to ensure compliance with material legal, regulatory and governmental developments as they pertain to and affect the Company's operations in Ecuador and to assist the Company with its governmental relations. The Company may also rely, to some extent, on those members of management who have previous experience working and conducting business in Ecuador.

Despite these resources, 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. Parties engaged in exploration operations may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws. Any of the foregoing may have a material adverse effect on the Company or the development of the Fruta del Norte Project.

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 new 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. It has yet to be determined how these new laws and regulations may impact the Company or its shareholders.

Economic Developments in Ecuador
Due to its location in Ecuador, the Fruta del Norte Project depends in part upon the performance of the Ecuadorian economy. As a result, Lundin Gold's business, financial position and results of operations may be affected by the general conditions of the Ecuadorian economy, price instabilities, currency fluctuations, inflation, interest rates, regulatory changes, taxation changes, social instabilities, political unrest and other developments in or affecting Ecuador over which Lundin Gold does not have control. Because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect in which an entire region or class of investment is disfavoured by international investors, Ecuador could also be adversely affected by negative economic or financial developments in other emerging market countries.

Local Opposition to Mining
The Fruta del Norte Project is located near rural communities, some of which contain groups that have been opposed to mining activities from time to time in the past, which may affect Lundin Gold's ability to develop the Fruta del Norte Project 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 NGO activity in Ecuador has increased. These communities and NGOs have taken such actions as road closures, work stoppages, and law suits for damages. These actions relate not only to current activities but often in respect to the mining activities by prior owners of mining properties. Such actions by communities and NGO's may have a material adverse effect on Lundin

Gold's operations at the Fruta del Norte Project and on its financial position, cash flow and results of operations. Lundin Gold does not presently maintain political risk insurance for the Fruta del Norte Project.

Exploration and Development Risks
The exploration for, and development of, 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. Major expenses may be required to locate and establish Mineral Reserves, to develop metallurgical processes, and to construct mining and processing facilities at a particular site. There is a risk that the exploration or development programs of Lundin Gold will not result in a profitable commercial mining operation.

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. The exact effect of these factors cannot be accurately predicted but could have a material adverse effect upon Lundin Gold's operations.

There is a risk that the expenditures made by Lundin Gold towards the search and evaluation of precious metals and other minerals will not result in discoveries of additional Mineral Resources, Mineral Reserves or any other mineral occurrences. There is a risk that even if commercial quantities of ore are discovered, the new ore body will not be developed and brought into commercial production. Development projects are subject to, but not limited to, the successful completion of final feasibility studies, issuance of necessary permits and other government approvals and receipt of adequate financing.

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

Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability, and there is a risk that they will never be mined or processed profitably. Due to the uncertainty which may attach to Mineral Resources, 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 production 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 Resources could have a material adverse effect on Lundin Gold's results of operations and financial condition.

Operating History
Lundin Gold has limited experience in operating the Fruta del Norte Project and conducting exploration work in Ecuador generally. Although Lundin Gold possesses an experienced management team, Lundin Gold is subject to many risks common to new enterprises, including limitations with respect to personnel, financial and other resources and lack of revenues. There is a risk that Lundin Gold will not be successful in achieving a return on shareholders' investment and the likelihood of Lundin Gold's success must be considered in light of its expected early stage of operations.

Dependence on Single Project
The only property in which Lundin Gold has an interest is the Fruta del Norte Project. The Fruta del Norte Project does not have identified proven and probable Mineral Reserves, which are required as a basis for determining if the Fruta del Norte Project has bodies of commercial mineralization. The costs, timing and complexities of reclassifying the Mineral Resource estimates to proven and probable Mineral Reserves may be greater than is currently anticipated. In addition, actual development costs may differ materially from Lundin Gold's estimates and may render the development of the Fruta del Norte Project economically unfeasible. In the absence of additional mineral projects, Lundin Gold is solely dependent upon the Fruta del Norte Project for its revenue and profits, if any. Should

the development of the Fruta del Norte Project not be possible or practicable for political, engineering, technical or economic reasons, then Lundin Gold's business and financial position will be significantly and adversely affected.

Artisanal and Illegal Mining
Previous mining by illegal and artisanal miners has occurred in the area surrounding the Fruta del Norte Project and occurs today on a more limited basis. Activity by artisanal and illegal miners could lead to interference with Lundin Gold's operations and could result in conflicts. These potential activities could cause damage to the Fruta del Norte Project, including pollution, environmental damage, fires, or personal injury or death, for which Lundin Gold could potentially be held responsible. The presence of artisanal and illegal miners can lead to project delays and disputes regarding the development or operation of gold deposits. Artisanal and illegal mining can also result in mine stoppages, environmental issues and could have a material adverse effect on Lundin Gold's results of operations or financial condition.

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 the Fruta del Norte Project. 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.

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.

Adverse Economic Conditions
The unprecedented events in financial markets in the past several years have had a profound impact on the global economy. Many industries, including the precious metals mining industry, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations, high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates and tax rates may adversely affect Lundin Gold's growth and profitability. Specifically, the current commodity market conditions have had an impact on the cost and availability of financing and liquidity for commodity related companies and there is a risk that the Company will not successfully finance ongoing operations. The volatility of gold prices would also impact Lundin Gold's expected revenues, profits, losses and cash flow while continued recessionary pressures could adversely impact demand for Lundin Gold's production, if any. Finally, volatile energy, commodity and consumables prices and currency exchange rates would impact Lundin Gold's production costs, if any, and the devaluation and volatility of global stock markets could impact Lundin Gold. These factors could have a material adverse effect on Lundin Gold's financial condition and results of operations.

Gold Prices
Gold prices have fluctuated widely, particularly in recent years. 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, sales by government holders, metal stock levels maintained by producers and others, 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.

The mineral exploration and development industry in general is intensely competitive, and there is a risk that even if commercial quantities of proven and probable Mineral Reserves are discovered, a profitable market may not exist for the sale of the same. The feasible development of identified resources is highly dependent upon the price of metals. A sustained and substantial decline in commodity prices could result in the write down, termination of exploration work or loss of its interests in such properties.

If the Fruta del Norte Project is developed to production, the majority of Lundin Gold's revenue will be derived from the sale of gold. Therefore, fluctuations in the prices of these commodities may affect Lundin Gold's future operations and potential profitability. Declining market prices for these metals could materially adversely affect Lundin Gold's future operations and profitability.

Further, if the price of gold decreases, then potential revenues from the Fruta del Norte Project will likely decrease and such decreased revenues may increase the requirements for capital. Failure to obtain sufficient financing will result in a delay or indefinite postponement of development or production at the Fruta del Norte Project.

Employee 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 acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As Lundin Gold's business activity grows, Lundin Gold will require additional key financial, administrative, geologic and mining personnel as well as additional operations staff. There is a risk that Lundin Gold will not be successful in attracting, training and retaining qualified personnel as competition for persons with these skill sets increases. If Lundin Gold is not successful in attracting, training and retaining qualified personnel, the efficiency of Lundin Gold's operations could be impaired, which could have an adverse impact on Lundin Gold's future cash flows, earnings, results of operations and financial condition.

Shortages of Critical Parts, Equipment and Skilled Labour
Lundin Gold's ability to acquire critical resources such as input commodities, equipment, and skilled labour due to worldwide demand, may cause unanticipated cost increases and delays in delivery times, thereby impacting operating costs, capital expenditures and development schedules.

Infrastructure
Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply 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 exploration or development of the Fruta del Norte Project. If adequate infrastructure is not available in a timely manner, there is a risk that (i) the exploration or development of the Fruta del Norte Project will not be commenced or completed on a timely basis, if at all, (ii) the resulting operations will not achieve the anticipated production volume or (iii) the anticipated construction costs and ongoing operating costs associated with the exploration and/or development of the Fruta del Norte Project will be higher than anticipated. Furthermore, unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of necessary infrastructure could adversely affect Lundin Gold's operations and profitability.

Industry Competition
The mining industry is intensely competitive in all its phases. Lundin Gold competes with many companies that have greater financial and technical resources than Lundin Gold for the acquisition of mineral properties, recruitment and retention of qualified employees and access to equipment required for exploration, development and production. There is a risk that competition adversely affects Lundin Gold's future exploration and development of the Fruta del Norte Project or other projects it may acquire.

Negative Operating Cash Flow
Lundin Gold currently has a negative operating cash flow, which may continue for the foreseeable future. Lundin Gold's failure to achieve profitability and positive operating cash flows could have a material adverse effect on Lundin Gold's financial condition and results of operations.

Insurance and Uninsured Risks
The business of Lundin Gold is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unexpected geological conditions, ground or slope failures, cave-ins, rock bursts, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties, personal injury or damage to the properties of Lundin Gold or the properties of others, delays in mining, monetary losses and possible legal liability. Lundin Gold's current insurance does not cover all the potential risks associated with an exploration or development company's operations. Lundin Gold may also be unable to maintain insurance to cover certain risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a

result of exploration and production is not generally available to Lundin Gold or to other companies in the mining and exploration industry on acceptable terms. Lundin Gold might also become subject to liability for pollution or other hazards which it may not be insured against or which Lundin Gold may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Lundin Gold to incur significant costs that could have a material adverse effect upon its consolidated financial performance and results of operations.

Application of Anti-Bribery Laws
Lundin Gold is required to comply with anti-corruption and anti-bribery laws, including the Canadian *Corruption of Foreign Public Officials Act*, as well as similar laws in the countries in which Lundin Gold conducts its business. If Lundin Gold finds itself subject to an enforcement action or is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions imposed on Lundin Gold resulting in a material adverse effect on Lundin Gold.

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.

Control of Lundin Gold
As at the date hereof, Zebra Holdings and Investments S.à.r.l. ("Zebra") and Lorito Holdings S.à.r.l ("Lorito"), who report their security holdings as joint actors, and Kinross are control persons of Lundin Gold. As long as Kinross, Zebra and Lorito maintain significant interests in Lundin Gold, they will have the ability to exercise certain influence with respect to the affairs of Lundin Gold and significantly affect the outcome of the votes of shareholders. There is a risk that the interests of Kinross, Zebra and Lorito differ from those of other shareholders.

As a result of the significant holdings of Kinross, Zebra and Lorito, 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.

Conflicts of Interest
Certain directors and officers of Lundin Gold also serve as directors and/or officers of other companies involved in natural resource exploration and development and, consequently, there exists the possibility for such directors and officers to be in a position of conflict.

February 22, 2016

Independent Auditor's Report

To the Shareholders of Lundin Gold Inc.

We have audited the accompanying consolidated financial statements of Lundin Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("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.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lundin Gold Inc. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/S/ PricewaterhouseCoopers LLP

Chartered Professional Accountants

LUNDIN GOLD INC.

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

	Note	December 31, 2015	December 31, 2014
ASSETS			
Current assets			
Cash	5	$ 21,360,228	$ 70,919,477
Other current assets		608,297	728,140
		21,968,525	71,647,617
Non-current assets			
Property, plant and equipment	6	8,557,202	9,511,524
Mineral properties	7	236,873,803	236,873,803
		$ 267,399,530	$ 318,032,944
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	$ 5,654,500	$ 5,670,309
Non-current liabilities			
Reclamation provisions	9	866,593	793,087
		6,521,093	6,463,396
EQUITY			
Share capital	10	386,675,284	386,315,842
Equity-settled share-based payment reserve	11	5,012,391	3,006,381
Accumulated other comprehensive loss		(10,572,699)	(2,839,998)
Deficit		(120,236,539)	(74,912,677)
		260,878,437	311,569,548
		$ 267,399,530	$ 318,032,944

Nature of operations and Liquidity (Note 1)
Commitments and Contingencies (Note 18)

Approved by the Board of Directors

/s/ Ron F. Hochstein
Ron F. Hochstein

/s/ Ian W. Gibbs
Ian W. Gibbs

LUNDIN GOLD INC.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in U.S. Dollars)

	Note	Years Ended December 31, 2015	2014
EXPENSES			
Project evaluation	12	$ 36,144,858	$ 2,262,284
Exploration		939,131	-
General and administration:			
Depreciation		23,159	28,734
Donations		2,000,000	-
Investor relations		554,508	28,283
Municipal taxes		496,400	-
Office and general		2,128,765	819,602
Professional fees		2,304,976	603,543
Regulatory and transfer agent		169,562	158,662
Salaries and benefits		3,270,048	623,770
Stock-based compensation	11	1,693,658	810,665
Travel		899,280	-
Loss before other items		50,624,345	5,335,543
OTHER ITEMS			
Gain on foreign exchange		(5,192,420)	(4,348,175)
Interest and other income		(108,063)	(238,644)
Net loss for the year		$ 45,323,862	$ 748,724
OTHER COMPREHENSIVE LOSS			
Items that may be subsequently reclassified to net loss			
Currency translation adjustment		7,643,688	1,988,682
Other		89,013	-
Comprehensive loss for the year		$ 53,056,563	$ 2,737,406
Basic and diluted loss per common share		$ 0.45	$ 0.04
Weighted-average number of common shares outstanding		101,219,763	18,380,162

LUNDIN GOLD INC.

Consolidated Statements of Changes in Equity
(Expressed in U.S. Dollars)

	Note	Number of Common Shares	Share Capital	Equity-settled Share-based Payment Reserve	Accumulated Other Comprehensive Loss	Deficit	Total
Balance December 31, 2013		14,831,758	$ 94,113,114	$ 2,195,716	$ (851,316)	$ (74,163,953)	$ 21,293,561
Shares issued for acquisition of Aurelian	4	26,156,250	90,000,000	-	-	-	90,000,000
Private placement, net	10	50,128,260	167,587,674	-	-	-	167,587,674
Issue of shares for convertible loan notes	10	10,060,000	34,615,054	-	-	-	34,615,054
Stock-based compensation	11	-	-	810,665	-	-	810,665
Currency translation adjustment		-	-	-	(1,988,682)	-	(1,988,682)
Net loss for the year		-	-	-	-	(748,724)	(748,724)
Balance December 31, 2014		101,176,268	$ 386,315,842	$ 3,006,381	$ (2,839,998)	$ (74,912,677)	$ 311,569,548
Exercise of stock options	11	84,000	359,442	(99,360)	-	-	260,082
Stock-based compensation	11	-	-	2,105,370	-	-	2,105,370
Currency translation adjustment		-	-	-	(7,643,688)	-	(7,643,688)
Other		-	-	-	(89,013)	-	(89,013)
Net loss for the year		-	-	-	-	(45,323,862)	(45,323,862)
Balance December 31, 2015		101,260,268	$ 386,675,284	$ 5,012,391	$ (10,572,699)	$ (120,236,539)	$ 260,878,437

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

LUNDIN GOLD INC.

Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars)

	Note	Years Ended December 31, 2015	2014
OPERATING ACTIVITIES			
Net loss for the year		$ (45,323,862)	$ (748,724)
Item not affecting cash:			
Stock-based compensation	11	2,105,370	810,665
Depreciation and accretion		1,120,406	28,734
Foreign exchange gain		(5,283,696)	(2,274,787)
		(47,381,782)	(2,184,112)
Changes in non-cash working capital items:			
Other current assets		78,088	(270,377)
Accounts payable and accrued liabilities		4,066,798	1,295,252
Net cash used for operating activities		(43,236,896)	(1,159,237)
FINANCING ACTIVITIES			
Proceeds from private placement, net		(239,656)	167,827,330
Proceeds from exercise of stock options		260,082	-
Proceeds from issuance of convertible loan notes		-	34,615,054
Net cash provided by financing activities		20,426	202,442,384
INVESTING ACTIVITIES			
Acquisition of Aurelian Resources Inc., net of cash acquired		(3,548,816)	(151,950,324)
Acquisition of property, plant and equipment		(165,900)	(27,586)
Net cash used for investing activities		(3,714,716)	(151,977,910)
Effect of foreign exchange rate differences on cash		(2,628,063)	286,105
Net increase (decrease) in cash		(49,559,249)	49,591,342
Cash, beginning of year		70,919,477	21,328,135
Cash, end of year		$ 21,360,228	$ 70,919,477
Supplemental information			
Interest received		125,221	138,777
Taxes paid		-	-
Changes in accounts payable and accrued liabilities related to:			
Proceeds from private placement, net		(239,656)	239,656
Acquisition of Aurelian Resources Inc.		(3,548,816)	3,548,816
Acquisition of property, plant and equipment		(55,672)	55,672

(Expressed in U.S. Dollars, unless otherwise noted)

1. Nature of operations and Liquidity

Lundin Gold Inc. together with its subsidiaries (collectively referred to as "Lundin Gold" or the "Company") is focused on advancing the Fruta del Norte gold project (the "Fruta del Norte Project") in Ecuador through feasibility to a production decision.

The Company is in the process of completing a feasibility study for the Fruta del Norte Project and has not yet determined whether it contains economically recoverable mineral reserves. The Company's continuing operations and the underlying value and recoverability of the amount shown for the mineral interests are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the development of the Fruta del Norte Project, obtaining the necessary permits to mine, and on future profitable production or from the proceeds from the disposition of the Fruta del Norte Project.

Any potential development activities at the Fruta del Norte Project require substantial additional capital. As the Company does not have any sources of revenue, the Company expects to pursue various financing transactions or arrangements, including equity financing, debt financing, joint venturing of projects or other means. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to Lundin Gold. Moreover, Lundin Gold may not be successful in locating suitable financing when required or at all. A failure to raise capital when needed would have a material adverse effect on Lundin Gold's business, financial condition and results of operations.

The common shares of the Company are listed for trading on the Toronto Stock Exchange (the "TSX") and Nasdaq Stockholm under the symbol "LUG". Prior to this, the Company's common shares traded on the NEX Board of the TSX Venture Exchange under the symbol "FST.H". 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.

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, unless otherwise stated or newly adopted as a result of the acquisition of Aurelian Resources Inc. in December 2014.

These consolidated financial statements were approved for issue by the Board of Directors on February 22, 2016.

The following entities are included in these consolidated financial statements:

		Ordinary shares held	
	Country of incorporation	December 31, 2015	December 31, 2014
Fortress Minerals Cyprus (I) Ltd.	Republic of Cyprus	100%	100%
Aurelian Resources Inc.	Canada	100%	100%
Aurelian Resources Corporation Ltd.	Canada	100%	100%
Aurelian Ecuador S.A.	Ecuador	100%	100%
Aurelian Ecuador Holding S.A.	Ecuador	100%	100%
Ecoaurelian Agricola S.A.	Ecuador	100%	100%

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

3. Summary of significant accounting policies

The Company's principal accounting policies are outlined below:

(a) Basis of consolidation

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

(b) Foreign currency translation

Transactions and balances

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

Group companies

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

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

(c) Critical accounting estimates and judgments

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

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

3. Summary of significant accounting policies (continued)

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:

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.

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

(d) Segment reporting

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

(e) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company has classified its financial instruments in the following categories:

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loan and receivables comprise cash and receivables and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

3. Summary of significant accounting policies (continued)

ii. Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payables and accrued liabilities are measured at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:
- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

If such evidence exists, the Company recognizes an impairment loss, as follows:

i. Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

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

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

Exploration and evaluation costs are those costs required to find a mineral property and determine commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves.

3. Summary of significant accounting policies (continued)

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, costs for the project are capitalized prospectively as capitalized development costs within mineral properties. Technical feasibility and commercial viability generally coincides with the establishment of proven and probable mineral reserves.

Costs associated with acquiring a mineral property are capitalized as incurred.

(i) Impairment of non-financial assets

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

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

(j) Provisions

Asset retirement obligations

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

(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 and associates 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.

3. Summary of significant accounting policies (continued)

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 and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(l) Share capital

Common shares are classified as equity.

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

(m) Stock-based compensation

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

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

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

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

(n) Loss per share

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

3. Summary of significant accounting policies (continued)

(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) Pronouncements issued but not yet effective

i. IFRS 15, Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach, entities will recognize transitional adjustments in retained earnings on the date of initial application without restating the comparative period. Entities will only need to apply the new rules to contracts that are not completed as of the date of initial application.

IFRS 15 will be effective for financial years commencing on or after January 1, 2017. The Company does not expect any impact from this new standard as the Company has yet to generate any revenues.

ii. IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Following the changes approved by the IASB in July 2014, the Company does not expect any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities.

iii. IFRS 16, Leases

IFRS 16, Leases, is a new standard on lease accounting that results in substantially all leases being recorded on the statement of financial position of the lessee. This new standard will replace IAS 17. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the effect of this standard on its financial statements.

(Expressed in U.S. Dollars, unless otherwise noted)

4. Acquisition of Aurelian Resources Inc.

On December 17, 2014, the Company acquired a 100% interest in the Fruta del Norte gold project in Ecuador through the acquisition of all of the issued and outstanding shares of Aurelian Resources Inc. ("Aurelian") from Kinross Gold Corporation. Aurelian's results of operations are included in the Company's consolidated financial statements from December 18, 2014.

The Company has accounted for the acquisition of Aurelian as an asset acquisition. The purchase consideration was as follows:

Cash consideration	$ 150,000,000
Issuance of 26,156,250 shares of the Company	90,000,000
Aurelian cash on hand adjustment	962,130
Transaction costs	6,199,140
Total purchase consideration	$ 247,161,270

The Company's allocation of the total purchase consideration to the estimated fair value of the assets acquired and liabilities assumed of Aurelian is as follows:

Cash	$ 1,662,130
Other current assets	422,381
Property, plant and equipment	9,457,000
Mineral properties	236,873,803
Accounts payable and accrued liabilities	(460,957)
Reclamation provisions	(793,087)
Net identifiable assets	$ 247,161,270

In addition, a 1% net revenue royalty is payable on production from Aurelian's mining concessions in Ecuador to a third party. There are no other royalties, back-in rights, payments, or other encumbrances in favour of the Company.

5. Cash

The carrying amounts of the Company's cash are denominated in the following currencies:

Currency	December 31, 2015	December 31, 2014
Canadian dollars	$ 3,110,456	$ 29,686,978
U.S. dollars	18,249,772	41,232,499
	$ 21,360,228	$ 70,919,477

(Expressed in U.S. Dollars, unless otherwise noted)

6. Property, plant and equipment

Cost	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2014	$ -	$ -	$ -	$ -	$ -
Additions	4,442,000	4,094,000	741,000	263,258	9,540,258
Balance, December 31, 2014	4,442,000	4,094,000	741,000	263,258	9,540,258
Additions	-	17,748	-	92,480	110,228
Cumulative translation adjustment	-	-	-	(19,410)	(19,410)
Balance, December 31, 2015	$ 4,442,000	$ 4,111,748	$ 741,000	$ 336,328	$ 9,631,076
Accumulated depreciation					
Balance, January 1, 2014	$ -	$ -	$ -	$ -	$ -
Depletion, amortization and accretion for the year	3,037	18,318	5,170	2,209	28,734
Balance, December 31, 2014	3,037	18,318	5,170	2,209	28,734
Depletion, amortization and accretion for the year	102,300	584,831	280,365	79,406	1,046,902
Cumulative translation adjustment	-	-	-	(1,762)	(1,762)
Balance, December 31, 2015	$ 105,337	$ 603,149	$ 285,535	$ 79,853	$ 1,073,874
Net book value					
As at December 31, 2014	$ 4,438,963	$ 4,075,682	$ 735,830	$ 261,049	$ 9,511,524
As at December 31, 2015	$ 4,336,663	$ 3,508,599	$ 455,465	$ 256,475	$ 8,557,202

(Expressed in U.S. Dollars, unless otherwise noted)

7. Mineral properties

Cost	Fruta del Norte Project	Fruta del Norte restoration asset	Total
Balance, January 1, 2014	$ -	$ -	$ -
Additions	236,337,090	536,713	236,873,803
Balance, December 31, 2014	236,337,090	536,713	236,873,803
Additions	-	-	-
Balance, December 31, 2015	$ 236,337,090	$ 536,713	$ 236,873,803

On January 14, 2016, the Company announced the completion of negotiations of the definitive form of the exploitation agreement for the Furta del Norte Project with the Government of Ecuador. Once signed, the agreement, combined with existing laws and regulations, establishes the fiscal terms and conditions for the development of the Fruta del Norte Project.

By June 17, 2016, the Company must submit an application to change the Fruta del Norte Project's official status from economic evaluation phase to exploitation phase (the “Phase Change Application”). The Government of Ecuador then has up to sixty (60) days to approve the Phase Change Application. Once the Phase Change Application is approved, the Company has up to six months to execute the exploitation agreement with the Government of Ecuador. An advance royalty payment of $25 million is payable when the definitive form of the exploitation agreement is signed. This is followed by two subsequent advance royalty payments of $20 million on the first and second anniversaries of the execution of the exploitation agreement.

8. Accounts payable and accrued liabilities

	December 31, 2015	December 31, 2014
Accounts payable	$ 2,535,241	$ 626,493
Accrued liabilities	3,119,259	5,043,816
	$ 5,654,500	$ 5,670,309

As at December 31, 2015, the accrued liabilities were related to ongoing business activities, in particular the feasibility study on the Fruta del Norte project.

As at December 31, 2014, the accrued liabilities were primarily related to transaction costs incurred relating to the acquisition of Aurelian Resources Inc. including the minimum cash adjustment, legal, stock exchange fees and other professional services.

(Expressed in U.S. Dollars, unless otherwise noted)

9. Reclamation provisions

The Company's provisions relates to the rehabilitation of the Fruta del Norte project. The reclamation provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates and inflation rates are adjusted annually and reflect current market assessments. At December 31, 2015, the Company applied a pre-tax discount rate of 14.0% (2014 – 10.2%) and an inflation rate of 3.7% (2014 – 2.7%). The estimated total liability for reclamation and remediation costs on an undiscounted basis is approximately $6.9 million.

	December 31, 2015	2014
Balance, beginning of year	$ 793,087	$ -
Revisions to estimated cash flows	-	-
Accretion of liability component of obligations	73,506	-
Reclamation provision assumed (Note 4)	-	793,087
	$ 866,593	$ 793,087

10. Share capital

(a) 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, 2014	14,831,758	$ 94,113,114
Share issued for acquisition of Aurelian Resources Inc.	26,156,250	90,000,000
Private placement, net	50,128,260	167,587,674
Issue of shares for convertible loan notes	10,060,000	34,615,054
Balance at December 31, 2014	101,176,268	386,315,842
Share options exercised	84,000	260,082
Share options exercised - fair value adjustment	-	99,360
Balance at December 31, 2015	101,260,268	$ 386,675,284

On November 25, 2014, the Company completed a private placement of 50,128,260 subscription receipts of the Company for gross proceeds of $172.5 million (CAD$200.5 million). Finder's fees and other related costs totaling $4.7 million (CAD$5.4 million) were paid in relation to the private placement. On December 17, 2014, upon completion of the acquisition of Aurelian Resources Inc., the subscription receipts were converted to 50,128,260 common shares of the Company. In addition, on December 17, 2014, the Company completed a private placement of convertible loan notes with an aggregate principal amount of $34.6 million (CAD$40.2 million) to CD Capital Natural Resources Fund II (Master) L.P. An aggregate of 10,060,000 common shares of the Company have been issued for these convertible loan notes but are held in escrow.

(Expressed in U.S. Dollars, unless otherwise noted)

11. Stock options

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

Current outstanding options have an expiry date of five years and vest over a period of 24 months.

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

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Number of Common Shares		Weighted exercise price (CAD)	Number of Common Shares		Weighted exercise price (CAD)
Balance, beginning of year	757,000	$	3.81	227,700	$	4.34
Granted	1,880,500		3.95	592,000		3.75
Cancelled / Expired	(431,000)		3.89	(62,700)		5.21
Exercised[(1)]	(84,000)		3.94	-		-
Balance outstanding, end of year	2,122,500	$	3.91	757,000	$	3.81
Balance exercisable, end of year	808,500	$	3.83	461,000	$	3.84

[(1)] The weighted average share price on the exercise date for the stock options exercised during the year ended December 31, 2015 was CAD$3.92.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2015:

Expiry date		Exercise price (CAD)	Options outstanding	Options exercisable	Remaining contractual life (Years)
May 26, 2019	$	3.75	480,000	480,000	3.40
February 23, 2020	$	4.00	1,302,500	260,500	4.15
March 22, 2020	$	3.90	115,000	23,000	4.23
April 9, 2020	$	3.69	95,000	19,000	4.28
May 14, 2020	$	3.75	130,000	26,000	4.62
			2,122,500	808,500	

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:

	2015	2014
Risk-free interest rate	0.60%	1.58%
Expected stock price volatility	64.83%	63.17%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	$2.10	$2.02

(Expressed in U.S. Dollars, unless otherwise noted)

11. Stock options (continued)

The equity-settled share-based payment reserve comprises 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 year ended December 31, 2015, the Company recorded stock-based compensation expense of $2,105,370 (2014 – $810,665) allocated between project evaluation, exploration and general and administration expenses relating to the vesting of options with a corresponding increase in the equity-settled share-based payment reserve.

12. Project evaluation

	December 31, 2015	December 31, 2014
Camp costs	$ 2,817,670	$ -
Conceptual studies	14,953,499	-
Depreciation and accretion expense	1,097,247	-
Drilling and other operating expenses	4,553,998	-
Environmental costs	3,429,114	-
Office and general	3,272,773	-
Salaries and benefits	3,752,647	-
Property taxes	2,267,910	-
Break fee and other expenses (a)	-	2,262,284
	$ 36,144,858	$ 2,262,284

(a) During the year ended December 31, 2013, the Company submitted a non-binding indicative offer and entered into an exclusivity agreement to acquire a mineral property. In January 2014, after completion of due diligence procedures, the Company withdrew its offer and paid a break fee of $1,000,000. Following this withdrawal, the Company continued to incur project evaluations expenditures to evaluate other strategic alternatives in the natural resource sector. This resulted in the Company acquiring a 100% interest in the Fruta del Norte gold project in Ecuador from Kinross Gold Corporation (Note 4).

13. Related party transactions

(a) Related party expenses

During the years ended December 31, 2015 and December 31, 2014, the Company incurred the following:

Payee	Nature	Note	December 31, 2015	December 31, 2014
Namdo	Management fees	i	$ 293,267	$ 282,481
BMAJ	Legal fees	Ii	107,321	-

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.

ii. Bofill Mir & Alvarez Jana Abogados (“BMAJ”), a law firm of which a director of the Company is a partner, assisted the company with negotiations of the exploitation agreement with the Government of Ecuador.

(Expressed in U.S. Dollars, unless otherwise noted)

13. Related party transactions (continued)

(b) Key management compensation

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

		December 31, 2015		December 31, 2014
Salaries and benefits	$	1,792,334	$	591,816
Stock-based compensation		1,817,025		683,909
	$	3,609,359	$	1,275,725

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, 2015		2014
Loss before income taxes	$	(45,323,862)	$	(748,724)
Canadian federal and provincial income tax rates		26.00%		26.00%
Income tax expense based on the above rates		(11,784,204)		(194,668)
Increase (decrease) due to:				
Differences in foreign tax rates		1,571,860		(316)
Non-deductible costs		1,959,130		1,037,862
Losses and temporary differences for which an income tax asset has not been recognized		8,929,099		-
Non-taxable portion of capital gains		(675,885)		(626,081)
Benefits of losses and temporary differences not previously recognized		-		(216,797)
Income tax expense	$	-	$	-

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

		December 31, 2015		2014
Non-capital losses - Canada	$	12,431,854	$	9,224,477
Net-capital losses - Canada		11,805,687		19,805,823
Non-capital losses - Cyprus		154,094		154,094
Mineral properties		38,754,750		-
Share issuance costs		2,436,551		3,969,226
Donations		108,382		130,161
Liabilities		1,162,868		760,834
Other		192,582		4,808,893
	$	67,046,768	$	38,853,508

15. Segmented information

The Company's primary business activity is the advancement of the Fruta del Norte gold project in Ecuador through feasibility to a production decision. During the years ended December 31, 2015 and 2014, all project evaluation expenses were incurred in Ecuador and Canada, respectively. The geographic distribution of non-current assets is as follows:

	December 31, 2015		December 31, 2014	
	Equipment, net	**Mineral properties**	**Equipment, net**	**Mineral properties**
Canada	$ 45,506	$ -	$ 83,258	$ -
Ecuador	8,511,696	236,873,803	9,428,266	236,873,803
	$ 8,557,202	$ 236,873,803	$ 9,511,524	$ 236,873,803

16. Financial instruments and risk management

a) Measurement categories and fair values

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of loss or consolidated statements of comprehensive loss.

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

b) Fair value hierarchy

The following table classifies financial assets and liabilities that are recognized on the statement of financial position in a hierarchy that is based on the significance of the inputs used in making the measurements. The levels in the hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At December 31, 2015 and 2014, the Company had no financial assets or liabilities recognized at fair value.

c) Financial risk management

The Company's financial instruments are exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate and liquidity risk.

Currency risk

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

16. Financial instruments and risk management (continued)

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 a large Canadian financial institution with a high investment grade rating. The Company does not have any asset-backed commercial paper. The Company's receivables are made up of interest recoverable from large Canadian financial institutions.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

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 which monitors 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.

17. 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 equity attributable to shareholders to be capital.

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.

18. Commitments and Contingencies

The Company has committed to payments under various leases and other commitments. Excluding spending amounts which may be required to maintain the Company's mineral properties in good standing, the future minimum payments are as follows:

2016	$	230,279
2017		237,079
Total	$	467,358

The Company is not currently involved in any litigation or proceedings. However, the Company is aware of a potential dispute concerning a historical asset. If the dispute cannot be amicably resolved, the aggregate amount of any potential liability is not expected to have a material adverse effect on the Company's financial position or results. However, in making this determination management has had to make assumptions about the probabilities of and amounts of potential cash flows, and changes in these assumptions could lead to different results. Management has also exercised its judgement in the application of IAS 37, and concluded that no further information relating to this potential dispute should be disclosed on the basis that additional disclosure could prejudice the Company's interests at this time.

Corporate Information

BOARD OF DIRECTORS

James Cambon
British Columbia, Canada
Carmel Daniele
London, United Kingdom
Ian Gibbs
British Columbia, Canada
Ashley Heppenstall
Geneva, Switzerland
Ron F. Hochstein
British Columbia, Canada
Lukas H. Lundin
Vaud, Switzerland
Paul McRae
Algarve, Portugal
Pablo Mir
Santiago, Chile

OFFICERS

Lukas H. Lundin
Chairman
Ron F. Hochstein
President & Chief Executive Officer
Chester See
Chief Financial Officer
Anthony George
Vice President,
Project Development
Nick Teasdale
Vice President, Exploration
Nathan Monash
Vice President,
Business Sustainability
Sheila Colman
Vice President,
Legal & Corporate Secretary

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Nasdaq Stockholm
Trading Symbol: LUG

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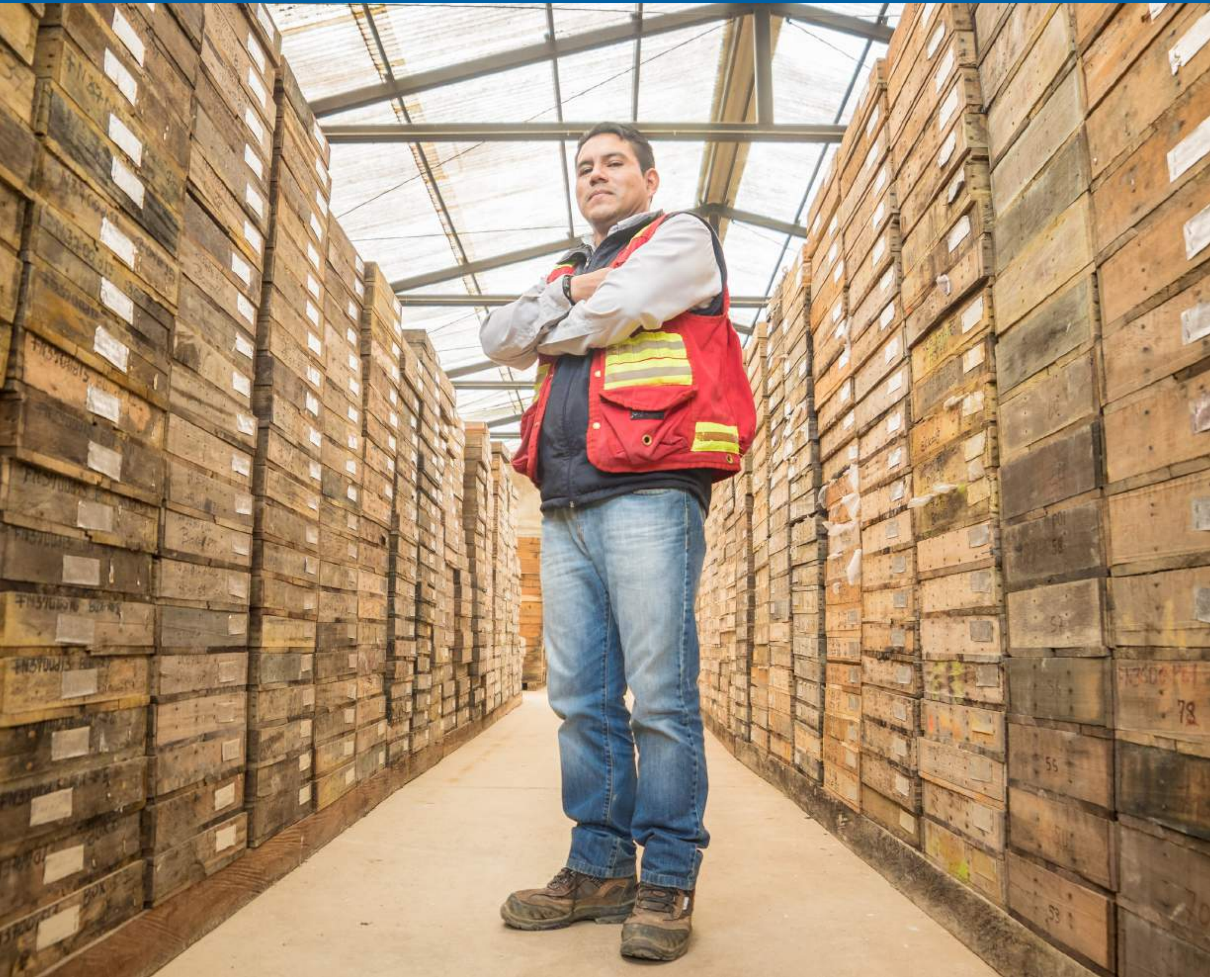
ADDITIONAL INFORMATION

Further information about Lundin Gold is available by contacting Investor Relations at the head office listed above or by email to: info@lundingold.com



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