# LUNDIN GOLD

A New Flagship Gold Company

# ANNUAL REPORT 2014

# Message from the President

**Dear Shareholders:**

Last year was a transformative year for our Company, and we are excited about the new direction for Lundin Gold.

Until 2014 Fortress Minerals Corp., as the Company was then called, was a relatively inactive exploration company seeking the right opportunity to enter the commodities market. That opportunity presented itself mid-way through 2014, and the Company's ability to seize that opportunity has made all the difference for its future.

With hard work and determination, the Company acquired one of the largest and highest grade undeveloped gold projects in the world. In December, the Company closed the acquisition of Fruta del Norte project in mineral rich Ecuador for $240 million, a purchase only made possible in very difficult markets after successful back to back financings largely from a very loyal shareholder base. With this acquisition, the Company embarked on its new opportunity, renamed as Lundin Gold Inc., and listed its shares on both the Toronto Stock Exchange and Nasdaq Stockholm, giving the Company and its shareholders exposure to new markets.

Fruta del Norte is one of the most significant gold discoveries made in the past fifteen years. It is estimated that the project contains Indicated mineral resources of 7.3 million ounces of gold (23.5 million tonnes at 9.59 grams per tonne) and Inferred mineral resources of 2.6 million ounces (14.5 million tonnes at 5.46 grams per tonnes). Management believes that, in this resource rich geology, there is excellent potential to expand this existing resource further.

Working closely with the Government of Ecuador, Lundin Gold now is focussed on advancing the Fruta del Norte project as quickly as possible. Indeed, the Company engaged a team of world class engineers early this year to prepare a feasibility study for the development of the project. These firms have the benefit of the extensive work done by Kinross Gold Corp., former owner of Fruta del Norte, who spent over $275 million on engineering and feasibility studies and completed over 150,000 metres of drilling. This wealth of information has given us an excellent head start.

We have also assembled a strong management team. Your Board of Directors has now increased to eight members, including three new members who joined in late 2014. Paul McRae of Lundin Mining Corporation brings significant operational experience in mine development and construction. Pablo Mir, a South American lawyer, is the Lead Director on the Board and has represented mining clients throughout the region and has strong relationships in Ecuador. Finally, Carmel Daniele has added financial depth and extensive knowledge in the resource sector to the Board and represents one of the Company's important investors. At the start of the year, the Company announced the appointment of Anthony George, as Vice President Project Development. Tony is a mining engineer with over 30 years of experience in operations, project management and construction and will be leading the Fruta del Norte project through development.

The coming year promises to be a busy and rewarding year as we move Fruta del Norte through feasibility and towards a production decision in mid-2016. We look forward to sharing our progress with you during the year and thank you for your support.

Yours sincerely,

**Ron Hochstein**

*President and CEO*

February 21, 2015

## 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, 2014 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 21, 2015 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, 2014 and 2013. These audited consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS").

Effective December 31, 2014, the Company changed its reporting currency from Canadian to U.S. dollars. The change in reporting currency is to better reflect the Company's business activities. As a result, all amounts are expressed in U.S. dollars, unless otherwise noted and all comparative financial information has been restated to reflect the Company's results as if they had been historically reported in U.S. dollars.

Other continuous disclosure documents, including the Company's press releases and quarterly and annual reports, 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: capital expenditures, exploration and development expenditures and reclamation costs, expectations of market prices and costs, the receipt of regulatory approvals, permits and licenses under governmental and regulatory regimes, exploration plans, timing and success of permitting, development, construction and operation of the Fruta del Norte Project, the feasibility study to be prepared for the Fruta del Norte Project, future tax payments and rates, future sources of liquidity, 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 timely receipt of regulatory approvals, permits and licenses and the cost of compliance with applicable laws; difficulty complying with changing government regulations and policies, including without limitation, compliance with environment, health and safety regulations; uncertainty as to reclamation and decommissioning liabilities, risks related to carrying on business in an emerging market such as possible government instability and civil turmoil, economic instability and uncertain tax environments, 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; vulnerability of title and surface rights and access; 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; the potential for litigation; potential conflicts of interest for the Company's directors who are engaged in similar businesses; limitations

of disclosure and internal controls; the risk to shareholders of dilution from future equity financings; volatility in the market price of the Company's shares; and the potential influence of the Company's largest shareholders.

The risk factors listed above are discussed in more detail later in this MD&A.

## 2014 HIGHLIGHTS AND ACTIVITIES

During the fourth quarter of 2014:

- The Company completed the acquisition of a 100% interest in the Fruta del Norte gold project in Ecuador (the "Fruta del Norte Project") through the acquisition of all of the issued and outstanding shares of Aurelian Resources Inc. ("Aurelian"), a wholly owned Canadian subsidiary of Kinross Gold Corporation ("Kinross").

- To fund the acquisition and development of the Fruta del Norte Project, the Company completed:
    - A public offering of subscription receipts to raise aggregate gross proceeds of approximately $172.5 million (CAD$200 million) (the "Public Offering"). The subscription receipts were converted into common shares upon completion of the acquisition of the Fruta del Norte Project.
    - A private placement of convertible loan notes with an aggregate principal amount of $34.6 million (CAD$40 million) to CD Capital Natural Resources Fund II (Master) L.P (the "Note Offering"). The proceeds from the Note Offering are being used to upgrade, expand and develop the mineral resources of the Fruta del Norte Project. 10,060,000 common shares of the Company were issued but held in escrow related to these convertible loan notes.

- The Company commenced trading on the Toronto Stock Exchange ("TSX") and the NASDAQ OMX Stockholm ("Nasdaq Stockholm") under the symbol "LUG".

## ABOUT LUNDIN GOLD

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

Lundin Gold, formerly named Fortress Minerals Corp., was incorporated in British Columbia and then continued under the *Business Corporations Act* (Canada). It is a reporting issuer in the Provinces of Alberta, British Columbia and Ontario. In December 2014, the common shares of Lundin Gold were 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 located in Southeast Ecuador. The Fruta del Norte Project is one of the largest and highest grade undeveloped gold projects in the world and is the Company's flagship project. The Company plans to advance the Fruta del Norte Project in order to realize the significant potential of this asset.

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 partners 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

The Fruta del Norte Project consists of 36 mining concessions covering an area of approximately 86,000 hectares located in Southeast Ecuador, approximately 80 kilometres east of the city of Loja, the fourth largest city in Ecuador. A 1% net revenue royalty is payable on production from the La Zarza concession to a third party. There are no other royalties, back-in rights, payments, or other encumbrances in favour of the Company.

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.

Based on historical work and expenditures carried out by Aurelian and Kinross from its discovery in 2006 to 2014, Lundin Gold expects that the Fruta del Norte Project can move quickly into feasibility and ultimately a construction decision. To the date of acquisition in mid-December 2014, approximately $279 million was spent on exploration and development of the Fruta del Norte Project, including over 150 kilometres of drilling, with exploration accounting for approximately 30% of spending, mine and project infrastructure for approximately 32% of spending and general operating costs, studies and other expenditures for approximately 38% of spending. The previous work completed on the Fruta del Norte Project, including various studies, indicates that the deposit can potentially support a large scale, low cost underground mining operation.

In addition to the current mineral resource estimates, the Company believes that there is significant exploration potential at the Fruta del Norte Project and the greater than 80,000 ha of surrounding concessions owned by the Company. Lundin Gold intends to review and evaluate the near-term regional exploration potential and may carry out regional exploration programs including regional field and drilling programs.

Ecuador is a largely underexplored country with excellent geological potential and with a limited mining industry. The Government of Ecuador has recently expressed an intention to develop the mining industry. Lundin Gold views this prospective region to have significant opportunity.

## THE ACQUISITION OF THE FRUTA DEL NORTE PROJECT

On December 17, 2014, the Company acquired a 100% interest in the Fruta del Norte Project in Ecuador through the acquisition of all of the issued and outstanding shares of Aurelian from Kinross. 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 Public Offering involved the issuance of 50,128,250 subscription receipts of the Company at a price of CAD$4.00 each to raise aggregate gross proceeds of approximately $172.5 million (CAD$200 million). Escrow conditions were satisfied on December 17, 2014, and the funds were released to the Company to complete the acquisition. The subscription receipts converted on a one for one basis into common shares of the Company on the same day.

In addition, Aurelian completed the Note Offering to raise an aggregate principal amount of $34.6 million (CAD$40 million), which each note being convertible into a common share of the Company at CAD$4.00 per common share. The proceeds from the Note Offering are being used to upgrade, expand and develop the mineral resources of the Fruta del Norte Project. 10,060,000 common shares of the Company were issued but held in escrow related to these convertible loan notes. The Public Offering and the Note Offering together raised proceeds of approximately $207 million (CAD$240 million).

## SELECTED ANNUAL FINANCIAL INFORMATION

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Operating expenses | $ (5,335,543) | $ (543,929) | $ (698,383) |
| Other income | 4,586,819 | 284,513 | 234,463 |
| Net loss for the year | (748,724) | (259,416) | (463,920) |
| Basic and diluted loss per share | $ (0.04) | $ (0.02) | $ (0.03) |
| Weighted-average number of common shares outstanding | 18,380,162 | 14,831,758 | 14,831,758 |
| Total assets | $ 318,032,944 | $ 21,363,517 | $ 23,007,879 |

The Company's operating expenses increased during the year ended December 31, 2014 compared to the previous year due to increased corporate activities surrounding the acquisition of the Fruta del Norte Project. In addition, 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 evaluation expenditures in connection with strategic alternatives in the natural resource sector. This resulted in the Company acquiring a 100% interest in the Fruta del Norte Project in Ecuador from Kinross.

Other income has increased during the year ended December 31, 2014 compared to the previous year due to foreign exchange gains realized from the strengthening of the U.S. dollar against the Canadian dollar.

## SUMMARY OF QUARTERLY FINANCIAL RESULTS

| | 2014 Q4 | 2014 Q3 | 2014 Q2 | 2014 Q1 |
|---|---|---|---|---|
| Operating expenses | $ (1,857,257) | $ (1,007,476) | $ (1,143,369) | $ (1,327,441) |
| Other income | 4,287,300 | 194,908 | 25,394 | 79,217 |
| Net income (loss) for the period | 2,430,043 | (812,568) | (1,117,975) | (1,248,224) |
| Basic and diluted income (loss) per share | $ 0.09 | $ (0.05) | $ (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 | $ 18,179,144 | $ 19,865,087 | $ 19,295,256 |
| Working capital surplus | $ 65,977,308 | $ 17,707,221 | $ 19,163,144 | $ 19,240,765 |

| | 2013 Q4 | 2013 Q3 | 2013 Q2 | 2013 Q1 |
|---|---|---|---|---|
| Operating expenses | $ (170,362) | $ (132,937) | $ (119,290) | $ (121,340) |
| Other income | 79,962 | 44,015 | 85,612 | 74,924 |
| Net loss for the period | (90,400) | (88,922) | (33,678) | (46,416) |
| Basic and diluted loss per share | $ (0.01) | $ (0.01) | $ (0.00) | $ (0.00) |
| Weighted-average number of common shares outstanding | 14,831,758 | 14,831,758 | 14,831,758 | 14,831,758 |
| Total assets | $ 21,363,517 | $ 22,092,554 | $ 21,704,703 | $ 22,489,161 |
| Working capital surplus | $ 21,293,561 | $ 22,068,494 | $ 21,694,845 | $ 22,474,491 |

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

During the fourth quarter of 2014, as a result of increased corporate activities surrounding the acquisition of the Fruta del Norte Project, the Company incurred increased operating expenses compared to previous quarters. This was offset by foreign exchange gains realized from the strengthening of the U.S. dollar against Canadian dollar.

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2014, the Company had cash of $70.9 million compared to cash of $21.3 million at December 31, 2013. The increase of $49.6 million was due primarily to cash provided by financing activities of $202.4 million offset by cash used in investing activities of $152.0 million and cash used in operating activities of $1.2 million.

Net cash used in operating activities of $1.2 million during the year ended December 31, 2014 was primarily driven by operating expenses offset by changes in working capital items.

Net cash provided by financing activities of $202.4 million was primarily driven by the completion of the Public Offering for gross proceeds of approximately $172.5 million (CAD$200 million) and the Note Offering for an aggregate principal amount of $34.6 million (CAD$40 million).

Net cash used in investing activities of $152.0 million was mainly made up of the cash consideration portion of the acquisition of Aurelian.

The Company anticipates that its current financial position will provide sufficient working capital to fund its planned expenditures in 2015. As the Company does not have any sources of revenue, additional financing may be required from external sources, which may include the issuance of equity, debt or a combination thereof. 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.

## TRANSACTIONS WITH RELATED PARTIES

During the 2014 period, the Company paid $282,481 (2013 - $302,942) to Namdo Management Services Ltd. ("Namdo"), a private corporation associated with officers 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.

During the 2014 period, the Company paid $60,142 (2013 - $5,826) to NGEx Resources Inc. ("NGEx"), a company of which Lundin Gold's Chairman is a director and CFO is an officer. The Company also paid $106,075 (2013 - $nil) to Denison Mines Corp. ("Denison"), a company in which Lundin Gold's President & CEO is a director and officer. In addition, the Company also paid $nil (2013 - $24,598) to Lucara Diamond Corp. ("Lucara"), a company in which Lundin Gold's Chairman is a director and former CFO is an officer. These charges relate to support services provided to the Company by the employees of NGEx, Denison and Lucara.

## FINANCIAL INSTRUMENTS

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.

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.

*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

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:

| | | |
|---|---|---|
| 2015 | $ | 219,164 |
| 2016 | | 225,685 |
| 2017 | | 232,466 |
| 2018 | | - |
| 2019 | | - |
| 2020 and thereafter | | - |
| Total purchase consideration | $ | 677,315 |

## OFF-BALANCE SHEET ARRANGEMENTS

During the year ended December 31, 2014 and the year ended December 31, 2013 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 December 31, 2014 and the date of this MD&A, there were 101,176,268 common shares issued and outstanding and stock options outstanding to purchase a total of 757,000 common shares for a total of 101,933,268 common shares outstanding on a fully-diluted basis.

## OUTLOOK

During the next 18 months, the Company plans to conduct feasibility studies and environmental permitting at the Fruta del Norte Project in an effort to complete a feasibility study and reach a production decision by mid-2016. In addition, the Company plans to carry out regional exploration on its extensive land position in Ecuador.

During the year ending December 31, 2015, the Company anticipates spending approximately $22.4 million on the feasibility study, including drilling, metallurgical test work and environmental permitting in support of the feasibility study. In addition, approximately $1.8 million is expected to be spent on regional exploration activities. The Company expects to incur other expenditures totaling $23.5 million for corporate social responsibility programs in conjunction with the Lundin Foundation, operation and maintenance of the Las Peñas camp, and general and administrative expenditures. The Company anticipates increasing employment during the year such that, at peak, Lundin Gold will employ approximately 150 individuals between Canada and Ecuador.

## 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, 2014.

**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 making 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

### Adoption of new IFRS pronouncements

The Company adopted IFRIC 21 Levies on January 1, 2014 with retrospective application. IFRIC 21 provides accounting guidance for an obligation to pay a levy, if that liability is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Levies are imposed by governments in accordance with legislation and do not include income taxes. The interpretation addresses the diversity in practice of when the liability to pay a levy is recognized.

IFRIC 21 defines an obligating event as the activity that triggers the payment of the levy, as identified by legislation. A liability to pay a levy is recognized at the date of the obligating event, which may be at a point in time or over a period of time. The fact that an entity is economically compelled to continue to operate in the future, or prepares its financial statements on a going concern basis, does not create an obligation to pay a levy that will arise in a future period as a result of continuing to operate. The adoption of IFRIC 21 did not affect the Company's financial results or disclosures.

### New standards and interpretations not yet adopted

*IFRS 15, Revenue from Contracts with Customers*

In May 2014, the IASB and the Financial Accounting Standards Board (FASB) completed their joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and United States Generally Accepted Accounting Principles (US GAAP). As a result of the joint project, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15) to replace IAS 18, Revenue and IAS 11, Construction Contracts and the related interpretations on revenue recognition.

The new revenue standard introduces a single, principle based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when a performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the effect of this standard on its financial statements.

*IFRS 9, Financial Instruments*

IFRS 9, Financial Instruments (IFRS 9), addresses the classification, measurement and recognition of financial assets and financial liabilities. The IASB has previously issued versions of IFRS 9 that introduces new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication of IFRS 9 is the completed version of the standard, replacing earlier versions of IFRS 9 and superseding the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The new hedging section of the final IFRS 9 standard remains relatively unchanged from when the new hedging accounting section of IFRS 9 was first introduced in November 2013. The new hedge accounting model aligns hedge accounting with risk management activities undertaken by an entity. Components of both financial and non-financial items will now be eligible for hedge accounting, as long as the risk component can be identified and measured. The new hedge accounting model includes eligibility criteria that must be met, but these criteria are based on an economic assessment of the strength of the hedging relationship. New disclosure requirements relating to hedge accounting will be required and are meant to simplify existing disclosure. The IASB currently has a separate project on macro hedging activities and until the project is completed, the IASB have provided a policy choice for entities to either apply the hedge accounting model in IFRS 9 or IAS 39 in full. Additionally, there is a hybrid option to use IAS 39 to account for macro hedges only and to use IFRS 9 for all other hedges.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard and its related amendments 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 Ron Hochstein P. Eng. Mr. Hochstein is the Company's President & CEO and a Qualified Person under NI 43-101.

## FINANCIAL INFORMATION

The report for the three months ended March 31, 2015 is expected to be published on May 13, 2015.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The Company is not required to make any certifications regarding the disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") in place as at December 31, 2014. Management will certify the design of the Company's DC&P and ICFR as at March 15, 2015 and the effectiveness of DC&P and ICFR as at December 31, 2015. The evaluation of ICFR will be based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

## 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.

**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 able to successfully negotiate an Exploitation Agreement with the Government of Ecuador within the required timeframe or at all. 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.

**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. Given the complexity of the economic benefit and tax calculations in the Exploitation Agreement to be negotiated, there is a risk that the currently expected taxation regime will not be applied or that different tax authorities will not agree with the calculations which may result in a negative result or negatively impact the Company and the economic feasibility of the Fruta del Norte Project.

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.

**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, limitations on mineral exports, high rates of inflation, increased financing costs, and site safety. This may affect both Lundin Gold's ability to undertake exploration and development activities in respect of present and future properties in the manner contemplated, as well as its ability to continue to explore, develop and operate those properties in which it has an interest or in respect of which it has obtained exploration and development rights to date.

Any changes in regulations or shifts in political attitudes 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. There is a 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. 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. The Government of Ecuador is currently developing a new complex mining fiscal policy related to the Project, since this Project is expected to be the first large scale gold mining operation for the country. The mining fiscal policy eventually adopted may result in a negative impact to the Company's profitability and the trading price of the Company's securities.

The legal and regulatory requirements in Ecuador applicable to mineral exploration and mining activities and banking systems and controls 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, 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 and the Company's board of directors 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 which may have an adverse effect on the Company.

**Title Matters and Surface Rights and Access**

There is a risk that the title to the area of the mining concessions and the surface rights comprising the Fruta del Norte Project is disputed. The 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.

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 or that such exploration and mining authorizations and surface rights will be challenged or impugned by third parties. In addition, there is a risk that Lundin Gold will not be able to renew 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.

**Economic Developments in Ecuador**

Due to its location in Ecuador, the Fruta del Norte Project is dependent 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.

In the past, Ecuador has experienced periods of weak economic activity and deterioration in economic conditions. There is a risk that such conditions will return or that such conditions will have a material adverse effect on Lundin Gold's business, financial condition or results of operations. A significant decline in the price of oil, a key source of income for the country, a decline in the economic growth of any of Ecuador's major trading partners, such as the United States, Europe, and China, could have a material adverse impact on Ecuador's balance of trade and adversely affect Ecuador's economic growth. The United States, Europe and China constitute Ecuador's largest export markets. A decline in United States, Russia or China demand for imports could have a material adverse effect on Ecuadorian exports and Ecuador's economic growth. In addition, 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 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, rural communities are subject to being influenced by external entities, groups or organizations that may influence the disposition of the local community to host mining activities. In recent years, anti-mining nongovernmental organization ("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.

**Investment in an Emerging Market Country**
Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments. Economic instability in Ecuador and in other Latin American and emerging market countries has been caused by many different factors, including the following: high interest rates, changes in currency values, high levels of inflation, exchange controls, wage and price controls, changes in economic or tax policies, the imposition of trade barriers and internal security issues. Any of these factors could have an adverse impact on Lundin Gold's financial condition and results of operations.

**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, silver and other precious or base metal 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.

**Environmental and Other Regulatory Requirements**
Lundin Gold is subject to the Ecuadorian national body of environmental laws and regulations. The laws and regulations in Ecuador that are applicable to Lundin Gold prohibit the release or discharge of hazardous substances to the environment. Lundin Gold is expected to develop and implement processes and procedures to respond to incidents involving hazardous substances, such as spills, releases and discharges. Failure to comply with these laws, regulations and permitting requirements may result in enforcement actions, 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 mining operations or in the exploration or development of mineral properties may also be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. In addition, certain types of operations require the submission and approval of environmental impact assessments.

Lundin Gold is required to put in place a guarantee and insurance policies for compliance with environmental legislation in Ecuador. Ongoing environmental management activities, including reclamation, associated with exploration stage activities are capitalized to exploration in the period incurred. 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.

Environmental legislation is evolving in a manner which means stricter standards and enforcement, and that fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. Amendments to current laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on Lundin Gold and cause increases in expenditures and costs or require abandonment or delays in developing new mining properties.

**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.

**Adverse General Economic Conditions**
The unprecedented events in global financial markets in the past several years have had a profound impact on the global economy. Many industries, including the gold and silver 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 and silver 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.

**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 transactions in the time period required or at all, may not obtain the capital required by other means. 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 and silver industries in particular), the location of the Fruta del Norte Project in Ecuador and the price of gold and silver on the commodity markets.

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

**Mineral Prices**
Mineral prices have fluctuated widely, particularly in recent years. The price of gold and silver are 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 resource properties 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 and silver. 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, silver and other metals on the commodities markets 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, drilling equipment, tires 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 helicopters, drilling and other 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.

**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 business activities. These matters may give rise to legal uncertainties or have unfavourable results. In addition, 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.

**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.

**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.

**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.

In addition, failure to comply with applicable laws, regulations, and permitting requirements may result 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.

**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 21, 2015

## Independent Auditor's Report

### To the Shareholders of Lundin Gold Inc.

We have audited the accompanying consolidated financial statements of Lundin Gold Inc.(formerly Fortress Minerals Corp.), which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 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, 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.

*PricewaterhouseCoopers LLP*
*PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7*
*T: 604 806 7000, F: 604 806 7806, www.pwc.com/ca*

**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, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*signed "PricewaterhouseCoopers LLP"*

**Chartered Accountants**

# LUNDIN GOLD INC. (formerly Fortress Minerals Corp.)

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

| | Note | | December 31, 2014 | | December 31, 2013 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash | 5 | $ | 70,919,477 | $ | 21,328,135 |
| VAT receivable and other assets | | | 728,140 | | 35,382 |
| | | | 71,647,617 | | 21,363,517 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 6 | | 9,511,524 | | - |
| Mineral properties | 7 | | 236,873,803 | | - |
| | | $ | 318,032,944 | $ | 21,363,517 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | 8 | $ | 5,670,309 | $ | 69,956 |
| **Non-current liabilities** | | | | | |
| Reclamation provisions | 9 | | 793,087 | | - |
| | | | 6,463,396 | | 69,956 |
| **EQUITY** | | | | | |
| Share capital | 10 | | 386,315,842 | | 94,113,114 |
| Equity-settled share-based payment reserve | 11 | | 3,006,381 | | 2,195,716 |
| Foreign currency translation reserve | | | (2,839,998) | | (851,316) |
| Deficit | | | (74,912,677) | | (74,163,953) |
| | | | 311,569,548 | | 21,293,561 |
| | | $ | 318,032,944 | $ | 21,363,517 |

Commitments (Note 18)

**Approved by the Board of Directors**

*/s/ Ron F. Hochstein*
Ron F. Hochstein

*/s/ Ian W. Gibbs*
Ian W. Gibbs

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

# LUNDIN GOLD INC. (formerly Fortress Minerals Corp.)

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

| | Note | Years Ended December 31, 2014 | 2013 |
|---|---|---|---|
| **EXPENSES** | | | |
| Project evaluation | 12 | $ 2,262,284 | $ - |
| Investor relations | | 28,283 | 2,356 |
| Office and general | | 819,602 | 319,933 |
| Management and consulting fees | | 430,019 | 30,423 |
| Professional fees | | 173,524 | 115,767 |
| Regulatory and transfer agent | | 158,662 | 19,630 |
| Salaries and benefits | | 623,770 | 84 |
| Stock-based compensation | 11 | 810,665 | 55,736 |
| Depreciation | | 28,734 | - |
| Loss before other items | | 5,335,543 | 543,929 |
| Gain on foreign exchange | | (4,348,175) | (49,246) |
| Interest and other income | | (238,644) | (235,267) |
| Net loss for the year | | $ 748,724 | $ 259,416 |
| **OTHER COMPREHENSIVE LOSS** | | | |
| **Items that may be subsequently reclassified to net income** | | | |
| Currency translation adjustment | | 1,988,682 | 1,477,543 |
| Comprehensive loss for the year | | $ 2,737,406 | $ 1,736,959 |
| Basic and diluted loss per common share | | $ 0.04 | $ 0.02 |
| Weighted-average number of common shares outstanding | | 18,380,162 | 14,831,758 |

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

# LUNDIN GOLD INC. (formerly Fortress Minerals Corp.)

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

| | Note | Number of Common Shares | Share Capital | Equity-settled Share-based Payment Reserve | Foreign Currency Translation Reserve | Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance December 31, 2012 | | 14,831,758 | $ 94,113,114 | $ 2,139,980 | $ 626,227 | $ (73,904,537) | $ 22,974,784 |
| Stock-based compensation | 11 | - | - | 55,736 | - | - | 55,736 |
| Currency translation adjustment | | - | - | - | (1,477,543) | - | (1,477,543) |
| Net loss for the year | | - | - | - | - | (259,416) | (259,416) |
| 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 |

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

# LUNDIN GOLD INC. (formerly Fortress Minerals Corp.)

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

| | Years Ended December 31, 2014 | 2013 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss for the year | $ (748,724) | $ (259,416) |
| Item not affecting cash: | | |
| Stock-based compensation | 810,665 | 55,736 |
| Depreciation | 28,734 | - |
| Foreign exchange gain | (2,274,787) | - |
| | (2,184,112) | (203,680) |
| Changes in non-cash working capital items: | | |
| VAT receivable and other assets | (270,377) | 17,449 |
| Accounts payable and accrued liabilities | 1,295,252 | 40,275 |
| Net cash used for operating activities | (1,159,237) | (145,956) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from private placement, net | 167,827,330 | - |
| Proceeds from issuance of convertible loan notes | 34,615,054 | - |
| Net cash provided by financing activities | 202,442,384 | - |
| **INVESTING ACTIVITIES** | | |
| Acquisition of Aurelian Resources Inc., net of cash acquired | (151,950,324) | - |
| Acquisition of property, plant and equipment | (27,586) | - |
| Net cash used for investing activities | (151,977,910) | - |
| Effect of foreign exchange rate differences on cash | 286,105 | (1,477,899) |
| Net increase (decrease) in cash | 49,591,342 | (1,623,855) |
| Cash, beginning of year | 21,328,135 | 22,951,990 |
| Cash, end of year | $ 70,919,477 | $ 21,328,135 |
| **Supplemental information** | | |
| Interest received | 138,777 | 236,337 |
| Taxes paid | - | - |
| Change in accounts payable and accrued liabilities related to: | | |
| Proceeds from private placement, net | 239,656 | - |
| Acquisition of Aurelian Resources Inc. | 3,548,816 | - |
| Acquisition of property, plant and equipment | 55,672 | - |

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

## 1. Nature of operations

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

In December 2014, the common shares of the Company were 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 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 is located in Suite 2000, 885 W. Georgia Street, Vancouver, BC.

## 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.

These consolidated financial statements were approved for issue by the Audit Committee and Board of Directors on February 21, 2015.

The following entities are included in these consolidated financial statements:

| | | Ordinary shares held | |
|---|---|---|---|
| | Country of incorporation | December 31, 2014 | December 31, 2013 |
| Fortress Minerals Cyprus (I) Ltd. | Republic of Cyprus | 100% | 100% |
| Aurelian Resources Inc. | Canada | 100% | - |
| Aurelian Resources Corporation Ltd. | Canada | 100% | - |
| Aurelian Ecuador S.A. | Ecuador | 100% | - |
| Aurelian Ecuador Holding S.A. | Ecuador | 100% | - |
| Ecoaurelian Agricola S.A. | Ecuador | 100% | - |

All entities noted above are included in the consolidation. 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.

## 3. Summary of significant accounting policies (continued)

*(b) Change in presentation currency*

Prior to December 31, 2014, the Company reported its annual and quarterly statements of financial position and the related statements of losses, comprehensive losses, and cash flows in Canadian dollars ("CAD"). Effective December 31, 2014, the Company changed its reporting currency to the United States ("U.S.") dollar to better reflect the Company's business activities following the acquisition of Aurelian. As a result and in accordance with International Accounting Standard ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates*, the financial statements for all years presented have been translated into U.S. dollars. The statement of losses, comprehensive losses, and cash flows for each year have been translated in to the presentation currency using the average exchange rate prevailing during each year. All assets and liabilities have been translated using the exchange rate prevailing at the statements of financial position dates. Equity transactions since January 1, 2011 have been translated at the exchange rate in effect on the date of the specific transaction. All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income. All comparative financial information has been restated to reflect the Company's results as if they had been historically reported in U.S. dollars.

*(c) 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.'s 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.

*(d) 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 making 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.

*(e) 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.

*(f) 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.

If in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

*(g) Cash*

Cash includes cash on hand and deposits held with banks.

*(h) 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 |
| Future and office equipment | 3 to 10 years |

## 3. Summary of significant accounting policies (continued)

*(i) Exploration and evaluation ("E&E") expenditures and mineral properties*

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

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

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

Project costs in relation to these activities are expensed as incurred until such time that the project demonstrates technical feasibility and commercial viability. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, 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.

*(j) 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.

*(k) Provisions*

*Asset retirement obligations*

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

## 3. Summary of significant accounting policies (continued)

*(l) 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.

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.

*(m) 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.

*(n) 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.

**3. Summary of significant accounting policies** (continued)

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

*(o) 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.

*(p) 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.

*(q) Adoption of new IFRS pronouncements*

The Company adopted IFRIC 21 *Levies* on January 1, 2014 with retrospective application. IFRIC 21 provides accounting guidance for an obligation to pay a levy, if that liability is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Levies are imposed by governments in accordance with legislation and do not include income taxes. The interpretation addresses the diversity in practice of when the liability to pay a levy is recognized.

IFRIC 21 defines an obligating event as the activity that triggers the payment of the levy, as identified by legislation. A liability to pay a levy is recognized at the date of the obligating event, which may be at a point in time or over a period of time. The fact that an entity is economically compelled to continue to operate in the future, or prepares its financial statements on a going concern basis, does not create an obligation to pay a levy that will arise in a future period as a result of continuing to operate. The adoption of IFRIC 21 did not affect the Company's financial results or disclosures.

*(r) Pronouncements issued but not yet effective*

*i. IFRS 15, Revenue from Contracts with Customers*

In May 2014, the IASB and the Financial Accounting Standards Board (FASB) completed their joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and United States Generally Accepted Accounting Principles (US GAAP). As a result of the joint project, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15) to replace IAS 18, Revenue and IAS 11, Construction Contracts and the related interpretations on revenue recognition.

The new revenue standard introduces a single, principle based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when a performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the effect of this standard on its financial statements.

**3. Summary of significant accounting policies** (continued)

*ii. IFRS 9, Financial Instruments*

IFRS 9, Financial Instruments (IFRS 9), addresses the classification, measurement and recognition of financial assets and financial liabilities. The IASB has previously issued versions of IFRS 9 that introduces new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication of IFRS 9 is the completed version of the standard, replacing earlier versions of IFRS 9 and superseding the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The new hedging section of the final IFRS 9 standard remains relatively unchanged from when the new hedging accounting section of IFRS 9 was first introduced in November 2013. The new hedge accounting model aligns hedge accounting with risk management activities undertaken by an entity. Components of both financial and non-financial items will now be eligible for hedge accounting, as long as the risk component can be identified and measured. The new hedge accounting model includes eligibility criteria that must be met, but these criteria are based on an economic assessment of the strength of the hedging relationship. New disclosure requirements relating to hedge accounting will be required and are meant to simplify existing disclosure. The IASB currently has a separate project on macro hedging activities and until the project is completed, the IASB have provided a policy choice for entities to either apply the hedge accounting model in IFRS 9 or IAS 39 in full. Additionally, there is a hybrid option to use IAS 39 to account for macro hedges only and to use IFRS 9 for all other hedges.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the effect of this standard and its related amendments on its financial statements.

## 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 |
| VAT receivable and other 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 the La Zarza concession 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, 2014 | | December 31, 2013 |
|---|---|---|---|---|
| Canadian dollars | $ | 29,686,978 | $ | 20,594,104 |
| U.S. dollars | | 41,232,499 | | 734,031 |
| | $ | 70,919,477 | $ | 21,328,135 |

## 6. Property, plant and equipment

| Cost | Land and buildings | Machinery and equipment | Vehicles | Furniture and office equipment | Total |
|---|---|---|---|---|---|
| **Balance, January 1, 2013** | $ - | $ - | $ - | $ - | $ - |
| Additions | - | - | - | - | - |
| **Balance, December 31, 2013** | - | - | - | - | - |
| 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 |
| **Accumulated depreciation** | | | | | |
| **Balance, January 1, 2013** | $ - | $ - | $ - | $ - | $ - |
| Depletion, amortization and accretion for the year | - | - | - | - | - |
| **Balance, December 31, 2013** | - | - | - | - | - |
| 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 |
| **Net book value** | | | | | |
| **As at December 31, 2013** | $ - | $ - | $ - | $ - | $ - |
| **As at December 31, 2014** | $ 4,438,963 | $ 4,075,682 | $ 735,830 | $ 261,049 | $ 9,511,524 |

## 7. Mineral properties

| Cost | Fruta del Norte project | Fruta del Norte restoration asset | Total |
|---|---|---|---|
| **Balance, January 1, 2013** | $ - | $ - | $ - |
| Additions | - | - | - |
| **Balance, December 31, 2013** | - | - | - |
| Additions | 236,337,090 | 536,713 | 236,873,803 |
| **Balance, December 31, 2014** | $ 236,337,090 | $ 536,713 | $ 236,873,803 |

## 8. Accounts payable and accrued liabilities

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Accounts payable | $ 626,493 | $ 38,885 |
| Accrued liabilities | 5,043,816 | 31,071 |
| | $ 5,670,309 | $ 69,956 |

The accrued liabilities are primarily related to transaction costs incurred including legal, stock exchange fees and other professional services.

## 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. The Company has applied a pre-tax discount rate of 10.2% and an inflation rate of 2.7% at December 31, 2014. The estimated total liability for reclamation and remediation costs on an undiscounted basis is approximately $2.3 million.

## 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 | |
|---|---|---|
| Balance at January 1, 2013 | 14,831,758 | $ 94,113,114 |
| Balance at December 31, 2013 | 14,831,758 | 94,113,114 |
| Share issued for acquisition of Aurelian | 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 |

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, 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. 10,060,000 common shares of the Company were issued but held in escrow related to these convertible loan notes.

## 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 three to five years and vest over a period of 18 months.

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

| | Year Ended December 31, 2014 | | | Year Ended December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Number of Common Shares | | Weighted exercise price (CAD) | Number of Common Shares | | Weighted exercise price (CAD) |
| Balance, beginning of year | 227,700 | $ | 4.34 | 233,700 | $ | 4.33 |
| Granted | 592,000 | $ | 3.75 | - | $ | - |
| Cancelled / Expired | (62,700) | $ | 5.21 | (6,000) | $ | 4.01 |
| Balance outstanding, end of year | 757,000 | $ | 3.81 | 227,700 | $ | 4.34 |
| Balance exercisable, end of year | 461,000 | $ | 3.84 | 227,700 | $ | 4.34 |

The following table summarizes information concerning outstanding and exercisable options at December 31, 2014:

| Expiry date | | Exercise price (CAD) | Options outstanding | Options exercisable | Remaining contractual life (Years) |
|---|---|---|---|---|---|
| June 1, 2015 | $ | 4.01 | 165,000 | 165,000 | 0.41 |
| May 26, 2019 | $ | 3.75 | 592,000 | 296,000 | 4.35 |
| | | | 757,000 | 461,000 | |

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:

| | 2014 | 2013 |
|---|---|---|
| Risk-free interest rate | 1.58% | - |
| Expected stock price volatility | 63.17% | - |
| Expected life | 5 years | - |
| Expected dividend yield | - | - |
| Weighted-average fair value per option granted (CAD) | $2.02 | - |

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, 2014, the Company recorded stock-based compensation expense of $810,665 (2013 – $55,736) relating to the vesting of options with a corresponding increase in the equity-settled share-based payment reserve.

## 12. Project evaluation

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. As a result, pursuant to the terms of the exclusivity agreement, the Company paid a break fee of $1,000,000. Following this withdrawal, the Company continued to incur project evaluations expenditures to evaluate 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, 2014 and December 31, 2013, the Company incurred the following:

| Payee | Nature | Note | December 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Namdo | Management fees | i | $ 282,481 | $ 302,942 |
| Lucara | Support services | ii | - | 24,598 |
| NGEx | Support services | ii | 60,142 | 5,826 |
| Denison | Support services | Ii | 106,075 | - |

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

ii. Lucara Diamond Corp. (“Lucara”), NGEx Resources Inc. (“NGEx”), and Denison Mines Corp. (“Denison”), companies related by way of officers and directors in common, provides support services to the Company. As at December 31, 2014, $45,400 (2013 - $nil) was due to these companies.

(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, 2014 | December 31, 2013 |
|---|---|---|
| Salaries and benefits | $ 591,816 | $ - |
| Stock-based compensation | 683,909 | 40,803 |
| | $ 1,275,725 | $ 40,803 |

## 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, 2014 | December 31, 2013 |
|---|---|---|
| Loss before income taxes | $ (748,724) | $ (259,416) |
| Canadian federal and provincial income tax rates | 26.00% | 25.75% |
| Income tax expense based on the above rates | (194,668) | (66,800) |
| Increase (decrease) due to: | | |
| Differences in foreign tax rates | (316) | 828 |
| Non-deductible costs | 1,037,862 | 14,352 |
| Losses and temporary differences for which an income tax asset has not been recognized | - | 51,620 |
| Non-taxable portion of capital gains | (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, 2014 | December 31, 2013 |
|---|---|---|
| Non-capital losses - Canada | $ 9,224,477 | $ 8,950,411 |
| Net-capital losses - Canada | 19,805,823 | 26,130,822 |
| Non-capital losses - Cyprus | 154,094 | 154,094 |
| Share issuance costs | 3,969,226 | 17,775 |
| Donations | 130,161 | 361,978 |
| Liabilities | 760,834 | - |
| Other | 4,808,893 | 646,490 |
| | $ 38,853,508 | $ 36,261,570 |

## 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 construction decision. The segments presented below reflect the way in which management reviews its business performance. During the years ended December 31, 2014 and 2013, all expenses were incurred in Canada.

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | **Equipment, net** | **Mineral properties** | **Equipment, net** | **Mineral properties** |
| Canada | $ 83,258 | $ - | $ - | $ - |
| Ecuador | 9,428,266 | 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, 2014 and 2013, 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.

*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 main 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

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:

| | | |
|---|---|---|
| 2015 | $ | 219,164 |
| 2016 | | 225,685 |
| 2017 | | 232,466 |
| 2018 | | - |
| 2019 | | - |
| 2020 and thereafter | | - |
| Total purchase consideration | $ | 677,315 |

# Corporate Information

## BOARD OF DIRECTORS

James Cambon
*British Columbia, Canada*
Carmel Daniele
*London, United Kingdom*
Ian Gibbs
*British Columbia, Canada*
Ron F. Hochstein
*British Columbia, Canada*
Adam Lundin
*Alberta, 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*
Sheila Colman
*Vice President, Legal & Corporate Secretary*
Antonietta Vodola
*Assistant Corporate Secretary*

## OFFICES

**CORPORATE HEAD OFFICE**
**Lundin Gold Inc.**
885 West Georgia Street, Suite 2000
Vancouver, British Columbia V6C 3E8
Telephone: 604-689-7842
Toll Free: 1-888-689-7842
Facsimile: 604-689-4250

**REGIONAL HEAD OFFICE**
**Aurelian Ecuador S.A.,**
**a subsidiary of Lundin Gold Inc.**
Av. Amazonas N37-29 y UNP
Edificio Eurocenter, Piso 5
Quito, Ecuador
Telephone: 593-2-299-6400

**FIELD OFFICE**
Calle 01 de Mayo
SN y de Febiero
Los Encuentros, Zamora
Ecuador

## STOCK EXCHANGE LISTINGS

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

## SHARE REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
510 Burrard Street, 3rd Floor
Vancouver, B.C. V6C 3B9
Telephone: 1-800-564-6253

## AUDITOR

PricewaterhouseCoopers LLP
250 Howe St #700
Vancouver, BC V6C 3S7
Telephone: 604-806-7000

## 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

LUNDIN GOLD

**Lundin Gold Inc.**
885 West Georgia Street, Suite 2000
Vancouver, BC, Canada V6C 3E8

Telephone +1 604 689 7842
Fax +1 604 689 4250
info@lundingold.com
lundingold.com