lundin mining

Management's Discussion and Analysis
For the year ended December 31, 2016

This management's discussion and analysis ("MD&A") has been prepared as of February 22, 2017 and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company's presentation currency is United States ("US") dollars. Reference herein of $ is to United States dollars, C$ is to Canadian dollars, CLP is to Chilean pesos, SEK is to Swedish krona and € refers to the Euro.

About Lundin Mining

Lundin Mining Corporation ("Lundin", "Lundin Mining" or the "Company") is a diversified Canadian base metals mining company with operations in Chile, the USA, Portugal, and Sweden, primarily producing copper, nickel and zinc. In addition, Lundin Mining holds an indirect 24% equity stake in the world-class Tenke Fungurume ("Tenke") copper/cobalt mine in the Democratic Republic of Congo ("DRC") and in the Freeport Cobalt Oy business, which includes a cobalt refinery located in Kokkola, Finland. The Company has entered into an agreement to sell its indirect equity stake in Tenke Fungurume.

Cautionary Statement on Forward-Looking Information

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of applicable Canadian securities legislation. This report includes, but is not limited to, forward looking statements with respect to the Company's estimated annual metal production, cash costs, exploration expenditures and capital expenditures, as noted in the Outlook section and elsewhere in this document. These estimates and other forward-looking statements are based on a number of assumptions and are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to estimated operating and cash costs, foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; including risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour or interruptions in production; actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, and commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described in the Managing Risks section in this document. In addition, forward-looking information is based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed price of copper, nickel, zinc and other metals; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment where the Company operates will continue to support the development and operation of mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

Table of Contents

Highlights

Operational Performance

2016 cash costs[1] at all our operations and total copper and nickel production met our most recent guidance with a marginal shortfall in zinc production for the year. Cash costs benefited from on-going spending restraint programs and higher by-product metal prices. Capital spending for the year was also in-line with most recent guidance, with actual spend of $187.6 million.

Candelaria (80%): The Candelaria operations produced, on a 100% basis, 166,592 tonnes of copper, approximately 1,700,000 ounces of silver and 97,000 ounces of gold in concentrate. Copper production exceeded expectations on strong mill throughput and increased head grades. Copper cash costs of $1.31/lb for the year were lower than full year guidance of $1.35/lb.

Construction of the Los Diques tailings dam facility continues on schedule and on budget. Of the total project forecast of $295 million, $130 million has been spent to date. All key construction permits are in place and main dam embankment construction is proceeding well.

Eagle (100%): Eagle continued its robust performance, with both nickel (24,114 tonnes) and copper (23,417 tonnes) production meeting guidance. Nickel cash costs of $1.75/lb for the year were lower than guidance of $1.90/lb, benefiting from higher by-product sales and metal prices.

The Eagle East Project advanced as planned, with Feasibility Study work proceeding in parallel with exploration ramp advancement and overall Eagle East mine permitting.

Neves-Corvo (100%): Neves-Corvo produced 46,557 tonnes of copper and 69,527 tonnes of zinc for the year ended December 31, 2016. Zinc production marginally missed most recent production targets while copper production was impacted by variations in ore grade and characteristics in the fourth quarter. Copper cash costs of $1.54/lb for the year met the latest full-year guidance ($1.55/lb).

Zinkgruvan (100%): Zinc production of 78,523 tonnes at Zinkgruvan was negatively impacted by lower than expected head grades in the fourth quarter and was slightly below the latest guidance. Cash costs for zinc of $0.37/lb were better than guidance ($0.40/lb).

Tenke (24%): Tenke operations continue to perform well, with new records being set for copper and cobalt production. Lundin's attributable share of annual production included 51,826 tonnes of copper cathode and 3,853 tonnes of cobalt in hydroxide. The Company's attributable share of sales included 52,789 tonnes of copper at an average realized price of $2.15/lb and 3,998 tonnes of cobalt at an average realized price of $7.99/lb. Tenke operating cash costs for the year ended December 31, 2016 were $1.23/lb of copper sold, better than the latest guidance ($1.26/lb). Cash distributions received during the year from Tenke were $60.4 million, with an additional $9.3 million received from the Freeport Cobalt operations. Total Tenke related distributions to the Company of $69.7 million were received for the year, exceeding our most recent guidance range of $50 million to $60 million.

[1] Cash cost per pound is a non-GAAP measure – see page 35 of this MD&A for discussion of non-GAAP measures.

Production Summary:

Total 2016 production, compared to the latest guidance and prior years, was as follows:

Years ended December 31,		**2016**	*2016*	2015	2014	2013
(Contained tonnes)		**Actual**	*Guidance[a]*	Actual	Actual	Actual
Copper	Candelaria (80%)	**133,274**	*130,000 - 132,000*	144,832	22,872	nil
	Eagle	**23,417**	*22,000 - 24,000*	24,331	3,905	nil
	Neves-Corvo	**46,557**	*48,000 - 51,000*	55,831	51,369	56,544
	Zinkgruvan	**1,906**	*1,900 - 2,000*	2,044	3,464	3,460
	Aguablanca	**nil**	*nil*	6,221	7,390	6,242
	Tenke (24%)	**51,826**	*52,800*	48,951	48,636	50,346
	Total attributable	**256,980**	*254,700 - 261,800*	282,210	137,636	116,592
Nickel	Eagle	**24,114**	*23,000 - 25,000*	27,167	4,300	nil
	Aguablanca	**nil**	*nil*	7,213	8,631	7,574
	Total	**24,114**	*23,000 - 25,000*	34,380	12,931	7,574
Zinc	Neves-Corvo	**69,527**	*70,000 - 73,000*	61,921	67,378	53,382
	Zinkgruvan	**78,523**	*80,000 - 85,000*	83,451	77,713	71,366
	Total	**148,050**	*150,000 - 158,000*	145,372	145,091	124,748

a - Revised guidance as disclosed in the Company's MD&A for the three and nine months ended September 30, 2016.

- Sales for the year ended December 31, 2016 were $1,545.6 million, a decrease of $156.3 million in comparison to the $1,701.9 million reported in 2015. The decrease was mainly due to lower sales volumes ($135.3 million) and the shutdown and subsequent sale of the Aguablanca operation ($64.6 million), partially offset by higher realized metal prices and price adjustments ($45.2 million).

- Operating costs (excluding depreciation) for the year ended December 31, 2016 were $864.4 million, a decrease of $98.3 million in comparison to the $962.7 million reported in 2015. The decrease was largely due to lower sales volume ($68.4 million) and the shutdown of Aguablanca operations ($46.5 million) and favourable changes in foreign exchange rates ($13.3 million), partially offset by higher per unit costs ($42.1 million).

- Operating earnings[1] for the year ended December 31, 2016 were $654.2 million, a decrease of $57.9 million in comparison to the $712.1 million reported in 2015. The decrease was primarily due to lower sales volumes ($66.9 million) and the shutdown of Aguablanca ($18.1 million) and higher per unit operating costs ($42.1 million), partially offset by higher realized metal prices and price adjustments ($45.2 million), favourable foreign exchange movements ($13.3 million) and lower treatment and refining charges ($9.9 million).

[1] Operating earnings is a non-GAAP measure – see page 35 of this MD&A for discussion of non-GAAP measures.

- Net loss for the year ended December 31, 2016 was $630.2 million, an increase of $348.4 million over the net loss of $281.8 million reported in 2015. Net losses in both years were primarily a result of impairment related adjustments, as cost and production performance at mine operations met or exceeded expectations. Net loss was impacted by:
    - higher net impairment ($389.2 million);
    - lower operating earnings ($57.9 million);
    - effect of foreign exchange ($39.5 million); and
    - loss on disposal of Aguablanca assets ($22.3 million); partially offset by
    - lower depreciation, depletion and amortization ($120.1 million); and
    - lower income taxes ($21.9 million).
- Cash flow from operations for the year ended December 31, 2016 was $363.2 million, a decrease of $350.7 million in comparison to the $713.9 million reported in 2015. The decrease was primarily attributable to a comparative change in non-cash working capital, namely with the timing of sales and changes in metal prices having a significant impact on trade receivables.

Corporate Highlights

- On June 29, 2016, the Company announced a maiden Eagle East Inferred Mineral Resource estimate. Eagle East is located 2 km east and 650 metres below the Eagle mine deposit. The Company also announced the results of a Preliminary Economic Assessment that indicate that these Inferred Mineral Resources can potentially be mined with no significant changes to the current mine, ore transport, mill and tailings disposal infrastructure.

  Similar mining methods to Eagle are proposed and the potential mine production will significantly increase nickel and copper production. Subject to permitting, formal Board investment approval and project progress, the intent is to develop Eagle East such that it starts contributing to mill feed in 2020 and extends the mine life to at least the end of 2023.

  Given the robust results of the Preliminary Economic Assessment, the Company initiated a Feasibility Study which is expected to be completed in the first half of 2017. Permitting with Michigan authorities is in progress.
- On October 20, 2016, the Company announced it had executed an amending agreement to its $350 million revolving credit facility that reduces costs of borrowing and extends the term to June 2020, from October 2017.
- On November 15, 2016, the Company announced that it had entered into a definitive agreement to sell its indirect interest in TF Holdings Limited ("TF Holdings") to an affiliate of BHR Partners, a Chinese private equity firm, for $1.136 billion in cash and up to $51.4 million in contingent consideration. Lundin Mining's effective 24% interest in Tenke is held through its 30% indirect interest in TF Holdings.
- In the fourth quarter of 2016, the Company disposed of Aguablanca and other exploration licenses in Spain to Valoriza Mineria, a subsidiary of Grupo Sacyr. As part of the transaction, the Company provided funding of approximately €30 million to support environmental, employee and other liabilities.

Financial Position and Financing

- Cash and cash equivalents increased $158.8 million, over the year ended December 31, 2016, from $556.5 million to $715.3 million. The increase is primarily as a result of cash generated from operating cash flows of $363.2 million and production cash flow distributions from Tenke and Freeport Cobalt of $69.7 million, partially offset by investments in mineral properties, plant and equipment of $187.6 million and total interest paid of $74.7 million.
- Net debt[1] position at December 31, 2016 was $284.1 million compared to $441.3 million at December 31, 2015.
- The Company has a revolving credit facility available for borrowing up to $350 million. As at December 31, 2016, the Company had no amount drawn on the credit facility. Letters of credit totalling approximately $24.0 million are outstanding.
- As of February 20, 2017, cash and net debt balances were approximately $850 million and $150 million, respectively.

[1] Net debt is a non-GAAP measure – see page 35 of this MD&A for discussion of non-GAAP measures.

Outlook

Production, cash cost, capital expenditures and exploration guidance for 2017 remains unchanged from that provided on November 30, 2016 (see news release entitled "Lundin Mining Provides Operating Outlook").

Annual guidance has not been provided for Tenke, given the agreement to sell Lundin Mining's indirect interest.

2017 Production and Cost Guidance

(contained tonnes)		Tonnes	Cash Costs[a]
Copper	Candelaria (80%)	*145,000 - 150,000*	*$1.20/lb*
	Eagle	*15,000 - 18,000*	
	Neves-Corvo	*41,000 - 46,000*	*$1.35/lb*
	Zinkgruvan	*1,000 - 2,000*	
	Total attributable	*202,000 - 216,000*	
Nickel	Eagle	*17,000 - 20,000*	*$2.45/lb*
Zinc	Neves-Corvo	*72,000 - 77,000*	
	Zinkgruvan	*80,000 - 85,000*	*$0.40/lb*
	Total	*152,000 - 162,000*	

a. Cash costs remain dependent upon exchange rates (forecast at €/USD:1.15, USD/SEK:8.40, USD/CLP:650) and metal prices (forecast at Cu: $2.25/lb, Ni: $5.00/lb, Zn: $1.00/lb, Pb: $0.90/lb, Au: $1,250/oz, Ag: $16.50/oz).

2017 Capital Expenditure Guidance

Capital expenditures, excluding capitalized interest, are expected to be $405 million, as outlined below.

2017 Guidance	$millions
Capitalized Stripping	*105*
Los Diques Tailings	*135*
Other Sustaining	*25*
Candelaria (100% basis)	*265*
Eagle	*10*
Neves-Corvo	*50*
Zinkgruvan	*40*
Total Sustaining Capital	***365***
Eagle East	*35*
Zinkgruvan Expansion (1350)	*5*
Total Expansionary Capital	***40***
Total Capital Expenditures	***405***

Exploration Investment

Exploration expenditures are expected to approximate $65 million in 2017.

Selected Annual Financial Information[1]

($ millions, except share and per share amounts)	**2016**	2015	2014
	Year ended December 31,		
Sales	**1,545.6**	1,701.9	951.3
Operating costs	**(864.4)**	(962.7)	(619.7)
General and administrative expenses	**(27.0)**	(27.1)	(27.3)
Operating earnings	**654.2**	712.1	304.3
Depreciation, depletion and amortization	**(434.9)**	(555.0)	(208.7)
General exploration and business development	**(56.1)**	(59.5)	(74.7)
(Loss) / income from equity investment in associate	**(1.1)**	(0.1)	1.8
Finance income and costs, net	**(80.3)**	(89.2)	(28.1)
Other income and expenses, net	**(49.5)**	4.8	19.1
Impairment and impairment reversals	**95.9**	(293.3)	(47.1)
Earnings / (loss) before income taxes	**128.2**	(280.2)	(33.4)
Income tax (expense) / recovery	**(4.3)**	(26.2)	68.8
Net earnings / (loss) from continuing operations	**123.9**	(306.4)	35.4
(Loss) / earnings from discontinued operations	**(754.1)**	24.6	88.0
Net (loss) / earnings	**(630.2)**	(281.8)	123.4
Attributable to: Lundin Mining shareholders, continuing	**92.4**	(318.7)	24.6
Lundin Mining shareholders, discontinued	**(754.1)**	24.6	88.0
Non-controlling interests	**31.5**	12.3	10.8
Net (loss) / earnings	**(630.2)**	(281.8)	123.4
Cash flow from operations	**363.2**	713.9	187.4
Capital expenditures (including capitalized interest)	**187.6**	277.7	421.6
Total assets	**6,142.5**	6,780.0	7,326.7
Long-term debt & finance leases	**982.3**	978.0	980.9
Net debt	**284.1**	441.3	829.2
Shareholders' equity	**3,627.6**	4,247.6	4,638.7
Key Financial Data:			
Basic and diluted earnings / (loss) per share attributable to shareholders			
- continuing operations (EPS - Continuing)	**0.13**	(0.44)	0.04
- net (loss) / earnings (EPS - Total)	**(0.92)**	(0.41)	0.19
Operating cash flow per share[2]	**0.67**	0.72	0.38
Dividends	**-**	-	-
Shares outstanding:			
Basic weighted average	**720,328,576**	719,089,063	600,442,231
Diluted weighted average	**721,208,806**	719,089,063	602,357,872
End of period	**725,134,187**	719,628,357	718,168,173

1. Except where otherwise noted, financial data has been prepared in accordance with IFRS as issued by the International Accounting Standards Board.
2. Operating cash flow per share is a non-GAAP measure – see page 35 of this MD&A for discussion of non-GAAP measures.

Summary of Quarterly Results[1]

($ millions, except per share data)	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
Sales	459.2	374.5	342.3	369.6	316.0	353.2	501.3	531.5
Operating costs	(226.4)	(225.6)	(202.2)	(210.3)	(208.2)	(252.3)	(251.6)	(250.6)
Operating earnings	225.3	142.6	134.5	151.7	101.0	94.1	243.0	274.0
Impairment reversals / (impairment)	95.9	-	-	-	(293.3)	-	-	-
Net earnings / (loss)	180.2	(7.1)	(787.9)	(15.5)	(383.5)	(35.3)	53.7	83.3
- attributable to shareholders, continuing	148.7	(18.9)	(19.8)	(17.7)	(375.5)	(41.1)	35.9	62.1
- attributable to shareholders, discontinued	14.2	7.5	(771.4)	(4.4)	(2.2)	6.6	10.5	9.7
- attributable to shareholders, total	162.9	(11.4)	(791.2)	(22.1)	(377.7)	(34.5)	46.4	71.8
EPS Continuing - Basic and diluted	0.21	(0.03)	(0.03)	(0.02)	(0.52)	(0.06)	0.05	0.09
EPS Total - Basic and diluted	0.23	(0.02)	(1.10)	(0.03)	(0.52)	(0.05)	0.06	0.10
Cash flow from operations	107.9	59.3	153.2	42.9	107.1	120.2	262.7	224.0
Capital expenditures (incl. capitalized interest)	59.8	41.4	38.8	47.5	62.0	73.0	78.8	63.9

1. The sum of quarterly amounts may differ from year-to-date results due to rounding.

Sales Overview

Sales Volumes by Payable Metal

(Contained metal in concentrate)	2016 Total	Q4	Q3	Q2	Q1	2015 Total	Q4	Q3	Q2	Q1
Copper (tonnes)										
Candelaria (100%)	**158,983**	42,974	39,082	35,611	41,316	176,133	38,619	42,345	44,588	50,581
Eagle	**21,675**	4,864	5,493	5,366	5,952	22,661	6,075	5,689	5,797	5,100
Neves-Corvo	**44,553**	10,110	9,368	11,804	13,271	54,104	12,675	11,662	14,631	15,136
Zinkgruvan	**1,757**	(9)	886	902	(22)	2,065	12	461	906	686
Aguablanca	**nil**	nil	nil	nil	nil	2,319	186	559	790	784
	226,968	57,939	54,829	53,683	60,517	257,282	57,567	60,716	66,712	72,287
Nickel (tonnes)										
Eagle	**21,193**	4,697	6,026	5,314	5,156	23,069	5,756	6,063	5,815	5,435
Aguablanca	**nil**	nil	nil	nil	nil	4,399	324	978	1,415	1,682
	21,193	4,697	6,026	5,314	5,156	27,468	6,080	7,041	7,230	7,117
Zinc (tonnes)										
Neves-Corvo	**56,357**	12,658	15,042	15,044	13,613	51,279	10,737	12,638	13,744	14,160
Zinkgruvan	**65,863**	17,100	14,842	14,673	19,248	70,550	20,931	17,243	17,711	14,665
	122,220	29,758	29,884	29,717	32,861	121,829	31,668	29,881	31,455	28,825
Gold (000 oz)										
Candelaria (100%)	**89**	23	22	21	23	95	20	23	25	27
	89	23	22	21	23	95	20	23	25	27
Lead (tonnes)										
Neves-Corvo	**3,819**	1,144	748	1,174	753	2,767	387	174	1,134	1,072
Zinkgruvan	**30,450**	8,237	5,830	6,178	10,205	32,093	10,475	8,991	4,999	7,628
	34,269	9,381	6,578	7,352	10,958	34,860	10,862	9,165	6,133	8,700
Silver (000 oz)										
Candelaria (100%)	**1,372**	340	322	300	410	1,574	316	349	390	519
Eagle	**86**	22	22	16	26	93	56	18	8	11
Neves-Corvo	**552**	129	114	159	150	663	143	118	197	205
Zinkgruvan	**1,861**	593	340	368	560	1,936	597	553	378	408
	3,871	1,084	798	843	1,146	4,266	1,112	1,038	973	1,143

Sales Analysis

by Mine	Year ended December 31, 2016		2015		Change
($ thousands)	$	%	$	%	$
Candelaria	**847,684**	55	908,129	53	(60,445)
Eagle	**244,467**	16	284,015	17	(39,548)
Neves-Corvo	**281,134**	18	292,107	17	(10,973)
Zinkgruvan	**174,336**	11	155,130	9	19,206
Other	**(2,030)**	-	62,566	4	(64,596)
	1,545,591		1,701,947		(156,356)

by Metal	Year ended December 31, 2016		2015		Change
($ thousands)	$	%	$	%	$
Copper	**1,023,250**	66	1,127,084	66	(103,834)
Nickel	**128,049**	8	205,078	12	(77,029)
Zinc	**195,644**	13	150,892	9	44,752
Gold	**94,200**	6	106,498	6	(12,298)
Lead	**53,914**	3	49,258	3	4,656
Silver	**33,580**	2	37,623	2	(4,043)
Other	**16,954**	2	25,514	2	(8,560)
	1,545,591		1,701,947		(156,356)

Sales for the year ended December 31, 2016 were $1,545.6 million, a decrease of $156.3 million in comparison to the $1,701.9 million reported in 2015. The decrease was mainly due to lower sales volumes ($135.3 million) and the shutdown and subsequent sale of the Aguablanca operation ($64.6 million), partially offset by higher realized metal prices and price adjustments ($45.2 million).

Sales of gold and silver for the year ended December 31, 2016 include the partial recognition of an upfront purchase price on the sale of precious metals streams for Candelaria, Neves-Corvo, and Zinkgruvan as well as the cash proceeds which amount to $400/oz for gold and between $4.00/oz and $4.29/oz for silver.

Sales are recorded using the metal price received for sales that settle during the reporting period. For sales that have not been settled, an estimate is used based on the expected month of settlement and the forward price of the metal at the end of the reporting period. The difference between the estimate and the final price received is recognized by adjusting gross sales in the period in which the sale is settled. Settlement dates can range from one to six months after shipment.

The Company is subject to credit risk associated with trade receivables. The Company manages this risk through evaluation and monitoring of industry and economic conditions and assessment of customers' financial reports. The Company transacts with credit-worthy customers to minimize credit risk and if necessary, employs pre-payment arrangements and the use of letters of credit, where appropriate, but cannot always be assured of the solvency of its customers over time.

Full Year Reconciliation of Realized Prices

($ thousands)	Year ended December 31, 2016 Copper	Nickel	Zinc	Total	Year ended December 31, 2015 Copper	Nickel	Zinc	Total
Current period sales[1]	1,158,759	209,733	268,108	1,636,600	1,342,658	295,022	227,774	1,865,454
Prior period price adjustments	(1,194)	(2,134)	(706)	(4,034)	(57,952)	(5,163)	(2,090)	(65,205)
	1,157,565	207,599	267,402	1,632,566	1,284,706	289,859	225,684	1,800,249
Other metal sales				211,435				234,327
Less: TC/RC				(298,410)				(332,629)
Total Sales				**1,545,591**				**1,701,947**
Payable Metal (tonnes)	**226,968**	**21,193**	**122,220**		**257,282**	**27,468**	**121,829**	
Current period sales ($/lb)[1]	$2.32	$4.49	$1.00		$2.37	$4.87	$0.85	
Prior period adjustments ($/lb)	(0.01)	(0.05)	(0.01)		(0.11)	(0.08)	(0.01)	
Realized prices ($/lb)	**$2.31**	**$4.44**	**$0.99**		**$2.26**	**$4.79**	**$0.84**	

1. Includes provisional price adjustments on current period sales.

Annual Financial Results

Operating Costs

Operating costs (excluding depreciation) for the year ended December 31, 2016 were $864.4 million, a decrease of $98.3 million in comparison to the $962.7 million reported in 2015. The decrease was largely due to lower sales volume ($68.4 million) and the shutdown of Aguablanca operations ($46.5 million) and favourable changes in foreign exchange rates ($13.3 million), partially offset by higher per unit costs ($42.1 million).

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expense for the year ended December 31, 2016 was $434.9 million, a decrease of $120.1 million in comparison to the $555.0 million reported in 2015. The decrease was attributable to asset impairment and lower production at Candelaria and Eagle and an increase in the Candelaria Mineral Resources and Reserve Estimate, as well as the shutdown of the Aguablanca operations ($13.4 million).

Candelaria's depreciation expense for 2016 includes $86.3 million (2015 - $125.4 million) for amortization of previously capitalized deferred stripping costs. The deferred stripping asset at December 31, 2016 was $305.8 million (December 31, 2015 - $364.9 million).

Depreciation by operation	**Year ended December 31,**		
($ thousands)	**2016**	2015	Change
Candelaria	**219,034**	287,452	(68,418)
Eagle	**123,975**	146,598	(22,623)
Neves-Corvo	**67,882**	83,630	(15,748)
Zinkgruvan	**21,690**	23,532	(1,842)
Other	**2,286**	13,809	(11,523)
	434,867	555,021	(120,154)

Finance Income and Costs

For the year ended December 31, 2016, net finance costs decreased $8.9 million from the prior year. The decrease was primarily attributable to net unrealized gains on revaluation of currency options and marketable securities ($5.2 million).

Other Income and Expense

Net other expense for the year ended December 31, 2016 was $49.6 million compared to earnings of $4.9 million for the year ended December 31, 2015. The increase in net other expense is largely as a result of changes in foreign exchange ($39.5 million) and a loss on disposal of Aguablanca and related net assets in 2016. The sale of Aguablanca assets resulted in a loss on disposal of $22.3 million and a currency translation adjustment of $19.5 million, which was reported as foreign exchange expense.

Foreign exchange gains and losses recorded in Other Income and Expense relate to working capital denominated in foreign currencies that was held by the Company and as a result of the sale of Aguablanca. Period end exchange rates having a meaningful impact on foreign exchange recorded at December 31, 2016 were $1.00:CLP669 (December 31, 2015 - $1.00:CLP710), $1.05:€1.00 (December 31, 2015 - $1.09:€1.00) and $1.00:SEK9.10 (December 31, 2015 - $1.00:SEK8.35).

Impairment and Impairment Reversals

In 2015, the decline in forecast metal prices and other factors had a significant impact on the estimated recoverable amount of our operating assets and exploration properties resulting in the recognition of $293.3 million in goodwill and asset impairment; specifically, $146.3 million at Candelaria, $62.9 million at Eagle, $42.6 million at Neves-Corvo, $37.6 million at Aguablanca and $3.9 million related to Exploration properties.

Certain impairment reversal indicators have been identified as at December 31, 2016; specifically expanded Mineral Reserves and Resources at Eagle and Candelaria, as well as reduced capital spending at Candelaria. Upon re-measurement of the recoverable amounts for Candelaria and Eagle, the recoverable amounts exceeded the previously impaired carrying values. Accordingly, an impairment reversal of $95.9 million was recorded in mineral properties; including $45.0 million at Candelaria and $50.9 million at Eagle.

In 2016, the Company announced it had entered into a definitive agreement to sell its indirect interest in TF Holdings for $1.136 billion in cash and contingent consideration up to $51.4 million. The Company recognized an impairment loss of $772.1 million, estimated as the difference between the carrying value of the investment and the expected consideration to be received, during the year ended December 31, 2016.

Income Taxes

Income taxes by mine

Income tax expense (recovery) ($ thousands)	**Year ended December 31,** **2016**	2015	Change
Candelaria	**37,769**	(590)	38,359
Eagle	**(51,610)**	22,921	(74,531)
Neves-Corvo	**(29,597)**	(14,112)	(15,485)
Zinkgruvan	**12,038**	5,949	6,089
Other	**35,713**	12,078	23,635
	4,313	26,246	(21,933)

Income taxes by classification

Income tax expense (recovery) ($ thousands)	**Year ended December 31,** **2016**	2015	Change
Current income tax	**48,451**	68,769	(20,318)
Deferred income tax	**(44,138)**	(42,523)	(1,615)
	4,313	26,246	(21,933)

Income tax expense for the year ended December 31, 2016 was $4.3 million compared to $26.2 million recorded in the prior year.

The $38.4 million increase in income tax expense at Candelaria was mainly due to the reversal of asset impairment previously recorded and higher taxable earnings in the current year. 2015 taxes included the effect of a deferred tax recovery of $53.8 million related to prior period adjustments and asset impairment.

Eagle reported a net deferred tax recovery of $51.6 million in the current year primarily related to loss carry forwards which had previously been unrecognized. With the addition of Eagle East it has now been determined that sufficient taxable profits should be available to utilize the recognized tax losses.

The $15.5 million increase in tax recoveries at Neves-Corvo, over the prior year, is mainly the result of tax refunds related to the successful resolution of a 2008 tax dispute, partially offset by higher taxable earnings and lower investment tax credits in the current year. In December 2016, the Portuguese tax court ruled in favour of Neves-Corvo resulting in $27.7 million in tax refunds from a 2008 assessment.

Other income tax expense increased over the prior year largely as a result of withholding tax on intercompany loan interest.

Fourth Quarter Financial Results

Sales

Sales for the quarter ended December 31, 2016 were $459.2 million, an increase of $143.2 million in comparison to the fourth quarter of the prior year ($316.0 million). The increase was due largely to higher realized metal prices and price adjustments ($147.7 million).

Fourth Quarter Reconciliation of Realized Prices

	Three months ended December 31, 2016				Three months ended December 31, 2015			
($ thousands)	Copper	Nickel	Zinc	Total	Copper	Nickel	Zinc	Total
Current period sales[1]	321,255	48,165	77,105	446,525	271,301	53,416	50,446	375,163
Prior period price adjustments	29,438	155	(54)	29,539	(26,571)	(7,110)	(348)	(34,029)
	350,693	48,320	77,051	476,064	244,730	46,306	50,098	341,134
Other metal sales				56,236				54,890
Less: TC/RC				(73,083)				(80,035)
Total Sales				**459,217**				**315,989**
Payable Metal (tonnes)	**57,939**	**4,697**	**29,758**		**57,567**	**6,080**	**31,668**	
Current period sales ($/lb)[1]	$2.52	$4.65	$1.18		$2.14	$3.99	$0.72	
Prior period adjustments ($/lb)	0.23	0.02	(0.01)		(0.21)	(0.54)	-	
Realized prices ($/lb)	**$2.75**	**$4.67**	**$1.17**		**$1.93**	**$3.45**	**$0.72**	

1. Includes provisional price adjustments on current period sales.

Operating Costs

Operating costs (excluding depreciation) for the quarter ended December 31, 2016 were $226.4 million, an increase of $18.2 million in comparison to the $208.2 million reported in 2015. The increase was largely due to higher per unit operating costs ($30.7 million), partially offset by changes in other closure provisions ($11.1 million).

Operating Earnings

Operating earnings for the quarter ended December 31, 2016 were $124.3 million higher in comparison to the fourth quarter of the prior year ($101.0 million). The increase was primarily due to higher realized metal prices and price adjustments ($147.7 million), partly offset by higher operating costs ($18.2 million).

Net Earnings

Net earnings for the quarter ended December 31, 2016 were $180.2 million compared to a net loss of $383.5 million in the fourth quarter of the prior year. Net earnings were impacted by:

- impairment reversals ($95.9 million);
- goodwill and asset impairment taken in the fourth quarter of 2015 ($293.3 million);
- higher operating earnings in the current quarter ($124.3 million);
- higher comparative income tax recoveries ($38.6 million); and
- lower depreciation, depletion and amortization ($29.3 million); partially offset by;
- loss and related foreign exchange impact on disposal of Aguablanca assets ($41.8 million).

Cash Flow from Operations

Cash flow from operations for the quarter ended December 31, 2016 was $107.9 million, compared to the $107.1 million reported in the prior year. An increase in non-cash working capital and long-term inventory ($108.1 million) was more than offset by higher operating earnings ($124.3 million).

Mining Operations

Production Overview

(Contained metal in concentrate)	2016 YTD	Q4	Q3	Q2	Q1	2015 Total	Q4	Q3	Q2	Q1
Copper (tonnes)										
Candelaria (80%)	**133,274**	39,258	31,285	29,525	33,206	144,832	31,875	36,156	37,321	39,480
Eagle	**23,417**	5,742	5,796	5,639	6,240	24,331	5,996	6,514	5,403	6,418
Neves-Corvo	**46,557**	10,975	9,691	12,146	13,745	55,831	11,078	13,917	15,348	15,488
Zinkgruvan	**1,906**	-	855	1,051	nil	2,044	5	475	974	590
Aguablanca	**nil**	nil	nil	nil	nil	6,221	466	1,658	1,975	2,122
Tenke (24%)	**51,826**	13,017	13,521	13,300	11,988	48,951	11,998	11,761	12,544	12,648
	256,980	68,992	61,148	61,661	65,179	282,210	61,418	70,481	73,565	76,746
Nickel (tonnes)										
Eagle	**24,114**	5,249	6,085	6,812	5,968	27,167	7,074	6,438	6,349	7,306
Aguablanca	**nil**	nil	nil	nil	nil	7,213	514	1,708	2,245	2,746
	24,114	5,249	6,085	6,812	5,968	34,380	7,588	8,146	8,594	10,052
Zinc (tonnes)										
Neves-Corvo	**69,527**	15,886	17,642	18,272	17,727	61,921	14,196	14,363	16,022	17,340
Zinkgruvan	**78,523**	19,773	18,808	17,286	22,656	83,451	25,339	18,458	21,237	18,417
	148,050	35,659	36,450	35,558	40,383	145,372	39,535	32,821	37,259	35,757
Gold (000 oz)										
Candelaria (80%)	**78**	22	19	18	19	82	18	20	22	22
	78	22	19	18	19	82	18	20	22	22
Lead (tonnes)										
Neves-Corvo	**4,126**	1,142	833	1,245	906	3,077	311	366	1,080	1,320
Zinkgruvan	**31,661**	7,363	6,406	7,063	10,829	34,120	10,733	8,609	7,379	7,399
	35,787	8,505	7,239	8,308	11,735	37,197	11,044	8,975	8,459	8,719
Silver (000 oz)										
Candelaria (80%)	**1,332**	373	304	276	379	1,499	315	347	371	466
Eagle	**223**	56	55	50	62	210	63	60	46	41
Neves-Corvo	**1,242**	313	279	331	319	1,329	269	310	359	391
Zinkgruvan	**2,159**	556	449	495	659	2,542	729	627	622	564
	4,956	1,298	1,087	1,152	1,419	5,580	1,376	1,344	1,398	1,462

Cash Cost Overview

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	**2016**	2015
Candelaria (cost/lb Cu)				
Gross cost	**1.58**	1.32	**1.52**	1.44
By-product[1]	**(0.18)**	(0.18)	**(0.21)**	(0.19)
Net Cash Cost	**1.40**	1.14	**1.31**	1.25
All-in Sustaining Cost[2]	**1.76**	1.58	**1.63**	1.66
Eagle (cost/lb Ni)				
Gross cost	**4.18**	4.20	**4.22**	4.45
By-product	**(2.80)**	(2.14)	**(2.47)**	(2.43)
Net Cash Cost	**1.38**	2.06	**1.75**	2.02
All-in Sustaining Cost	**1.74**	2.68	**2.10**	2.55
Neves-Corvo (cost/lb Cu)				
Gross cost	**2.61**	2.34	**2.50**	2.18
By-product	**(1.14)**	(0.38)	**(0.96)**	(0.55)
Net Cash Cost	**1.47**	1.96	**1.54**	1.63
All-in Sustaining Cost	**2.13**	2.26	**1.96**	2.01
Zinkgruvan (cost/lb Zn)				
Gross cost	**0.85**	0.64	**0.80**	0.76
By-product	**(0.47)**	(0.37)	**(0.43)**	(0.39)
Net Cash Cost	**0.38**	0.27	**0.37**	0.37
All-in Sustaining Cost	**0.60**	0.44	**0.57**	0.55

1. By-product is after related TC/RC.

2. All-in Sustaining Cost ("AISC") is a non-GAAP measure – see page 35 of this MD&A for discussion of non-GAAP measures.

Capital Expenditures (including capitalized interest)[1]

	Year ended December 31,							
	2016				2015			
($ thousands)	Sustaining	Expansionary	Capitalized Interest	**Total**	Sustaining	Expansionary	Capitalized Interest	Total
by Mine								
Candelaria	104,986	-	4,785	**109,771**	165,250	-	2,413	167,663
Eagle	4,869	3,710	-	**8,579**	14,540	7,258	-	21,798
Neves-Corvo	35,146	-	-	**35,146**	43,484	-	-	43,484
Zinkgruvan	25,623	7,607	-	**33,230**	25,459	2,267	-	27,726
Other	825	-	-	**825**	17,071	-	-	17,071
	171,449	11,317	4,785	**187,551**	265,804	9,525	2,413	277,742

1. Sustaining and expansionary capital expenditures are non-GAAP measures – see page 35 of this MD&A for discussion of non-GAAP measures.

Candelaria

Compañia Contractual Minera Candelaria ("CCMC") and Compañia Contractual Minera Ojos del Salado ("CCMO"), collectively "Candelaria", are located near Copiapó in the Atacama Province, Region III of Chile. The Company holds an indirect 80 percent ownership interest in Candelaria with the remaining 20 percent interest indirectly held by Sumitomo Metal Mining Co., Ltd and Sumitomo Corporation. CCMC consists of an open pit mine and an underground mine, Candelaria Norte, providing copper ore to an on-site processing plant. CCMO consists of two underground mines, Santos and Alcaparrosa, and the Pedro Aguirre Cerda ("PAC") processing plant. The Santos mine provides copper ore to the PAC plant, while ore from the Alcaparrosa mine is treated at the CCMC plant. The CCMC plant has a processing capacity of 24.5 mtpa, and the PAC plant has a capacity of 1.3 mtpa, both producing copper in concentrate. The primary metal is copper, with gold and silver as by-product metals.

Operating Statistics

	2016					2015				
(100% Basis)	**Total**	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined (000s tonnes)	**30,915**	8,877	6,817	5,910	9,311	33,922	8,012	8,240	9,022	8,648
Ore milled (000s tonnes)	**31,938**	8,097	7,794	7,890	8,157	30,133	7,943	7,933	7,327	6,930
Grade										
Copper (%)	**0.57**	0.67	0.55	0.52	0.55	0.64	0.53	0.61	0.68	0.78
Recovery										
Copper (%)	**91.8**	93.1	90.5	90.7	92.7	92.7	92.2	92.4	94.0	92.6
Production (contained metal)										
Copper (tonnes)	**166,592**	49,072	39,106	36,907	41,507	181,040	39,844	45,195	46,651	49,350
Gold (000 oz)	**97**	27	24	22	24	102	22	25	27	28
Silver (000 oz)	**1,665**	466	381	345	473	1,874	394	433	464	583
Sales ($000s)	**847,684**	268,479	196,766	175,737	206,702	908,129	167,451	191,964	256,524	292,190
Operating costs ($000s)	**(445,469)**	(124,870)	(112,883)	(100,330)	(107,386)	(456,889)	(87,976)	(125,227)	(115,186)	(128,500)
Operating earnings ($000s)	**402,215**	143,609	83,883	75,407	99,316	451,240	79,475	66,737	141,338	163,690
Cash cost ($ per pound)	**1.31**	1.40	1.34	1.28	1.22	1.25	1.14	1.44	1.21	1.20
AISC ($ per pound)	**1.63**	1.76	1.65	1.52	1.59	1.66	1.58	1.96	1.66	1.49

Sales

Sales for the year ended December 31, 2016 were $847.7 million with $731.1 million from copper, and $92.8 million, $20.6 million and $3.2 million coming from gold, silver and other metals, respectively. Lower sales volumes in the current year were the primary cause for lower sales than 2015.

Operating Costs

Operating costs for the year ended December 31, 2016 were $11.4 million lower than 2015. Lower sales volumes ($38.3 million) and positive foreign exchange ($12.1 million) partially offset higher per unit costs ($46.8 million).

Operating Earnings

Operating earnings for the year ended December 31, 2016 were $49.0 million lower than 2015. The decrease was primarily due to lower sales volumes ($36.1 million) and higher per unit costs ($46.8 million), partially offset by positive foreign exchange ($12.1 million), higher net realized metal price, net of price adjustments ($20.2 million) and lower treatment and refining charges ($5.2 million).

Production

Copper production for the year ended December 31, 2016 was 166,592 tonnes, exceeding current year expectations, but was lower than the 181,040 tonnes produced in 2015. The decrease was largely as a result of lower planned head grades in the first three quarters of 2016.

Cash Costs

Copper cash costs for the year ended December 31, 2016 were $1.31/lb, higher than cash costs of $1.25/lb in the prior year due primarily to higher per unit mine and mill costs ($0.15/lb). This was partially offset by favourable foreign exchange ($0.03/lb) and higher by-product credits ($0.02/lb).

All-in sustaining costs of $1.63/lb were largely in-line with the $1.66/lb reported in 2015.

In 2016, approximately 61,000 oz of gold and 1,008,000 oz of silver were subject to terms of a streaming agreement in which $400/oz and $4.00/oz were received for gold and silver, respectively. Since inception of the precious metal stream, the Company has delivered approximately 187,000 oz of gold and 2.7 million oz of silver.

Projects

The Los Diques tailings dam facility is progressing on schedule, with early construction activities substantially complete. The crushing/screening plant to produce aggregates for the main dam construction was placed into operation on October 1, 2016. The relocation of power lines and a regional road are complete.

The last key approval from regulators needed to start the construction of the main Los Diques tailings facility was received on August 8, 2016 and all critical construction permits have now been received; all major contracts have been awarded. Dam foundation preparation and construction of underdrains and seepage collection systems are well underway and placement of the main dam rock fill has begun.

Total initial capital cost for the project is forecast to be $295 million. Including $60 million of expenditures in 2016, $130 million has been spent to date. Expenditures in 2017 and 2018 are expected to be approximately $135 million and $30 million, respectively.

Eagle Mine

The Eagle Mine consists of the Eagle underground mine, located approximately 55 km northwest of Marquette, Michigan, U.S.A. and the Humboldt mill, located 45 km west of Marquette in Champion, Michigan. The mill has a processing capacity of 0.7 mtpa, producing nickel and copper in concentrates. The primary metal is nickel, with copper, cobalt, gold, and platinum-group metals as by-product metals.

Operating Statistics

	2016					2015				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined (000s tonnes)	**745**	183	189	188	185	740	190	191	175	184
Ore milled (000s tonnes)	**748**	190	188	184	186	746	183	193	184	186
Grade										
Nickel (%)	**3.9**	3.4	3.9	4.3	3.8	4.3	4.3	3.9	4.2	4.7
Copper (%)	**3.2**	3.0	3.2	3.1	3.4	3.4	3.4	3.5	3.1	3.6
Recovery										
Nickel (%)	**84.8**	86.0	84.1	85.4	83.6	84.2	83.8	85.0	84.4	83.5
Copper (%)	**97.7**	98.3	97.1	97.5	97.7	97.0	97.9	97.3	96.4	96.4
Production (contained metal)										
Nickel (tonnes)	**24,114**	5,249	6,085	6,812	5,968	27,167	7,074	6,438	6,349	7,306
Copper (tonnes)	**23,417**	5,742	5,796	5,639	6,240	24,331	5,996	6,514	5,403	6,418
Sales ($000s)	**244,467**	62,144	71,101	57,999	53,223	284,015	50,611	59,981	85,032	88,391
Operating costs ($000s)	**(124,112)**	(30,845)	(33,481)	(28,795)	(30,991)	(155,420)	(36,935)	(41,492)	(44,735)	(32,258)
Operating earnings ($000s)	**120,355**	31,299	37,620	29,204	22,232	128,595	13,676	18,489	40,297	56,133
Cash cost ($ per pound)	**1.75**	1.38	2.15	1.75	1.61	2.02	2.06	2.38	2.15	1.45
AISC ($ per pound)	**2.10**	1.74	2.48	2.19	1.91	2.55	2.68	2.77	2.68	2.02

Sales

Sales for the year ended December 31, 2016 were $244.5 million, of which $129.1 million was realized from nickel, $98.0 million from copper, and the balance from silver and other metals. Lower sales volumes ($17.5 million) and lower metal prices, net of price adjustments ($20.5 million) were the primary reasons for the decrease in sales from the $284.0 million reported in 2015.

Operating Costs

Operating costs for the year ended December 31, 2016 were $31.3 million lower than 2015. The decrease was primarily due to lower sales volumes and lower per unit costs.

Operating Earnings

Operating earnings for the year ended December 31, 2016 were $8.2 million lower than 2015. The decrease was due to lower metal prices, net of price adjustments ($20.5 million), partially offset by lower per unit operating costs ($16.1 million).

Production

Nickel production for the year ended December 31, 2016 was 24,114 tonnes compared to 27,167 tonnes in the prior year, while copper production was 23,417 tonnes compared to 24,331 tonnes in the prior year. The decrease in both metals was largely due to planned lower head grades realized in the current year.

Cash Costs

Nickel cash costs for the year ended December 31, 2016 of $1.75/lb were lower than the $2.02/lb reported in the prior year. The decrease in cash costs is due to higher by-product credits ($0.04/lb), lower transportation costs ($0.05/lb) and targeted mining and milling cost reductions ($0.12/lb).

All-in sustaining costs of $2.10/lb for the year ended December 31, 2016, were significantly lower than that realized in 2015 ($2.55/lb), largely as a result of lower cash costs and lower sustaining capital expenditures as part of the Company's cost savings and deferral programs.

Projects

During 2016, a maiden Inferred Resource was issued for the Eagle East project. A Preliminary Economic Assessment was completed with positive results. A Feasibility Study is well advanced and development of the exploration ramp has started. The permitting process for eventual mining of Eagle East is advancing with Michigan authorities. Exploration drilling is continuing on the property, testing for possible extensions of the Eagle East mineralization.

Neves-Corvo Mine

Neves-Corvo consists of an underground mine and an on-site processing facility, located 100 km north of Faro, Portugal, in the western part of the Iberian Pyrite Belt. The copper plant has a processing capacity of 2.5 mtpa, producing copper in concentrate, and the zinc plant has a capacity of 1.2 mtpa with the ability to process zinc or copper ore, producing zinc or copper in concentrate. The primary metal is copper, with zinc, lead and silver as by-product metals.

Operating Statistics

	2016					2015				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined, copper (000 tonnes)	**2,351**	598	557	594	602	2,501	583	614	673	631
Ore mined, zinc (000 tonnes)	**1,041**	247	254	272	268	1,000	241	255	254	250
Ore milled, copper (000 tonnes)	**2,386**	598	560	602	626	2,542	584	619	699	640
Ore milled, zinc (000 tonnes)	**1,039**	237	257	270	275	1,014	240	257	258	259
Grade										
Copper (%)	**2.5**	2.4	2.3	2.6	2.8	2.7	2.4	2.8	2.7	2.9
Zinc (%)	**8.2**	8.0	8.3	8.3	8.2	8.0	7.5	8.1	7.9	8.5
Recovery										
Copper (%)	**76.5**	75.5	76.3	77.1	77.2	80.6	79.6	79.1	81.1	82.4
Zinc (%)	**78.5**	80.3	81.0	77.4	75.9	71.8	75.6	63.3	73.6	74.9
Production (contained metal)										
Copper (tonnes)	**46,557**	10,975	9,691	12,146	13,745	55,831	11,078	13,917	15,348	15,488
Zinc (tonnes)	**69,527**	15,886	17,642	18,272	17,727	61,921	14,196	14,363	16,022	17,340
Lead (tonnes)	**4,126**	1,142	833	1,245	906	3,077	311	366	1,080	1,320
Silver (000 oz)	**1,242**	313	279	331	319	1,329	270	310	359	390
Sales ($000s)	**281,134**	70,624	69,523	69,674	71,313	292,107	55,543	56,268	93,673	86,623
Operating costs ($000s)	**(210,603)**	(48,288)	(57,760)	(54,208)	(50,347)	(220,791)	(55,982)	(49,277)	(59,622)	(55,910)
Operating earnings ($000s)	**70,531**	27,336	6,763	15,466	20,966	71,316	(439)	6,991	34,051	30,713
Cash cost (€ per pound)	**1.39**	1.37	1.57	1.32	1.34	1.47	1.80	1.64	1.29	1.24
Cash cost ($ per pound)	**1.54**	1.47	1.76	1.49	1.48	1.63	1.96	1.83	1.43	1.39
AISC ($ per pound)	**1.96**	2.13	2.26	1.84	1.73	2.01	2.26	2.24	2.00	1.63

Sales

Sales for the year ended December 31, 2016 were $281.1 million, of which $186.6 million was realized from copper, $86.3 million from zinc, and the balance from lead, silver and other metals. Lower sales volumes ($33.3 million) more than offset the impact of higher metal prices, net of price adjustments ($20.2 million) resulting in a net decrease in sales from 2015.

Operating Costs

Operating costs for the year ended December 31, 2016 were $10.2 million lower than 2015. The decrease was primarily due to lower sales volumes.

Operating Earnings

Operating earnings for the year ended December 31, 2016 were $0.8 million lower than 2015. The impact of higher metal prices and price adjustments ($20.2 million) was more than offset by lower net sales volumes ($21.1 million).

Production

Copper production for the year ended December 31, 2016 was lower than in 2015 by 9,274 tonnes (or 17%). The decrease is as a result of lower throughput, grade and recoveries realized in 2016 when compared to 2015. Variations in copper ore grade and characteristics negatively impacted recoveries and production, particularly in the fourth quarter of 2016, resulting in lower than expected production.

Zinc production for the year ended December 31, 2016 was higher than the comparable period in 2015 by 7,606 tonnes (or 12%). The increase is largely attributable to significantly higher zinc recoveries in 2016.

Cash Costs

Copper cash costs of $1.54/lb for the year ended December 31, 2016 were lower than 2015 cash costs of $1.63/lb. The decrease was a result of higher by-product credits, net of treatment and refining charges ($0.41/lb), partially offset by higher mine and mill ($0.19/lb) and administrative costs ($0.13/lb).

All-in sustaining costs of $1.96/lb were lower than the prior year ($2.01/lb) due largely to lower cash costs.

Projects

The Zinc Expansion Project was re-initiated during the second half of 2016. This potential expansion plans to more than double zinc production, taking advantage of the large zinc Mineral Resources at Neves-Corvo. Feasibility study updates are in progress and during the fourth quarter of 2016, an Environmental Impact Assessment was submitted to Portuguese authorities to support project permitting. Subject to timing of government permit and ultimate Board approvals, the intent is to have expanded zinc production in operation in 2019.

Zinkgruvan Mine

The Zinkgruvan mine consists of an underground mine and on-site processing facilities, located approximately 250 km south-west of Stockholm, Sweden. The zinc plant has processing capacity of 1.1 mtpa, producing zinc and lead in concentrate, and the copper plant has capacity of 0.3 mtpa with the ability to process copper or zinc-lead ore, producing copper, or zinc and lead concentrates. The primary metal is zinc, with lead, silver, and copper as by-products.

Operating Statistics

	2016					2015				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined, zinc (000 tonnes)	**1,057**	294	211	264	288	1,126	313	257	289	267
Ore mined, copper (000 tonnes)	**107**	nil	46	48	13	137	nil	40	52	45
Ore milled, zinc (000 tonnes)	**1,093**	296	256	237	304	1,096	307	260	267	262
Ore milled, copper (000 tonnes)	**107**	nil	56	51	nil	139	nil	52	43	44
Grade										
Zinc (%)	**8.0**	7.4	8.1	8.2	8.3	8.3	9.0	7.7	8.6	7.6
Lead (%)	**3.5**	3.0	3.1	3.6	4.3	3.8	4.2	4.0	3.4	3.4
Copper (%)	**2.0**	nil	1.7	2.3	nil	1.7	nil	1.1	2.4	1.5
Recovery										
Zinc (%)	**89.8**	89.8	90.7	89.3	90.0	92.1	91.5	91.5	92.8	92.6
Lead (%)	**82.3**	83.0	80.9	81.6	83.8	82.9	83.0	83.7	82.4	82.6
Copper (%)	**91.6**	nil	90.5	92.4	nil	88.1	nil	80.1	91.9	89.0
Production (contained metal)										
Zinc (tonnes)	**78,523**	19,773	18,808	17,286	22,656	83,451	25,339	18,458	21,237	18,417
Lead (tonnes)	**31,661**	7,363	6,406	7,063	10,829	34,120	10,733	8,609	7,379	7,399
Copper (tonnes)	**1,906**	nil	855	1,051	nil	2,044	5	475	974	590
Silver (000 oz)	**2,159**	556	449	495	659	2,542	729	627	622	564
Sales ($000s)	**174,336**	52,970	42,099	38,906	40,361	155,130	40,082	35,883	41,301	37,864
Operating costs ($000s)	**(82,097)**	(21,935)	(20,824)	(18,306)	(21,032)	(80,260)	(18,385)	(22,458)	(18,157)	(21,260)
Operating earnings ($000s)	**92,239**	31,035	21,275	20,600	19,329	74,870	21,697	13,425	23,144	16,604
Cash cost (SEK per pound)	**3.18**	3.43	3.49	2.78	3.02	3.16	2.29	3.44	3.65	3.49
Cash cost ($ per pound)	**0.37**	0.38	0.41	0.34	0.36	0.37	0.27	0.41	0.43	0.42
AISC ($ per pound)	**0.57**	0.60	0.58	0.56	0.55	0.55	0.44	0.56	0.63	0.60

Sales

Sales for the year ended December 31, 2016 were $19.2 million higher than the prior year largely as a result of higher metal prices, net of price adjustments ($25.3 million). Current period sales were composed of sales of zinc ($109.3 million), lead ($48.7 million), copper ($7.8 million) and other metals.

Operating Costs

Operating costs of $82.1 million for the year ended December 31, 2016 were marginally higher than the prior year.

Operating Earnings

Operating earnings for the year were $17.4 million higher than in 2015. Higher metal prices and price adjustments ($25.3 million) were partially offset by lower net sales volumes ($5.0 million) realized in 2016.

Production

Full year zinc and lead production of 78,523 tonnes and 31,661 tonnes, respectively, were lower than 2015 levels, largely as a result of mining in areas with lower head grades. Due to sequencing issues with some high grade zinc stopes in the fourth quarter of 2016, production was lower than expected.

Copper production in the current year was lower than 2015 as the copper plant shifted its focus to processing higher value zinc/lead ore in the first and fourth quarter of 2016.

Costs

2016 zinc cash costs of $0.37/lb and all-in sustaining costs of $0.57/lb were consistent with prior year's results.

Projects

The zinc plant expansion project, which is intended to increase zinc and lead production by 10%, remains on schedule and budget with a mid-2017 commissioning date. Costs to date of $8 million were incurred in 2016 with approximately $5 million expected in 2017.

Tenke Fungurume

Lundin Mining holds an effective 24% equity interest in the mine. As of November 2016, China Molybdenum Co., Ltd. ("CMOC") became the majority partner and holds an effective 56% interest in the mine. Gécamines, the Congolese state mining company, holds a 20% carried interest in the mine. Tenke Fungurume consists of an open-pit mine and on-site processing facilities located in the southeast region of the Democratic Republic of Congo. Tenke has an annual nominal production capacity of 195 ktpa of copper cathode and 15 ktpa of cobalt in hydroxide. The primary metal is copper, with cobalt as a by-product metal.

Operating Statistics

	2016					2015				
100% Basis	**Total**	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined (000 tonnes)	**9,415**	1,986	2,433	2,408	2,588	12,657	2,926	3,426	3,163	3,142
Ore milled (000 tonnes)	**5,516**	1,289	1,408	1,444	1,375	5,440	1,458	1,285	1,392	1,305
Grade										
Copper (%)	**4.2**	4.5	4.3	4.0	4.0	4.0	3.6	4.0	4.0	4.4
Recovery										
Copper (%)	**93.2**	91.9	93.5	94.5	92.8	94.0	94.0	94.0	93.9	94.0
Production (contained metal)										
Copper (tonnes)	**215,940**	54,234	56,340	55,418	49,948	203,964	49,990	49,005	52,268	52,701
Cobalt (tonnes)	**16,053**	3,365	4,083	4,304	4,301	16,014	4,571	3,973	4,148	3,322
Income (loss) from equity investment ($000s) [1]	**18,018**	14,200	7,482	727	(4,391)	24,617	(2,212)	6,550	10,538	9,741
Attributable share of operating cash flows ($000s)	**87,716**	24,823	16,512	20,285	26,096	63,486	8,780	9,296	4,279	41,131
Cash cost ($ per pound) [2]	**1.23**	1.13	1.16	1.34	1.31	1.21	1.35	1.15	1.07	1.26

1. Lundin Mining's share of equity earnings includes adjustments for GAAP harmonization differences and purchase price allocations.
2. Cash cost is calculated and reported by the mine's operator. Unit costs attributable to Lundin Mining's share of production may vary slightly from time to time due to marginal differences in the basis of calculation.

Income from Equity Investment

Given the pending sale of Tenke, equity income has been reported as income from discontinued operations. Income of $18.0 million in the current year was $6.6 million lower than the prior year due largely to lower realized metal prices. The average price realized for copper sales during the year was $2.15/lb, compared to $2.42/lb in 2015. The average realized price for cobalt sold during the year was $7.99/lb (2015: $8.21/lb).

Production

Tenke production for the year ended December 31, 2016, was higher than the prior year due to higher mill throughput and grades.

The milling facilities at Tenke exceeded original design capacity with throughput averaging 15,071 metric tonnes of ore per day ("mtpd") for the year ended December 31, 2016. Mining rate during the year was 133,530 mtpd.

Cash Costs

Cash costs for copper, net of cobalt by-product credits, increased marginally over the prior year, but remained better than expectations.

Tenke Cash Flow

Lundin’s attributable share of operating cash flow at Tenke for the year was $87.7 million, higher than the $63.5 million attributable in 2015, with the increase largely due to changes in non-cash working capital.

Lundin Mining's share of 2016 capital investment for Tenke was $21.9 million, which was fully funded by cash flow from Tenke operations.

The Company received cash distributions of $60.4 million for the year ended December 31, 2016. In addition, the Company received cash distributions from the Freeport Cobalt business of $9.3 million, for total distributions from Tenke related assets of $69.7 million for the year.

Sale

The Company announced that it had entered into a definitive agreement to sell its indirect interest in Tenke Fungurume to an affiliate of BHR Partners for $1.136 billion in cash and up to $51.4 million in contingent consideration which is expected to close in the first half of 2017. Though a legal agreement is in place, there is no certainty that the sale of Tenke will be completed as planned.

Exploration

Candelaria Mine, Chile (Copper, Gold)

Ten rigs drilled 80,452 metres within the three existing underground mines and around the Candelaria open pit mine in an effort to rapidly expand Mineral Reserves and Resources and to determine the potential extension of known ore bodies. Life of mine plans were updated and issued at year end, increasing the expected production profile over the next five years and extending mine life.

Eagle Resource Exploration, USA (Nickel, Copper)

Seven drill rigs successfully delineated the Eagle East mineralization in the first half of 2016. An initial Inferred Mineral Resource was reported in 2016, as discussed in the news release entitled *"Lundin Mining Announces Eagle East Mineral Resource, PEA Results and Project Commencement".* Four rigs continued drilling during the second half of the year testing for possible extensions of the Eagle East mineralization. A total of 49,740 metres were drilled in 2016.

Peru (Copper)

Drilling on the Elida porphyry project totalled 9,890 metres by end of the second quarter of 2016 after which a decision was taken to terminate the option agreement. Following a period of field remediation work, the closure process is expected to be completed by March 2017.

In the fourth quarter of 2016, a 100% interest was acquired in a new potentially high-grade copper/gold exploration project in a favourable, low elevation coastal location which will be focus of the 2017 Peruvian exploration program.

Eastern Europe (Copper, Gold)

Project evaluation work is continuing on new copper and zinc-lead opportunities in the most favourable parts of Eastern Europe including in Serbia and Romania.

Metal Prices, LME Inventories and Smelter Treatment and Refining Charges

The average metal prices for copper and nickel were lower in 2016 compared to the average prices for 2015, while the average metal price for zinc in 2016 was higher compared to 2015. However, metal prices increased in the last quarter of 2016 with the average price of copper, nickel and zinc increasing 11%, 5% and 12%, respectively, over the prior quarter. A shortage of non-ferrous raw materials combined with an improved view of the Chinese economy have, in recent months, had a positive impact on the prices.

		Three months ended December 31,			Twelve months ended December 31,		
(Average LME Price)		**2016**	2015	Change	**2016**	2015	Change
Copper	US$/pound	**2.39**	2.22	8%	**2.21**	2.49	-12%
	US$/tonne	**5,277**	4,892		**4,863**	5,495	
Nickel	US$/pound	**4.90**	4.28	15%	**4.36**	5.36	-19%
	US$/tonne	**10,810**	9,437		**9,609**	11,807	
Zinc	US$/pound	**1.14**	0.73	56%	**0.95**	0.87	9%
	US$/tonne	**2,517**	1,613		**2,095**	1,928	

The LME inventory for copper increased during 2016 and ended the year 36% higher than the closing levels of 2015. The LME inventory for nickel and zinc decreased during 2016 and ended the year 16% (nickel) and 8% (zinc) lower than the closing levels of 2015.

During the first nine months of 2016 the treatment charges (“TC”) and refining charges (“RC”) in the spot market for copper concentrates between miners and commodity traders increased from an average spot TC during the first quarter of $75 per dmt of concentrate and a spot RC of $0.075 per lb of payable copper to an average spot TC of $98 per dmt of concentrate and a spot RC of $0.098 per lb of payable copper. However, during the last quarter of 2016 several mines experienced production problems and although none of these disruptions were major, the overall combined impact was felt in the market. Spot TC between miners and traders fell to $72 per dmt of concentrate and a spot RC of $0.072 per lb of payable copper at the end of 2016.

The terms for annual contracts for copper concentrates for 2017 was reached in November 2016 at a TC of $92.50 per dmt with a RC of $0.0925 per payable lb of copper. This represents an improvement for the mines compared to the 2016 annual terms at a TC of $97.35 per dmt of concentrates and a RC of $0.09735 per payable lb of copper.

The Company’s nickel concentrate production from Eagle is sold under several long-term contracts at terms in-line with market conditions.

The spot TC (delivered China) for zinc concentrates during the first half of 2016 traded in a range of $115-$145 per dmt flat, but declined in the second half of the year, reaching a low of $40 per dmt, flat, in December as worldwide zinc concentrate production fell.

The TC for annual zinc concentrate contracts for 2016 was settled at $203 per dmt of concentrates based on a zinc price of $2,000 per mt with similar escalators to 2015. The agreed terms represented an improvement in favour of the mines of approximately $42 per dmt of concentrates, at the base price, compared to prior year. The annual negotiations for TC under long term contracts between miners and smelters for 2017 have commenced with settlement for the 2017 annual TC expected in March at the earliest. TCs for 2017 are expected to improve in favour of miners compared to 2016.

Liquidity and Financial Condition

Cash Reserves

Cash and cash equivalents increased by $158.8 million to $715.3 million as at December 31, 2016, from $556.5 million at December 31, 2015. Cash inflows for the year ended December 31, 2016 included operating cash flows of $363.2 million and receipt of distributions from Tenke ($60.4 million) and Freeport Cobalt ($9.3 million). Use of cash was primarily directed towards investments in mineral properties, plant and equipment of $187.6 million and total interest paid of $74.7 million.

Working Capital

Working capital, excluding asset classified as held for sale, of $982.8 million as at December 31, 2016 increased from the $707.2 million reported for December 31, 2015. The increase over the prior period is largely a reflection of a higher cash balance and an increase in trade and other receivables as at December 31, 2016.

Long-Term Debt

As at December 31, 2016, the Company had $550 million of 7.5% senior secured notes (due 2020) and $445 million of 7.875% senior secured notes (due 2022) outstanding.

In addition, the Company has an undrawn $350 million revolving credit facility, expiring in June 2020. Letters of credit totalling $24.0 million have been issued.

Subject to various risks and uncertainties, the Company believes it will generate sufficient cash flow and has adequate cash and debt facilities to finance on-going operations, contractual obligations and planned capital and exploration investment programs.

The Company does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfill its obligations under any applicable agreements. Lundin Mining is a multinational company and relies on financial institutions worldwide to fund its corporate and project needs. Instability of large financial institutions may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. Disruptions in the capital and credit markets as a result of uncertainty, geo-political events, changing or increased regulation of financial institutions, reduced alternatives or failures of significant financial institutions could adversely affect the Company’s access to the liquidity needed for the business in the longer term. Failure to obtain such additional funding could result in the delay or indefinite postponement of the exploration and development of the Company’s properties.

The Company may incur substantial debt from time to time to finance working capital, capital expenditures, investments or acquisitions or for other purposes. If the Company does so, the risks related to the Company’s indebtedness could intensify, including: (i) increased difficulty in satisfying existing debt obligations; (ii) limitations on the ability to obtain additional financing, or imposed requirements to make non-strategic divestitures; (iii) imposed hedging requirements, (iv) imposed restrictions on the Company’s cash flows, for debt repayment; (v) increased vulnerability to general adverse economic and industry conditions; (vi) interest rate risk exposure as borrowings may be at variable rates of interest; (vii) decreased flexibility in planning for and reacting to changes in the industry in which it competes; (viii) reduced competitiveness versus less leveraged competitors; and (ix) increased cost of borrowing.

In addition, credit facilities and other agreements may contain restrictive covenants that limit the Company’s ability to engage in activities that may be in the Company’s long-term best interest. The Company’s failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of repayment of the Company’s debt. The Company’s ability to make scheduled payments on or refinance its debt obligations, depends on the Company’s financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to various external and other risks.

The Company's access to funds under its credit facilities or other debt arrangements is dependent on the ability of the financial institutions that are counterparties to the facilities to meet their funding commitments. Those financial institutions may not be able to meet their funding requirements. Default by financial institutions could require the Company to take measures to conserve cash until the markets stabilize or until alternative credit or other funding arrangements for the Company's business needs can be obtained.

The Company maintains relationships with various banking partners for its operating activities in the jurisdictions in which the Company operates. One or more partners may experience a deteriorating financial condition ultimately resulting in their failure or default. The Company regularly monitors the financial position of its key partners.

Contractual Obligations and Commitments

The Company has the following contractual obligations and capital commitments as at December 31, 2016:

	Payments due by period				
US$ thousands	<1 years	1-3 years	4-5 years	> 5 years	Total
Long-term debt and finance leases	1,082	1,809	550,964	445,557	999,412
Reclamation and closure provisions[1]	20,060	14,561	6,559	248,169	289,349
Capital commitments	35,187	9,174	-	-	44,361
Defined pension obligations	1,127	1,854	1,942	5,611	10,534
Operating leases and other	10,605	9,370	6,758	1,831	28,564
	68,061	36,768	566,223	701,168	1,372,220

1. Reclamation and closure provisions are reported on an undiscounted basis, before inflation.

Shareholders' Equity

Shareholders' equity was $3,627.6 million at December 31, 2016, compared to $4,247.6 million at December 31, 2015. The decrease in shareholders' equity is primarily due to net impairment charge included in current year's net loss of $630.2 million.

Financial Instruments

Summary of financial instruments:

	Fair value at December 31, 2016 ($ thousands)	**Basis of measurement**	**Associated risks**
Cash and cash equivalents	715,311	Carrying value	Credit/Exchange
Trade and other receivables	97,259	Carrying value	Credit/Market/Exchange
Trade receivables	241,672	FVTPL	Credit/Market/Exchange
Marketable securities and restricted funds	44,258	FVTPL	Market/Liquidity
Currency options	4,512	FVTPL	Market/Liquidity
Trade and other payables	200,545	Carrying value	Exchange
Long-term debt and finance leases	1,075,154	Amortized cost	Interest
Other long-term liabilities	9,992	FVTPL	Interest

Fair value through profit and loss ("FVTPL") (trade receivables) – The fair value of the embedded derivatives on provisional sales are valued using quoted market prices based on forward LME prices.

FVTPL (securities) – The fair value of investments in shares is determined based on quoted market price.

FVTPL (currency options) - The fair value of the currency options are determined using a valuation model that incorporates such factors as the quoted market price, strike price, the volatility of CLP:US foreign exchange rates and the expiry date of the options.

Amortized cost – The fair value of long-term debt is determined using quoted market prices. The fair value of the finance leases and other long-term liabilities approximates its carrying value as the interest rates are comparable to current market rates.

The Company has currency options to hedge its CLP exposure. The remaining call options expire between January 2017 and December 2018 having strike prices between 675 to 700 CLP:US.

For the year ended December 31, 2016, the Company recognized negative pricing adjustments of $4.0 million in sales (2015: $65.2 million), a revaluation gain of $0.3 million on FVTPL securities (2015: revaluation loss $1.2 million on FVTPL securities), and a revaluation gain of $1.6 million on FVTPL currency options (2015: loss of 2.1 million). In addition, a foreign exchange loss of $21.0 million (2015: $18.5 million gain) reflects a reclassification from other comprehensive income related to the sale of Aguablanca, and on working capital denominated in foreign currencies that was held in the Company's various entities.

Sensitivities

Sales and Operating Costs are affected by certain external factors including fluctuations in metal prices and changes in exchange rates between the Euro, the SEK, the Chilean peso and the US dollar.

Commodity prices, primarily copper, nickel, and zinc are key performance drivers and fluctuations in the prices of these commodities can have a dramatic effect on the results of operations. Prices can fluctuate widely and are affected by numerous factors beyond the Company’s control. The prices of metals are influenced by supply and demand, exchange rates, interest rates and interest rate expectations, inflation or deflation and expectations with respect to inflation or deflation, speculative activities, changes in global economies, and geo-political, social and other factors. The supply of metals consists of a combination of new mine production, recycling and existing stocks held by governments, producers and consumers.

If the market prices for metals fall below the Company’s full production costs and remain at such levels for any sustained period of time, the Company may experience losses and may decide to discontinue mining operations or development of a project at one or more of its properties. If the prices drop significantly, the economic prospects of the mines and projects in which the Company has an interest could be significantly reduced or rendered uneconomic. Low metal prices will affect the Company’s liquidity, and if they persist for an extended period of time, the Company may have to look for other sources of cash flow to maintain liquidity until metal prices recover. A sustained and material impact on the Company’s liquidity may also impact the Company’s ability to comply with financial covenants under its credit facilities. The Company does not currently hedge metal prices. Any hedging activity requires approval of the Company’s Board of Directors. The Company will not hold or issue derivative instruments for speculation or trading purposes.

The Company’s revenue from operations is received in US dollars while a significant portion of its operating expenses are incurred in CLP, Euro, SEK, and other currencies. Accordingly, foreign currency fluctuations may adversely affect the Company’s financial position and operating results. The Company regularly reviews its exposure to currency price volatility as part of its financial risk management efforts. Hedging activities approved by the Company’s Board of Directors may be undertaken, from time to time, to mitigate the potential impact of currency price volatility.

The Company holds various financial assets, the value of which may be impacted by changes in interest rates. Interest rates may also affect the Company’s credit arrangements over time. The Company does not currently hedge interest rate exposure. Any hedging activity requires approval of the Company’s Board of Directors. The Company will not hold or issue derivative instruments for speculation or trading purposes.

The following table illustrates the sensitivity of the Company's risk on final settlement of its provisionally priced trade receivables:

Metal	Tonnes Payable	Provisional price on December 31, 2016 ($US/tonne)	Change	Effect on Sales ($millions)
Copper	58,196	5,532	+/-10%	+/-$32.2
Nickel	4,372	9,996	+/-10%	+/-$4.4
Zinc	17,624	2,566	+/-10%	+/-$4.5

The following table presents the Company's sensitivity to certain currencies and the impact of exchange rates, against the US dollar, on Operating Costs:

Currency	Change	For the twelve months ended December 31, 2016 ($millions)
Chilean peso	+/-10%	+/-$36.6
Euro	+/-10%	+/-$19.4
Swedish krona	+/-10%	+/-$8.5

Related Party Transactions

Tenke Fungurume

The Company enters into transactions related to its investment in Tenke Fungurume. These transactions are entered into in the normal course of business and on an arm's length basis.

During the year ended December 31, 2016, the Company received $60.4 million of cash distributions from Tenke.

Freeport Cobalt

The Company enters into transactions related to its investment in Freeport Cobalt. These transactions are entered into in the normal course of business and on an arm's length basis.

The Company received $9.3 million of cash distributions from Freeport Cobalt during the year ended December 31, 2016.

Key Management Personnel

The Company has identified its directors and certain senior officers as its key management personnel. The employee benefits for key management personnel are as follows:

		2016		2015
Wages and salaries	**$**	**6,135**	$	6,234
Pension benefits		**135**		120
Share-based compensation		**2,523**		2,250
	$	**8,793**	$	8,604

The Company paid $0.6 million (2015 - $0.9 million) to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company.

Changes in Accounting Policies

New Accounting Pronouncements

In 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which provides guidance on the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The effective date of the standard is January 1, 2018, with earlier adoption permitted. The Company is in the process of completing a preliminary analysis on its contracts with customers. The Company expects to be able to quantify the estimated transition adjustments through 2017.

In 2016, the IASB issued IFRS 16, *Leases*, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently developing a transition plan for this new standard.

Critical Accounting Estimates and Assumptions

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. These estimates and assumptions are based on management's best knowledge of the relevant facts and circumstances taking into account previous experience, but actual results may differ materially from the amounts included in the financial statements.

Areas where critical accounting estimates and assumptions have the most significant effect on the amounts recognized in the consolidated financial statements include:

Depreciation, depletion and amortization of mineral properties, plant and equipment - Mineral properties, plant and equipment comprise a large component of the Company's assets and as such, the depreciation, depletion and amortization of these assets have a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company depletes mineral property over the life of the mine based on the depletion of the mine's Proven and Probable Mineral Reserves. In the case of mining equipment or other assets, if the useful life of the asset is shorter than the life of the mine, the asset is amortized over its expected useful life.

Proven and Probable Mineral Reserves are determined based on a professional evaluation using accepted international standards for the assessment of Mineral Resources and Reserves. The assessment involves geological and geophysical studies, economic data and the reliance on a number of assumptions. The estimates of the Mineral Resources and Reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

A change in the original estimate of Mineral Resources and Reserves would result in a change in the rate of depreciation, depletion and amortization of the related mining assets. The effect of a change in the estimates of Mineral Resources and Reserves would have a relatively greater effect on the amortization of the current mining operations at Eagle because of the relatively short mine life of this operation. A short mine life results in a high rate of amortization and depreciation, and mining assets may exist at these sites that have a useful life in excess of the revised life of the related mine. The Neves-Corvo mine, the Zinkgruvan mine and Candelaria have longer mine lives and would be less affected by a change in estimate.

Valuation of long-term inventory - The Company carries its long-term inventory at the lower of production cost and net realizable value ("NRV"). If carrying value exceeds net realizable amount, a write-down is required. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

The Company reviews the NRV periodically. In particular, for the NRV of long-term inventory the Company makes significant estimates related to future production and sales volumes, metal prices, foreign exchange rates, Mineral

Reserve and Resource quantities, future operating and capital costs. These estimates are subject to various risks and uncertainties and may have an effect on the NRV estimate and the carrying value of the long-term inventory.

Valuation of mineral properties and exploration properties - The Company carries its mineral properties at cost, less accumulated depletion and any accumulated impairment charges. The Company expenses exploration costs which are related to specific projects until commercial feasibility of the project is determinable. The costs of each property and related capitalized development expenditures are depleted over the economic life of the property on a units-of-production basis. Costs are charged to the consolidated statement of earnings when a property is abandoned or when there is a recognized impairment in value.

The Company undertakes a review of the carrying values of mining properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. Where previous impairment has been recorded, the Company analyzes any impairment reversal indicators. An impairment loss or impairment reversal is recognized when the carrying value of those assets is not recoverable. In undertaking this review, management of the Company is required to make significant estimates of, amongst other things, future production and sale volumes, metal prices, foreign exchange rates, Mineral Reserve and Resource quantities, future operating and capital costs and reclamation costs to the end of the mine's life. These estimates are subject to various risks and uncertainties which may ultimately have an effect on the expected recoverability of the carrying values of the mining properties and related expenditures.

The Company, from time to time, acquires exploration and development properties. When a number of properties are acquired in a portfolio, the Company must make a determination of the fair value attributable to each of the properties within the total portfolio. When the Company conducts further exploration on acquired properties, it may determine that certain of the properties do not support the fair values applied at the time of acquisition. If such a determination is made, the property is written down, and could have a material effect on the consolidated balance sheet and consolidated statement of earnings.

Valuation of Investment in Tenke Fungurume and Freeport Cobalt - The Company carries its investment in associates at cost and adjusts for its share of earnings and capital transactions of the investee. The Company reviews the carrying value of the investment whenever events or changes in circumstances indicate that impairment may be present. In undertaking this review, the Company makes reference to future operating results and cash flows. For the investment in Tenke Fungurume, this requires making significant estimates of, amongst other things, Mineral Reserve and Resource quantities, and future production and sale volumes, metal prices and future operating and capital costs to the end of the mine's life. For the investment in Freeport Cobalt, critical assumptions are made related to future sale volumes, operating and capital costs and metal prices. These estimates are subject to various risks and uncertainties which may ultimately have an effect on the expected recoverability of the carrying values of the investments.

Goodwill - The amount by which the purchase price of a business acquisition exceeds the fair value of identifiable assets and liabilities acquired is recorded as goodwill. Goodwill is allocated to cash-generating units ("CGU") acquired based on the assessment of which CGU would be expected to benefit from the synergies of the acquisition. Estimates of recoverable value may be impacted by changes in metal prices, foreign exchange rates, discount rates, level of capital expenditures, operating costs and other factors that may be different from those used in determining fair value. Changes in estimates could have a material impact on the carrying value of the goodwill. Refer to Note 11 in the Company's consolidated financial statements for sensitivities.

For CGUs that have recorded goodwill, the estimated recoverable amount of the unit is compared to its carrying value at least once each year, or when circumstances indicate that the value may have become impaired.

Reclamation and other closure provisions - The Company has obligations for reclamation and other closure activities related to its mining properties. The future obligations for mine closure 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 countries in which the mines operate, 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 estimates and assumptions are made by management in the determination of closure provisions. The reclamation and other closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording reclamation and other closure provisions is to establish provisions for future mine closure costs based on the present value of the future cash flows required to satisfy the obligations. This provision is updated as the estimate for future closure costs change. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to finance costs.

Critical Accounting Judgments

Management exercises judgment in applying the Company's accounting policies. These judgments are based on management's best estimates. Areas where critical accounting judgments have the most significant effect on the consolidated financial statements include:

Income taxes - Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary differences") and losses carried forward.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is "probable" that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilization of the losses.

The Company's operations are subject to local tax regimes which may be complex and subject to changes. Future adverse effects on the Company's financial performance may result from changes in tax regulations. Any change in taxation law or review and assessment thereof could result in higher taxes being payable by the Company. The Company may also be the object of a tax audit by regulators, and such audit may result in an adverse tax ruling. Repatriation of earnings to Canada from other countries may be constrained or subject to withholding taxes. The Company has no control over changes in tax regulations and withholding tax rates.

Assessment of impairment and reverse impairment indicators – Management applies significant judgement in assessing whether indicators of impairment or reverse impairment exists for an asset or group of assets which would necessitate impairment testing. Internal and external factors such as significant changes in the use of the asset, commodity prices and interest rates are used by Management in determining whether there are any indicators of impairment.

The Company annually undertakes a detailed review of the Life-of-Mine ("LOM") plans for its operating properties and an evaluation of the Company's portfolio of development projects, exploration projects and other assets. The recoverability of the Company's carrying values of these operating and development properties may be affected by a number of factors including, but not limited to, metal prices, foreign exchange rates, capital cost estimates, mining, processing and other operating costs, metallurgical characteristics of ore, mine design and timing of production. In the event of a prolonged period of depressed prices, the Company may be required to take a material impairment, writing down the carrying value of certain of its operating and/or development properties.

Non-GAAP Performance Measures

The Company uses certain performance measures in its analysis. These performance measures have no meaning within generally accepted accounting principles under IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The following are non-GAAP measures that the Company uses as key performance indicators.

Net Cash/Debt

Net cash/debt is a performance measure used by the Company to assess its financial position. Net cash/debt is defined as cash and cash equivalents, less long-term debt and finance leases, excluding deferred financing fees and can be reconciled as follows:

($thousands)	**December 31, 2016**	December 31, 2015
Current portion of long-term debt and finance leases	**(1,082)**	(1,102)
Long-term debt and finance leases	**(982,295)**	(978,014)
	(983,377)	(979,116)
Deferred financing fees (netted in above)	**(16,038)**	(18,743)
	(999,415)	(997,859)
Cash and cash equivalents	**715,311**	556,511
Net debt	**(284,104)**	(441,348)

Operating Earnings

Operating earnings is a performance measure used by the Company to assess the contribution by mining operations to the Company's net earnings or loss. Operating earnings is defined as sales, less operating costs (excluding depreciation) and general and administrative expenses.

Operating Cash Flow per Share

Operating cash flow per share is a performance measure used by the Company to assess its ability to generate cash from its operations, while also taking into consideration changes in the number of outstanding shares of the Company. Operating cash flow per share is defined as cash provided by operating activities, less changes in non-cash working capital items, divided by the basic weighted average number of shares outstanding.

Operating cash flow per share can be reconciled to the Company's cash provided by operating activities as follows:

	Year ended December 31,	
($thousands, except share and per share amounts)	**2016**	2015
Cash provided by operating activities	**363,188**	713,937
Add / (deduct): Changes in non-cash working capital items	**120,666**	(194,982)
Operating cash flow before changes in non-cash working capital items	**483,854**	518,955
Weighted average common shares outstanding	**720,328,576**	719,089,063
Operating cash flow per share	**0.67**	0.72

Capital Expenditures

Identifying capital expenditures, on a cash basis, using a sustaining or expansionary classification provides management with a better understanding of costs required to maintain existing operations, and costs required for future growth of existing or new assets.

- **Sustaining capital expenditures –** Expenditures which maintain existing operations and sustain production levels.
- **Expansionary capital expenditures –** Expenditures which increase current or future production capacity, cash flow or earnings potential.

Where an expenditure both maintains and expands current operations, classification would be based on the primary decision for which the expenditure is being considered/was made.

Cash Cost per Pound

Copper, nickel and zinc cash costs per pound are key performance measures that management uses to monitor performance. Management uses these statistics to assess how well the Company's producing mines are performing and to assess overall efficiency and effectiveness of the mining operations. Cash cost is not an IFRS measure and, although it is calculated according to accepted industry practice, the Company's disclosed cash costs may not be directly comparable to other base metal producers.

- **Cash cost per pound, gross –** Total cash costs directly attributable to mining operations, excluding any allocation of upfront streaming proceeds or capital expenditures for deferred stripping, are divided by the sales volume of the primary metal to arrive at gross cash cost per pound. As this measure is not impacted by fluctuations in sales of by-product metals, it is generally more consistent across periods.
- **Cash cost per pound, net of by-products –** Credits for by-products sales are deducted from total cash costs directly attributable to mining operations. By-product revenue is adjusted for the terms of streaming agreements, but excludes any deferred revenue from the allocation of upfront cash received. The net cash costs are divided by the sales volume of the primary metal to arrive at net cash cost per pound. The inclusion of by-product credits provides a broader economic measurement, incorporating the benefit of other metals extracted in the production of the primary metal.

All-in Sustaining Cost per Pound "(AISC)"

All-in sustaining cost per pound is an extension of the cash cost per pound measure discussed above and is also a key performance measure that management uses to monitor performance. Management uses this measure to analyze margins achieved on existing assets while sustaining and maintaining production at current levels. Expansionary capital and certain exploration costs are excluded from this definition as these are costs typically incurred to extend mine life or materially increase the productive capacity of existing assets, or for new operations. Corporate general and administrative expenses have also been excluded from the all-in sustaining cost measure, as any attribution of these costs to an operating site would not necessarily be reflective of costs directly attributable to the administration of the site.

All-in sustaining cost per pound is not reported by Tenke's operator and accordingly has not been disclosed.

Cash and All-in Sustaining Costs can be reconciled to the Company's operating costs as follows:

Three months ended December 31, 2016					
Operations ($000s, unless otherwise noted)	**Candelaria (Cu)**	**Eagle (Ni)**	**Neves-Corvo (Cu)**	**Zinkgruvan (Zn)**	**Total**
Sales Volumes (Contained metal in concentrate):					
Tonnes	42,974	4,697	10,110	17,100	
Pounds (000s)	94,741	10,355	22,289	37,699	
Total Operating Cost					226,351
Less: By-Product Credits					(89,652)
Treatment Costs					58,676
Non-Cash Inventory					(5,743)
Royalties and Other					4,520
Cash Operating Cost	132,811	14,297	32,665	14,379	194,152
Cash Cost per pound ($/lb)	**1.40**	**1.38**	**1.47**	**0.38**	
Add: Sustaining Capital Expenditure					
& Exploration[1]	32,855	748	11,964	7,816	
Royalties	-	2,724	3,264	-	
Accretion	735	207	(547)	106	
Leases & Other	-	-	95	480	
All-in Sustaining Cost	166,401	17,976	47,441	22,781	
AISC per pound ($/lb)	**1.76**	**1.74**	**2.13**	**0.60**	

Three months ended December 31, 2015						
Operations ($000s, unless otherwise noted)	**Candelaria (Cu)**	**Eagle (Ni)**	**Neves-Corvo (Cu)**	**Zinkgruvan (Zn)**	**Other**	**Total**
Sales Volumes (Contained metal in concentrate):						
Tonnes	38,619	5,756	12,675	20,931		
Pounds (000s)	85,140	12,690	27,944	46,145		
Total Operating Cost						208,210
Less: By-Product Credits						(71,406)
Treatment Costs						65,091
Non-Cash Inventory						(896)
Royalties and Other						(3,246)
Cash Operating Cost	97,198	26,185	54,821	12,352	7,197	197,753
Cash Cost per pound ($/lb)	**1.14**	**2.06**	**1.96**	**0.27**	**n/a**	
Add: Sustaining Capital Expenditure						
& Exploration	37,118	4,427	9,852	7,535		
Royalties	-	3,184	(926)	-		
Accretion	500	199	(631)	192		
Leases & Other	-	-	-	224		
All-in Sustaining Cost	134,816	33,995	63,116	20,303		
AISC per pound ($/lb)	**1.58**	**2.68**	**2.26**	**0.44**		

1. Sustaining Exploration is exploration expenditures incurred to further define existing producing ore bodies in order to sustain current operations. Sustaining Capital Expenditure, for the purposes of reporting AISC, is presented on an accrual basis and excludes capitalized interest.

Twelve months ended December 31, 2016					
Operations	**Candelaria**	**Eagle**	**Neves-Corvo**	**Zinkgruvan**	
($000s, unless otherwise noted)	**(Cu)**	**(Ni)**	**(Cu)**	**(Zn)**	**Total**
Sales Volumes (Contained metal in concentrate):					
Tonnes	158,983	21,193	44,553	65,863	
Pounds (000s)	350,497	46,723	98,222	145,203	
Total Operating Cost					864,449
Less: By-Product Credits					(344,076)
Treatment Costs					237,607
Non-Cash Inventory					(4,612)
Royalties and Other					(7,306)
Cash Operating Cost	459,604	81,636	150,974	53,848	746,062
Cash Cost per pound ($/lb)	**1.31**	**1.75**	**1.54**	**0.37**	
Add: Sustaining Capital Expenditure					
& Exploration	110,396	6,906	35,628	27,857	
Royalties	-	8,913	5,210	-	
Accretion	2,901	830	638	447	
Leases & Other	-	-	292	1,056	
All-in Sustaining Cost	572,901	98,285	192,742	83,208	
AISC per pound ($/lb)	**1.63**	**2.10**	**1.96**	**0.57**	

Twelve months ended December 31, 2015						
Operations	**Candelaria**	**Eagle**	**Neves-Corvo**	**Zinkgruvan**		
($000s, unless otherwise noted)	**(Cu)**	**(Ni)**	**(Cu)**	**(Zn)**	**Other**	**Total**
Sales Volumes (Contained metal in concentrate):						
Tonnes	176,133	23,069	54,104	70,550		
Pounds (000s)	388,306	50,858	119,279	155,536		
Total Operating Cost						962,694
Less: By-Product Credits						(342,786)
Treatment Costs						269,094
Non-Cash Inventory						(3,701)
Royalties and Other						(20,086)
Cash Operating Cost	483,514	102,946	194,211	58,312	26,232	865,215
Cash Cost per pound ($/lb)	**1.25**	**2.02**	**1.63**	**0.37**	**n/a**	
Add: Sustaining Capital Expenditure						
& Exploration	160,763	14,355	43,054	25,571		
Royalties	-	11,393	2,084	-		
Accretion	2,044	798	552	452		
Leases & Other	-	-	-	1,380		
All-in Sustaining Cost	646,321	129,492	239,901	85,715		
AISC per pound ($/lb)	**1.66**	**2.55**	**2.01**	**0.55**		

Managing Risks

Risks and Uncertainties

The operations of Lundin Mining involve certain significant risks, including but not limited to fluctuations in commodity prices, foreign exchange rates and other risks as discussed in this document. For a complete discussion on risks, refer to the "Risks and Uncertainties" section of the Company's most recently filed Annual Information Form. Other than those noted within, important risk factors to consider, among others, are:

- Regulatory environment (licenses and permitting)
- External stakeholder relations
- Country (and political)
- Health and safety
- Environment

Outstanding Share Data

As at February 22, 2017, the Company has 726,353,967 common shares issued and outstanding, and 10,718,625 stock options and 1,967,700 share units outstanding under the Company's incentive plans.

Management's Report on Internal Controls

Disclosure controls and procedures

Disclosure controls and procedures ("DCP") have been designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operation of disclosure controls and procedures and has evaluated the effectiveness of the Company's disclosure controls and procedures and has concluded that they were effective as at December 31, 2016.

Internal control over financial reporting

The Company's internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. However, due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements and fraud.

Control Framework

Management has used the Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') in order to assess the effectiveness of the Company's internal control over financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting and concluded that it was effective as at December 31, 2016.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the three month period ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Other Information

Additional information regarding the Company is included in the Company's Annual Information Form ("AIF") which is filed with the Canadian securities regulators. A copy of the Company's AIF can be obtained from the Canadian Securities Administrators' website at www.sedar.com.

Other Supplementary Information

1. ***List of directors and officers at February 22, 2017:***

(a) **Directors:**

Donald K. Charter
Paul K. Conibear
John H. Craig
Peter C. Jones
Lukas H. Lundin
Dale C. Peniuk
William A. Rand
Catherine J. G. Stefan

(b) **Officers:**

Lukas H. Lundin, *Chairman*
Paul K. Conibear*, President and Chief Executive Officer*
Marie Inkster, *Senior Vice President and Chief Financial Officer*
Peter M. Quinn, *Chief Operating Officer*
Julie A. Lee Harrs, *Senior Vice President, Corporate Development*
Paul M. McRae, *Senior Vice President, Projects*
Neil P. M. O'Brien, *Senior Vice President, Exploration and New Business Development*
Stephen T. Gatley, *Vice President, Technical Services*
Susan J. Boxall, *Vice President, Human Resources*
Jinhee Magie, *Vice President, Finance*
J. Mikael Schauman, *Vice President, Marketing*
Derek Riehm, *Vice President, Environment*
Lesley Duncan, *Corporate Secretary*

2. **Financial Information**

The report for the quarter ending March 31, 2017 is expected to be published by April 26, 2017.

3. **Other information**

Address (Corporate head office):
Lundin Mining Corporation
Suite 1500, 150 King Street West
P.O. Box 38
Toronto, Ontario M5H 1J9
Canada
Telephone: +1-416-342-5560
Fax: +1-416-348-0303
Website: www.lundinmining.com

Address (UK office):
Lundin Mining UK Limited
Hayworthe House, 2 Market Place
Haywards Heath, West Sussex
RH16 1DB
United Kingdom
Telephone: +44-1-444-411-900
Fax: +44-1-444-456-901

The Canadian federal corporation number for the Company is 443736-5.

For further information, please contact:

Mark Turner, *Director, Business Valuations and Investor Relations*: +1-416-342-5565, mark.turner@lundinmining.com
Sonia Tercas, *Senior Associate, Investor Relations - North America*: +1-416-342-5583, sonia.tercas@lundinmining.com
Robert Eriksson, *Investor Relations - Sweden*: +46-(0)8-440-54-50, robert.eriksson@lundinmining.com

Consolidated Financial Statements of

Lundin Mining Corporation

December 31, 2016

Management's Report

The accompanying consolidated financial statements of Lundin Mining Corporation (the "Company") and other information contained in the management's discussion and analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as outlined in Part 1 of the Handbook of the Chartered Professional Accountants of Canada, and include some amounts that are based on management's estimates and judgment.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, which is comprised solely of independent directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends its approval to the Board of Directors. The Company's auditors have full access to the Audit Committee, with and without management being present. These consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Professional Accountants, Licensed Public Accountants.

(Signed) Paul K. Conibear	*(Signed) Marie Inkster*
President and Chief Executive Officer	Senior Vice President and Chief Financial Officer

Toronto, Ontario, Canada
February 22, 2017

February 22, 2017

Independent Auditor's Report

To the Shareholders of
Lundin Mining Corporation

We have audited the accompanying consolidated financial statements of Lundin Mining Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and 2015 and the consolidated statements of loss, statements of comprehensive loss, statements of changes in equity, and statements of 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
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lundin Mining Corporation and its subsidiaries as at December 31, 2016 and 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

LUNDIN MINING CORPORATION

CONSOLIDATED BALANCE SHEETS (in thousands of US dollars)		**December 31, 2016**		December 31, 2015
ASSETS				
Cash and cash equivalents (Note 3)	**$**	**715,311**	$	556,511
Trade and other receivables (Note 4)		**338,931**		192,194
Income taxes receivable		**34,853**		54,795
Inventories (Note 5)		**163,138**		144,746
Other current assets		**8,877**		5,101
		1,261,110		953,347
Asset classified as held for sale (Note 9)		**1,146,776**		-
Total current assets		**2,407,886**		**953,347**
Restricted funds (Note 6)		**41,272**		53,818
Long-term inventory (Note 5)		**217,914**		194,065
Other non-current assets		**11,977**		13,341
Mineral properties, plant and equipment (Note 7)		**3,179,600**		3,354,711
Investment in associates (Note 8)		**79,166**		2,050,823
Deferred tax assets (Note 22)		**102,786**		55,022
Goodwill (Note 10)		**101,928**		104,921
		3,734,643		5,826,701
Total assets	**$**	**6,142,529**	$	6,780,048
LIABILITIES				
Trade and other payables (Note 11)	**$**	**243,675**	$	231,960
Income taxes payable		**34,592**		14,201
Current portion of long-term debt and finance leases (Note 12)		**1,082**		1,102
Current portion of deferred revenue (Note 13)		**55,934**		58,666
Current portion of reclamation and other closure provisions (Note 14)		**20,279**		14,425
Total current liabilities		**355,562**		320,354
Long-term debt and finance leases (Note 12)		**982,295**		978,014
Deferred revenue (Note 13)		**504,009**		549,830
Reclamation and other closure provisions (Note 14)		**236,526**		242,556
Other long-term liabilities		**9,992**		13,815
Provision for pension obligations (Note 18)		**13,269**		15,332
Deferred tax liabilities (Note 22)		**413,249**		412,536
		2,159,340		2,212,083
Total liabilities		**2,514,902**		2,532,437
SHAREHOLDERS' EQUITY				
Share capital		**4,135,367**		4,107,469
Contributed surplus		**44,779**		49,112
Accumulated other comprehensive loss		**(320,138)**		(308,819)
Deficit		**(695,718)**		(33,975)
Equity attributable to Lundin Mining Corporation shareholders		**3,164,290**		3,813,787
Non-controlling interests (Note 16)		**463,337**		433,824
		3,627,627		4,247,611
	$	**6,142,529**	$	6,780,048

Commitments and contingencies (Note 24)

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

APPROVED BY THE BOARD OF DIRECTORS

(Signed) Lukas H. Lundin - **Director** (Signed) Dale C. Peniuk - **Director**

LUNDIN MINING CORPORATION

CONSOLIDATED STATEMENTS OF LOSS
For the years ended December 31, 2016 and 2015
(in thousands of US dollars, except for shares and per share amounts)

		2016		2015
Sales	**$**	**1,545,591**	$	1,701,947
Operating costs (Note 17)		**(864,449)**		(962,694)
Depreciation, depletion and amortization (Note 7)		**(434,867)**		(555,021)
General and administrative expenses		**(26,933)**		(27,167)
General exploration and business development (Note 19)		**(56,113)**		(59,500)
Loss from equity investment in associate (Note 8)		**(1,110)**		(54)
Finance costs (Note 20)		**(80,339)**		(89,240)
Other income (Note 21)		**6,607**		23,591
Other expenses (Note 21)		**(56,130)**		(18,737)
Impairment and impairment reversals (Note 10)		**95,922**		(293,285)
Earnings (loss) before income taxes		**128,179**		(280,160)
Current tax expense (Note 22)		**(48,451)**		(68,769)
Deferred tax recovery (Note 22)		**44,138**		42,523
Net earnings (loss) from continuing operations		**123,866**		(306,406)
(Loss) earnings from discontinued operations (Note 9)		**(754,096)**		24,617
Net loss	**$**	**(630,230)**	**$**	(281,789)
Net earnings (loss) from continuing operations attributable to:				
Lundin Mining Corporation shareholders	**$**	**92,353**	**$**	(318,701)
Non-controlling interests		**31,513**		12,295
Net earnings (loss) from continuing operations	**$**	**123,866**	**$**	(306,406)
Net (loss) earnings attributable to:				
Lundin Mining Corporation shareholders	**$**	**(661,743)**	**$**	(294,084)
Non-controlling interests		**31,513**		12,295
Net loss	**$**	**(630,230)**	**$**	(281,789)
Basic and diluted earnings (loss) per share attributable to Lundin Mining Corporation shareholders				
Earnings (loss) from continuing operations	**$**	**0.13**	$	(0.44)
Net loss	**$**	**(0.92)**	$	(0.41)
Weighted average number of shares outstanding (Note 15)				
Basic		**720,328,576**		719,089,063
Diluted		**721,208,806**		719,089,063

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

LUNDIN MINING CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the years ended December 31, 2016 and 2015
(in thousands of US dollars)

		2016		2015
Net loss	**$**	**(630,230)**	$	(281,789)
Other comprehensive loss, net of taxes				
Item that will not be reclassified to net loss:				
Remeasurements for post-employment benefit plans (Note 18)		**(337)**		(220)
Item that may be reclassified to net loss:				
Effects of foreign currency translation		**(30,446)**		(109,576)
Item that was reclassified to net loss:				
Reclassification adjustment (Note 21)		**19,464**		-
Other comprehensive loss		**(11,319)**		(109,796)
Comprehensive loss	**$**	**(641,549)**	$	(391,585)
Comprehensive earnings (loss) attributable to:				
Lundin Mining Corporation shareholders	**$**	**(673,062)**	$	(403,880)
Non-controlling interests		**31,513**		12,295
Comprehensive loss	**$**	**(641,549)**	$	(391,585)

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

LUNDIN MINING CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015
(in thousands of US dollars, except for shares)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings (deficit)	Non-controlling interests	Total
Balance, December 31, 2015	719,628,357	$ 4,107,469	$ 49,112	$ (308,819)	$ (33,975)	$ 433,824	$ 4,247,611
Distributions	-	-	-	-	-	(2,000)	(2,000)
Exercise of share-based awards	5,505,830	29,074	(10,859)	-	-	-	18,215
Share-based compensation	-	-	6,526	-	-	-	6,526
Deferred tax adjustment		(1,176)					(1,176)
Net (loss) earnings	-	-	-	-	(661,743)	31,513	(630,230)
Other comprehensive loss	-	-	-	(11,319)	-	-	(11,319)
Total comprehensive (loss) income	-	-	-	(11,319)	(661,743)	31,513	(641,549)
Balance, December 31, 2016	**725,134,187**	**$ 4,135,367**	**$ 44,779**	**$ (320,138)**	**$ (695,718)**	**$ 463,337**	**$ 3,627,627**
Balance, December 31, 2014	718,168,173	$ 4,099,038	$ 45,021	$ (199,023)	$ 260,109	$ 433,529	$ 4,638,674
Distributions	-	-	-	-	-	(12,000)	(12,000)
Exercise of share-based awards	1,460,184	7,799	(3,003)	-	-	-	4,796
Share-based compensation	-	-	7,094	-	-	-	7,094
Deferred tax adjustment	-	632	-	-	-	-	632
Net (loss) earnings	-	-	-	-	(294,084)	12,295	(281,789)
Other comprehensive loss	-	-	-	(109,796)	-	-	(109,796)
Total comprehensive (loss) income	-	-	-	(109,796)	(294,084)	12,295	(391,585)
Balance, December 31, 2015	719,628,357	$ 4,107,469	$ 49,112	$ (308,819)	$ (33,975)	$ 433,824	$ 4,247,611

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

LUNDIN MINING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

(in thousands of US dollars)

	2016	2015
Cash provided by (used in)		
Operating activities		
Net loss	**$ (630,230)**	$ (281,789)
Items not involving cash and other adjustments		
Depreciation, depletion and amortization	**434,867**	555,021
Share-based compensation	**6,526**	7,022
Loss from equity investment in associate	**1,110**	54
Loss (earnings) from discontinued operations	**754,096**	(24,617)
Foreign exchange loss (gain)	**16,368**	(4,288)
Deferred tax recovery	**(44,138)**	(42,523)
Recognition of deferred revenue (Note 13)	**(46,647)**	(63,034)
Reclamation and closure provisions	**1,648**	4,658
Finance costs	**80,339**	86,425
Impairment and impairment reversals	**(95,922)**	293,285
Loss on disposal of Aguablanca	**22,319**	-
Other	**1,801**	7,714
Reclamation payments	**(9,454)**	(5,278)
Pension payments	**(1,330)**	(651)
Changes in long-term inventory	**(7,499)**	(13,044)
Changes in non-cash working capital items (Note 29)	**(120,666)**	194,982
	363,188	713,937
Investing activities		
Investment in mineral properties, plant and equipment	**(187,551)**	(277,742)
Distributions from associates (Note 8 and 9)	**69,675**	32,939
Cash outlay on disposal of Aguablanca (Note 21)	**(30,661)**	-
Proceeds from sale of mineral properties, plant and equipment	**1,788**	8,535
Currency options purchase	**-**	(6,970)
Other	**2,903**	(1,266)
	(143,846)	(244,504)
Financing activities		
Interest paid	**(74,744)**	(77,539)
Distributions to non-controlling interests	**(2,000)**	(12,000)
Proceeds from common shares issued	**18,215**	4,796
Long-term debt repayments	**(1,348)**	(6,081)
Proceeds received from stream agreement	**-**	7,500
Other	**(805)**	2,915
	(60,682)	(80,409)
Effect of foreign exchange on cash balances	**140**	(7,305)
Increase in cash and cash equivalents during the year	**158,800**	381,719
Cash and cash equivalents, beginning of year	**556,511**	174,792
Cash and cash equivalents, end of year	**$ 715,311**	$ 556,511

Supplemental cash flow information (Note 29)

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

1. NATURE OF OPERATIONS

Lundin Mining Corporation (the "Company") is a diversified Canadian base metals mining company primarily producing copper, nickel and zinc. The Company's wholly-owned operating assets include the Eagle mine located in the United States ("US"), the Neves-Corvo mine located in Portugal and the Zinkgruvan mine located in Sweden. The Company also owns 80% of the Candelaria and Ojos del Salado mining complex ("Candelaria") located in Chile. The Company holds an indirect 24% equity interest in the Tenke Fungurume mine located in the Democratic Republic of Congo ("DRC") and the Freeport Cobalt Oy business ("Freeport Cobalt"), which includes a cobalt refinery located in Kokkola, Finland. The Company has entered into an agreement to sell its indirect equity stake in Tenke Fungurume (Note 9).

The Company's common shares are listed on the Toronto Stock Exchange and its Swedish Depository Receipts are listed on the Nasdaq OMX (Stockholm) Exchange. The Company is incorporated under the Canada Business Corporations Act. The Company is domiciled in Canada and its registered address is 150 King Street West, Toronto, Ontario, Canada.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of presentation and measurement

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and with interpretations of the International Financial Reporting Interpretations Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value.

The Company's presentation currency is United States ("US") dollars. Reference herein of $ or USD is to US dollars, C$ is to Canadian dollars, SEK is to Swedish Krona, € refers to the Euro and CLP refers to the Chilean peso.

Balance sheet items are classified as current if receipt or payment is due within twelve months. Otherwise, they are presented as non-current.

These consolidated financial statements were approved by the Board of Directors of the Company for issue on February 22, 2017.

(ii) Significant accounting policies

The Company has consistently applied the accounting policies to all the years presented. The significant accounting policies applied in these consolidated financial statements are set out below.

(a) Basis of consolidation

The financial statements consist of the consolidation of the financial statements of the Company and its subsidiaries.

Subsidiaries are entities over which the Company has control, including the power to govern the financial and operating policies in order to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

Where necessary, adjustments are made to the results of the subsidiaries and associates to bring their accounting policies in line with those used by the Company. Intra-group transactions, balances, income and expenses are eliminated on consolidation.

For non wholly-owned controlled subsidiaries, the net assets attributable to outside equity shareholders are presented as non-controlling interests in the equity section of the consolidated balance sheet. Net earnings for the period that are attributable to non-controlling interests are calculated based on the ownership of the minority shareholders in the subsidiary.

(b) Investments in associates

An associate is an entity over which the Company has significant influence, but not control, and is neither a subsidiary, nor an interest in a joint venture.

Investments in which the Company has the ability to exercise significant influence are accounted for by the equity method. Under this method, the investment is initially recorded at cost and adjusted thereafter to record the Company's share of post-acquisition earnings or loss of the investee as if the investee had been consolidated. The carrying value of the investment is also increased or decreased to reflect the Company's share of capital transactions, including amounts recognized in other comprehensive income ("OCI"), and for accounting changes that relate to periods subsequent to the date of acquisition.

(c) Translation of foreign currencies

The functional currency of each entity within the Company is the currency of the primary economic environment in which it operates. For many of the Company's entities, this is the currency of the country in which each operates. The Company's presentation currency is US dollars.

Transactions denominated in currencies other than the functional currency are recorded using the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in the consolidated statement of earnings in the period in which they arise. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the consolidated statement of earnings. However, exchange differences arising on the translation of certain non-monetary items are recognized as a separate component of equity.

On disposal of a foreign operation, the historical, cumulative amount of exchange differences recognized as a separate component of equity is reclassified and recognized in the consolidated statement of earnings.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into US dollars, which is the presentation currency of the group, at the rate of exchange prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the period where these approximate the rates on the dates of transactions.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit with banks, and highly liquid short-term interest bearing investments with a term to maturity at the date of purchase of 90 days or less which are subject to an insignificant risk of change in value.

(e) Reclamation funds

Reclamation funds include cash that has been pledged for reclamation and closure activities and is not available for immediate disbursement.

(f) Inventories

Ore and concentrate stockpiles are valued at the lower of production cost and net realizable value ("NRV"). Production costs include direct costs of materials and labour related directly to mining and processing activities, including production phase stripping costs, depreciation and amortization of mineral property, plant and equipment directly involved in the related mining and production process, amortization of any stripping costs previously capitalized and directly attributable overhead costs.

Materials and supplies inventories are valued at the lower of average cost less allowances for obsolescence or NRV.

If carrying value exceeds NRV, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

(g) Mineral properties

Mineral properties are carried at cost, less accumulated depletion and any accumulated impairment charges. Expenditures of mineral properties include:

i. Acquisition costs which consist of payments for property rights and leases, including the estimated fair value of exploration properties acquired as part of a business combination or the acquisition of a group of assets.

ii. Exploration, evaluation and project investigation costs incurred on an area of interest once a determination has been made that a property has economically recoverable Mineral Resources and Reserves and there is a reasonable expectation that costs can be recovered by future exploitation or sale of the property. Exploration, evaluation and project investigation expenditures made prior to a determination that a property has economically recoverable Mineral Resources and Reserves are expensed as incurred.

iii. Deferred stripping costs which represent the cost incurred to remove overburden and other waste materials to access ore in an open pit mine. Stripping costs incurred prior to the production phase of the mine are capitalized and included as part of the carrying value of the mineral property. During the production phase, stripping costs which provide probable future economic benefits, identifiable improved access to the ore body and which can be measured reliably are capitalized to mineral properties. Capitalized stripping costs are amortized using a unit-of-production basis over the Proven and Probable Mineral Reserve to which they relate.

iv. Development costs incurred on an area of interest once management has determined that, based on a feasibility study, a property is capable of economical commercial production as a result of having established a Proven and Probable Mineral Reserve, are capitalized. Development costs are directly attributable to the construction of a mine. When additional development expenditures are made on a property after commencement of production, the expenditure is capitalized as mineral property when it is probable that additional economic benefit will be derived from future operations.

v. Interest and financing costs on debt or other liabilities that are directly attributed to the acquisition, construction and development of a qualifying asset are capitalized to the asset. All other borrowing costs are expensed as incurred.

Incidental pre-production expenditures net of proceeds from sales generated, if any, are recognized in the consolidated statement of earnings. Once a mining operation has achieved commercial production, capitalized mineral property expenditures for each area of interest are depleted on a unit-of-production basis using Proven and Probable Mineral Reserves.

(h) Plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment charges. For production plant and equipment, depreciation is recorded on a units of production basis. Depreciation on all other plant and equipment is recorded on a straight-line basis over the estimated useful life of the asset or over the estimated remaining life of the mine, if shorter. Residual values and useful lives are reviewed annually. Gains and losses on disposals are calculated as proceeds received less the carrying amount and are recognized in the consolidated statement of earnings.

Useful lives are as follows:

	Number of years
Buildings	8 - 20
Plant and machinery	3 - 20
Equipment	3 - 8

(i) Mining equipment under finance lease

Assets held under finance leases are initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is recognized in the consolidated statement of earnings.

(j) Impairment and impairment reversals

At each reporting period, the Company assesses whether there is an indication that an asset or group of assets may be impaired. When impairment indicators exist, the Company estimates the recoverable amount of the asset and compares it against the asset's carrying amount. The recoverable amount is the higher of the fair value less cost of disposal and the asset's value in use. If the carrying value exceeds the recoverable amount, an impairment loss is recorded in the consolidated statement of earnings during the period.

In assessing value in use ("VIU"), the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The cash flows are based on best estimates of expected future cash flows from the continued use of the asset and its eventual disposal.

Fair value less costs to dispose ("FVLCD") is best evidenced if obtained from an active market or binding sale agreement. Where neither exists, the fair value is based on the best estimates available to reflect the amount that could be received from an arm's length transaction.

Reversals of impairment are assessed at each reporting period where there is an indication that an impairment loss recognized previously may no longer exist or has decreased. If an impairment reversal indicator exists, the recoverable amount is calculated. If the recoverable amount exceeds the carrying amount, the carrying value of the asset is increased to the recoverable amount net of depreciation. The increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as a gain in the consolidated statement of earnings in the period it is determined.

(k) Business combinations and goodwill

Acquisitions of businesses are accounted for using the purchase method of accounting whereby all identifiable assets and liabilities are recorded at their fair values as at the date of acquisition. Any excess purchase price over the aggregate fair value of net assets is recorded as goodwill. Goodwill is identified and allocated to cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the acquisition. Goodwill is not amortized. Any excess of the aggregate fair value of net assets over the purchase price is recognized in the consolidated statement of earnings.

A CGU to which goodwill has been allocated is tested for impairment at least annually or when events or circumstances indicate that an assessment for impairment is required. For goodwill arising on an acquisition in a financial year, the CGU to which the goodwill has been allocated is tested for impairment before the end of that financial year.

When the recoverable amount of the CGU is less than the carrying amount of that CGU, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to that CGU first, and then to the other assets of that CGU pro rata on the basis of the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognized directly in the consolidated statement of earnings. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(l) Non-current assets held for sale and discontinued operations

Non-current assets are classified as assets held for sale when it is highly probable their value will be recovered principally through a sale rather than through continuing use. For the sale to be highly probable, management must be committed to, and have initiated a plan to sell the assets, the assets must be available for immediate sale in their present condition and the sale must be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Company that has been disposed of or is classified as held for sale. A component comprises operations and cash flows that can be clearly distinguished from the rest of the Company. To be classified as a discontinued operation, the component must either (i) represent a major line of business or geographical area of operation; (ii) be part of plan to dispose of a major line of business; or (iii) be a subsidiary acquired with a view to resell.

(m) Derivatives

The Company may enter into derivative instruments to mitigate exposures to commodity price and currency exchange rate fluctuations, among other exposures. Unless the derivative instruments qualify for hedge accounting, and management undertakes appropriate steps to designate them as such, they are designated as held-for-trading and recorded at their fair value with realized and unrealized gains or losses arising from changes in the fair value recorded in the consolidated statement of earnings in the period they occur. Fair values for derivative instruments classified as held-for-trading are determined using valuation techniques. The valuations use assumptions based on prevailing market conditions on the reporting date. Realized gains and losses are recorded as a component of investing cash flows.

Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless closely related to the host contract. All derivative instruments, including certain embedded derivatives that are separated from their host contracts, are recorded on the consolidated balance sheets at fair value and mark-to-market adjustments on these instruments are included in the consolidated statements of earnings.

(n) Deferred revenue

Deferred revenue consists of payments received by the Company in consideration for future commitments. The Company records a portion of the deferred revenue as sales when substantial risks and rewards have been transferred.

(o) Provision for pension obligations

The Company's Zinkgruvan mine has an unfunded defined benefit pension plan based on employee pensionable remuneration and length of service. The cost of the defined benefit pension plan is determined annually by independent actuaries. The actuarial valuation is based on the projected benefit method pro-rated on service which incorporates management's best estimate of future salary levels, retirement ages of employees and other actuarial factors. Actuarial gains and losses are recorded in other comprehensive income.

Payments to defined contribution plans are expensed when employees render service entitling them to the contribution.

(p) Reclamation and other closure provisions

The Company has obligations for reclamation and other closure costs such as site restoration, decommissioning activities and end of mine life severance related to its mining properties. These costs are a normal consequence of mining, and the majority of these expenditures are incurred at the end of the life of the mine.

The future obligations for mine closure 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. Since the obligations are dependent on the laws and regulations of the countries in which the mines operate, 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 the obligations is based on future expectations, a number of assumptions are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company records the fair value of its reclamation and other closure provisions as a liability as incurred and records a corresponding increase in the carrying value of the related asset. The provision is discounted using a current market pre-tax discount rate. Charges for accretion and reclamation expenditures are recorded as finance costs. Reclamation and other closure provision is recorded as part of the mineral property and depreciated accordingly. In subsequent periods, the carrying amount of the liability is accreted by a charge to the consolidated statement of earnings to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows.

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of costs are recognized as an increase or decrease in the reclamation and other closure provision, and a corresponding change in the carrying amount of the related long-lived asset. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, a provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the consolidated statement of earnings.

(q) Revenue recognition

Revenue arising from the sale of metals contained in concentrates is recognized when title and the significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customers. The Company's metals contained in concentrates are provisionally priced at the time of sale based on the prevailing market price as specified in the sales contracts. Variations between the price recorded at the time of sale and the actual final price received from the customer are caused by changes in market prices for the metals sold and result in an embedded derivative in trade receivables. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as a component of sales.

(r) Share-based compensation

The Company grants share-based awards in the form of share options and share units to certain employees in exchange for the provision of services. The share options and share units are equity-settled awards. The Company determines the fair value of the awards on the date of grant. This fair value is charged to the consolidated statement of earnings using a graded vesting attribution method over the vesting period of the awards, with a corresponding credit to contributed surplus. When the share options or share units are exercised, the applicable amounts of contributed surplus are transferred to share capital. At the end of the reporting period, the Company updates its estimate of the number of awards that are expected to vest and adjusts the total expense to be recognized over the vesting period.

(s) Current and deferred income taxes

Income tax expense represents the sum of tax currently payable and deferred tax. Current taxes payable is based on taxable earnings for the year. Taxable earnings differ from earnings as reported in the consolidated statement of earnings because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable earnings will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable earnings nor the accounting earnings. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and investments in associates, except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to earnings, except when it relates to items charged or credited directly to equity, in which case the deferred tax is reflected in equity.

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

(t) Earnings per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during each reporting period. Diluted earnings (loss) per share is calculated assuming the proceeds from the exercise of vested exercisable in-the-money stock options are used to purchase common shares at the average market price during the period and cancelled. If the calculated result is dilutive, it is included in the diluted earnings (loss) per share calculation.

(u) Financial instruments

Financial instruments are recognized on the consolidated balance sheet on the trade date, the date on which the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are required to be classified and measured at fair value on initial recognition. Measurement in subsequent periods is dependent upon the classification of the financial instrument. The Company classifies its financial instruments in the following categories:

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified as FVTPL if it has been acquired principally for the purpose of selling it in the near term or it is a derivative that is not designated and effective as a hedging instrument. A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if the financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis by management.

Subsequent re-measurements of FVTPL assets are re-valued with any gains or losses recognized in the consolidated statement of earnings.

Transaction costs for FVTPL assets are expensed.

Loans and receivables

Loans and receivables include financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

Financial liabilities at amortized cost

Financial liabilities are measured at amortized cost using the effective interest method. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(iii) **New accounting pronouncements**

IFRS 15, *Revenue from Contracts with Customers,* provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point at which revenue is recognized, accounting for variable consideration, cost of obtaining and fulfilling a contract and various related matters. New disclosures about revenue are also introduced. This standard is effective for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of this standard.

The final version of IFRS 9, *Financial Instruments*, was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principles based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit and loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, but is available for early adoption. In addition, changes in respect of own credit risk can be early adopted in isolation without otherwise changing the accounting for financial instruments. The Company is assessing the impact of this standard.

On January 13, 2016, the IASB published a new standard, IFRS 16, *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers*, has also been adopted. The Company has not yet assessed the full impact of IFRS 16.

(iv) **Critical accounting estimates and assumptions**

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. These estimates and assumptions are based on management’s best knowledge of the relevant facts and circumstances taking into account previous experience, but actual results may differ materially from the amounts included in the financial statements.

Areas where critical accounting estimates and assumptions have the most significant effect on the amounts recognized in the consolidated financial statements include:

Depreciation, depletion and amortization of mineral properties, plant and equipment - Mineral properties, plant and equipment comprise a large component of the Company's assets and as such, the depreciation, depletion and amortization of these assets have a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company depletes mineral property over the life of the mine based on the depletion of the mine's Proven and Probable Mineral Reserves. In the case of mining equipment or other assets, if the useful life of the asset is shorter than the life of the mine, the asset is amortized over its expected useful life.

Proven and Probable Mineral Reserves are determined based on a professional evaluation using accepted international standards for the assessment of Mineral Reserves. The assessment involves geological and geophysical studies, economic data and the reliance on a number of assumptions. The estimates of the Mineral Reserves may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original Mineral Reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

A change in the original estimate of Mineral Reserves would result in a change in the rate of depreciation, depletion and amortization of the related mining assets. The effect of a change in the estimates of Mineral Reserves would have a relatively greater effect on the amortization of the current mining operations at Eagle because of the relatively short mine life of this operation. A short mine life results in a high rate of amortization and depreciation, and mining assets may exist at these sites that have a useful life in excess of the revised life of the related mine. The Neves-Corvo mine, the Zinkgruvan mine and Candelaria have longer mine lives and would be less affected by a change in the Mineral Reserve estimate.

Valuation of long-term inventory - The Company carries its long-term inventory at the lower of production cost and NRV. If carrying value exceeds net realizable amount, a write-down is required. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

The Company reviews NRV periodically. In particular, for the NRV of long-term inventory the Company makes significant estimates related to future production and sales volumes, metal prices, foreign exchange rates, Mineral Resource and Reserve quantities, future operating and capital costs. These estimates are subject to various risks and uncertainties and may have an effect on the NRV estimate and the carrying value of the long-term inventory.

Valuation of mineral properties and exploration properties - The Company carries its mineral properties at cost less accumulated depletion and any accumulated provision for impairment. The Company expenses exploration costs which are related to specific projects until commercial feasibility of the project is determinable. The costs of each property and related capitalized development expenditures are depleted over the economic life of the property on a units-of-production basis. Costs are charged to the consolidated statement of earnings when a property is abandoned or when there is a recognized impairment in value.

The Company undertakes a review of the carrying values of mining properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. Where previous impairment has been recorded, the Company analyzes any impairment reversal indicators. An impairment loss or impairment reversal is recognized when the carrying value of those assets is not recoverable. In undertaking this review, management of the Company is required to make significant estimates of, amongst other things, future production and sale volumes, metal prices, foreign exchange rates, Mineral Resource and

Reserve quantities, future operating and capital costs and reclamation costs to the end of the mine's life. These estimates are subject to various risks and uncertainties which may ultimately have an effect on the expected recoverability of the carrying values of the mining properties and related expenditures.

The Company, from time to time, acquires exploration and development properties. When a number of properties are acquired in a portfolio, the Company must make a determination of the fair value attributable to each of the properties within the total portfolio. When the Company conducts further exploration on acquired properties, it may determine that certain of the properties do not support the fair values applied at the time of acquisition. If such a determination is made, the property is written down, and could have a material effect on the consolidated balance sheet and consolidated statement of earnings.

Valuation of Investment in Tenke Fungurume and Freeport Cobalt - The Company carries its investment in associates at cost and adjusts for its share of earnings and capital transactions of the investee. The Company reviews the carrying value of the investment whenever events or changes in circumstances indicate that impairment may be present. In undertaking this review, the Company makes reference to future operating results and cash flows. For the investment in Tenke Fungurume, this requires making significant estimates of, amongst other things, Mineral Resource and Reserve quantities, and future production and sale volumes, metal prices and future operating and capital costs to the end of the mine's life. For the investment in Freeport Cobalt, critical assumptions are made related to future sale volumes, operating and capital costs and metal prices. These estimates are subject to various risks and uncertainties which may ultimately have an effect on the expected recoverability of the carrying values of the investments.

Goodwill - The amount by which the purchase price of a business acquisition exceeds the fair value of identifiable assets and liabilities acquired is recorded as goodwill. Goodwill is allocated to the CGUs acquired based on the assessment of which CGU would be expected to benefit from the synergies of the acquisition. Estimates of recoverable value may be impacted by changes in metal prices, foreign exchange rates, discount rates, level of capital expenditures, operating costs and other factors that may be different from those used in determining fair value. Changes in estimates could have a material impact on the carrying value of the goodwill. Refer to Note 10 for sensitivities.

For CGUs that have recorded goodwill, the estimated recoverable amount of the unit is compared to its carrying value at least once each year, or when circumstances indicate that the value may have become impaired.

Reclamation and other closure provisions - The Company has obligations for reclamation and other closure activities related to its mining properties. The future obligations for mine closure 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 countries in which the mines operate, 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 estimates and assumptions are made by management in the determination of closure provisions. The reclamation and other closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording reclamation and other closure provisions is to establish provisions for future mine closure costs based on the present value of the future cash flows required to satisfy the obligations. This provision is updated as the estimate for future closure costs change. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to finance costs.

(v) **Critical accounting judgments in applying the entity's accounting policies**

Management exercises judgment in applying the Company's accounting policies. These judgments are based on management's best estimates. Areas where critical accounting judgments have the most significant effect on the consolidated financial statements include:

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

Income taxes - Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary differences") and losses carried forward.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is "probable" that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilization of the losses.

Assessment of impairment and reverse impairment indicators – Management applies significant judgement in assessing whether indicators of impairment or reverse impairment exist for an asset or group of assets which would necessitate impairment testing. Internal and external factors such as significant changes in the use of the asset, commodity prices and interest rates are used by Management in determining whether there are any indicators.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

		December 31, 2016		December 31, 2015
Cash	**$**	**516,212**	$	438,142
Short-term deposits		**199,099**		118,369
	$	**715,311**	$	556,511

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

		December 31, 2016		December 31, 2015
Trade receivables	**$**	**289,803**	$	141,094
Value added tax		**15,710**		21,321
Other receivables		**17,111**		12,593
Prepaid expenses		**16,307**		17,186
	$	**338,931**	$	192,194

The Company does not have any significant balances that are past due nor any allowance for doubtful accounts. The Company's credit risk is discussed in Note 27.

The fair value of trade and other receivables, including the embedded derivative arising from provisionally priced trade receivables, is disclosed in Note 23.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

The carrying amounts of trade and other receivables are mainly denominated as follows: $298.1 million, CLP 15.9 billion, €10.2 million and SEK 33.8 million as at December 31, 2016 (2015 – $145.9 million, CLP 18.6 billion, €13.5 million and SEK 27.6 million).

5. INVENTORIES

Inventories are comprised of the following:

		December 31, 2016		December 31, 2015
Ore stockpiles	**$**	**48,436**	$	26,446
Concentrate stockpiles		**33,786**		29,197
Materials and supplies		**80,916**		89,103
	$	**163,138**	$	144,746

The cost of inventories expensed and included in total operating costs for the year was $1,212.7 million (2015 - $1,415.2) (Note 17).

Long-term inventory is comprised of ore stockpiles of $217.9 million as at December 31, 2016 (2015 - $194.1 million).

Inventory balances were written down by $2.3 million to NRV as at December 31, 2016 (2015 - $4.7 million). The write down was recorded in operating costs.

6. RESTRICTED FUNDS

Restricted funds are comprised of the following:

		December 31, 2016		December 31, 2015
Reclamation funds	**$**	**41,194**	$	43,164
Restricted cash		**78**		10,654
	$	**41,272**	$	53,818

Restricted cash of $11.6 million was divested in the sale of the Aguablanca assets during the year (Note 21).

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Mineral properties, plant and equipment comprise the following:

Cost	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2014	$ 3,087,148	$ 2,031,502	$ 8,687	$ 99,093	$ 5,226,430
Additions	129,645	3,809	-	136,311	269,765
Impairment (Note 10)	(145,959)	(662)	(3,861)	(2,047)	(152,529)
Disposals and transfers	38,880	81,263	-	(147,223)	(27,080)
Effects of foreign exchange	(148,994)	(68,774)	(679)	(3,188)	(221,635)
As at December 31, 2015	2,960,720	2,047,138	4,147	82,946	5,094,951
Additions	99,116	2,824	-	137,902	239,842
Impairment reversal	95,922	-	-	-	95,922
Disposals and transfers	352	14,698	(3,963)	(64,391)	(53,304)
Effects of foreign exchange	(66,738)	(27,979)	(184)	(2,400)	(97,301)
As at December 31, 2016	**$ 3,089,372**	**$ 2,036,681**	**$ -**	**$ 154,057**	**$ 5,280,110**

Accumulated depreciation, depletion and amortization	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2014	$ 945,313	$ 353,826	$ -	$ -	$ 1,299,139
Depreciation	346,080	235,367	-	-	581,447
Disposals and transfers	-	(20,556)	-	-	(20,556)
Effects of foreign exchange	(86,254)	(33,536)	-	-	(119,790)
As at December 31, 2015	1,205,139	535,101	-	-	1,740,240
Depreciation	249,010	206,276	-	-	455,286
Disposals and transfers	(1,545)	(33,209)	-	-	(34,754)
Effects of foreign exchange	(44,097)	(16,165)	-	-	(60,262)
As at December 31, 2016	**$ 1,408,507**	**$ 692,003**	**$ -**	**$ -**	**$ 2,100,510**

Net book value	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2015	$ 1,755,581	$ 1,512,037	$ 4,147	$ 82,946	$ 3,354,711
As at December 31, 2016	**$ 1,680,865**	**$ 1,344,678**	**$ -**	**$ 154,057**	**$ 3,179,600**

During 2016, the Company capitalized $27.2 million (2015 - $90.4 million) of deferred stripping costs to mineral properties. Included in the mineral properties balance as at December 31, 2016 is $224.0 million (2015 - $196.7 million) which is non-depreciable.

In addition, the Company capitalized $4.8 million of borrowing costs, at a rate of 8.1%, related to construction of the Candelaria Los Diques tailings facility project (2015 - $2.4 million).

During the fourth quarter of 2016, the Company disposed of the Aguablanca assets and liabilities. The net carrying amount of the plant and equipment was $9.5 million. The loss on disposal was recorded in other expenses (Note 21).

The net carrying amount of equipment under finance leases is $4.4 million (2015 - $1.7 million).

During 2016, the Company reversed previously recognized impairments related to the mineral properties of

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

Candelaria and Eagle of $95.9 million (Note 10). In 2015, the Company recognized impairment losses on mineral properties, plant and equipment, exploration properties and assets under construction (Note 10).

Depreciation, depletion and amortization is comprised of:

		2016		2015
Operating costs (Note 17)	**$**	**434,605**	$	554,662
General and administrative expenses		**262**		359
Depreciation, depletion and amortization	**$**	**434,867**	$	555,021

8. INVESTMENT IN ASSOCIATES

		Freeport Cobalt		Tenke Fungurume		Total
As at December 31, 2014	$	97,999	$	1,961,200	$	2,059,199
Distributions		(8,369)		(24,570)		(32,939)
Share of equity (loss) income		(54)		24,617		24,563
As at December 31, 2015		89,576		1,961,247		2,050,823
Distributions		(9,300)		-		(9,300)
Share of equity loss		(1,110)		-		(1,110)
Reclassification to asset held for sale (Note 9)		-		(1,961,247)		(1,961,247)
As at December 31, 2016	**$**	**79,166**	**$**	**-**	**$**	**79,166**

The Company has a 24% ownership interest in Freeport Cobalt, a cobalt refinery in Finland, and its related sales and marketing business. Freeport holds a 56% ownership interest and La Générale des Carrières et des Mines ("Gécamines"), a DRC government-owned corporation, owns the remaining 20% interest in Freeport Cobalt.

The Company's investment in Tenke Fungurume was reclassified to asset held for sale during 2016 (Note 9).

9. ASSET HELD FOR SALE AND DISCONTINUED OPERATIONS

Asset held for sale related to Tenke Fungurume is comprised of the following:

		Tenke Fungurume
As at December 31, 2015	$	-
Reclassification from investment in associates		1,961,247
Distributions		(60,375)
Loss from discontinued operations		(754,096)
As at December 31, 2016	**$**	**1,146,776**

Net investing cash flows from discontinued operations are $60.4 million (2015 - $24.6 million).

Loss from discontinued operations related to Tenke Fungurume is comprised of the following:

Impairment loss	$	(772,114)
Share of equity income		18,018
Loss from discontinued operations	**$**	**(754,096)**

Basic and diluted loss per share from discontinued operations is $1.05 (2015 - earnings per share $0.03).

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

The Company holds a 30% interest in TF Holdings Limited ("TFH"), a Bermuda company, which in turn holds an 80% interest in a Congolese subsidiary company, Tenke Fungurume Mining Corp S.A.R.L ("TFM"). TFM holds a 100% interest in the Tenke Fungurume copper/cobalt mine. On November 15, 2016, the Company entered into a definitive agreement to sell its interest in TFH to an affiliate of BHR Partners, for $1.136 billion in cash and contingent consideration of up to $51.4 million, consisting of $25.7 million if the average copper price exceeds $3.50 per pound and $25.7 million if the average cobalt price exceeds $20 per pound, both during a 24-month period beginning on January 1, 2018. As a result, the Company has reclassified its equity investment as an asset held for sale.

During November 2016, Freeport-McMoRan Inc. ("Freeport") completed its sale of its 70% interest in TFH to China Molybdenum Co., Ltd ("CMOC"). As at December 31, 2016, the Company's and CMOC's effective interests in TFM are 24% and 56%, respectively. Gécamines owns a free-carried 20% interest. The Company exercises significant influence over TFM and accordingly, the Company uses the equity method to account for this investment.

As a result of the definitive agreement, an impairment loss of $772.1 million was recognized during the year, estimated as the difference between the carrying value of the investment and the fair value less cost to sell.

10. IMPAIRMENT AND IMPAIRMENT REVERSALS

a) Goodwill

The Company recognized goodwill resulting from the acquisition of the Neves-Corvo, Candelaria and Ojos mines.

Goodwill is allocated to the following CGUs:

	Neves-Corvo mine	Ojos mine[1]	Candelaria mine[1]	Total
Balance at December 31, 2014	$ 152,637	$ 10,713	$ 98,132	$ 261,482
Impairment loss	(42,624)	-	(98,132)	(140,756)
Effects of foreign exchange	(15,805)	-	-	(15,805)
Balance at December 31, 2015	94,208	10,713	-	104,921
Effects of foreign exchange	(2,993)	-	-	(2,993)
Balance at December 31, 2016	**$ 91,215**	**$ 10,713**	**$ -**	**$ 101,928**

[1] Candelaria mine and Ojos mine are included in the Candelaria reporting segment.

The Company performs an impairment assessment annually, or more frequently if there are impairment indicators, for the carrying amount of its CGUs where goodwill is allocated.

The Company did not make any significant changes to the valuation methodology used to assess CGU impairment since the last annual test. The recoverable value of a CGU is determined using cash flow projections based on life-of-mine financial plans. The key assumptions used in cash flow projections consist of forecasted commodity prices, treatment and refining charges, Mineral Resource and Reserve quantities, operating costs, capital expenditures, reclamation and other closure costs, discount rates and foreign exchange rates.

Commodity prices used in the cash flow projections are within the range of current market consensus observed during the fourth quarter of 2016. The valuation of recoverable amount is most sensitive to changes in metal prices, exchange rates and discount rates.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

Operating costs and capital expenditures included in the cash flow projections are based on operating plans which consider past and estimated future performance.

In performing the CGU impairment test for Neves-Corvo and Ojos mines, the Company used a FVLCD valuation model. Inputs utilized in this model were based on level 3 fair value measurements (see Note 23), which were not based on observable market data. The Mineral Resources & Reserves ("R&R") were based on the Company's last published R&R estimate dated June 30, 2016. Incorporated in the FVLCD were fair value estimates developed by the Company for R&R not captured in the cash flow model. These estimates are benchmarked using third-party market information.

Neves-Corvo mine

For the Neves-Corvo mine CGU impairment review, the Company used a FVLCD model (level 3 measurement). For 2016, the Company determined that the recoverable amount of the Neves-Corvo CGU was higher than its carrying value, and therefore no impairment was recognized.

Sensitivity analysis was performed on the cash flow model for Neves-Corvo. Reviewing changes in key inputs such as changes to metal prices (+/-5%), foreign exchange rate (+/-5%) and discount rate (+/-1%) did not have any impact on the result of the Company's goodwill impairment assessment for 2016.

For the year ended December 31, 2015, the recoverable amount of the CGU was determined to be lower than the carrying value and as a result, a goodwill impairment of $42.6 million was recognized. The impairment was recognized due to the decline in the short-term metal price forecast. The recoverable amount, based on FVLCD, was $714.4 million.

Key assumptions for Neves-Corvo mine

	2016	**2015**
Copper price $/lb	2.15 – 3.00	2.30 – 3.00
Zinc price $/lb	1.00 – 1.15	0.70 – 1.15
After-tax discount rate	9.0%	9.0%
€/$ exchange rate	1.15	1.10 - 1.15
Life of mine	19 years	14 years

Ojos mine

For the Ojos mine CGU impairment review, the Company used a FVLCD model (level 3 measurement). For both 2015 and 2016, the Company determined that the recoverable amount of the Ojos CGU was higher than its carrying value, and therefore, no impairment was recognized for either year.

Sensitivity analysis was performed on the cash flow model for Ojos. Reviewing changes in key inputs such as changes to metal prices (+/-5%), foreign exchange rate (+/-5%) and discount rate (+/-1%) did not have any impact on the result of the Company's goodwill impairment assessment.

Candelaria mine

In 2015, the Company concluded that the recoverable amount using (FVLCD) of the Candelaria CGU was lower than its carrying value. Accordingly, the Company recognized a $98.1 million goodwill impairment.

The impairment was recognized as a result of the decrease in the Company's short-term metal price forecast, primarily for the years 2016-2018.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

Key assumptions for Ojos and Candelaria mines

	2016	2015
Copper price $/lb	2.15 – 3.00	2.30 – 3.00
Gold price $/oz	1,300 – 1,350	1,130 – 1,300
Silver price $/oz	19.00 – 20.00	15.50 – 20.50
After-tax discount rate - Ojos	8.5%	8.5%
After-tax discount rate - Candelaria	-	9.25%
$/CLP exchange rate	585 - 650	585 - 700
Life of mine - Ojos	6 years	6 years
Life of mine - Candelaria	-	17 years

b) Asset impairment and reversal of impairment

At every reporting period, the Company assesses whether there is an indication that an asset or group of assets may be impaired. When impairment indicators exist, the Company estimates the recoverable amount of the asset and compares it against the asset's carrying amount.

The Company also assesses whether there is an indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. When impairment reversal indicators exist, the Company estimates the recoverable amount of the asset and compares it against the asset's carrying amount.

During the fourth quarter of 2015, there were significant metal price decreases, particularly for nickel and copper, which the Company identified as an impairment indicator and which resulted in the recording of impairments in 2015. During the year ended December 31, 2016, the Company identified impairment reversal indicators related to its Eagle mine and Candelaria mine.

Eagle mine

For the Eagle mine impairment and impairment reversal review, the Company used a FVLCD model (level 3 measurement).

In the current year, the Company identified an impairment reversal indicator related to its Eagle mine. An initial Mineral Resource estimate on the Eagle East mineralization, the results of a Preliminary Economic Assessment, and the commencement of access ramp development towards the Eagle East high grade nickel/copper deposit were announced during the year. The Eagle East Inferred Mineral Resource is expected to significantly increase nickel and copper production from 2020 onwards and extend the mine life at least an additional year, and can be developed with no significant changes to the current mine, ore transport, mill and tailings disposal infrastructure.

The recoverable amount measured for the CGU was higher than the carrying value by approximately $85 million. Therefore, the Company recorded a full impairment reversal of $50.9 million, net of depreciation ($33.1 million, net of taxes). The recoverable amount, based on FVLCD, was $508.9 million.
Sensitivity analysis was performed on the cash flow model for Eagle. A change of 5% in metal prices, 5% in foreign exchange and a 1% change in discount rate would result in recoverable amount value changes of approximately $52 million, nil and $18 million, respectively.

Sensitivity analysis was performed on the cash flow model for Eagle. A change of 5% in metal prices, 5% in foreign exchange rate and a 1% change in discount rate would result in recoverable amount value changes of approximately $52 million, nil and $18 million, respectively.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

In the previous year, the recoverable amount determined for the CGU was lower than the carrying value, and an impairment loss of $63.0 million was recognized and allocated to mineral properties. The recoverable amount, based on FVLCD, was $509.9 million. The Eagle mine has a relatively short mine life, as such short-term nickel and copper pricing had a significant impact on the recoverable amount.

Key assumptions for Eagle mine

	2016	2015
Nickel price $/lb	4.85 – 8.15	4.25 – 8.00
Copper price $/lb	2.15 – 3.00	2.30 – 3.00
After-tax discount rate	9.0%	9.0%
Life of mine	7 years	7 years

Candelaria mine

For the Candelaria mine CGU impairment reversal review, the Company used a FVLCD model (level 3 measurement).

In the current year, the Company identified an impairment reversal indicator related to its Candelaria mine CGU. The increase in R&R as a result of successful underground exploration campaigns and optimization of the open pit had extended the mine life and increased the production profile. In addition, capital expenditures incurred on the construction of Los Diques are expected to be substantially lower than originally planned due to design development and owner self-perform cost trends.

The recoverable amount determined for the CGU was higher than the carrying value by approximately $455 million, and a full reversal of the 2015 impairment loss of $45.0 million, net of depreciation, was recognized ($24.6 million, net of taxes and non-controlling interests). The recoverable amount, based on FVLCD, was $2.002 billion.

Sensitivity analysis was performed on the cash flow model for Candelaria. Reviewing changes in key inputs such as changes to metal prices (+/-5%), foreign exchange rate (+/-5%) and discount rate (+/-1%) did not have any impact on the result of the Company's impairment reversal assessment.

For the prior year, the remaining impairment of $48.1 million ($26.3 million, net of taxes and non-controlling interests) was allocated fully to the mineral property carrying amount of the mine. The recoverable amount, based on FVLCD (level 3 measurement) was $1.369 billion.

Key assumptions for Candelaria mine

	2016	2015
Copper price $/lb	2.15 – 3.00	2.30 – 3.00
Gold price $/oz	1,300 – 1,350	1,130 – 1,300
Silver price $/oz	19.00 – 20.00	15.50 – 20.50
After-tax discount rate - Candelaria	9.25%	9.25%
$/CLP exchange rate	585 - 650	585 - 700
Life of mine - Candelaria	19 years	17 years

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

Aguablanca

The Aguablanca assets were disposed of during 2016.

During 2015, impairment indicators were identified for the Aguablanca mine as a result of significant short and medium-term decreases in nickel and copper price forecasts and its impact on the relatively short life of mine. As at December 31, 2015, the mineral properties, plant and equipment were written down to their recoverable amount based on a VIU model (level 3 measurement, see Note 23). The total impairment loss was $37.6 million.

Exploration properties

The Company recognized impairment losses related to the valuation of its exploration concessions in Ireland during 2015.

The following table summarizes the impairment losses/(reversals) recognized for the years ended December 31, 2016 and 2015.

		2016		2015
Goodwill				
Candelaria	**$**	**-**	$	98,132
Neves-Corvo		**-**		42,624
Goodwill impairment		**-**		140,756
Mineral properties				
Eagle		**(50,943)**		62,928
Candelaria		**(44,979)**		48,142
Aguablanca		**-**		34,889
Construction in progress				
Aguablanca		**-**		2,047
Plant and equipment				
Aguablanca		**-**		662
Exploration properties		**-**		3,861
Mineral properties, plant and equipment impairment and impairment		**(95,922)**		152,529
Impairment and impairment reversals	**$**	**(95,922)**	$	293,285

11. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

		December 31, 2016		December 31, 2015
Trade payables	**$**	**119,718**	$	122,195
Unbilled goods and services		**72,922**		62,100
Payroll obligations		**43,130**		41,427
Royalty payable		**7,905**		6,238
	$	**243,675**	$	231,960

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

12. LONG-TERM DEBT AND FINANCE LEASES

Long-term debt and finance leases are comprised of the following:

		December 31, 2016		December 31, 2015
Senior secured notes (a)	**$**	**978,962**	$	976,257
Finance lease obligations (b)		**4,415**		1,771
Rio Narcea debt (e)		**-**		1,088
		983,377		979,116
Less: current portion		**1,082**		1,102
	$	**982,295**	$	978,014

The changes in long-term debt and finance leases are as follows:

As at December 31, 2014	$	982,820
Additions		1,139
Repayments		(6,380)
Deferred financing fee amortization		2,422
Other		(26)
Effects of foreign exchange		(859)
As at December 31, 2015		979,116
Additions		4,669
Repayments		(1,348)
Deferred financing fee amortization		2,705
Other (e)		(1,658)
Effects of foreign exchange		(107)
As at December 31, 2016	**$**	**983,377**

a) During 2014, the Company issued $1.0 billion senior secured notes in two tranches, $550 million of 7.5% Senior Secured Notes due 2020 (the "2020 Notes") and $450 million of 7.875% Senior Secured Notes due 2022 (the "2022 Notes" and, together with the 2020 Notes, the "Notes"). The 2020 Notes accrue interest at a rate of 7.5% per annum and will mature on November 1, 2020. The 2022 Notes accrue interest at a rate of 7.875% per annum, and will mature on November 1, 2022.

The Notes are guaranteed on a senior secured basis by certain of the Company's subsidiaries that are guarantors under the existing credit facility and certain of the Company's subsidiaries that became guarantors under the streaming purchase agreement (Note 13(a)). The Notes and the guarantees are secured on a first priority basis by a pledge of the shares of certain streaming subsidiaries and on a second priority basis by a pledge of the shares of certain of the Company's subsidiaries that are also pledged to secure the Company's existing credit facility.

The Company has the option to redeem the 2020 Notes and 2022 Notes at any time on or after November 1, 2017 and November 1, 2018, respectively. On redemption, the Company will be required to pay a make-whole premium calculated as a percentage of the principal amount of the Notes.

b) Finance lease obligations relate to leases on mining equipment which have remaining lease terms of two to seven years and interest rates of 1%-7% over the term of the leases.

c) During 2016, the Company executed an amending agreement to its $350 million revolving credit facility which extended the term to June 2020, from October 2017. The terms provide for interest rates on drawn funds from LIBOR + 2.5% to LIBOR + 3.5%, depending on the Company’s leverage ratio. The revolving credit facility is subject to customary covenants. Certain assets and shares of the Company’s material subsidiaries are pledged as security for the credit facility. As at December 31, 2016, the Company had no amount drawn on the credit facility, but had letters of credit issued totaling $24.0 million (SEK 162 million and €5.9 million).

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

d) The Sociedade Mineira de Neves-Corvo, S.A. ("Somincor"), a subsidiary of the Company which owns the Neves-Corvo mine, has a commercial paper program. The €30 million program bears interest at EURIBOR plus 1%. The program matures in December 2017. As at December 31, 2016, no amounts were drawn (2015 – nil).

e) The Rio Narcea debt was divested in the Aguablanca sale (Note 21).

The schedule of principal repayment obligations is as follows:

	Debt	Finance leases	Total
2017	$ -	$ 1,082	$ 1,082
2018	-	1,050	1,050
2019	-	762	762
2020	550,000	565	550,565
2021	-	399	399
2022 and thereafter	445,000	557	445,557
Total	**$ 995,000**	**$ 4,415**	**$ 999,415**

13. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

As at December 31, 2014	$ 667,342
Stream agreement (a)	7,500
Recognition of revenue	(63,034)
Effects of foreign exchange	(3,312)
As at December 31, 2015	608,496
Prepayments from customers	461
Recognition of revenue	(46,647)
Effects of foreign exchange	(2,367)
	559,943
Less: current portion	55,934
As at December 31, 2016	**$ 504,009**

a) Candelaria

The Company entered into a stream agreement with Franco-Nevada Corporation ("FN"), whereby the Company has agreed to sell 68% of all the gold and silver contained in production from Candelaria until 720,000 oz of gold and 12 million oz of silver have been delivered. Thereafter, FN will be entitled to purchase 40% of gold and silver production from Candelaria. The Company received an up-front payment of $648 million which is being recognized as gold and silver are delivered to FN under the contract.

For each ounce of gold and silver delivered, FN makes payments equal to the lesser of the prevailing market prices and $400/oz of gold and $4.00/oz of silver. After three years from the contract inception, the on-going payments for gold and silver will be subject to a 1% annual inflationary adjustment.

Pursuant to the stream agreement with FN, the Company received an additional $7.5 million payment during 2015 due to an increase in Mineral Reserves following resolution of post-closing items.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

b) Neves-Corvo mine

The Company has an agreement to deliver all of the silver contained in concentrate produced from its Neves-Corvo mine to Silver Wheaton Corp ("Silver Wheaton"). The Company received an up-front payment which was deferred and is being recognized in sales as silver is delivered under the contract. The Company receives the lesser of a fixed payment (subject to annual adjustments) and the market price per ounce of silver. During 2016, the Company received approximately $4.18 per ounce of silver. The agreement extends to the earlier of September 2057 and the end of mine life of the Neves-Corvo mine.

c) Zinkgruvan mine

The Company has an agreement with Silver Wheaton to deliver silver contained in concentrate from the Zinkgruvan mine. The Company received an up-front payment which was deferred and is being recognized in sales as silver is delivered under the contract and receives the lesser of a fixed payment (subject to annual adjustments) and the market price per ounce of silver. During 2016, the Company received approximately $4.29 per ounce of silver (Note 24(f)).

14. RECLAMATION AND OTHER CLOSURE PROVISIONS

Reclamation and other closure provisions relating to the Company's mining operations are as follows:

	Reclamation provisions	Other closure provisions	Total
Balance, December 31, 2014	$ 202,212	$ 61,244	$ 263,456
Accretion	3,912	-	3,912
Accruals for services	-	1,581	1,581
Changes in estimates	8,185	-	8,185
Payments	(5,278)	-	(5,278)
Effects of foreign exchange	(9,717)	(5,158)	(14,875)
Balance, December 31, 2015	199,314	57,667	256,981
Accretion	4,966	-	4,966
Accruals for services	-	(9,921)	(9,921)
Changes in estimates	38,961	-	38,961
Payments	(2,639)	(6,815)	(9,454)
Disposals (Note 21)	(24,651)	(2,730)	(27,381)
Effects of foreign exchange	(2,764)	5,417	2,653
Balance, December 31, 2016	213,187	43,618	256,805
Less: current portion	20,279	-	20,279
	$ 192,908	**$ 43,618**	**$ 236,526**

The reclamation and other closure provisions for Candelaria as at December 31, 2016 were $127.1 million (2015 – $95.8 million). The Company expects the payments to be settled between 2017 and 2034. The increase in the reclamation provision was primarily related to the Los Diques tailings expansion.

At December 31, 2016, the reclamation and other closure provisions for the Neves-Corvo mine were $67.1 million (2015 - $72.7 million). The Company expects the payments for site restoration costs at Neves-Corvo to be incurred between 2017 and 2031.

The reclamation provision at the Zinkgruvan mine at December 31, 2016 was $17.1 million (2015 - $16.1 million). This provision is based on future reclamation costs being settled between 2021 and 2051. The Company has posted letters of credit related to its site restoration provision (Note 24).

The reclamation and other closure provisions for the Eagle mine as at December 31, 2016 were $42.8 million (2015 - $36.0 million). The Company expects the majority of payments to be settled between 2023 and 2028.

The Aguablanca reclamation and other closure provisions of $24.7 million were divested during 2016 (Note 21).

15. SHARE CAPITAL

(a) Authorized and issued shares

Authorized share capital consists of an unlimited number of voting common shares with no par value and one special non-voting share with no par value. As at December 31, 2016, there were 725,134,187 fully paid voting common shares issued (2015 - 719,628,357).

(b) Restricted share units

The Company has a Share Unit Plan ("SU Plan") which provides for share unit awards ("SUs") to be granted by the Board of Directors to certain employees of the Company. The maximum number of SUs that are issuable under the SU Plan is 6,000,000. An SU is a unit representing the right to receive one common share (subject to adjustments) issued from treasury.

The number of SUs awarded will be determined based on the market price on the date of grant, as approved by the Board of Directors. The market price shall be calculated at the closing market price on the Toronto Stock Exchange of the Company's common shares on the date of the grant. The vesting requirements are established from time to time by the Board of Directors.

The Company uses the fair value method of accounting for the recording of SU grants to employees and officers. Under this method, the Company recorded share-based compensation expense of $1.9 million for 2016 (2015 - $1.0 million) with a corresponding credit to contributed surplus.

During 2016, the Company granted 1.1 million SUs to employees and officers that expire in 2018. The SUs vest three years from the grant date. The fair value of the SUs are based on the market value of the shares on the date of the grant and an estimated forfeiture rate of 13%. The weighted average fair value per SU granted during 2016 was $4.40. As at December 31, 2016, there was $3.6 million of unamortized stock-based compensation expense related to SUs.

During 2016, 61,900 common shares (2015 - 22,300) were issued as a result of SUs being vested.

(c) Stock options

The Company's option plan provides for stock option awards ("options") to be granted by the Board of Directors to certain employees of the Company ("2014 Option Plan"). The term of any options granted under the 2014 Option Plan may not exceed five years from the date of grant. The maximum number of options that are issuable under the 2014 Option Plan is 30,000,000. The vesting requirements are established from time to time by the Board of Directors.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

The Company uses the fair value method of accounting for the recording of stock option grants to employees and officers. Under this method, the Company recorded a share-based compensation expense of $4.5 million for 2016 (2015 - $6.0 million) with a corresponding credit to contributed surplus.

During 2016, the Company granted 4.2 million incentive stock options to employees and officers that expire in 2021. The options vest over three years from the grant date. The fair value of the stock options at the date of the grant using the Black-Scholes pricing model assumes risk-free interest rate of 0.5% to 0.9% (2015 - 0.5% to 1.3%), no dividend yield, expected life of 3.5 years (2015 - 3.7 years) with an expected price volatility of 41% to 49% (2015 - 40% to 63%). Volatility is determined using daily volatility over the expected life of the options. A forfeiture rate of approximately 13% is applied (2015 - 13%). The weighted average fair value per option granted during 2016 was $1.44 (2015 - $1.82). As at December 31, 2016, there was $2.7 million of unamortized stock compensation expense (2015 - $3.0 million) related to options.

During 2016, 5,443,930 common shares (2015 - 1,437,884) were issued as a result of options being exercised.

The continuity of incentive stock options issued and outstanding is as follows:

	Number of SUs	**Number of options**	**Weighted average exercise price (C$)**
Outstanding, January 1, 2015	-	11,934,984	$ 4.66
Granted	1,009,400	4,246,770	5.37
Forfeited	(4,100)	(640,150)	5.03
Expired	-	(14,000)	3.89
Exercised	(22,300)	(1,437,884)	4.08
Outstanding, December 31, 2015	983,000	14,089,720	4.92
Granted	1,116,700	4,151,565	4.43
Forfeited	(37,100)	(850,950)	4.86
Exercised	(61,900)	(5,443,930)	4.47
Outstanding, December 31, 2016	**2,000,700**	**11,946,405**	**$ 4.95**

The following table summarizes options outstanding as at December 31, 2016, as follows:

	Outstanding Options			Exercisable Options		
Range of exercise prices (C$)	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (C$)	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (C$)
$3.50 to $3.99	116,400	3.8	3.83	26,000	3.7	3.86
$4.00 to $4.49	3,931,765	4.0	4.30	251,201	2.1	4.12
$4.50 to $4.99	76,000	2.7	4.63	-	-	-
$5.00 to $5.49	6,728,440	2.3	5.21	3,876,309	1.9	5.15
$5.50 to $5.99	828,800	3.0	5.72	254,000	3.0	5.72
$6.00 to $6.49	265,000	4.7	6.34	-	-	-
	11,946,405	3.0	$4.95	4,407,510	2.0	$5.12

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

(d) Diluted weighted average number of shares

The basic weighted average number of common shares outstanding for the year ended December 31, 2016 was 720,328,576 (2015 – 719,089,063).

Stock options and restricted share units were not included in the computation of diluted loss per common share or diluted loss from discontinued operations per common share for the year ended December 31, 2016 and December 31, 2015 as their inclusion would be anti-dilutive. Stock options and restricted share units were included in the computation of diluted earnings from continuing operations per common share for the year ended December 31, 2016.

The total incremental shares added to the basic weighted average of common shares to arrive at the fully diluted number of shares for the year ended December 31, 2016 is 880,226 shares which relate to exercisable "in-the-money" outstanding stock options and outstanding share units.

16. NON-CONTROLLING INTERESTS

The Company owns 80% of Compañia Contractual Minera Candelaria S.A. and Compañia Contractual Minera Ojos del Salado S.A.'s copper mining operations and supporting infrastructure in Chile. The remaining 20% ownership stake is held by Sumitomo Metal Mining Co., Ltd and Sumitomo Corporation. The continuity of non-controlling interests balance is disclosed in the consolidated statements of changes in equity.

Summarized financial information for Candelaria and Ojos on a 100% basis is as follows:

Summarized Balance Sheets

	Candelaria mine		**Ojos mine**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Total current assets	**$ 662,084**	$ 480,335	**$ 82,292**	$ 69,364
Total non-current assets	**$ 1,920,583**	$ 1,908,201	**$ 185,787**	$ 219,715
Total current liabilities	**$ 118,297**	$ 95,871	**$ 18,747**	$ 30,455
Total non-current liabilities	**$ 403,453**	$ 372,494	**$ 58,802**	$ 68,552

Summarized Statements of Earnings (loss) and Comprehensive Income (loss)

For the years ended December 31	**2016**	2015	**2016**	2015
Total sales	**$ 820,766**	$ 856,703	**$ 151,567**	$ 156,229
Net earnings (loss)/Comprehensive income (loss)	**$ 167,525**	$ (9,473)	**$ (2,175)**	$ (23,005)
Dividends paid to non-controlling interests	**$ 2,000**	$ 10,000	**$ -**	$ 2,000

The above information is presented before inter-company eliminations.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

17. OPERATING COSTS

The Company's operating costs are comprised of the following:

	2016	2015
Direct mine and mill costs	**$ 778,087**	$ 860,512
Transportation	**72,239**	87,408
Royalties	**14,123**	14,774
	864,449	962,694
Depreciation, depletion and amortization (Note 7)	**434,605**	554,662
Total operating costs	**$ 1,299,054**	$ 1,517,356

Operating costs consists of direct mine and mill costs (which include personnel, energy, maintenance and repair costs), transportation fees, royalty expenses and depreciation related to sales.

18. EMPLOYEE BENEFITS

The Company's employee benefits are comprised of the following:

	2016	2015
Operating costs		
Wages and benefits	**$ 204,114**	$ 221,929
Pension benefits	**1,450**	1,387
Share-based compensation	**2,045**	2,708
	207,609	226,024
General and administrative expenses		
Wages and benefits	**12,918**	12,651
Pension benefits	**514**	613
Share-based compensation	**3,884**	4,079
	17,316	17,343
General exploration and business development		
Wages and benefits	**7,702**	9,563
Pension benefits	**43**	44
Share-based compensation	**185**	235
	7,930	9,842
Other expenses		
Wages and benefits	**3,580**	-
Share-based compensation	**412**	-
	3,992	-
Total employee benefits	**$ 236,847**	$ 253,209

Provision for pension obligations

The Company has calculated its liability relating to the defined benefit plan at the Zinkgruvan mine using the accrued benefit pro-rated on services method.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

Actuarial assumptions, based on the actuarial valuations dated December 31, 2016 and December 31, 2015, were used to determine benefit obligations as at December 31, 2016 and 2015, respectively. The benefit obligations were as follows:

	2016	2015
Discount rate	**1.5%**	2.3%
Rate of salary increase	**2.5%**	2.5%

Discount rates used reflect high quality bond rates matching the currency and maturity of the obligation.

		2016		2015
Accrued benefit obligation				
Balance, beginning of the year	**$**	**11,160**	$	12,789
Current service costs		**117**		134
Interest costs		**227**		273
Actuarial losses		**337**		220
Benefits paid		**(1,330)**		(1,426)
Effects of foreign exchange		**(837)**		(830)
Balance, end of the year		**9,674**		11,160
Other pension accruals		**3,595**		4,172
Total provision for pension obligations	**$**	**13,269**	$	15,332

A 1% change in the discount rate and salary increase rate assumptions would have an insignificant impact on the pension obligation or the pension expense for 2016 and 2015.

Below is a summary of future payments to be made under the defined benefit plan as at December 31, 2016:

2017	**$**	1,127
2018		953
2019		901
2020		985
2021		957
2022 and thereafter		5,611
	$	**10,534**

Defined contribution plans

The Company recorded a pension expense in operating costs in the amount of $0.7 million (2015 - $1.4 million) and in general and administrative expenses in the amount of $0.5 million (2015 - $0.6 million) relating to defined contribution plans.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

19. GENERAL EXPLORATION AND BUSINESS DEVELOPMENT

The Company's general exploration and business development costs are comprised of the following:

		2016		2015
General exploration	$	**46,734**	$	51,575
Corporate development		**4,577**		9
Project development		**4,802**		7,916
	$	**56,113**	$	59,500

Project development expenses include feasibility study costs related to expansion projects.

20. FINANCE COSTS

The Company's finance costs are comprised of the following:

		2016		2015
Interest income	$	**1,534**	$	564
Interest expense and bank fees		**(79,944)**		(83,664)
Accretion expense on reclamation provisions		**(4,891)**		(3,912)
Revaluation gain (loss) on marketable securities		**328**		(1,210)
Revaluation of currency options		**1,568**		(2,067)
Other		**1,066**		1,049
Total finance costs	$	**(80,339)**	$	(89,240)

21. OTHER INCOME AND EXPENSES

The Company's other income and expenses are comprised of the following:

		2016		2015
Foreign exchange (loss) gain	$	**(21,009)**	$	18,509
Other income		**6,607**		5,082
Other expenses		**(12,802)**		(18,737)
Loss on disposal of Aguablanca		**(22,319)**		-
Total other (expenses) income, net	$	**(49,523)**	$	4,854

Other income	$	**6,607**	$	23,591
Other expenses		**(56,130)**		(18,737)
Total other (expenses) income, net	$	**(49,523)**	$	4,854

Other income and other expenses include ancillary activities of the Company, including closure costs for closed operations.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

During 2016, the Company disposed of the Aguablanca assets. On disposal, the Company recognized a loss of $22.3 million and incurred a cash payment of $30.7 million. An amount, previously recorded in OCI of $19.5 million, was reclassified to foreign exchange loss.

In 2016, other expenses included a payment of $2.7 million (2015 - $7.0 million) made during the year by Candelaria to the Municipality of Tierra Amarilla, Chile, pursuant to terms in the 2015 Settlement and Community Development Agreements for funding sustainable social programs.

22. CURRENT AND DEFERRED INCOME TAXES

		2016		2015
Current tax expense:				
Current tax on net taxable earnings (a)	**$**	**64,863**	$	59,068
Adjustments in respect of prior years (b)		**(16,412)**		9,701
		48,451		68,769
Deferred tax recovery				
Origination and reversal of temporary differences		**4,039**		(118,092)
Change in tax rates		**-**		9,495
Utilization and recognition of previously unrecognized tax losses and temporary differences		**(49,703)**		(16,923)
Temporary differences for which no deferred asset was recognized		**1,526**		60,076
Write-down of deferred tax asset previously recorded		**-**		22,921
		(44,138)		(42,523)
Total tax expense	**$**	**4,313**	$	26,246

a) Current tax expense of $64.9 million reflects tax on net taxable earnings of $250.9 million offset by tax credits of $2.7 million in Portugal.

b) 2016 adjustments in respect of prior years mainly relate to a tax refund of $27.7 million following the successful resolution to a dispute for the 2008 taxation year at Neves-Corvo, offset by an increase in withholding taxes of $12.4 million on interest. In 2015, prior year adjustments are principally related to Spanish tax assessments for fiscal years 2007, 2009 and 2010 ($8.2 million).

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

The tax on the Company's earnings before tax differs from the amount that would arise using the weighted average rate applicable to earnings of the consolidated entities as follows:

		2016		2015
Loss before income tax	**$**	**(625,917)**	$	(255,543)
Combined basic federal and provincial rates		**26.5%**		26.5%
Income taxes based on Canadian statutory income tax rates	**$**	**(165,868)**	$	(67,718)
Effect of different tax rates in foreign jurisdictions		**207,515**		(14,835)
Tax calculated at domestic tax rates applicable to earnings in the respective countries		**41,647**		(82,553)
Tax effects of:				
Non-deductible and non-taxable items (a)		**21,262**		45,384
Change in tax rates (b)		**-**		9,495
Adjustments in respect of prior years (c)		**(27,443)**		(9,439)
Impact of difference between current and future tax rates		**(329)**		(5,015)
Tax losses and temporary differences for which no deferred tax asset was recognized		**1,526**		60,076
Write-down of deferred tax asset previously recorded		**-**		22,921
Utilization and recognition of previously unrecognized tax losses and temporary differences (d)		**(49,703)**		(16,923)
Tax recovery associated with government grants and other tax credits		**(2,668)**		(7,173)
Additional tax on non-deductible items		**759**		3,361
Withholding tax on accrued interest receivable		**18,514**		5,236
Other		**748**		876
Total tax expense	**$**	**4,313**	$	26,246

The weighted average applicable tax rate for 2016 was -6.7% (2015 - 32.3%). The decrease in the tax rate reflects impairment losses of $772.1 million which was taxed at 0%. Other than its equity accounted interest in Tenke Fungurume which is in a zero tax rate jurisdiction, the Company's subsidiaries are in tax jurisdictions that have tax rates ranging from 22% to 35%.

a) Non-deductible tax expense of $21.3 million includes a loss on the sale of Aguablanca. Included in the 2015 non-deductible items is a goodwill impairment charge of $98.1 million related to Candelaria mine and $42.6 million related to Neves-Corvo.

b) The current rate for mining royalty tax for Candelaria is 4%. As of 2018, Candelaria will be subject to a higher mining royalty tax rate of approximately 5-14% which will be based on its operating margins. This resulted in an additional charge of $9.5 million in deferred mining royalty tax in 2015.

c) Included in the 2016 adjustments in respect of prior periods is a $27.7 million tax refund received by Neves-Corvo following the resolution of a tax dispute originating from 2008. In addition, a net prior period tax recovery of $5.4 million at Candelaria was offset by a net tax expense of $4.8 million for an increase in withholding tax rates on Chilean interest from 4% to 15%.

d) In 2016, the Company recognized a deferred tax asset of $49.7 million on tax losses net of deferred tax liabilities at Eagle. With the addition of the Eagle East project, it has been determined that it is probable that sufficient taxable profit will be available in the future to utilize the deferred tax asset resulting from recognized tax losses.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

Deferred tax liabilities, net

		December 31, 2016		December 31, 2015
Deferred tax assets	**$**	**102,786**	$	55,022
Deferred tax liabilities		**(413,249)**		(412,536)
Deferred tax liabilities, net	**$**	**(310,463)**	$	**(357,514)**

Net deferred tax liabilities of $285.3 million (2015 - $342.0 million) are expected to be settled after 12 months and net deferred tax liabilities of $25.1 million (2015 - $15.5 million) are expected to be settled within 12 months.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	As at December 31, 2015	(Expensed)/ recovered	Credited to equity	Effects of foreign exchange	As at December 31, 2016
Deferred tax assets:					
Loss carryforwards	$ 48,144	$ 104,967	$ -	$ -	$ 153,111
Reclamation and other closure provisions	46,866	2,978	-	(859)	48,985
Pension obligations	2,576	(637)	-	(174)	1,765
Future tax credits	8,074	(2,102)	-	(157)	5,815
Share issuance and financing costs	4,885	(2,313)	(1,176)	-	1,396
Other	4,752	2,485	-	(195)	7,042
Deferred tax liabilities:					
Mineral properties, plant & equipment	(460,646)	(32,274)	-	3,012	(489,908)
Provisions	(10,489)	(3,066)	-	2,720	(10,835)
Mining royalty taxes	(17,837)	3,682	-	(127)	(14,282)
Long-term inventory	14,360	(23,978)	-	-	(9,618)
Fair value gains	3,619	(6,727)	-	-	(3,108)
Other	(1,818)	1,123	-	(131)	(826)
	$ (357,514)	$ 44,138	$ (1,176)	$ 4,089	$ (310,463)

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

	As at December 31, 2014	(Expensed)/ recovered	Credited to Equity	Effects of foreign exchange	As at December 31, 2015
Deferred tax assets:					
Loss carryforwards	$ 135,880	$ (87,700)	$ -	$ (36)	$ 48,144
Reclamation and other closure provisions	59,297	(10,931)	-	(1,500)	46,866
Pension obligations	3,605	(870)	-	(159)	2,576
Future tax credits	3,957	4,613	-	(496)	8,074
Long-term inventory	15,863	(1,503)	-	-	14,360
Share issuance costs	2,912	1,341	632	-	4,885
Fair value gains	5,920	(2,301)	-	-	3,619
Other	3,953	1,618	-	(819)	4,752
Deferred tax liabilities:					
Mineral properties, plant & equipment	(606,825)	135,509	-	10,670	(460,646)
Provisions	(11,014)	49	-	476	(10,489)
Mining royalty taxes	(22,636)	4,799	-	-	(17,837)
Other	-	(2,102)	-	284	(1,818)
	$ (409,088)	$ 42,522	$ 632	$ 8,420	$ (357,514)

Deferred tax assets are recognized for tax loss carry-forwards and other temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. Due to the addition of Eagle East at Eagle mine, the Company recognized $49.7 million in net deferred tax assets that were not recognized in prior periods as the Company determined that it is probable that sufficient future taxable profits will be available at Eagle Mine to allow the benefit of the deferred tax asset to be utilized.

The Company did not recognize deferred tax assets of $43.7 million (2015 – $132.8 million) in respect of losses amounting to $149.4 million (2015 – $405.4 million) that can be carried forward against future taxable income.

Year of expiry	Canada	US	Ireland	Total
2023 and thereafter	$ 29,943	$ 59,276	$ 60,190	$ 149,409

The non-capital losses for Ireland have an indefinite life.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial assets and financial liabilities have been classified into categories that determine their basis of measurement. The following table shows the carrying values, fair values and fair value hierarchy of the Company's financial instruments as at December 31, 2016 and December 31, 2015:

		December 31, 2016		December 31, 2015	
	Level	**Carrying value**	**Fair value**	Carrying value	Fair value
Financial assets					
Cash and cash equivalents	1	**$ 715,311**	**$ 715,311**	$ 556,511	$ 556,511
Restricted funds	1	**41,272**	**41,272**	53,818	53,818
Trade receivables	2	**241,672**	**241,672**	141,207	141,207
Marketable securities - shares	1	**2,986**	**2,986**	3,337	3,337
Currency options	2	**4,512**	**4,512**	2,944	2,944
		$ 1,005,753	**$ 1,005,753**	$ 757,817	$ 757,817
Financial liabilities					
Long-term debt and finance leases	1,2	**$ 983,377**	**$ 1,075,154**	$ 979,116	$ 937,865
Other long-term liabilities	2	**9,992**	**9,992**	13,815	13,815
		$ 993,369	**$ 1,085,146**	$ 992,931	$ 951,680

Fair values of financial instruments are determined by valuation methods depending on hierarchy levels as defined below:

Level 1 – Quoted market price in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted market prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. observed prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the assets or liabilities are not based on observable market data.

The Company calculates fair values based on the following methods of valuation and assumptions:

Trade receivables – The fair value of the embedded derivatives on provisional sales are valued using quoted market prices based on the forward London Metals Exchange price. The Company recognized positive pricing adjustments of $64.8 million in sales during the year ended December 31, 2016 (2015 - $172.8 million negative pricing adjustments).

Marketable securities/restricted funds – The fair value of investments in shares is determined based on quoted market price.

Currency options – The fair value of the currency options are determined using a valuation model that incorporates such factors as the quoted market price, strike price, the volatility of CLP:USD foreign exchange rates and the expiry date of the options.

Long-term debt – The fair value of long-term debt is determined using quoted market prices. The Company classifies these instruments as amortized cost.

Finance leases– The fair value of the finance leases approximates its carrying value as the interest rates are comparable to current market rates.

Other long-term liabilities– The fair value of other long-term liabilities are determined using a valuation model that incorporates such factors as the strike price, volatility of copper prices and the termination date of the liability.

The carrying values of certain financial instruments maturing in the short-term approximate their fair values. These financial instruments include cash and cash equivalents, trade and other receivables, other assets, restricted funds, which are classified as loans and receivables, and trade and other payables which are classified as amortized cost.

24. COMMITMENTS AND CONTINGENCIES

a) Somincor has entered into a fifty-year concession royalty agreement with the Portuguese government to pay the greater of 10% of prescribed net earnings or 1% of mine-gate production revenue. Royalty costs for 2016 in the amount of $5.2 million (2015 - $2.1 million) were included in operating costs.

b) Eagle mine has obligations under state and private royalty agreements ranging from 1.0% to 7.0% of net sales. In addition, the operation is subject to a severance tax of 2.75% of net sales owed to the state of Michigan. Combined, for 2016, $13.6 million (2015 - $19.7 million) was recorded in operating costs under these agreements.

c) Royalty payments relating to the Candelaria mine are 4% of mining income. Royalty costs for 2016 of $3.1 million (2015 - $4.1 million) have been reported as a tax expense in Candelaria. Commencing in 2018, a sliding scale royalty of between 5% - 14% of mining income will be imposed.

d) A bank has issued a bank guarantee to the Swedish authorities in the amount of $17.8 million (SEK 162.0 million) relating to the future reclamation costs at the Zinkgruvan mine. The Company has agreed to indemnify the bank for this guarantee.

e) As part of the Aguablanca disposal, the Company issued guarantees to the purchaser for $6.2 million (EUR 5.9 million).

f) Under an agreement with Silver Wheaton, the Company has agreed to deliver all future production of silver contained in concentrate produced from the Zinkgruvan mine. The Silver Wheaton agreement with the Zinkgruvan mine includes a guaranteed minimum delivery of 40 million ounces of silver over an initial 25 year term. If at the end of the initial term the Company has not met its minimum obligation, it must pay Silver Wheaton $1.00 for each ounce of silver not delivered. An aggregate total of approximately 21.6 million ounces has been delivered since the inception of the contract in 2004.

g) The Company has transportation agreements with minimum tonnage requirements. The committed minimum amounts are $18.5 million for 2016 (2015 - $13.3 million).

h) The Company has water and power supply agreements with minimum contract termination amounts. The termination amounts were $139 million and $2.6 million, respectively for 2016 (2015 - $130 million and $3.7 million, respectively).

i) As at December 31, 2016, a contingent liability of $5.1 million was included in other long-term liabilities relating to the Candelaria acquisition (2015 - $8.1 million). Under the purchase agreement with Freeport, contingent consideration of up to $200 million is payable and calculated as 5% of net copper revenue in any annual period until 2019 if the realized average copper price exceeds $4.00 per pound.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

j) In 2015, pursuant to the terms of the signed Settlement and Community Development Agreements with the municipality of Tierra Amarilla, Chile, Candelaria mine has committed to a multi-year community investment program totaling $23.6 million to support flood reconstruction, regional environmental reclamation activities, community infrastructure and social programs. During 2016, payments of $2.7 million were made pursuant to these agreements (2015 - $7.0 million).

k) The Company is a party to certain contracts relating to operating leases and service and supply agreements. Future minimum payments under these agreements as at December 31, 2016 are as follows:

2017	$	10,605
2018		4,868
2019		4,502
2020		3,416
2021		3,342
2022 and thereafter		1,831
Total commitments	**$**	**28,564**

l) The Company has capital commitments of $44.4 million, on various initiatives, of which $35.2 million is expected to be paid during 2017.

25. SEGMENTED INFORMATION

The Company is engaged in mining, exploration and development of mineral properties, primarily in Chile, USA, Portugal, Sweden and the DRC. The segments presented reflect the way in which the Company's management reviews its business performance. Operating segments are reported in a manner consistent with the internal reporting provided to executive management who act as the chief operating decision-maker. Executive management are responsible for allocating resources and assessing performance of the operating segments. Candeleria mine and Ojos mine are included in the Candeleria reporting segment. Aguablanca mine is grouped in the Other segment. Prior year comparatives have been reclassified accordingly.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

For the year ended December 31, 2016

	Candelaria Chile	Eagle USA	Neves-Corvo Portugal	Zinkgruvan Sweden	Tenke Fungurume DRC	Other	Total
Sales	$ 847,684	$ 244,467	$ 281,134	$ 174,336	$ -	$ (2,030)	$ 1,545,591
Operating costs	(445,469)	(124,112)	(210,603)	(82,097)	-	(2,168)	(864,449)
General and administrative expenses	-	-	-	-	-	(26,933)	(26,933)
Operating earnings (loss)[1]	402,215	120,355	70,531	92,239	-	(31,131)	654,209
Depreciation, depletion and amortization	(219,034)	(123,975)	(67,882)	(21,690)	-	(2,286)	(434,867)
General exploration and business development	(17,560)	(24,367)	(1,905)	(862)	-	(11,419)	(56,113)
Income from equity investments in associate	-	-	-	-	-	(1,110)	(1,110)
Finance (costs) income	(2,204)	(830)	527	(606)	-	(77,226)	(80,339)
Impairment and impairment reversals	44,979	50,943	-	-	-	-	95,922
Other income (expense)	4,236	704	4,115	5,723	-	(64,301)	(49,523)
Income tax (expense) recovery	(37,769)	51,610	29,597	(12,038)	-	(35,713)	(4,313)
Net earnings (loss) from continuing operations	174,863	74,440	34,983	62,766	-	(223,186)	123,866
Loss from discontinued operations	-	-	-	-	(754,096)	-	(754,096)
Net earnings (loss)	$ 174,863	$ 74,440	$ 34,983	$ 62,766	$ (754,096)	$ (223,186)	$ (630,230)
Capital expenditures	$ 109,771	$ 8,579	$ 35,146	$ 33,230	$ -	$ 825	$ 187,551
Total non-current assets[2,3]	$ 2,100,488	$ 458,109	$ 725,911	$ 204,296	$ -	$ 89,802	$ 3,578,606

1. Operating earnings (loss) is a non-GAAP measure.
2. Non-current assets include long-term inventory, mineral properties, plant and equipment, investment in associates and goodwill.
3. In 2016, the investment in Tenke Fungurume is classified as held for sale (Note 9).

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

For the year ended December 31, 2015

	Candelaria Chile	**Eagle** USA	**Neves-Corvo** Portugal	**Zinkgruvan** Sweden	**Tenke Fungurume** DRC	**Other**	**Total**
Sales	$ 908,129	$ 284,015	$ 292,107	$ 155,130	$ -	$ 62,566	$ 1,701,947
Operating costs	(456,889)	(155,420)	(220,791)	(80,260)	-	(49,334)	(962,694)
General and administrative expenses	-	-	-	-	-	(27,167)	(27,167)
Operating earnings (loss)[1]	451,240	128,595	71,316	74,870	-	(13,935)	712,086
Depreciation, depletion and amortization	(287,452)	(146,598)	(83,630)	(23,532)	-	(13,809)	(555,021)
General exploration and business development	(26,335)	(10,149)	(7,686)	(1,126)	-	(14,204)	(59,500)
Income from equity investments in associate	-	-	-	-	-	(54)	(54)
Finance (costs) income	(1,985)	(835)	62	(490)	-	(85,992)	(89,240)
Impairment and impairment reversals	(146,275)	(62,928)	(42,624)	-	-	(41,458)	(293,285)
Other income (expenses)	3,190	80	8,748	1,719	-	(8,883)	4,854
Income tax (expense) recovery	590	(22,921)	14,112	(5,949)	-	(12,078)	(26,246)
Net (loss) earnings from continuing operations	(7,027)	(114,756)	(39,702)	45,492	-	(190,413)	(306,406)
Earnings from discontinued operations	-	-	-	-	24,617	-	24,617
Net earnings (loss)	$ (7,027)	$ (114,756)	$ (39,702)	$ 45,492	$ 24,617	$ (190,413)	$ (281,789)
Capital expenditures	$ 167,663	$ 21,798	$ 43,484	$ 27,726	$ -	$ 17,071	$ 277,742
Total non-current assets[2]	$ 2,126,589	$ 522,683	$ 782,115	$ 205,472	$ 1,961,247	$ 106,414	$ 5,704,520

1. Operating earnings (loss) is a non-GAAP measure.
2. Non-current assets include long-term inventory, mineral properties, plant and equipment, investment in associates and goodwill.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

The Company's analysis of segment sales by product is as follows:

		2016		2015
Copper	**$**	**1,023,250**	$	1,127,084
Nickel		**128,049**		205,078
Zinc		**195,644**		150,892
Gold		**94,200**		106,498
Lead		**53,914**		49,258
Silver		**33,580**		37,623
Other		**16,954**		25,514
	$	**1,545,591**	$	1,701,947

The Company's geographical analysis of segment sales based on the destination of product is as follows:

		2016		2015
Europe	**$**	**860,798**	$	816,859
Asia		**445,170**		626,321
South America		**90,307**		85,418
North America		**149,316**		173,349
	$	**1,545,591**	$	1,701,947

26. RELATED PARTY TRANSACTIONS

a) **Transactions with associates** - The Company enters into transactions related to its investment in associates. These transactions are entered into in the normal course of business and on an arm's length basis (Note 8 and 9).

b) **Key management personnel** - The Company has identified its directors and certain senior officers as its key management personnel. The employee benefits for key management personnel are as follows:

		2016		2015
Wages and salaries	**$**	**6,135**	$	6,234
Pension benefits		**135**		120
Share-based compensation		**2,523**		2,250
	$	**8,793**	$	8,604

c) **Other related parties** –The Company paid $0.6 million (2015 - $0.9 million) to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company.

27. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, foreign exchange risk, commodity price risk and interest rate risk.

a) Credit risk

The exposure to credit risk arises through the failure of a customer or another third party to meet its contractual obligations to the Company. The Company believes that its maximum exposure to credit risk as at December 31, 2016 is the carrying value of its trade receivables.

Concentrate produced at the Company's Candelaria, Eagle, Neves-Corvo and Zinkgruvan mines are sold to a number of strategic customers with whom the Company has established long-term relationships. Limited amounts are occasionally sold to commodity traders on an ad hoc basis. Payment terms vary and provisional payments are normally received within one to four weeks of shipment, in accordance with industry practice, with final settlement up to six months following the date of shipment. Sales to commodity traders are made on a cash up-front basis. Credit worthiness of customers are reviewed by the Company on an annual basis or more frequently, if warranted, and those not meeting certain credit criteria are required to make 100% provisional payment up-front or provide acceptable payment instrument such as a letter of credit. The failure of any of the Company's strategic customers could have a material adverse effect on the Company's financial position. For the year ended December 31, 2016, the Company has three customers that individually account for more than 10% of the Company's total sales. These customers represent approximately 21%, 19% and 14% of total sales and relate primarily to Candelaria and Neves-Corvo.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company limits material counterparty credit risk on these assets by dealing with financial institutions with long-term credit ratings with Standard & Poor's of at least A, or the equivalent thereof with Moody's, or those which have been otherwise approved.

b) Liquidity risk

The Company has in place a planning and forecasting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there is sufficient available capital to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. The Company has a revolving credit facility in place to assist with meeting its cash flow needs as required (Note 12).

The maturities of the Company's non-current liabilities are disclosed in Note 12. All current liabilities are settled within one year.

c) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily with respect to €, SEK and CLP.

The Company's risk management objective is to manage cash flow risk related to foreign denominated cash flows. The Company is exposed to currency risk related to changes in rates of exchange between foreign denominated balances and the functional currencies of the Company's principal operating subsidiaries. The Company's revenues are denominated in US dollars, while most of the Company's operating and capital expenditures are denominated in the local currencies. A significant change in the currency exchange rates between the US dollar and foreign currencies could have a material effect on the Company's net earnings and on other comprehensive income.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

During 2015, the Company purchased CLP call options against the USD to mitigate foreign exchange risk related to CLP strengthening. These options expire on December 31, 2018.

The impact of a US dollar change against the SEK by 10% at December 31, 2016 would have a $3.8 million (2015 - $4.9 million) impact on post-tax earnings. The impact of a US dollar change against the € by 10% at December 31, 2016 would have a $9.3 million (2015 - $5.3 million) impact on post-tax earnings. The impact of a US dollar change against CLP by 10% would have a $5.8 million (2015 - $6.0 million) impact on post-tax earnings, with all other variables held constant.

The impact of a US dollar change against the € and SEK by 10% at December 31, 2016 would have a $91.4 million (2015 - $92.4 million) impact on OCI.

d) Commodity price risk

The Company is subject to price risk associated with fluctuations in the market prices for metals.

The Company may, at its election, use forward or derivative contracts to manage its exposure to changes in commodity prices, the use of which is subject to appropriate approval procedures. The Company is also subject to price risk on the final settlement of its provisionally priced trade receivables.

The sensitivity of the Company's financial instruments recorded as at December 31, 2016 excluding the effect of the changes in metal prices on smelter treatment charges is as follows:

	Tonnes Payable	Provisional price on December 31, 2016 ($/tonne)	Change	Effect on pre-tax earnings ($ millions)
Copper	58,196	5,532	+/- 10%	+/-$32.2
Nickel	4,372	9,996	+/- 10%	+/-$4.4
Zinc	17,624	2,566	+/- 10%	+/-$4.5

e) Interest rate risk

The Company's exposure to interest rate risk arises from both the interest rate impact on its cash and cash equivalents as well as on its debt facilities. As at December 31, 2016, the Company's long-term debt is comprised of mainly fixed rate debt. As such, changes in interest rate will have no significant impact on interest expense.

28. MANAGEMENT OF CAPITAL RISK

The Company's objectives when managing its capital include ensuring a sufficient combination of positive operating cash flows and debt and equity financing in order to meet its ongoing capital development and exploration programs in a way that maximizes the shareholder return given the assumed risks of its operations while, at the same time, safeguarding the Company's ability to continue as a going concern. The Company considers the following items as capital: excess cash balances, shareholders' equity and long-term debt.

(Tabular amounts in thousands of US dollars, except for shares and per share amounts)

Through the ongoing management of its capital, the Company will modify the structure of its capital based on changing economic conditions in the jurisdictions in which it operates. In doing so, the Company may issue new shares or debt, buy back issued shares, or pay off any outstanding debt. The Company continuously monitors its capital structure to determine the appropriateness of paying dividends. During 2016, the Company reported plans to issue its first dividend in 2017.

Planning, including life-of-mine plans, annual budgeting and controls over major investment decisions are the primary tools used to manage the Company's capital. Updates are made as necessary to both capital expenditure and operational budgets in order to adapt to changes in risk factors of proposed expenditure programs and market conditions within the mining industry.

The Company manages its capital by review of the following measures:

		December 31, 2016		December 31, 2015
Current portion of long-term debt and finance leases	$	**(1,082)**	**$**	(1,102)
Long-term debt and finance leases		**(982,295)**		(978,014)
		(983,377)		(979,116)
Deferred financing fees (netted in above)		**(16,038)**		(18,743)
		(999,415)		(997,859)
Cash and cash equivalents		**715,311**		556,511
Net debt	**$**	**(284,104)**	**$**	(441,348)

29. SUPPLEMENTARY CASH FLOW INFORMATION

		2016		2015
Changes in non-cash working capital items consist of:				
Trade receivables, inventories and other current assets	**$**	**(162,887)**	$	204,788
Trade payables and other current liabilities		**42,221**		(9,806)
	$	**(120,666)**	$	194,982
Operating activities included the following cash payments:				
Income taxes paid	**$**	**1,946**	$	73,808

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