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NEWS RELEASE

LUNDIN GOLD INC. REPORTS Q2 2016 RESULTS

July 29, 2016 (Vancouver, Canada)… Lundin Gold Inc. ("Lundin Gold" or the "Company") (TSX: "LUG", Nasdaq Stockholm: "LUG") is pleased to announce its results for the three and six months ended June 30, 2016. All amounts in this release are in U.S. dollars unless otherwise indicated.

Highlights

Fruta del Norte Project

- On June 6, 2016, the Company announced the results of an independent feasibility study for the Fruta del Norte Project (the "Feasibility Study"). The highlights are as follows:
  - Probable Mineral Reserves totaling 4.82 million ounces of gold and 6.34 million ounces of silver (15.5 million tonnes at 9.67 g/t Au and 12.7 g/t Ag);
  - Project economics at a gold price of $1,250/ounce and a silver price of $20/ounce resulted in the following:

	Pre-tax	After Tax
Net Present Value at a 5% discount rate (NPV_5)	$1,283 million	$676 million
Internal Rate of Return (IRR)	23.8%	15.7%
Capital Payback (yrs)	3.7	4.5

Notes:

1. All figures are reported on a 100% equity project basis valuation. Capital payback is calculated based on start of production.
2. Economic valuation is presented using a start date of July 1, 2017.

- On June 16, 2016, the Company submitted a Phase Change Application (the "PCA") to the Government of Ecuador in respect of its 100% owned La Zarza concession. The PCA was approved on July 13, 2016. This approval moves the La Zarza concession from the exploration phase to the exploitation phase under Ecuador's mining law and permits Aurelian Ecuador S.A., the Company's wholly owned subsidiary, to enter into the exploitation agreement with the Government of Ecuador and to proceed with its plans to develop the Project.

Financing

- On June 27, 2016, the Company entered into an agreement with a syndicate of underwriters (the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 15,000,000 common shares of the Company at a price of CAD$5.50 per Share, for aggregate gross proceeds of CAD$82,500,000 (the "Offering"). The Company has also granted the Underwriters a 15% over-allotment option which, if exercised in full, would increase the gross proceeds to CAD$94,875,000. The first tranche of the Offering, for 10,000,000 common shares, closed on July 19, 2016 for gross proceeds to the Company of CAD$55,000,000 with the second tranche due to close on or before August 11, 2016.

- On June 8, 2016, the Company secured an $18 million credit facility from an insider of the Company (the "Facility"). As at June 30, 2016, $8 million was drawn down and outstanding. All amounts outstanding under the Facility were repaid in full on July 22, 2016 from the proceeds of the Offering.

Exploration

- A drilling campaign was initiated on April 26, 2016 on five key targets located 15 to 20 km south of the Fruta del Norte Project. During the quarter, 15 drill holes were completed on the Emperador, Robles, Chanchito and El Arco targets, and a total of 5,672m was drilled as of June 30, 2016.

Corporate

- Alessandro Bitelli was appointed as Executive Vice President and Chief Financial Officer effective July 1, 2016. Alessandro has extensive project financing experience and over 30 years of experience in the resource industry and in public accounting, having worked both in North America and Europe.

"During the quarter, the Company completed a number of key corporate objectives including the timely completion of a posititive Feasibility Study, the submission and subsequent approval of the phase change application for the Fruta del Norte Project and the closing of the first tranche of a CAD$82.5 million equity financing," said Lundin Gold President and CEO, Ron Hochstein. "We are pleased with these achievements and are preparing to advance the Fruta del Norte Project to the next phase as we move closer to the start of construction."

Financial Results

(in thousands, except per share amounts)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Results of Operations:				
Operating expenses	$ (12,472)	$ (15,424)	$ (26,974)	$ (23,689)
Other income (expense)	42	(474)	(166)	2,729
Net loss for the period	(12,430)	(15,898)	(27,140)	(20,960)
Basic and diluted loss per share	(0.12)	(0.16)	(0.27)	(0.21)

(in thousands)	As at June 30, 2016	As at December 31, 2015
Financial Position:		
Cash	3,989	21,360
Working capital	(8,535)	16,314
Property, plant and equipment	8,188	8,557
Mineral properties	236,874	236,874
Total assets	249,636	267,400
Long-term liabilities	920	867

The current quarter's net loss is lower compared to the second quarter of 2015 mainly due to a reduction in project evaluation and general and administrative expenses offset by an increase in exploration expense. Project evaluation expenditures are $2.9 million lower compared to the same period in 2015 because drilling activities to support the Feasibility Study, which started during the second quarter of 2015, finished by the end of 2015. General and administrative expenditures also decreased by $2.2 million due to a donation made to the Lundin Foundation during the second quarter of 2015. These reductions were offset by an increase in exploration expenditures of $2.2 million driven by the start of exploration drilling in April 2016.

The loss in the first half of 2016 is higher compared to that of the first half of 2015 as a result of an increase in project evaluation expenditures of $3.6 million and exploration expenditures of $2.5 million offset by a decrease in general and administrative expenditures of $2.8 million and a reduction in the foreign exchange gain of $2.9 million. Project evaluation expenditures during the first half of 2015 were lower due to a progressive ramp up of Feasibility Study activities during the first quarter of 2015. The increase in exploration expenditures and decrease in general and administrative expenditures are explained above. In addition, there was a decrease in the foreign exchange gain due to a reduction in the U.S. dollar cash balance at the parent company level from June 30, 2015 to June 30, 2016. As the functional currency of the parent company is the Canadian dollar, a significant U.S. dollar cash balance combined with a strengthening of the U.S. dollar against the Canadian dollar generated a substantial gain in terms of Canadian dollars during the first half of 2015.

Liquidity and Capital Resources

As at June 30, 2016, the Company had cash of $4.0 million and a working capital deficit of $8.5 million compared to cash of $21.4 million and a working capital surplus of $16.3 million at December 31, 2015. The decrease in cash of $17.4 million was primarily due to $18.7 million of project evaluation expenditures relating to the Feasibility Study offset by drawdowns from the Debenture (see paragraph below).

Bought Deal Financing

On June 27, 2016, the Company entered into an agreement with the Underwriters pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 15,000,000 common shares of the Company at a price of CAD$5.50 per common share, for aggregate gross proceeds of CAD$82,500,000. The Company also granted the Underwriters an over-allotment option, exercisable in whole or in part to purchase up to an additional 2,250,000 common shares, representing 15% of the number of common shares sold under the Offering. In the event that the over-allotment option is exercised in its entirety, the aggregate gross proceeds to the Company from the Offering will be CAD$94,875,000.

The first tranche of the Offering, for 10,000,000 common shares, closed on July 19, 2016 for gross proceeds to the Company of CAD$55,000,000. The closing of the second tranche, for 5,000,000 common shares plus any common shares to be acquired on the exercise of the over-allotment option, if any (the “Second Closing”) is conditional upon the approval and registration with the Swedish Financial Supervising Authority of a prospectus (and the subsequent publication of the prospectus) regarding the listing of the common shares issued under the second tranche of the Offering on the Nasdaq Stockholm Exchange (the "Swedish Prospectus Conditions"). The Second Closing is to occur three business days following the satisfaction of the Swedish Prospectus Conditions. In the event that Swedish Prospectus Conditions are not met by August 8, 2016, the Underwriters shall not be obligated to complete the Second Closing.

Debenture

On June 8, 2016, the Company secured the Facility from an insider of the Company. The Facility was evidenced by the Debenture which was unsecured and was due on the earlier of the closing of a financing by the Company or August 31, 2016 (the “Maturity Date”). No interest was payable in cash during the term of the Debenture.

The Company issued an aggregate of 20,000 common shares on June 9, 2016 as consideration for the Facility in lieu of fees. The Company was also required to issue an additional 1,700 common shares per month for each $1 million of the Facility drawn down and outstanding until the Maturity Date. All common shares issued in conjunction with the Facility are subject to a four-month hold period under applicable securities law.

As at June 30, 2016, $8 million was drawn down and outstanding. All amounts outstanding under the Facility were repaid in full on July 22, 2016 from the proceeds of the Offering.

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

Outlook

With the completion of Feasibility Study, the Company has embarked on an Early Works program. The main objectives of the Early Works program are to perform basic engineering, provide the access, infrastructure, services and facilities to support the start of construction of the mine's twin declines and to maintain the project critical path. In addition, data collection will be conducted in specific technical disciplines that will support basic engineering and refinement of the capital cost estimates. These programs started in June 2016 and are anticipated to be completed by the end of the second quarter 2017.

On June 16, 2016, the Company submitted the PCA to the Government of Ecuador. The Government of Ecuador approved the PCA on July 13, 2016. The Company has until January 20, 2017 to execute the exploitation agreement with the Government of Ecuador. The Company expects to execute the IPA at the same time as the exploitation agreement.

During the next 12 months, the Company will continue to work with its financial advisors and legal advisors to evaluate and put in place the financing for the construction of the Fruta del Norte Project. The Company intends to have its financing in place coincident with its production decision.

The exploration drilling campaign is planned to continue to test high priority concessions near the Fruta del Norte Project. After completing the first pass of drilling, up to an additional 3,000m may be drilled as follow up where results justify. The Company also intends to undertake a geophysical program in the fourth quarter of 2016, to target new areas of interest identified from the recently completed geochemical survey.

Qualified Person

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

Full details of the Feasibility Study can be found in a technical report entitled "Fruta del Norte - NI 43-101 Technical Report on Feasibility Study" (the "Technical Report") which has an effective date of April 30, 2016. The Technical Report is available for review under the Company's profile on SEDAR (www.sedar.com) and on the Company's website (www.lundingold.com).

Additional Information

The Company's consolidated financial statements for the three and six months ended June 30, 2016 and related management's discussion and analysis are available on the Company's website at www.lundingold.com or under its profile on SEDAR at www.sedar.com.

The information in this release is subject to the disclosure requirements of Lundin Gold under the EU Market Abuse Regulation and/or the Swedish Financial Instruments Trading Act. This information was publicly communicated on July 29, 2016 at 3:00 p.m. PT.

About the Company:

Lundin Gold Inc. owns the Fruta del Norte ("FDN") gold project located in southeast Ecuador. FDN is one of the largest and highest grade undeveloped gold projects in the world. The Company is advancing FDN 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 stakeholders in this project. Lundin Gold views its commitment to corporate social responsibility as a strategic advantage that enables it both to access and effectively manage business opportunities in increasingly complex environments. Lundin Gold is committed to addressing the challenge of sustainability - delivering value to its shareholders, while simultaneously providing economic and social benefits to impacted communities and minimizing its environmental footprint.

For more information, please contact

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Caution Regarding Forward-Looking Information and Statements

Certain of the information and statements in this press release 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 press release, and the Company will not necessarily update this information, unless required to do so by securities laws.

This press release contains forward-looking information in a number of places, such as in statements pertaining to: the results of the Feasibility Study, including, but not limited to, gold price and exchange rate assumptions, cash flow forecasts, projected capital and operating costs, metal or mineral recoveries, mine life and production rates; the Company's potential plans and operating performance; the estimation of the tonnage, grades and content of deposits, and estimates of Mineral Resource and Reserves; potential production from and viability of the Company's properties; estimates of future production and operating costs; use of proceeds from the Offering, closing of the second tranche of the Offering, the satisfaction of the Swedish Prospectus Condition, registration of the resolution approving the phase change application,exploration and development expenditures and reclamation costs, the negotiation and signing of the investment protection agreement and signing of the exploitation agreement with the government, exploration plans, timing and success of permitting and regulatory approvals, future sources of liquidity, capital expenditures and requirements, expectations of market prices and costs, development, construction and operation of the Fruta del Norte Project, future tax payments and rates, cash flows and their uses.

There can be no assurance that such statements will prove to be accurate, as Lundin Gold's actual results and future events could differ materially from those anticipated in this forward-looking information as a result of the factors discussed in the "Risk Factors" section in Lundin Gold's prospectus dated July 12, 2016 which is available on SEDAR at www.sedar.com.

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

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

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of Lundin Gold Inc. and its subsidiary companies (collectively, "Lundin Gold" or the "Company") provides a detailed analysis of the Company's business, and compares its financial results for the three and six months ended June 30, 2016 with those of the same period from the previous year.

This MD&A is dated as of July 29, 2016 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes thereto for the three and six months ended June 30, 2016, which are prepared in accordance with IAS 34: Interim Financial Statements and the Company's audited annual consolidated financial statements and related notes thereto, which are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the MD&A for the fiscal year ended December 31, 2015. References to the "2016 Period" and "2015 Period" relate to the six months ended June 30, 2016 and June 30, 2015, respectively.

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

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

In December 2014, the Company acquired the Fruta del Norte Project along with surrounding exploration concessions, located in Southeast Ecuador. The Fruta del Norte Project is one of the largest and highest grade undeveloped gold projects in the world. The Company is advancing the Fruta del Norte Project in order to realize the significant potential of this asset.

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

HIGHLIGHTS AND ACTIVITIES

Fruta del Norte Project

- On June 6, 2016, the Company announced the results of an independent feasibility study for the Fruta del Norte Project (the "Feasibility Study"). The highlights are as follows:
  - Probable Mineral Reserves totaling 4.82 million ounces of gold and 6.34 million ounces of silver (15.5 million tonnes at 9.67 g/t Au and 12.7 g/t Ag);
  - Project economics at a gold price of $1,250/ounce and a silver price of $20/ounce resulted in the following:

	Pre-tax	After Tax
Net Present Value at a 5% discount rate (NPV_5)	$1,283 million	$676 million
Internal Rate of Return (IRR)	23.8%	15.7%
Capital Payback (yrs)	3.7	4.5

Notes:

1. All figures are reported on a 100% equity project basis valuation. Capital payback is calculated based on start of production.
2. Economic valuation is presented using a start date of July 1, 2017.

- On June 16, 2016, the Company submitted a Phase Change Application (the "PCA") to the Government of Ecuador in respect of its 100% owned La Zarza concession. The PCA was approved on July 13, 2016. This approval moves the La Zarza concession from the exploration phase to the exploitation phase under Ecuador's mining law and permits Aurelian Ecuador S.A., the Company's wholly owned subsidiary, to enter into the exploitation agreement with the Government of Ecuador and to proceed with its plans to develop the Project.

Financing

- On June 27, 2016, the Company entered into an agreement with a syndicate of underwriters (the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 15,000,000 common shares of the Company at a price of CAD$5.50 per Share, for aggregate gross proceeds of CAD$82,500,000 (the "Offering"). The Company has also granted the Underwriters a 15% over-allotment option which, if exercised in full, would increase the gross proceeds to CAD$94,875,000. The first tranche of the Offering, for 10,000,000 common shares, closed on July 19, 2016 for gross proceeds to the Company of CAD$55,000,000 with the second tranche due to close on or before August 11, 2016.

- On June 8, 2016, the Company secured an $18 million credit facility from an insider of the Company (the "Facility"). As at June 30, 2016, $8 million was drawn down and outstanding. All amounts outstanding under the Facility were repaid in full on July 22, 2016 from the proceeds of the Offering.

Exploration

- A drilling campaign was initiated on April 26, 2016 on five key targets located 15 to 20 km south of the Fruta del Norte Project. During the quarter, 15 drill holes were completed on the Emperador, Robles, Chanchito and El Arco targets, and a total of 5,672m was drilled as of June 30, 2016.

Corporate

- Alessandro Bitelli was appointed as Executive Vice President and Chief Financial Officer effective July 1, 2016. Alessandro has extensive project financing experience and over 30 years of experience in the resource industry and in public accounting, having worked both in North America and Europe.

THE FRUTA DEL NORTE PROJECT

Lundin Gold's property in Southeast Ecuador consists of 33 mining concessions covering an area of approximately 75,000 hectares. From this, the Fruta del Norte Project is comprised of three concession covering an area of approximately 4,900 hectares and is located approximately 80 kilometres east of the City of Loja, which is the fourth largest city in Ecuador.

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

Activities in the Second Quarter of 2016

<u>Feasibility Study of the Fruta del Norte Project</u>

On June 6, 2016 the Company announced the results of the Feasibility Study on the Fruta del Norte Project. The highlights of the Feasibility Study are:

- Probable Mineral Reserves totalling 4.82 million ounces of gold and 6.34 million ounces of silver (15.5 million tonnes at 9.67 g/t Au and 12.7 g/t Ag);

- Estimated average annual gold production of 340,000 ounces at an average life of mine ("LOM") total cash cost of $553/oz and a LOM all-in sustaining cash cost of $623/oz, placing the Fruta del Norte Project in the lowest cash cost quartile globally;

- LOM production of approximately 4.4 million ounces of gold and 5.2 million ounces of silver over an initial 13-year mine life using an average gold recovery of 91.7% and average silver recovery of 81.5%;

- Estimated project capital cost, including contingency, of $669 million, net of taxes;

- Targeted start of construction in mid-2017;
- Expected first gold production in first quarter 2020 with first year of full production in 2021;
- Project economics at a gold price of $1,250/ounce and a silver price of $20/ounce resulted in the following:

	Pre-tax	After Tax
Net Present Value at a 5% discount rate (NPV_5)	$1,283 million	$676 million
Internal Rate of Return (IRR)	23.8%	15.7%
Capital Payback (yrs)	3.7	4.5

Notes:

1. All figures are reported on a 100% equity project basis valuation. Capital payback is calculated based on start of production.
2. Economic valuation is presented using a start date of July 1, 2017.

- The cash flow to be generated over the initial three years of production, annual average over the first 10 years of production and LOM are shown in the following table.

$M	2020	2021	2022	Average Yrs 1 – 10	LOM
Doré Revenue	62	121	151	133	1,669
Concentrate Revenue	117	247	314	280	3,631
Total Revenue	179	368	465	414	5,301
Operating Costs	107	151	149	147	1,961
Operating Profit	72	216	316	267	3,339
Taxes & Royalties	16	(6)	16	59	914
Capex	139	16	11	28	975
Changes in Working Capital	46	8	11	6	-
Cash Flow (After Tax)	(129)	198	279	174	1,449

Note: Numbers may not add due to rounding.

Full details of the Feasibility Study can be found in a technical report entitled "Fruta del Norte - NI 43-101 Technical Report on Feasibility Study" (the "Technical Report") which has an effective date of April 30, 2016. The Technical Report is available for review under the Company's profile on SEDAR (www.sedar.com) and on the Company's website (www.lundingold.com).

Ecuadorian Governmental Approvals

On June 16, 2016, the Company submitted its PCA for the La Zarza concession (host to the Fruta del Norte Project). The Government of Ecuador approved the PCA on July 13, 2016. The Company has until January 20, 2017 to execute the exploitation agreement for the Project.

Having completed negotiations of an exploitation agreement in January 2016, the Company continues to work with the Government of Ecuador on obtaining key environmental permits, including formal approval of the amended environmental impact assessment (the "EIA") and related environmental license, which are required to develop the Fruta del Norte Project.

Investment Protection Agreement

During the first quarter of 2016, discussions began regarding the Investment Protection Agreement with the Coordinating Ministry of Production, Employment and Competitiveness ("MCPEC") of the Government of Ecuador. This agreement is expected to provide additional tax stability and security to the FDN Project, which will aid in the financing of the project. The Company expects to formalize the terms of the Investment Protection Agreement by the end of the third quarter of 2016.

Environment and Permitting

Progress continued on the environmental approval process for the Fruta del Norte Project. The Terms of Reference for the EIA were approved in late-April, which allowed for the immediate submission of the draft amended EIA to the Environmental Ministry. The Ministry had previously unofficially commented on the draft amended EIA and its observations were reviewed and resolved. In conjunction with the Ministry, the public participation process was completed in June. The Company anticipates approval of the EIA and receipt of the environmental license early in fourth quarter of 2016.

Exploration

The Company continued exploration activities on some of its higher priority concessions.

A drilling campaign was initiated April 26, 2016 on five key targets located 15 to 20 km south of the Fruta del Norte Project. During the quarter, 15 drill holes were completed on the Emperador, Robles, Chanchito and El Arco targets, and a total of 5,672m were drilled of the initial 7,500m program. Up to an additional 3,000m of follow-up drilling will be completed on targets where results justify. The program will be completed in the fourth quarter at which time full results will become available.

Other field programs continued, including soil geochemical surveys, detailed mapping and prospecting. These programs have helped to optimize existing high priority drilling targets and identify new areas of interest.

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

SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	2016 Q2	2016 Q1	2015 Q4	2015 Q3
Operating expenses	$ (12,472,466)	$ (14,501,410)	$ (13,250,753)	$ (13,684,595)
Other income (expense)	41,890	(208,121)	489,812	2,081,708
Net loss for the period	(12,430,576)	(14,709,531)	(12,760,941)	(11,602,887)
Basic and diluted loss per share	$ (0.12)	$ (0.15)	$ (0.13)	$ (0.11)
Weighted-average number of common shares outstanding	101,264,883	101,260,268	101,260,268	101,239,398
Total assets	$ 249,635,830	$ 253,616,770	$ 267,399,530	$ 277,941,185
Working capital	$ (8,535,198)	$ 2,922,308	$ 16,314,025	$ 28,324,350

	2015 Q2	2015 Q1	2014 Q4	2014 Q3
Operating expenses	$ (15,423,500)	$ (8,265,497)	$ (1,843,500)	$ (1,013,367)
Other income	(474,455)	3,203,418	4,286,581	195,158
Net loss for the period	(15,897,955)	(5,062,079)	2,443,081	(818,209)
Basic and diluted loss per share	$ (0.16)	$ (0.05)	$ 0.09	$ (0.06)
Weighted-average number of common shares outstanding	101,201,982	101,176,268	27,971,149	14,831,758
Total assets	$ 294,612,037	$ 304,792,017	$ 318,032,944	$ 18,179,145
Working capital	$ 42,476,614	$ 56,317,859	$ 65,977,308	$ 17,707,223

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

The current quarter's net loss is lower compared to the second quarter of 2015 mainly due to a reduction in project evaluation and general and administrative expenses offset by an increase in exploration expense. Project evaluation expenditures are $2.9 million lower compared to the same period in 2015 because drilling activities to support the Feasibility Study, which started during the second quarter of 2015, finished by the end of 2015. General and administrative expenditures also decreased by $2.2 million due to a donation made to the Lundin Foundation during the second quarter of 2015. These reductions were offset by an increase in exploration expenditures of $2.2 million driven by the start of exploration drilling in April 2016.

The loss in the 2016 Period is higher compared to that of the 2015 Period as a result of an increase in project evaluation expenditures of $3.6 million and exploration expenditures of $2.5 million offset by a decrease in general and administrative expenditures of $2.8 million and a reduction in the foreign exchange gain of $2.9 million. Project evaluation expenditures during the 2015 Period were lower due to a progressive ramp up of Feasibility Study activities during the first quarter of 2015. The increase in exploration expenditures and decrease in general and administrative expenditures are explained above. In addition, there was a decrease in the foreign exchange gain due to a reduction in the U.S. dollar cash balance at the parent company level from June 30, 2015 to June 30, 2016. As the functional currency of the parent company is the Canadian dollar, a significant U.S. dollar cash balance combined with a strengthening of the U.S. dollar against the Canadian dollar generated a substantial gain in terms of Canadian dollars during the 2015 Period.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2016, the Company had cash of $4.0 million and a working capital deficit of $8.5 million compared to cash of $21.4 million and a working capital surplus of $16.3 million at December 31, 2015. The decrease in cash of $17.4 million was primarily due to $18.7 million of project evaluation expenditures relating to the Feasibility Study offset by drawdowns from the Debenture (see paragraph below).

Bought Deal Financing

On June 27, 2016, the Company entered into an agreement with the Underwriters pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 15,000,000 common shares of the Company at a price of CAD$5.50 per common share, for aggregate gross proceeds of CAD$82,500,000. The Company also granted the Underwriters an over-allotment option, exercisable in whole or in part to purchase up to an additional 2,250,000 common shares, representing 15% of the number of common shares sold under the Offering. In the event that the over-allotment option is exercised in its entirety, the aggregate gross proceeds to the Company from the Offering will be CAD$94,875,000.

The first tranche of the Offering, for 10,000,000 common shares, closed on July 19, 2016 for gross proceeds to the Company of CAD$55,000,000. The closing of the second tranche, for 5,000,000 common shares plus any common shares to be acquired on the exercise of the over-allotment option, if any (the "Second Closing") is conditional upon the approval and registration with the Swedish Financial Supervising Authority of a prospectus (and the subsequent publication of the prospectus) regarding the listing of the common shares issued under the second tranche of the Offering on the Nasdaq Stockholm Exchange (the "Swedish Prospectus Conditions"). The Second Closing is to occur three business days following the satisfaction of the Swedish Prospectus Conditions. In the event that Swedish Prospectus Conditions are not met by August 8, 2016, the Underwriters shall not be obligated to complete the Second Closing.

Debenture

On June 8, 2016, the Company secured the Facility from an insider of the Company. The Facility was evidenced by the Debenture which was unsecured and was due on the earlier of the closing of a financing by the Company or August 31, 2016 (the "Maturity Date"). No interest was payable in cash during the term of the Debenture.

The Company issued an aggregate of 20,000 common shares on June 9, 2016 as consideration for the Facility in lieu of fees. The Company was also required to issue an additional 1,700 common shares per month for each $1 million of the Facility drawn down and outstanding until the Maturity Date. All common shares issued in conjunction with the Facility are subject to a four-month hold period under applicable securities law.

As at June 30, 2016, $8 million was drawn down and outstanding All amounts outstanding under the Facility were repaid in full on July 22, 2016 from the proceeds of the Offering.

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

TRANSACTIONS WITH RELATED PARTIES

During the 2016 Period, the Company paid $160,878 (2015 - $133,560) to Namdo Management Services Ltd. ("Namdo"), a private corporation associated with an officer of the Company. The Company occupies office space in the Namdo offices for the Company's management, investor relations personnel and support staff. Namdo charges a service fee and recovers out of pocket expenses related to the Company. In addition, during the 2016 Period, the Company paid $50,972 to Bofill Mir & Alvarez Jana Abogados ("BMAJ"), a law firm of which a director of the Company is a partner. BMAJ assisted the Company with the negotiations of the exploitation agreement and the IPA with the Government of Ecuador. The Company also paid $48,113 to Lundin S.A. during the 2016 Period. Lundin S.A. is associated with a director of the Company and provides administrative and office facilities pursuant to an agreement.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, cash equivalents and receivables, which are categorized as loans and receivables, and accounts payable and accrued liabilities and the Debenture, 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.

OFF-BALANCE SHEET ARRANGEMENTS

During the 2016 Period and the year ended December 31, 2015 there were no off-balance sheet transactions. The Company has not entered into any specialized financial arrangements to minimize its currency risk.

OUTSTANDING SHARE DATA

As at the date of this MD&A, there were 111,289,561 common shares issued and outstanding and stock options outstanding to purchase a total of 3,939,500 common shares for a total of 115,229,061 common shares outstanding on a fully-diluted basis.

OUTLOOK

With the completion of Feasibility Study, the Company has embarked on an Early Works program. The main objectives of the Early Works program are to perform basic engineering, provide the access, infrastructure, services and facilities to support the start of construction of the mine's twin declines and to maintain the project critical path. In addition, data collection will be conducted in specific technical disciplines that will support basic engineering and refinement of the capital cost estimates. These programs started in June 2016 and are anticipated to be completed by the end of the second quarter 2017.

On June 16, 2016, the Company submitted the PCA to the Government of Ecuador. The Government of Ecuador approved the PCA on July 13, 2016. The Company has until January 20, 2017 to execute the exploitation agreement with the Government of Ecuador. The Company expects to execute the IPA at the same time as the exploitation agreement.

During the next 12 months, the Company will continue to work with its financial advisors and legal advisors to evaluate and put in place the financing for the construction of the Fruta del Norte Project. The Company intends to have its financing in place coincident with its production decision.

The exploration drilling campaign is planned to continue to test high priority concessions near the Fruta del Norte Project. After completing the first pass of drilling, up to an additional 3,000m may be drilled as follow up where results justify. The Company also intends to undertake a geophysical program in the fourth quarter of 2016, to target new areas of interest identified from the recently completed geochemical survey.

CRITICAL ACCOUNTING ESTIMATES

The adoption of certain accounting policies requires the Company to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain. For a complete discussion of accounting estimates deemed most crucial by the Company, refer to the Company's annual 2015 Management's Discussion and Analysis.

RISKS AND UNCERTAINTIES

Acquisition, exploration and development of mineral properties involves a high degree of financial risk, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of an ore body may result in substantial rewards, few exploration properties are ultimately developed into producing mines. Major expenditures may be required to establish reserves by drilling, constructing mining and process facilities at a site, developing metallurgical processes and extracting base and precious metals from ore.

The risk factors which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those discussed in the "Risk Factors" section in Lundin Gold's prospectus dated July 12, 2016 which is available on SEDAR at www.sedar.com.

QUALIFIED PERSON

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

Full details of the Feasibility Study can be found in a technical report entitled "Fruta del Norte - NI 43-101 Technical Report on Feasibility Study" (the "Technical Report") which has an effective date of April 30, 2016. The Technical Report is available for review under the Company's profile on SEDAR (www.sedar.com) and on the Company's website (www.lundingold.com).

FINANCIAL INFORMATION

The report for the three and nine months ended September 30, 2016 is expected to be published on November 9, 2016.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

Management, including the Chief Executive Officer and the Chief Financial Officer, are responsible for the design of the Company's disclosure controls and procedures in order to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

Internal controls over financial reporting

Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required under Multilateral Instrument 52-109, management advises that there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period, beginning January 1, 2016 and ending June 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD LOOKING STATEMENTS

Certain of the information and statements in this MD&A are considered "forward-looking information" or "forward-looking statements" as those terms are defined under Canadian securities laws (collectively referred to as "forward-looking statements"). Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "believes", "anticipates", "expects", "is expected", "scheduled", "estimates", "pending", "intends", "plans", "forecasts", "targets", or "hopes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "will", "should" "might", "will be taken", or "occur" and similar expressions) are not statements of historical fact and may be forward-looking statements.

By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. Lundin Gold believes that the expectations reflected in this forward looking information are reasonable, but no assurance can be given that these expectations will prove to be correct. Forward-looking information should not be unduly relied upon. This information speaks only as of the date of this MD&A, and the Company will not necessarily update this information, unless required to do so by securities laws.

This MD&A contains forward-looking information in a number of places, such as in statements pertaining to: the results of the Feasibility Study, including, but not limited to, gold price and exchange rate assumptions, cash flow forecasts, projected capital and operating costs, metal or mineral recoveries, mine life and production rates; the Company's potential plans and operating performance; the estimation of the tonnage, grades and content of deposits, and estimates of Mineral Resource and Reserves; potential production from and viability of the Company's properties; estimates of future production and operating costs; use of proceeds from the Offering, closing of the second tranche of the Offering, the satisfaction of the Swedish Prospectus Condition, registration of the resolution approving the phase change application, exploration and development expenditures and reclamation costs, the negotiation and signing of the investment protection agreement and signing of the exploitation agreement with the government, exploration plans, timing and success of permitting and regulatory approvals, future sources of liquidity, capital expenditures and requirements, expectations of market prices and costs, development, construction and operation of the Fruta del Norte Project, future tax payments and rates, cash flows and their uses.

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: capital and operating costs varying significantly from estimates, metallurgical test results not being representative, the ability to arrange financing, the timely receipt of regulatory approvals, permits and licenses, risks related to carrying on business in an emerging market such as possible government instability and civil turmoil and economic instability, measures required to protect endangered species, deficient or vulnerable title to mining concessions and surface rights; the potential for litigation; volatility in the market price of the Company's shares; the risk to shareholders of dilution from future equity financings; the cost of compliance or failure to comply with applicable laws; difficulty complying with changing government regulations and policies, including without limitation, compliance with environment, health and safety regulations; illegal mining; uncertainty as to reclamation and decommissioning liabilities, unreliable infrastructure and local opposition to mining; the accuracy of the Mineral Reserve and Resource estimates for the Fruta del Norte Project and the Company's reliance on one project; volatility in the price of gold; shortages of resources, such as labour, and the dependence on key personnel; the Company's lack of operating history in Ecuador and negative cash flow; the inadequacy of insurance; potential conflicts of interest for the Company's directors who are engaged in similar businesses; limitations of disclosure and internal controls; and the potential influence of the Company's largest shareholders.

There can be no assurance that such statements will prove to be accurate, as Lundin Gold's actual results and future events could differ materially from those anticipated in this forward-looking information as a result of the factors discussed in the "Risk Factors" section in Lundin Gold's prospectus dated July 12, 2016 which is available on SEDAR at www.sedar.com.

LUNDIN GOLD INC.

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

	Note	June 30, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		$ 3,989,441	$ 21,360,228
Other current assets		584,685	608,297
		4,574,126	21,968,525
Non-current assets			
Property, plant and equipment	3	8,187,901	8,557,202
Mineral properties		236,873,803	236,873,803
		$ 249,635,830	$ 267,399,530
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 5,158,548	$ 5,654,500
Debenture	4	7,950,776	-
		13,109,324	5,654,500
Non-current liabilities			
Reclamation provisions		920,212	866,593
		14,029,536	6,521,093
EQUITY			
Share capital	5	386,765,076	386,675,284
Equity-settled share-based payment reserve	6	6,504,829	5,012,391
Foreign currency translation reserve		(10,286,965)	(10,572,699)
Deficit		(147,376,646)	(120,236,539)
		235,606,294	260,878,437
		$ 249,635,830	$ 267,399,530

Nature of operations and liquidity (Note 1)
Contingencies (Note 11)
Subsequent events (Note 12)

Approved by the Board of Directors

/s/ Ron F. Hochstein	*/s/ Ian W. Gibbs*
Ron F. Hochstein	Ian W. Gibbs

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

LUNDIN GOLD INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited – Prepared by Management)
(Expressed in U.S. Dollars)

		Three months ended June 30,		Six months ended June 30,	
	Note	2016	2015	2016	2015
EXPENSES					
Project evaluation	7	$ 7,111,135	$ 10,029,460	$ 18,676,282	$ 15,116,679
Exploration		2,271,004	74,593	2,585,283	74,593
General and administration:					
Depreciation		6,323	6,010	11,976	11,965
Donations		-	2,000,000	-	2,000,000
Investor relations		70,882	120,083	170,548	407,446
Municipal taxes		196,844	199,766	196,844	199,766
Office and general		459,495	397,192	876,062	1,317,877
Professional fees		683,710	416,846	1,484,555	730,831
Regulatory and transfer agent		45,869	22,690	146,677	128,460
Salaries and benefits		715,211	861,935	1,251,299	1,702,938
Stock-based compensation	6	626,792	804,485	1,144,636	1,311,542
Travel		285,201	490,440	429,714	686,900
Loss before other items		12,472,466	15,423,500	26,973,876	23,688,997
OTHER ITEMS					
Loss (gain) on foreign exchange		(83,399)	506,285	204,694	(2,657,481)
Finance expense	4	47,799	-	47,799	-
Interest and other income		(6,290)	(31,830)	(86,262)	(71,482)
Net loss for the period		$ 12,430,576	$ 15,897,955	$ 27,140,107	$ 20,960,034
OTHER COMPREHENSIVE LOSS					
Items that may be subsequently reclassified to net loss					
Currency translation adjustment		86,530	(891,674)	(285,734)	4,504,737
Comprehensive loss for the period		$ 12,517,106	$ 15,006,281	$ 26,854,373	$ 25,464,771
Basic and diluted loss per common share		$ 0.12	$ 0.16	$ 0.27	$ 0.21
Weighted-average number of common shares		101,264,883	101,201,982	101,262,576	101,189,196

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

LUNDIN GOLD INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited – Prepared by Management)
(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 January 1, 2015		101,176,268	$	386,315,842	$	3,006,381	$	(2,839,998)	$	(74,912,677)	$	311,569,548
Exercise of stock options	6	60,000		254,305		(62,680)		-		-		191,625
Stock-based compensation	6	-		-		1,311,542		-		-		1,311,542
Currency translation adjustment		-		-		-		(4,504,737)		-		(4,504,737)
Net loss for the period		-		-		-		-		(20,960,034)		(20,960,034)
Balance June 30, 2015		101,236,268	$	386,570,147	$	4,255,243	$	(7,344,735)	$	(95,872,711)	$	287,607,944
Balance, January 1, 2016		101,260,268	$	386,675,284	$	5,012,391	$	(10,572,699)	$	(120,236,539)	$	260,878,437
Share consideration for debenture	4	20,000		89,792		-		-		-		89,792
Stock-based compensation	6	-		-		1,492,438		-		-		1,492,438
Currency translation adjustment		-		-		-		285,734		-		285,734
Net loss for the period		-		-		-		-		(27,140,107)		(27,140,107)
Balance June 30, 2016		101,280,268	$	386,765,076	$	6,504,829	$	(10,286,965)	$	(147,376,646)	$	235,606,294

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

LUNDIN GOLD INC.

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

	Six months ended June 30, 2016	2015
OPERATING ACTIVITIES		
Net loss for the period	$ (27,140,107)	$ (20,960,034)
Items not affecting cash:		
Stock-based compensation	1,492,438	1,311,542
Depreciation and accretion	559,179	555,959
Foreign exchange loss (gain)	229,797	(2,737,106)
Finance expense	47,799	-
	(24,810,894)	(21,829,639)
Changes in non-cash working capital items:		
Other current assets	34,675	(47,418)
Accounts payable and accrued liabilities	(522,248)	4,598,409
Net cash used for operating activities	(25,298,467)	(17,278,648)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	-	191,625
Net proceeds from draw downs of debenture	7,904,403	-
Non-cash finance cost of debenture	89,792	-
Changes in non-cash working capital items:		
Proceeds from private placement, net	-	(239,656)
Net cash provided by financing activities	7,994,195	(48,031)
INVESTING ACTIVITIES		
Changes in non-cash working capital items:		
Acquisition of Aurelian Resources Inc., net of cash acquired	-	(3,548,816)
Acquisition of property, plant and equipment	(133,059)	(162,844)
Net cash used for investing activities	(133,059)	(3,711,660)
Effect of foreign exchange rate differences on cash	66,544	(1,984,108)
Net decrease in cash	(17,370,787)	(23,022,447)
Cash, beginning of period	21,360,228	70,919,477
Cash, end of period	$ 3,989,441	$ 47,897,030
Supplemental information		
Interest received	$ 86,262	$ 89,026
Changes 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 condensed consolidated interim financial statements.

1. Nature of operations and liquidity

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

While the Company has recently completed a feasibility study for the Fruta del Norte Project, it has yet to commence development. The Company's continuing operations and the underlying value and recoverability of the amount shown for the mineral interests are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the development of the Fruta del Norte Project, obtaining the necessary permits to mine, and on future profitable production.

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

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

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

2. Basis of preparation and consolidation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. As a result, they do not conform in all respects with the disclosure requirements for annual financial statements under IFRS, and should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended December 31, 2015.

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

In preparing these unaudited condensed consolidated interim financial statements, the Company applied the same accounting policies and key sources of estimation uncertainty as those that were applied to the Company's audited consolidated financial statements for the fiscal year ended December 31, 2015. Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

These financial statements were approved for issue by the Board of Directors on July 29, 2016.

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

3. Property, plant and equipment

Cost	Land and buildings	Machinery and equipment	Vehicles	Furniture and office equipment	Total
Balance, January 1, 2015	$ 4,442,000	$ 4,094,000	$ 741,000	$ 263,258	$ 9,540,258
Additions	-	17,748	-	92,480	110,228
Cumulative translation adjustment	-	-	-	(19,410)	(19,410)
Balance, December 31, 2015	4,442,000	4,111,748	741,000	336,328	9,631,076
Additions	122,848	-	-	10,211	133,059
Cumulative translation adjustment	-	-	-	5,085	5,085
Balance, June 30, 2016	$ 4,564,848	$ 4,111,748	$ 741,000	$ 351,624	$ 9,769,220
Accumulated depreciation					
Balance, January 1, 2015	$ 3,037	$ 18,318	$ 5,170	$ 2,209	$ 28,734
Depletion, amortization and accretion for the year	102,300	584,831	280,365	79,406	1,046,902
Cumulative translation adjustment	-	-	-	(1,762)	(1,762)
Balance, December 31, 2015	105,337	603,149	285,535	79,853	1,073,874
Depletion, amortization and accretion for the period	51,150	292,784	114,508	47,118	505,560
Cumulative translation adjustment	-	-	-	1,885	1,885
Balance, June 30, 2016	$ 156,487	$ 895,933	$ 400,043	$ 128,856	$ 1,581,319
Net book value					
As at December 31, 2015	$ 4,336,663	$ 3,508,599	$ 455,465	$ 256,475	$ 8,557,202
As at June 30, 2016	$ 4,408,361	$ 3,215,815	$ 340,957	$ 222,768	$ 8,187,901

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

4. Debenture

		June 30, 2016		December 31, 2015
Principal	$	8,000,000	$	-
Deferred finance charges		(49,224)		-
	$	7,950,776	$	-

On June 8, 2016, the Company secured an $18 million credit facility (the "Facility").

The Facility is evidenced by a debenture (the "Debenture") which is unsecured and is due on the earlier of the closing of a financing by the Company or August 31, 2016 (the "Maturity Date"). No interest is payable in cash during the term of the Debenture. Any amount of the Facility remaining unpaid and outstanding on or after the Maturity Date, however, shall bear interest at a rate of 5.00% per annum until repaid in full.

The Company issued an aggregate of 20,000 common shares on June 9, 2016 as consideration for the Facility in lieu of fees. The Company will also issue an additional 1,700 common shares per month for each $1 million of the Facility drawn down and outstanding until the Maturity Date. All securities issued in conjunction with the Facility will be subject to a four-month hold period under applicable securities law.

As at June 30, 2016, $8 million was drawn down and outstanding. All amounts outstanding under the Facility were repaid in full on July 22, 2016 from the proceeds of the bought deal financing announced on June 27, 2016 (Note 12).

5. Share capital

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

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

	Note	Number of common shares		Share capital
Balance at January 1, 2015		101,176,268	$	386,315,842
Share options exercised		84,000		260,082
Share options exercised - fair value adjustment		-		99,360
Balance at December 31, 2015		101,260,268		386,675,284
Share consideration for debenture	4	20,000		89,792
Balance at June 30, 2016		101,280,268	$	386,765,076

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

6. 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.

Stock options have an expiry date of five years and vest over a period of 24 months from date of grant.

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

	Six months ended June 30, 2016		Year ended December 31, 2015	
	Number of common shares	Weighted exercise price (CAD)	Number of common shares	Weighted exercise price (CAD)
Balance, beginning of period	2,122,500	$ 3.91	757,000	$ 3.81
Granted	1,817,000	4.23	1,880,500	3.95
Cancelled / Expired	-	-	(431,000)	3.89
Exercised[1]	-	-	(84,000)	3.94
Balance outstanding, end of period	3,939,500	$ 4.06	2,122,500	$ 3.91
Balance exercisable, end of period	1,301,250	$ 3.88	808,500	$ 3.83

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

The following table summarizes information concerning outstanding and exercisable options at June 30, 2016:

	Outstanding options			Exercisable options		
Range of exercise prices (CAD)	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CAD)	Number of options outstanding	Weighted average remaining contractual life (life)	Weighted average exercise price (CAD)
$ 3.69 to 4.00	2,122,500	3.51	$ 3.91	1,301,250	3.40	$ 3.88
$ 4.01 to 5.84	1,817,000	4.67	4.23	-	-	-
	3,939,500	4.04	$ 4.06	1,301,250	3.40	$ 3.88

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:

	2016	2015
Risk-free interest rate	0.52%	0.60%
Expected stock price volatility	60.67%	64.83%
Expected life	5 years	5 years
Expected dividend yield	-	-
Weighted-average fair value per option granted (CAD)	$2.15	$2.10

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

6. Stock options (continued)

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

During the six months ended June 30, 2016, the Company recorded stock-based compensation expense of $1,492,438 (2015 – $1,311,542) of which $1,144,636 has been allocated to general and administration expenses; $230,677 to project evaluation expenses; and $117,125 to exploration expenses.

7. Project evaluation

	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Camp costs	$ 756,519	$ 651,358	$ 1,399,780	$ 1,044,885
Community relations	639,566	252,080	1,304,633	326,200
Conceptual studies	3,124,019	4,480,133	8,727,334	6,298,089
Depreciation and accretion expense	267,844	271,084	547,203	543,994
Drilling and other operating expenses	74,445	1,748,045	116,192	2,110,275
Environmental costs	737,303	1,032,814	1,697,932	1,240,947
Office and general	350,840	293,255	876,388	471,999
Salaries and benefits	566,120	872,588	1,641,005	1,253,850
Property taxes	594,479	428,103	2,365,815	1,826,440
	$ 7,111,135	$ 10,029,460	$ 18,676,282	$ 15,116,679

8. Related party transactions

(a) Related party expenses

During the six months ended June 30, 2016 and June 30, 2015, the Company incurred the following:

Payee	Nature	Note	June 30, 2016	June 30, 2015
Namdo	Management fees	i	$ 160,878	$ 133,560
BMAJ	Legal fees	ii	50,972	-
Lundin S.A.	Office and administration	Iii	48,113	-

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

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

iii. Lundin S.A., a company associated with a director of the Company, provides administrative and office facilities to the Company pursuant to an agreement.

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

8. Related party transactions (continued)

(b) Key management compensation

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

	June 30, 2016	June 30, 2015
Salaries and benefits	$ 838,483	$ 932,788
Stock-based compensation	1,299,156	1,112,077
	$ 2,137,639	$ 2,044,865

9. Segmented information

The Company's primary business activity is the advancement of the Fruta del Norte gold project in Ecuador through development to a production decision. During the six months ended June 30, 2016 and June 30, 2015, all project evaluation expenses were incurred in Ecuador. In addition, materially all of the non-current assets of the Company are located in Ecuador.

10. Financial instruments

The Company's financial instruments consist of cash, cash equivalents and receivables, which are categorized as loans and receivables, and accounts payable and accrued liabilities and debenture, 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.

11. Contingencies

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

12. Subsequent events

On June 27, 2016, the Company entered into an agreement with a syndicate of underwriters (the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 15,000,000 common shares (the "Shares") of the Company at a price of CAD$5.50 per Share, for aggregate gross proceeds of CAD$82,500,000 (the "Offering") in two tranches. The Underwriters have been granted an over-allotment option, exercisable in whole or in part, to purchase up to an additional 2,250,000 common shares, representing 15% of the number of Shares sold under the Offering. In the event that the over-allotment option is exercised in its entirety, the aggregate gross proceeds to the Company from the Offering will be CAD$94,875,000.

The first tranche of the Offering, for 10,000,000 common shares, closed on July 19, 2016. The closing of the second tranche, for 5,000,000 common shares plus any common shares to be acquired on the exercise of the over-allotment option, if any, (the "Second Closing") is conditional upon the approval and registration with the Swedish Financial Supervising Authority of a prospectus (and the subsequent publication of the prospectus) regarding the listing of the common shares issued under the second tranche of the Offering on the Nasdaq Stockholm Exchange (the "Swedish Prospectus Conditions"). The Second Closing is to occur three business days following the satisfaction of the Swedish Prospectus Conditions. In the event that Swedish Prospectus Conditions are not met by August 8, 2016, the Underwriters shall not be obligated to complete the Second Closing.