

# lundin mining

## Management's Discussion and Analysis For the year ended December 31, 2013

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This management's discussion and analysis ("MD&A") has been prepared as of February 20, 2014 and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2013. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company's presentation currency is United States ("US") dollars. Reference herein of \$ is to United States dollars, C\$ is to Canadian dollars, 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 and development projects in Portugal, Sweden, Spain, and the US, producing copper, zinc, lead and nickel. In addition, Lundin Mining holds a 24% equity stake in the world-class Tenke Fungurume 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.

### **Cautionary Statement on Forward-Looking Information**

*Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the Ontario Securities Act. This report includes, but is not limited to, forward looking statements with respect to the Company's estimated full year 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 the estimated cash costs, timing and amount of production from the Eagle Project, cost estimates for the Eagle Project, foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; 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, commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; litigation risks; and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the Company's Annual Information Form and in each Management's Discussion and Analysis. Forward-looking information may also be based on other various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of copper, zinc, lead and nickel; 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 the forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.*

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## Highlights

### Operational and Financial Performance

**Wholly-owned operations:** Copper and nickel production exceeded the high end of our production guidance, while zinc and lead met our overall targets. Higher throughput at Neves-Corvo resulted in better than expected copper production, while nickel and copper production at Aguablanca was assisted by better than expected throughput, grades and recoveries.

- Neves-Corvo produced 56,544 tonnes of copper and an annual record of 53,382 tonnes of zinc in 2013. Operational improvements generated higher throughput levels, but slightly lower recoveries resulted in lower copper production compared with the prior year. The 2012 zinc plant expansion and initial mining of the higher grade Lombador deposit generated record zinc metal production in 2013. Copper cash costs<sup>1</sup> of \$1.90/lb for the year were in line with latest guidance (\$1.90/lb), but higher than the prior year (\$1.79/lb).
- At Zinkgruvan, zinc and lead production for the year of 71,366 and 32,874 tonnes, respectively, were negatively impacted by paste backfill and local ground control issues resulting in lower production than the prior year and slightly lower volumes than expected. Cash costs for zinc of \$0.32/lb were slightly higher than latest guidance (\$0.30/lb) and the prior year (\$0.13lb), largely as a result of lower volumes.
- Aguablanca had strong production performance throughout the year, generating 7,574 tonnes of nickel and 6,242 tonnes of copper, well above guidance. Cash costs of \$3.78/lb of nickel for the year benefited from higher production levels and was significantly below guidance of \$4.50/lb.

**Tenke:** Tenke continued to perform well, setting an annual production record, despite experiencing power interruptions in the second half of the year.

- Lundin's attributable share of annual production included 50,346 tonnes of copper cathode and 3,060 tonnes of cobalt in hydroxide, exceeding copper production guidance of 50,000 tonnes. The Company's attributable share of Tenke's sales included 49,404 tonnes of copper at an average realized price of \$3.21/lb and 2,784 tonnes of cobalt at an average realized price of \$8.02/lb.
- Attributable operating cash flow from Tenke for 2013 was \$168.4 million. Cash distributions of \$141.8 million were received by Lundin Mining in the year, consistent with guidance provided at the beginning of 2013.
- Operating cash costs for the year were \$1.21/lb of copper sold, slightly better than latest guidance of \$1.24/lb and prior year's cost of \$1.23/lb.

<sup>1</sup> Cash costs per pound is a non-GAAP measure – see page 41 of this MD&A for discussion of non-GAAP measures.

## Production Summary:

Total 2013 production, compared to the latest guidance and prior years, was as follows:

Years ended December 31 (contained tonnes)		2013 Actual	2013 Guidance <sup>a</sup>	2012 Actual	2011 Actual	2010 Actual
Copper	Neves-Corvo	56,544	50,000 - 55,000	58,559	74,109	74,011
	Zinkgruvan	3,460	3,500 - 4,000	3,059	1,768	540
	Aguablanca	6,242	5,500 - 6,000	2,260	nil	5,484
	Wholly-owned	66,246	59,000 - 65,000	63,878	75,877	80,035
	Tenke(@24%) <sup>b</sup>	50,346	50,000	38,105	31,523	29,767
	Total attributable	116,592	109,000 - 115,000	101,983	107,400	109,802
Zinc	Neves-Corvo	53,382	50,000 - 55,000	30,006	4,227	6,422
	Zinkgruvan	71,366	73,000 - 78,000	83,209	75,147	72,206
	Galmoy (in ore)	nil	nil	8,989	32,071	11,501
	Total	124,748	123,000 - 133,000	122,204	111,445	90,129
Lead	Neves-Corvo	1,496	nil	87	nil	nil
	Zinkgruvan	32,874	33,000 - 36,000	37,246	32,339	36,636
	Galmoy (in ore)	nil	nil	1,131	8,791	2,932
	Total	34,370	33,000 - 36,000	38,464	41,130	39,568
Nickel	Aguablanca	7,574	6,500 - 7,000	2,398	nil	6,296

a - Revised guidance as disclosed in the Company's Management's Discussion and Analysis for the three and nine months ended September 30, 2013.

b - Lundin Mining's attributable share of Tenke 's production was reduced from 24.75% to 24.0% effective March 26, 2012.

- Operating earnings<sup>1</sup> for the year ended December 31, 2013 were \$243.1 million, a decrease of \$65.6 million from the \$308.7 million reported in 2012. The decrease was primarily attributable to lower realized metal prices and prior period price adjustments (\$58.8 million), lower sales volumes (\$18.8 million), unfavourable exchange rates (\$12.0 million), and a change in sales mix (\$9.5 million), partially offset by higher operating earnings from a full year of production at Aguablanca (\$38.4 million).
- For the year ended December 31, 2013, sales of \$727.8 million increased \$6.7 million from the prior year (\$721.1 million) which was mainly as a result of the restart of operations at Aguablanca (\$91.9 million), offset by lower realized metal prices and prior period price adjustments, lower overall sales volume, and a change in sales mix.
- Average London Metal Exchange ("LME") metal prices for copper, zinc, and nickel for the year ended December 31, 2013 were lower (2% - 14%) than that of the prior year, while lead prices improved slightly (4%) in 2013 (see page 25 of this MD&A for details).
- Operating costs (excluding depreciation) of \$461.2 million in the current year were \$76.2 million higher than the prior year of \$385.0 million largely as a result of the restart of operations at Aguablanca (\$53.8 million), higher net per unit production costs (\$10.4 million) and unfavourable foreign exchange rates (\$12.0 million).

<sup>1</sup> Operating earnings is a non-GAAP measure defined as sales less operating costs (excluding depreciation) and general and administrative costs. See page 41 of this MD&A for discussion of non-GAAP measures.

- Net earnings of \$136.7 million (\$0.23 per share) in the current year were \$13.5 million higher than the \$123.2 million (\$0.21 per share) reported in 2012.

Excluding the after-tax impairment loss of \$62.1 million recorded in 2012 related to Aguablanca, net earnings in 2013 were \$48.6 million lower than 2012. Earnings were impacted by:

- lower operating earnings primarily due to lower realized metal prices and sales volumes (\$65.6 million); and
  - higher depreciation, depletion and amortization expense (\$25.8 million) as a result of higher production at Neves-Corvo and the restart of production at Aguablanca; offset by
  - investment tax credits of \$14.3 million received at Neves-Corvo;
  - \$15.1 million in insurance proceeds for business interruption at the Aguablanca mine received in the current year (2012: \$7.9 million); and
  - lower exploration and business development expenditures (\$22.4 million).
- Cash flow from operations for the year was \$153.7 million compared to \$194.0 million for 2012. The comparative decrease in the cash flow is mostly attributable to lower operating earnings.

### Corporate Highlights

- On March 29, 2013, the Company announced completion of the acquisition of 24% of the Kokkola cobalt refinery located in Finland and the related sales and marketing business ("Freeport Cobalt"), which now provides direct end-market access for the cobalt hydroxide production from Tenke.

The Company holds an effective 24% ownership interest in Freeport Cobalt, with Freeport McMoRan Copper & Gold Inc. ("Freeport", or "FCX") acting as operator holding a 56% ownership interest, and La Générale des Carrières et des Mines ("Gécamines"), the Congolese state mining company, holding a 20% interest in Freeport Cobalt.

The total consideration paid by the Freeport/Lundin partnership was \$348 million, excluding cash acquired. Under the terms of the agreement, there is the potential for additional consideration of up to \$110 million over a period of three years from acquisition date, contingent upon the achievement of revenue-based performance targets. Lundin Mining's share of the investment, including acquired cash, was \$116.3 million based on a 30%/70% split with Freeport, which amounts will be repaid prior to any shareholder distributions.

- On July 17, 2013, the Company completed the acquisition of the high grade Eagle nickel/copper underground mine and associated Humboldt mill ("Eagle Project" or "Eagle") from Rio Tinto Nickel Company, a subsidiary of Rio Tinto plc ("Rio Tinto"). The Eagle Project is located in the Upper Peninsula of Michigan, USA. Total consideration paid was \$314.9 million, consisting of a \$250.0 million purchase amount plus project expenditures from January 1, 2013 until transaction closing of \$64.9 million. The Company drew down \$200 million on its revolving credit facility and utilized cash on hand to fund this acquisition.

- On September 10, 2013, the Company reported its Mineral Reserve and Resource estimates as at June 30, 2013, and filed an independent National Instrument 43-101 Technical Report for its Eagle nickel/copper project on SEDAR ([www.sedar.com](http://www.sedar.com)) on July 26, 2013. The Neves-Corvo and Zinkgruvan mines had increases in total Mineral Reserves from prior year's estimates.
- On October 7, 2013, the Company completed amendments to its credit agreement to provide for a new term loan of \$250 million and an extension on the maturity of the existing \$350 million revolving credit facility to October 2017. This arrangement is expected to provide a very flexible, cost effective funding package to support completion of construction of the Eagle Project. See press releases entitled "Lundin Mining Secures Commitments for Eagle Project Funding", dated September 16, 2013 and "Lundin Mining Completes \$600 Million Debt Facilities for Eagle Project Funding", dated October 7, 2013.

## **Financial Position and Financing**

- Net debt<sup>1</sup> position at December 31, 2013 was \$112.1 million compared to a net cash position of \$265.1 million at December 31, 2012.
- The \$377.2 million decrease in net cash during the year was primarily attributable to the acquisitions of Eagle (\$318.0 million, including acquisition costs of \$3.1 million) and Freeport Cobalt (\$116.3 million) and investments in mineral properties, plant and equipment of \$243.7 million. These uses of cash were offset by cash flow from operations of \$153.7 million and distributions from Tenke of \$141.8 million.
- The Company has corporate term and revolving debt facilities available for borrowing up to \$600 million. At December 31, 2013 the Company had \$240.3 million committed against these facilities, leaving debt capacity of \$359.7 million available for future drawdowns.

<sup>1</sup> Net cash/debt is a non-GAAP measure defined as available unrestricted cash less long-term debt and finance leases.

## Outlook

### 2014 Production and Cost Guidance

- Production guidance for the three-year period of 2014 through 2016 for wholly-owned operations remains unchanged from the guidance provided on December 4, 2013 (see news release entitled "Lundin Mining Provides Operating Outlook for 2014-2016").
- Guidance on Tenke's production and cash cost has been updated to reflect the most recent guidance provided by Freeport.
- Production and cash cost guidance for 2014 are as follows:

(contained tonnes)		Tonnes	Cash Costs <sup>a</sup>
<b>Copper</b>	<i>Neves-Corvo</i>	50,000 - 55,000	\$1.90/lb
	<i>Zinkgruvan</i>	3,000 - 4,000	
	<i>Aguablanca</i>	5,000 - 6,000	
	<i>Eagle</i>	2,000 - 3,000	
	<i>Wholly-owned Tenke(@24%)<sup>b</sup></i>	60,000 - 68,000 48,400	\$1.28/lb
	<i>Total attributable</i>	108,400 - 116,400	
<b>Zinc</b>	<i>Neves-Corvo</i>	60,000 - 65,000	
	<i>Zinkgruvan</i>	75,000 - 80,000	\$0.35/lb
	<i>Total</i>	135,000 - 145,000	
<b>Lead</b>	<i>Neves-Corvo</i>	2,000 - 2,500	
	<i>Zinkgruvan</i>	27,000 - 30,000	
	<i>Total</i>	29,000 - 32,500	
<b>Nickel</b>	<i>Aguablanca</i>	6,000 - 7,000	\$4.50/lb
	<i>Eagle</i>	2,000 - 3,000	
	<i>Total</i>	8,000 - 10,000	

a. Cash costs remain dependent upon exchange rates (forecast at €/USD:1.30, USD/SEK:6.50) and metal prices (forecast at Cu: \$3.15/lb, Zn: \$0.87/lb, Pb: \$1.00/lb, Ni: \$6.50/lb, Co: \$12.00/lb).

b. Freeport has provided 2014 sales and cash costs guidance. Tenke's 2014 production is assumed to approximate Freeport's sales guidance provided.

- **Neves-Corvo:** Copper production is expected to be maintained above 50,000 tonnes per annum with an increasing zinc by-product credit. The production forecast assumes that the zinc plant will be used exclusively to process zinc ore, though the plant has already proven to have the flexibility to process either zinc or copper ores.
- **Zinkgruvan:** Zinc production is expected to remain relatively steady, as plans to increase throughput by investment in a new front end of the concentrator have been deferred indefinitely.
- **Aguablanca:** The Company has approved development of the underground project which is expected to result in production continuing until 2018. Total capital expenditures for the project are expected to be approximately \$30 million<sup>1</sup> spread over the period 2014 - 2017. Economics of the underground project are expected to be very attractive with a rapid payback period, even at current depressed nickel prices.

<sup>1</sup> Estimated capital expenditures for the project, largely consisting of underground development, were developed through benchmarking against our own underground mines and other mines and advice and support provided by underground contractors and other third party vendors.

- **Eagle:** The project remains on schedule and budget. Shipment of the first saleable concentrates of copper and nickel are expected to occur in the fourth quarter of 2014.
- **Tenke:** Freeport expects sales of copper in 2014 to be largely consistent with that of 2013, with copper cathode sales of approximately 202,000 tonnes, and an increase in cobalt sales to 13,600 tonnes.

## 2014 Capital Expenditure Guidance

- Capital expenditures for 2014 are expected to be \$460 million including Eagle and excluding Tenke (compared to \$244 million in 2013, on the same basis). Major capital investments for 2014 are as follows:
- **Sustaining capital in European operations** - \$100 million (2013: \$100 million), consisting of approximately \$55 million for Neves-Corvo, \$40 million for Zinkgruvan and \$5 million across other sites.
- **New investment capital in European operations** - \$60 million (2013: \$46 million), consisting of:
  - Lombador Phase I - \$38 million: For underground vertical and horizontal development and associated mine infrastructure related to the development of the upper Lombador ore bodies for future high grade zinc and copper production.
  - Lombador Phase II and underground drilling - \$6 million: For horizontal development and ongoing exploration drilling in the lower parts of the Lombador ore bodies.
  - Neves-Corvo zinc plant expansion and shaft upgrade project studies - \$5 million: For the installation of a zinc tailings recovery circuit and further studies on increasing the capacity of the main Santa Barbara hoisting shaft.
  - Aguablanca underground mining project - \$10 million: For ramp and initial ore body development and the installation of associated mine infrastructure.
- **New investment in Eagle Project** - \$300 million (2013: \$98 million) to complete construction of the Humboldt mill and Eagle mine.
- **New investment in Tenke** - \$50 million (2013: \$62 million), estimated by the Company as its share of the remaining Phase II expansion costs, other expansion related initiatives and sustaining capital funding for 2014. All of the capital expenditures are expected to be self-funded by cash flow from Tenke operations.

If current metal prices and operating conditions prevail and construction of future phases of expansion are not commenced in 2014, the Company believes it is reasonable to expect Lundin's attributable cash distributions from Tenke to be in the range of \$130 to \$150 million in 2014.

## Exploration Investment

- Total exploration expenses for 2014 (excluding Tenke) are estimated to be \$40 million (2013: \$34 million). These expenditures will be principally directed towards underground and surface mine exploration at Neves-Corvo, Zinkgruvan and Eagle, and on select greenfields exploration programs and new business development activities in South America and Eastern Europe.



## Selected Quarterly and Annual Financial Information

(\$ millions, except per share amounts)	Years ended December 31		
	2013	2012	2011 <sup>3</sup>
<b>Sales</b>	<b>727.8</b>	721.1	783.8
Operating costs	(461.2)	(385.0)	(382.0)
General and administrative expenses	(23.5)	(27.4)	(19.9)
<b>Operating earnings</b>	<b>243.1</b>	308.7	381.9
Depreciation, depletion and amortization	(148.1)	(122.4)	(153.8)
General exploration and business development	(43.7)	(66.1)	(50.7)
Income from equity investment in associates	94.0	101.5	94.7
Finance income and costs, net	(12.8)	(7.5)	(13.1)
Other income and expenses, net	(1.5)	(0.3)	11.5
Asset impairment	-	(67.3)	(35.7)
<b>Earnings before income taxes</b>	<b>131.0</b>	146.6	234.8
Income tax recovery / (expense)	5.7	(23.4)	(51.0)
<b>Net earnings</b>	<b>136.7</b>	123.2	183.8
<b>Shareholders' equity<sup>1</sup></b>	<b>3,669.6</b>	3,473.1	3,297.5
<b>Cash flow from operations</b>	<b>153.7</b>	194.0	308.7
<b>Capital expenditures (including advances to Tenke)</b>	<b>243.7</b>	174.4	253.1
<b>Total assets</b>	<b>4,432.0</b>	3,990.5	3,864.3
<b>Long-term debt &amp; finance leases</b>	<b>225.4</b>	7.0	7.6
<b>Net (debt) / cash</b>	<b>(112.1)</b>	265.1	236.1
<b>Key Financial Data:</b>			
Basic and diluted earnings per share	0.23	0.21	0.32
Dividends	-	-	-
<b>Shares outstanding:</b>			
Basic weighted average	584,276,739	582,942,459	582,074,865
Diluted weighted average	584,938,925	584,013,588	582,964,608
End of period	584,643,063	584,005,006	582,475,287

(\$ millions, except per share data)	Q4-13	Q3-13	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12
<b>Sales</b>	186.9	176.4	176.3	188.2	176.4	159.6	172.3	212.8
<b>Operating earnings</b>	66.9	58.9	49.2	68.1	51.8	71.1	80.4	105.4
<b>Net earnings (loss)</b>	42.1	27.9	16.6	50.1	(17.1)	37.9	44.1	58.3
<b>Earnings (loss) per share, basic<sup>2</sup></b>	0.07	0.05	0.03	0.09	(0.03)	0.07	0.08	0.10
<b>Earnings (loss) per share, diluted<sup>2</sup></b>	0.07	0.05	0.03	0.09	(0.03)	0.06	0.08	0.10
<b>Cash flow from operations</b>	53.9	27.4	26.6	45.8	49.4	(25.7)	119.0	51.3
<b>Capital expenditures (incl. Tenke)</b>	116.5	53.6	37.0	36.6	29.0	52.3	47.6	45.5
<b>Net (debt) / cash</b>	(112.1)	(71.2)	221.1	199.4	265.1	245.0	312.7	242.3

1. Adoption of IAS 19, *Employee benefits*, effective January 1, 2013, resulted in cessation of use of the corridor method for provision of pension obligations. Accordingly, the Company revised all applicable comparative figures.
2. Earnings per share is determined for each quarter. As a result of using different weighted average number of shares outstanding, the sum of the quarterly amounts may differ from the year-to-date amount.
3. Certain transaction costs related to corporate development activity in prior years have been reclassified from general and administrative expenses to general exploration and business development.

## Sales Overview

### Sales Volumes by Payable Metal

	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
	2013	2013	2013	2013	2013	2012	2012	2012	2012	2012
<b>Copper (tonnes)</b>										
Neves-Corvo	53,394	14,197	11,469	14,102	13,626	56,497	13,024	11,200	15,869	16,404
Zinkgruvan	3,269	890	892	693	794	2,854	640	865	880	469
Aguablanca	2,795	647	615	573	960	556	298	258	-	-
	<b>59,458</b>	<b>15,734</b>	<b>12,976</b>	<b>15,368</b>	<b>15,380</b>	<b>59,907</b>	<b>13,962</b>	<b>12,323</b>	<b>16,749</b>	<b>16,873</b>
<b>Zinc (tonnes)</b>										
Neves-Corvo	43,199	11,254	11,971	12,981	6,993	25,591	9,488	4,617	5,542	5,944
Zinkgruvan	59,486	15,216	14,763	16,960	12,547	71,809	16,588	17,623	19,580	18,018
Galmoy <sup>1</sup>	9,151	2,029	2,777	3,513	832	11,474	1,283	3,768	3,827	2,596
	<b>111,836</b>	<b>28,499</b>	<b>29,511</b>	<b>33,454</b>	<b>20,372</b>	<b>108,874</b>	<b>27,359</b>	<b>26,008</b>	<b>28,949</b>	<b>26,558</b>
<b>Lead (tonnes)</b>										
Neves-Corvo	980	539	304	99	38	31	-	31	-	-
Zinkgruvan	29,785	6,438	10,397	8,113	4,837	36,128	10,080	7,637	8,176	10,235
Galmoy <sup>1</sup>	3,394	983	1,002	1,285	124	3,023	806	1,099	587	531
	<b>34,159</b>	<b>7,960</b>	<b>11,703</b>	<b>9,497</b>	<b>4,999</b>	<b>39,182</b>	<b>10,886</b>	<b>8,767</b>	<b>8,763</b>	<b>10,766</b>
<b>Nickel (tonnes)</b>										
Aguablanca	5,472	1,346	1,180	1,157	1,789	915	508	407	-	-

1. 50% of metal is attributable to Galmoy on sale of ore to third party processing facility (see MD&A page 20).

### Sales Analysis

(\$ thousands)	Year ended December 31				
	2013		2012		Change
	\$	%	\$	%	\$
<b>by Mine</b>					
Neves-Corvo	420,308	58	466,174	65	(45,866)
Zinkgruvan	173,836	24	209,621	29	(35,785)
Aguablanca	114,027	16	22,167	3	91,860
Galmoy	19,611	2	23,144	3	(3,533)
	<b>727,782</b>		<b>721,106</b>		<b>6,676</b>
<b>by Metal</b>					
Copper	398,246	55	452,742	63	(54,496)
Zinc	158,009	22	164,144	23	(6,135)
Lead	62,464	9	71,029	10	(8,565)
Nickel	77,423	11	15,548	2	61,875
Other	31,640	3	17,643	2	13,997
	<b>727,782</b>		<b>721,106</b>		<b>6,676</b>

Sales for the current year were \$6.7 million higher compared to the year ended December 31, 2012, which was mainly as a result of the restart of operations at Aguablanca (\$91.9 million), offset by lower realized metal prices and prior period price adjustments (\$58.8 million), lower overall sales volume (\$15.1 million), and a change in sales mix (\$11.3 million).

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 (finalization adjustment) is settled. The finalization adjustment recorded for these sales depends on the actual price when the sale settles. Settlement dates are typically one to four months after shipment.

### Year to Date Reconciliation of Realized Prices

<b>2013</b> (\$ thousands, except per pound amounts)	<b>Twelve months ended December 31, 2013</b>				
	<b>Copper</b>	<b>Zinc</b>	<b>Lead</b>	<b>Nickel</b>	<b>Total</b>
Current period sales <sup>1</sup>	440,181	214,706	72,439	76,945	804,271
Prior period price adjustments	(8,689)	(2,364)	(276)	529	(10,800)
Sales before other metals and TC/RC	431,492	212,342	72,163	77,474	793,471
Other metal sales					31,640
Less: TC/RC					(97,329)
<b>Total Sales</b>					<b>727,782</b>
<b>Payable Metal (tonnes)</b>	<b>59,458</b>	<b>111,836</b>	<b>34,159</b>	<b>5,472</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.36	\$ 0.87	\$ 0.96	\$ 6.38	
Prior period price adjustments (\$/lb)	(0.07)	(0.01)	-	0.04	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.29</b>	<b>\$ 0.86</b>	<b>\$ 0.96</b>	<b>\$ 6.42</b>	

<b>2012</b> (\$ thousands, except per pound amounts)	<b>Twelve months ended December 31, 2012</b>				
	<b>Copper</b>	<b>Zinc</b>	<b>Lead</b>	<b>Nickel</b>	<b>Total</b>
Current period sales <sup>1</sup>	477,302	210,941	81,817	15,562	785,622
Prior period price adjustments	4,535	444	475	-	5,454
Sales before other metals and TC/RC	481,837	211,385	82,292	15,562	791,076
Other metal sales					17,643
Less: TC/RC					(87,613)
<b>Total Sales</b>					<b>721,106</b>
<b>Payable Metal (tonnes)</b>	<b>59,907</b>	<b>108,874</b>	<b>39,182</b>	<b>915</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.61	\$ 0.88	\$ 0.95	\$ 7.71	
Prior period price adjustments (\$/lb)	0.04	-	-	-	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.65</b>	<b>\$ 0.88</b>	<b>\$ 0.95</b>	<b>\$ 7.71</b>	

1. Includes provisional price adjustments on current period sales.

### Provisionally valued sales for the year ended December 31, 2013

<b>Metal</b>	<b>Tonnes Payable</b>	<b>Valued at \$ per lb</b>	<b>Valued at \$ per tonne</b>
Copper	10,511	3.34	7,363
Zinc	11,009	0.94	2,066
Lead	4,194	1.00	2,213
Nickel	1,726	6.30	13,880

## Annual Financial Results

### Operating Costs

Operating costs of \$461.2 million for the year ended December 31, 2013 were \$76.2 million higher than the year ended December 31, 2012, largely as a result of the restart of operations at Aguablanca (\$53.8 million), higher net per unit production costs (\$10.4 million) and unfavourable foreign exchange rates (\$12.0 million).

### General and Administrative Expenses

General and administrative expenses of \$23.5 million for the year ended December 31, 2013 were \$3.9 million lower than the year ended December 31, 2012, primarily as a result of lower expensed salaries and timing of social investment program donations.

### Depreciation, Depletion and Amortization

Increase in depreciation, depletion and amortization expense was attributable to an increase in ore mined, particularly zinc increases at Neves-Corvo and a full year of production at Aguablanca.

Depreciation by operation (\$ thousands)	Year ended December 31		
	2013	2012	Change
Neves-Corvo	98,047	83,245	14,802
Zinkgruvan	26,498	26,335	163
Aguablanca	21,890	12,285	9,605
Eagle	1,324	-	1,324
Other	390	514	(124)
	148,149	122,379	25,770

### General Exploration and Business Development

General exploration and business development costs decreased from \$66.1 million in 2012 to \$43.7 million for the year ended December 31, 2013. The decrease is primarily a result of reduced comparative exploration activities (\$16.8 million) from the reduction in surface exploration at Neves-Corvo and lower corporate development expenditures (\$6.5 million) in the current year.

### Income from Equity Investment in Associates

Income from equity investments includes earnings from a 24% interest in each of Tenke Fungurume and Freeport Cobalt. For Tenke, equity earnings of \$97.8 million were recognized for the year ended December 31, 2013 (2012 - \$101.5 million). Refer to the section titled "Tenke Fungurume" contained in this MD&A for further discussion.

### Finance Income and Costs

For the year ended December 31, 2013, net finance costs were \$12.8 million, compared to \$7.5 million in the prior year. The increase is attributable to higher revaluation losses on marketable securities recorded in finance income and costs in 2013. Revaluation of marketable securities designated as fair value through profit or loss, which was previously recorded in other comprehensive income, has been recorded in finance income and costs for the current year as a result of disposals.

### Other Income and Expense

Net other expenses for the year ended December 31, 2013 were \$1.5 million compared to \$0.3 million for the year ended December 31, 2012. The increase in net other expenses relates to foreign exchange losses which

increased year over year by \$8.7 million. This was offset by insurance proceeds of \$15.1 million received in 2013, compared to \$7.9 million received in 2012, relating to the 2010 slope failure at the Aguablanca mine.

A foreign exchange loss of \$13.8 million in the current year and \$5.1 million for the year ended December 31, 2012, relates to US\$-denominated cash and trade receivables that were held in the European group entities. Period end exchange rates at December 31, 2013 were \$1.33:€1.00 (December 31, 2012 – \$1.32:€1.00) and \$1.00:SEK6.51 (December 31, 2012 - \$1.00:SEK6.52).

### Current and Deferred Taxes

Current tax expense (\$ thousands)	Year ended December 31		
	2013	2012	Change
Neves-Corvo	<b>10,282</b>	38,240	(27,958)
Zinkgruvan	<b>6,125</b>	17,226	(11,101)
Aguablanca	<b>(28)</b>	-	(28)
Other	<b>(3,908)</b>	(3,483)	(425)
	<b>12,471</b>	51,983	(39,512)

Current income tax expense for 2013 was \$12.5 million, \$39.5 million lower than the \$52.0 million recorded in 2012. The decrease reflects lower taxable earnings at Neves-Corvo and Zinkgruvan, a decrease in Swedish tax rates from 26.3% to 22.0%, and investment tax credits of \$14.3 million received by Neves-Corvo.

Deferred tax recovery (\$ thousands)	Year ended December 31		
	2013	2012	Change
Neves-Corvo	<b>(15,898)</b>	(17,796)	1,898
Zinkgruvan	<b>1,785</b>	(410)	2,195
Aguablanca	<b>(1,986)</b>	(11,145)	9,159
Other	<b>(2,157)</b>	818	(2,975)
	<b>(18,256)</b>	(28,533)	10,277

Deferred income tax recovery for 2013 of \$18.3 million was \$10.3 million lower than prior year largely due to utilization of Aguablanca's tax losses to offset taxable income.

## Fourth Quarter Financial Results

### Sales

Sales of \$186.9 million for the three months ended December 31, 2013 were \$10.5 million higher than the comparable period in 2012 due to higher net sales volumes at Aguablanca (\$19.1 million) and Neves-Corvo (\$12.1 million), which were partially offset by lower realized metal prices (\$17.3 million).

### Fourth Quarter Reconciliation of Realized Prices

<b>2013</b>	<b>Three months ended December 31, 2013</b>				
(\$ thousands, except per pound amounts)	<b>Copper</b>	<b>Zinc</b>	<b>Lead</b>	<b>Nickel</b>	<b>Total</b>
Current period sales <sup>1</sup>	115,811	56,998	17,011	18,688	208,508
Prior period provisional adjustments	(1,483)	(651)	87	(570)	(2,617)
Sales before other metals and TC/RC	114,328	56,347	17,098	18,118	205,891
Other metal sales					7,143
Less: TC/RC					(26,113)
<b>Total Sales</b>					<b>186,921</b>
<b>Payable Metal (tonnes)</b>	<b>15,734</b>	<b>28,499</b>	<b>7,960</b>	<b>1,346</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.34	\$ 0.91	\$ 0.97	6.30	
Prior period provisional adjustments (\$/lb)	(0.04)	(0.01)	-	(0.19)	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.30</b>	<b>\$ 0.90</b>	<b>\$ 0.97</b>	<b>6.11</b>	

<b>2012</b>	<b>Three months ended December 31, 2012</b>				
(\$ thousands, except per pound amounts)	<b>Copper</b>	<b>Zinc</b>	<b>Lead</b>	<b>Nickel</b>	<b>Total</b>
Current period sales <sup>1</sup>	110,858	54,279	24,980	8,644	198,761
Prior period provisional adjustments	(3,550)	(1,218)	(527)	(532)	(5,827)
Sales before other metals and TC/RC	107,308	53,061	24,453	8,112	192,934
Other metal sales					5,749
Less: TC/RC					(22,224)
<b>Total Sales</b>					<b>176,459</b>
<b>Payable Metal (tonnes)</b>	<b>13,962</b>	<b>27,359</b>	<b>10,886</b>	<b>508</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.60	\$ 0.90	\$ 1.04	7.72	
Prior period provisional adjustments (\$/lb)	(0.11)	(0.02)	(0.02)	(0.48)	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.49</b>	<b>\$ 0.88</b>	<b>\$ 1.02</b>	<b>7.24</b>	

1. Includes provisional price adjustments on current period sales.

## Operating Earnings

For the three months ended December 31, 2013, operating earnings of \$66.9 million were \$15.1 million higher than the comparable period in 2012. The increase was largely attributable to lower operating costs at Neves-Corvo (\$20.9 million) and Aguablanca (\$12.6 million), partially offset by lower metal prices (\$17.3 million).

## Net (Loss) Earnings

Net earnings of \$42.1 million (\$0.07 per share) in the current quarter were \$59.2 million higher than the \$17.1 million net loss (\$-0.03 per share) reported in 2012. In 2012, the Company recorded an after-tax impairment loss of \$62.1 million related to Aguablanca.

## Cash Flow from Operations

For the three months ended December 31, 2013, cash flow from operations was \$53.9 million, compared to \$49.4 million for the three months ended December 31, 2012. The increase of \$4.5 million in cash flow is mostly attributable to an increase in operating earnings (\$15.1 million), partially offset by changes in non-cash working capital (\$9.0 million).

## Cash Cost Overview

	Cash cost/lb (US dollars)		Cash cost/lb (local currency)	
	Three months ended December 31		Three months ended December 31	
	2013	2012	2013	2012
<b>Neves-Corvo (Local in €)</b>				
Gross cost	2.30	2.69	1.68	2.07
By-product <sup>1</sup>	(0.55)	(0.52)	(0.40)	(0.40)
<b>Net Cost - cost/lb Cu</b>	<b>1.75</b>	<b>2.17</b>	<b>1.28</b>	<b>1.67</b>
<b>Zinkgruvan (Local in SEK)</b>				
Gross cost	0.99	0.87	6.46	5.79
By-product <sup>1</sup>	(0.62)	(0.75)	(4.02)	(4.99)
<b>Net Cost - cost/lb Zn</b>	<b>0.37</b>	<b>0.12</b>	<b>2.44</b>	<b>0.80</b>
<b>Aguablanca (Local in €)<sup>2</sup></b>				
Gross cost	5.66	9.29	4.16	7.24
By-product <sup>1</sup>	(2.71)	(3.10)	(2.00)	(2.39)
<b>Net Cost - cost/lb Ni</b>	<b>2.95</b>	<b>6.19</b>	<b>2.16</b>	<b>4.85</b>

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

2. 2012 net costs were measured over the re-start and ramp-up of operations and are not representative of steady state operating conditions.

## Mining Operations

### Production Overview

	Total 2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Total 2012	Q4 2012	Q3 2012	Q2 2012	Q1 2012
<b>Copper (tonnes)</b>										
Neves-Corvo	56,544	15,499	12,629	14,102	14,314	58,559	11,988	14,012	15,950	16,609
Zinkgruvan	3,460	894	973	447	1,146	3,059	673	864	986	536
Aguablanca	6,242	1,685	1,485	1,516	1,556	2,260	1,563	697	-	-
	<b>66,246</b>	<b>18,078</b>	<b>15,087</b>	<b>16,065</b>	<b>17,016</b>	<b>63,878</b>	<b>14,224</b>	<b>15,573</b>	<b>16,936</b>	<b>17,145</b>
<b>Zinc (tonnes)</b>										
Neves-Corvo	53,382	14,456	14,723	13,940	10,263	30,006	9,533	5,834	7,619	7,020
Zinkgruvan	71,366	18,340	18,743	18,599	15,684	83,209	18,703	20,053	24,022	20,431
Galmoy <sup>1</sup>	-	-	-	-	-	8,989	925	2,565	331	5,168
	<b>124,748</b>	<b>32,796</b>	<b>33,466</b>	<b>32,539</b>	<b>25,947</b>	<b>122,204</b>	<b>29,161</b>	<b>28,452</b>	<b>31,972</b>	<b>32,619</b>
<b>Lead (tonnes)</b>										
Neves-Corvo	1,496	849	416	231	-	87	39	48	-	-
Zinkgruvan	32,874	7,119	8,703	10,461	6,591	37,246	8,198	8,953	9,747	10,348
Galmoy <sup>1</sup>	-	-	-	-	-	1,131	116	364	33	618
	<b>34,370</b>	<b>7,968</b>	<b>9,119</b>	<b>10,692</b>	<b>6,591</b>	<b>38,464</b>	<b>8,353</b>	<b>9,365</b>	<b>9,780</b>	<b>10,966</b>
<b>Nickel (tonnes)</b>										
Aguablanca	7,574	2,113	1,788	1,876	1,797	2,398	1,705	693	-	-

1. represents 50% of contained metal attributable to Galmoy on delivery of ore to a third party processing facility (Galmoy - see MD&A page 20)

### Cash Cost Overview

	Cash cost/lb (US dollars)		Cash cost/lb (local currency)	
	Year ended December 31			
	2013	2012	2013	2012
<b>Neves-Corvo (Local in €)</b>				
Gross cost	2.44	2.11	1.84	1.64
By-product <sup>1</sup>	(0.54)	(0.32)	(0.41)	(0.25)
<b>Net Cost - cost/lb Cu</b>	<b>1.90</b>	<b>1.79</b>	<b>1.43</b>	<b>1.39</b>
<b>Zinkgruvan (Local in SEK)</b>				
Gross cost	0.98	0.76	6.42	5.16
By-product <sup>1</sup>	(0.66)	(0.63)	(4.32)	(4.24)
<b>Net Cost - cost/lb Zn</b>	<b>0.32</b>	<b>0.13</b>	<b>2.10</b>	<b>0.92</b>
<b>Aguablanca (Local in €)<sup>2</sup></b>				
Gross cost	6.81	10.04	5.14	7.89
By-product <sup>1</sup>	(3.03)	(3.28)	(2.29)	(2.55)
<b>Net Cost - cost/lb Ni</b>	<b>3.78</b>	<b>6.76</b>	<b>2.85</b>	<b>5.34</b>

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

2. 2012 net costs were measured over the re-start and ramp-up of operations and were not representative of steady state operating conditions.

Commentary on production and cash costs is included under the following individual mine operational discussions.



## Neves-Corvo Mine

Neves-Corvo is an underground mine, located 100 km north of Faro, Portugal, in the western part of the Iberian Pyrite Belt. The mine has been a significant producer of copper since 1989 and in 2006 commenced treating zinc ores. The facilities include a shaft with a total hoisting capacity of up to 4.7 mtpa, a copper plant with 2.5 mtpa processing capacity and a zinc plant with 1.2 mtpa processing capacity. The zinc plant has the flexibility to process zinc or copper ores.

### Operating Statistics

	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
	2013	2013	2013	2013	2013	2012	2012	2012	2012	2012
Ore mined, copper (000 tonnes)	2,535	674	618	648	595	2,507	648	577	638	644
Ore mined, zinc (000 tonnes)	968	236	255	266	211	530	178	107	132	113
Ore milled, copper (000 tonnes)	2,525	664	628	654	579	2,512	648	597	634	633
Ore milled, zinc (000 tonnes)	974	232	265	264	213	543	181	104	135	123
Grade per tonne										
Copper (%)	2.6	2.8	2.4	2.5	2.7	2.6	2.2	2.7	2.8	2.9
Zinc (%)	7.1	8.1	7.3	6.6	6.2	7.3	7.1	7.2	7.2	7.6
Recovery										
Copper (%)	84.5	80.7	81.1	86.0	90.8	88.2	85.6	86.0	90.0	91.1
Zinc (%)	74.1	74.0	73.2	76.1	73.2	71.0	70.5	78.2	78.5	74.6
Production (contained metal)										
Copper (tonnes)	56,544	15,499	12,629	14,102	14,314	58,559	11,988	14,012	15,950	16,609
Zinc (tonnes)	53,382	14,456	14,723	13,940	10,263	30,006	9,533	5,834	7,619	7,020
Lead (tonnes)	1,496	849	416	231	-	87	39	48	-	-
Silver (000 oz)	1,306	402	263	314	327	961	282	178	240	261
Sales (\$000s)	420,308	111,818	96,076	104,407	108,007	466,174	108,349	92,640	112,274	152,911
Operating earnings (\$000s)	158,546	46,136	29,214	35,338	47,858	218,564	33,705	45,602	52,467	86,790
Cash cost (€ per pound)	1.43	1.28	1.68	1.41	1.39	1.39	1.67	1.49	1.26	1.23
Cash cost (\$ per pound)	1.90	1.75	2.23	1.85	1.83	1.79	2.17	1.87	1.61	1.63

### Operating Earnings

Operating earnings of \$158.5 million for the year ended December 31, 2013 were \$60.0 million lower than 2012. The decrease is mainly attributable to lower metal prices and prior period price adjustments (\$50.3 million), and a change in sales mix (\$9.5 million) as a higher proportion of lower margin zinc was sold during the year.

### Production

Copper production for the year ended December 31, 2013 was lower than the comparable period in 2012 by 2,015 tonnes (or 3%). Although throughput was higher in the current year, metallurgical recoveries were lower resulting in lower copper production. Recoveries, particularly towards the end of the year, were impacted by the treatment of ore with higher levels of impurities.

Annual zinc production was 78% higher than the prior year and reached a record 53,382 tonnes. Throughput levels were significantly higher than those achieved in 2012, as plant expansion was still in ramp up in the prior year. Higher zinc grades from initial production in the deeper sections of the Lombador ore body contributed to increased zinc production in the second half of the year.

Saleable lead concentrates were produced for the first time at Neves-Corvo. The commercial production of 1,496 tonnes of lead in concentrate during the year was derived as a by-product from the zinc circuit.

### Cash Costs

Copper cash costs of \$1.90/lb for the year were in-line with guidance (\$1.90/lb). Cash costs were slightly higher than the prior year (\$1.79/lb) as a result of higher unit costs largely associated with the production of zinc. The use of more contractors and higher treatment costs (\$0.25/lb) primarily account for the increase in costs.

## **Projects**

A revised expansion strategy for the newly developed Lombador deposit was implemented in 2013, aimed at bringing forward higher grade zinc production. Six primary stopes were successfully mined and filled as part of the Lombador Zinc/Copper Phase 1 Project. Stope performances were in-line with expectations, with minimal dilution, good zinc process recoveries and an unplanned production of a lead concentrate. Mining in this area will continue in 2014 with a series of secondary stopes between these primary stopes.

A new project to expand the capacity of the mine's paste backfilling system was initiated in 2013, with the aim of doubling the system capacity in 2014. The capacity expansion will consequently reduce tailings disposal requirements. In a parallel project, options for expanding the existing tailings management facility to extend the mine life were also examined and more detailed studies and preliminary engineering are planned for 2014.

Studies directed at the future mine areas of lower Lombador and the Semblana deposit continued to focus on low cost options for access, mining, materials handling, and incremental process plant expansions. A pre-feasibility study of the Semblana deposit was completed, considering the project on a "standalone" basis, but further development of mine access to Semblana was suspended during 2013 pending the resolution of discussions with government on royalties and concession rights. Examinations of a range of initiatives for exploiting the deeper Lombador zinc and copper ores were well advanced by year-end, and a decision to proceed with a feasibility study into an expansion of the mine's total zinc production capacity is planned for the first quarter of 2014.

## Zinkgruvan Mine

The Zinkgruvan mine is located approximately 250 km south-west of Stockholm, Sweden. Zinkgruvan has been producing zinc, lead and silver on a continuous basis since 1857. The operation consists of an underground mine, processing facilities and associated infrastructure with a nominal production capacity of 1.3 million tonnes of ore.

### Operating Statistics

	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
	2013	2013	2013	2013	2013	2012	2012	2012	2012	2012
Ore mined, zinc (000 tonnes)	911	216	230	222	243	954	251	189	251	263
Ore mined, copper (000 tonnes)	214	61	58	43	52	157	40	46	44	27
Ore milled, zinc (000 tonnes)	924	217	229	248	230	998	254	216	241	287
Ore milled, copper (000 tonnes)	222	59	58	49	56	145	29	48	49	19
Grade per tonne										
Zinc (%)	8.5	9.1	9.0	8.5	7.5	9.1	8.2	10.1	10.7	7.7
Lead (%)	4.2	3.9	4.5	4.9	3.4	4.4	3.8	4.7	4.8	4.3
Copper (%)	1.7	1.6	1.9	1.1	2.2	2.3	2.5	2.0	2.2	3.0
Recovery										
Zinc (%)	90.7	92.7	90.9	88.5	90.6	91.7	89.2	91.9	93.5	91.8
Lead (%)	84.8	83.6	84.5	85.5	85.2	85.4	84.8	88.0	85.3	83.8
Copper (%)	89.8	91.7	88.2	82.6	92.9	91.8	92.6	90.6	91.6	93.4
Production- tonnes (contained metal)										
Zinc (tonnes)	71,366	18,340	18,743	18,599	15,684	83,209	18,703	20,053	24,022	20,431
Lead (tonnes)	32,874	7,119	8,703	10,461	6,591	37,246	8,198	8,953	9,747	10,348
Copper (tonnes)	3,460	894	973	447	1,146	3,059	673	864	986	536
Silver (000 oz)	2,468	558	668	728	514	2,496	560	621	673	642
Sales (\$000s)	173,836	43,875	49,288	44,811	35,862	209,621	52,946	48,699	52,934	55,042
Operating earnings (\$000s)	71,486	17,818	25,634	13,664	14,370	116,143	27,564	28,706	31,616	28,257
Cash cost (SEK per pound)	2.10	2.44	0.40	2.83	2.72	0.92	0.80	0.55	0.82	1.50
Cash cost (\$ per pound)	0.32	0.37	0.06	0.43	0.42	0.13	0.12	0.08	0.12	0.22

### Operating Earnings

Operating earnings of \$71.5 million were \$44.6 million lower than the \$116.1 million reported in 2012. Higher per unit costs (\$18.9 million), lower net sales volume (\$14.2 million), lower price and price adjustments from prior period sales (\$7.9 million) and an unfavourable exchange rate (\$3.6 million) contributed to the decrease.

### Production

Zinc and lead production for the full year were lower than 2012 by 14% and 12%, respectively. Paste fill and local ground control issues, particularly early in the year, impacted production. Despite steady production at rates of over 18kt of zinc production per quarter in the last three quarters of 2014, the mine was not able to catch up on the annual shortfall resulting from poor first quarter production. Significant improvements have been made to the paste fill system during the year and originally planned underground mining sequences have been re-established.

Copper production reached record levels in 2013 and was 13% higher than the previous year.

### Cash Costs

Zinc cash costs of \$0.32/lb for the year were slightly higher than guidance (\$0.30/lb). Cash costs were higher than prior year (\$0.13/lb) largely as a result of higher production costs (\$0.17/lb) and unfavourable foreign exchange rates (\$0.03/lb) which were only partially offset by higher by-product credits (\$0.04/lb). Higher production costs were a direct result of the production challenges faced during the year, including higher spending related to the paste distribution system.

**Projects**

Given the continued modest zinc prices and the fact that recent modifications have improved performance related to ore handling, dust and noise levels, the capital investment in the overall modernization of the front-end of the plant has been deferred indefinitely.

Progressive investments continue to be made in the paste backfilling system to improve system availability and flexibility in order to alleviate constraints on stope backfilling and production dependencies.

## Aguablanca Mine

The Aguablanca nickel-copper mine is located in the province of Badajoz, 80 km by road to Seville, Spain, and 140 km from a major seaport at Huelva. Current operations consist of an open pit mine and an on-site processing facility (milling and flotation) with a production capacity of 1.9 million tonnes per annum. Production activities were suspended in December 2010 following a pit-slope failure. Pit operations restarted during the third quarter of 2011 to reinstate the main ore haulage ramp and concentrate production recommenced in August 2012. Commencing mid-2014, development will begin on an underground mining project, which is expected to extend mine production until 2018.

### Operating Statistics

	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
	2013	2013	2013	2013	2013	2012	2012	2012	2012	2012
Ore mined (000s tonnes)	1,785	459	539	409	378	755	368	198	148	41
Ore milled (000s tonnes)	1,606	438	378	387	403	577	368	209	-	-
Grade per tonne										
Nickel (%)	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	-	-
Copper (%)	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	-	-
Recovery										
Nickel (%)	82.8	81.8	82.6	83.8	82.4	81.3	82.8	78.1	-	-
Copper (%)	93.8	94.2	94.2	93.9	93.2	91.4	92.9	87.7	-	-
Production (contained metal)										
Nickel (tonnes)	7,574	2,113	1,788	1,876	1,797	2,398	1,705	693	-	-
Copper (tonnes)	6,242	1,685	1,485	1,516	1,556	2,260	1,563	697	-	-
Sales (\$000s)	114,027	26,162	25,278	19,787	42,800	22,167	11,582	10,585	-	-
Operating earnings (\$000s)	27,559	7,529	6,397	787	12,846	(10,879)	(3,163)	(2,988)	(2,505)	(2,223)
Cash cost (€ per pound)	2.85	2.16	2.78	2.69	3.53	5.34	4.85	5.94	-	-
Cash cost (\$ per pound)	3.78	2.95	3.67	3.50	4.66	6.76	6.19	7.47	-	-

### Operating Earnings

Operating earnings for the year were \$27.6 million compared to a loss of \$10.9 million in 2012, as operations were restarted in the third quarter of 2012 after a pit slope failure in 2010 which temporarily halted production. In addition, part of the production from the fourth quarter of 2012 was sold in January 2013.

During the year, insurance proceeds of \$15.1 million were recorded for claims made in relation to the December 2010 pit slope failure. These proceeds were in addition to the \$7.9 million received in 2012 and have been recorded in "other income" in the statement of earnings; they do not form part of operating earnings.

### Production

Production for the year of 7,574 tonnes of nickel and 6,242 tonnes of copper in concentrate was in-line with pre-shutdown production levels, and significantly higher than the part-year production in 2012. Significant effort was expended during the year to stabilize the south wall of the open pit including further push backs, slope reinforcement, increased drainage, and the successful mining of two drainage tunnels beneath the affected slope. Consistent production from the open pit was achieved throughout the year and this resulted in throughput, nickel and copper grades and metallurgical recoveries all being above expectations.

Mine production is now expected to continue until 2018 following the approval of an underground project. Open pit mining is planned to continue until the first quarter of 2015 when the pit will reach the 186 metre level. Development of the underground mine will commence in mid-2014, from the exploration decline that is already in place, with first stope production from the initial sub-level cave due to commence following cessation of the open pit. A deeper sub-level open stoping zone will also be developed and will enter into production in 2017.

### Cash Costs

Nickel cash costs of \$3.78/lb for the year ended December 31, 2013 were lower than 2013 full year guidance (\$4.50/lb) benefiting from higher nickel production and higher by-product copper sales.

## Galmoy Mine

The Galmoy underground zinc mine located in south-central Ireland in County Kilkenny ceased milling in 2009 and ceased mining in 2012. Since 2009, all mined ore was transported to an adjacent mine and stockpiled for treatment. Ore sold represents 100% of material treated by a neighbouring mine of which 50% of the resulting metal production is attributable to Lundin Mining. Execution of the approved mine closure plan is currently underway.

### Operating Statistics

	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
	2013	2013	2013	2013	2013	2012	2012	2012	2012	2012
Ore sold (000 tonnes)	129	26	30	53	20	188	19	61	69	39
Sales (\$000s)	19,611	5,066	5,773	7,268	1,504	23,144	3,582	7,663	7,057	4,842
Operating earnings (\$000s)	12,260	3,168	4,220	4,449	423	15,022	1,914	6,607	5,692	809

### Operating Earnings

Treatment of stockpiled ore for processing by a third party yielded operating earnings of \$12.3 million for the year ended December 31, 2013, lower than the \$15.0 million reported in 2012. Lower tonnage milled, lower zinc prices, and higher per unit costs contributed to the reduction in operating earnings compared to the prior year.

An amount of \$0.2 million is reported as deferred revenue as at December 31, 2013, representing cash received for ore delivered but not yet processed. As at December 31, 2013, approximately 2,000 dmt of ore were held in inventory at a neighbouring processing facility, for which final revenue settlement will be recognized as it is milled in 2014.

### Production

Mining of remnant high grade ore was fully completed in October 2012 and all ore was transported to a neighbouring mine for processing during 2013 and 2014.

### Closure Costs

Execution of the approved mine closure plan is currently underway and is expected to be completed in 2014. Costs of \$5.0 million were incurred during the year for mine closure and rehabilitation work. This included expenditures on the rehabilitation of mine infrastructure, land and the tailings management facility.

## Tenke Fungurume

Tenke Fungurume (“Tenke”) is a copper-cobalt mine located in the southern part of Katanga Province, Democratic Republic of Congo (“DRC”). Lundin Mining holds a 24% equity interest in the mine. Freeport is the operating partner and holds a 56% interest in the mine. Gécamines, the Congolese state mining company, holds a 20% carried interest in the mine. With the completion of the Phase II expansion, Tenke now has a nameplate annual production capacity of 195,000 tonnes of copper cathode and 15,000 tonnes of cobalt hydroxide.

### Operating Statistics

100% Basis (except equity income and cash flows)	Total 2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Total 2012	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Ore mined (000 tonnes)	13,231	3,739	3,347	2,763	3,382	12,806	3,909	3,170	2,641	3,086
Ore milled (000 tonnes)	5,428	1,409	1,338	1,364	1,317	4,748	1,222	1,248	1,172	1,106
Grade per tonne Copper (%)	4.2	3.9	3.9	4.6	4.4	3.6	3.8	3.6	3.5	3.6
Recovery Copper (%)	91.4	90.6	91.6	89.9	93.7	92.4	94.8	92.9	90.6	91.2
Production (contained metal)										
Copper (tonnes)	209,774	50,645	49,541	55,126	54,462	157,671	44,130	41,446	35,965	36,130
Cobalt (tonnes)	12,751	4,247	3,659	2,305	2,540	11,669	2,718	3,356	2,868	2,727
Income from equity investment (\$000s) <sup>1</sup>	97,769	22,425	24,185	19,276	31,883	101,516	25,785	25,060	25,111	25,560
Attributable share of operating cash flows (\$000s)	168,385	50,091	42,219	32,436	43,639	145,899	39,156	26,069	49,652	31,022
Cash cost (\$ per pound) <sup>2</sup>	1.21	1.14	1.23	1.23	1.23	1.23	1.24	1.23	1.22	1.25

<sup>1</sup> The Company recognized a 24.75% interest in the earnings of Tenke up to March 25, 2012 and 24% thereafter. Lundin Mining's share of equity earnings includes adjustments for GAAP harmonization differences and purchase price allocations.

<sup>2</sup> Cash cost is calculated and reported by Freeport. 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

Income of \$97.8 million in the current year was \$3.7 million lower than 2012. Higher copper sales volumes were more than offset by lower average realized price on copper sales and higher depreciation and amortization expense. Volume of copper cathode sold during the year, on a 100% basis, was 205,851 tonnes compared to 152,355 tonnes in the prior year.

The average price realized for copper sales during the year was \$3.21/lb, compared to \$3.51/lb in 2012. The average realized price for cobalt sold during 2013 was \$8.02/lb (2012: \$7.83/lb).

### Production

Tenke achieved record mining, milling and copper production rates during the year; a result of the second phase expansion project. The expansion project included optimizing the current plant and increasing mine, mill and processing capacity. Expanded milling facilities at Tenke continue to perform well with throughput averaging 14,900 metric tonnes of ore per day during 2013, exceeding the 14,000 metric tonnes of ore per day original design capacity. Average throughput for the year was approximately 1,900 metric tonnes of ore per day higher than 2012.

Although Tenke experienced external power interruptions in the second half of the year which impacted operating rates, Tenke was able to achieve record copper production for the year ended December 31, 2013 of 209,774 tonnes, an increase of 52,103 tonnes compared to 2012. Power availability improved during the fourth quarter and Tenke continues to work with its power provider and DRC authorities to establish more consistent and reliable power supply.

Freeport is expecting annual sales volumes to be approximately 202,000 tonnes of copper and 13,600 tonnes of cobalt in 2014.

### **Cash Costs**

Cash costs for copper, net of cobalt by-product credits, were \$1.21/lb for the year. This is largely consistent with cash costs in the prior year of \$1.23/lb and with annual cash cost guidance. Freeport projects 2014 cash costs to approximate \$1.28/lb of copper, based on current sales volume and cost estimates and assuming an average cobalt price of \$12.00/lb.

### **Future Expansion Studies**

The Phase II expansion has essentially been completed. The addition of a second sulphuric acid plant is expected to be completed in 2016.

Freeport continues to engage in exploration activities and metallurgical testing to evaluate the potential of the highly prospective minerals district at Tenke. These analyses are being incorporated in the evaluation of opportunities for potential future expansion phases.

### **Tenke Cash Flow**

Lundin's attributable share of operating cash flow at Tenke for the year was \$168.4 million, higher than the \$145.9 million recognized in 2012, with the increase largely attributable to increased volumes from Phase II expansion.

Lundin Mining's share of 2013 capital investment for Tenke was \$61.7 million, which was fully funded by cash flow from Tenke operations. The Company's estimated share of 2014 capital investment, which is also expected to be self-funded by cash flow from Tenke operations, is expected to be \$50 million. Key capital spending areas in 2014 include: a second acid plant, a tailings dam expansion, fleet vehicles and heavy equipment, a second cobalt dryer, and test work and studies for potential future phased expansions.

The Company received cash distributions of \$141.8 million for the year ended December 31, 2013.



## **Eagle Project**

*The Eagle Project 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 mine and mill are currently under development and construction is expected to be completed in the fourth quarter of 2014. Once in operation, the mine is expected to produce an average of 17ktpa each of nickel and copper over the current mine life of 8 years at an average cash cost of \$2.50/lb of nickel. The Eagle Project was acquired from Rio Tinto in July 2013.*

### **Project Development**

Since completion of the acquisition on July 17, 2013, all activities have been re-initiated and the project is tracking to ship first saleable concentrates of copper and nickel in the fourth quarter of 2014. Ore is expected to be processed at a rate of 2,000 tonnes/day once full production objectives are met in 2015.

As of December 31, 2013, all senior operating positions have been filled, critical spare parts have been purchased, major operating contracts have been awarded and most of the major equipment has been delivered. There are approximately 600 people working at the mine and mill, including contractors, during this construction phase.

The total capital cost of the project is estimated at \$400 million<sup>1</sup> from the date of acquisition, with \$98 million spent since acquisition, \$12 million less than guided for 2013 due to timing of payments. The project is on track to complete construction within budget.

As of December 31, 2013, all major construction contracts have been committed to, generally on a fixed price basis, and construction is progressing as planned at 69% completion. Capital commitments for the Eagle Project are \$99.2 million as of year-end.

### **Mine**

A three year contract for underground mining, both development and production, has been awarded. Contract mobilization is underway, and the first development blast occurred in January 2014. The mine access ramp is well advanced, more than half way down the ore body, and commissioning of remaining mine surface facilities is on track for completion by the second quarter of 2014.

### **Mill**

Mill construction activities are on track to support mill commissioning targeted for the fourth quarter of 2014. Enclosure of the concentrator building is complete which allows the interior work to be advanced through the winter period.

### **Transportation**

State road upgrades were suspended due to the onset of winter. Work will re-start in the spring and upgrades are on track to be completed as planned in November 2014. The contracts for trucking ore from the mine to the mill, and for supply of gondola rail cars for concentrate transport have been awarded.

### **Operational Readiness**

Training programs are being evaluated prior to committing to a provider. Spare part lists have been finalized. Workshop and warehouse detail layouts are complete, and detailed pre-commissioning and commissioning planning is underway. Development of the process control system is on track to be in place in time to support commissioning.

### **Permitting**

All significant permits have been received, with ongoing work required for permit renewals.

<sup>1</sup> This estimate is based on reviews undertaken during due diligence prior to acquisition, as well as post acquisition evaluation of project budgets and is supported by independent technical reports.

## **Exploration**

### **Portugal - Neves-Corvo Resource Exploration (Copper, Zinc)**

The 2013 near-mine exploration program at Neves-Corvo included a total of 45,000 metres of surface drilling. Drilling focused on delineating additional copper resources in the Monte Branco area, located approximately 1.2 kilometres to the south of the Semblana copper deposit, as well as investigating higher potential areas between Semblana and Monte Branco, and between the Zambujal orebody to the northwest and Monte Branco.

The 2014 program will continue in the Monte Branco area with drilling focused on exploration around massive sulphide intersections discovered in the northeast section of the area.

### **Chile Llahuin Exploration (Copper, Gold)**

In 2012, Lundin Mining completed a farm-in type option agreement with Southern Hemisphere Mining ("SHM") on the Llahuin Copper-Gold project located 56 kilometres from the coast, near the town of Combarbala in Chile's Region IV. A resource update was announced by SHM in July 2013 after the completion of the permitted drill program indicated a modest increase in resource tonnage at Llahuin. Exploration is currently focused on other surrounding regional targets.

### **Peru (Copper)**

Initial work in Peru has focused on new copper project evaluations.

### **Romania (Copper, Gold)**

A total of six holes were drilled on the Rozalia project in western Romania in 2013. Results were insufficient to warrant further drilling. New targets are being evaluated towards acquisition in 2014.

### **Eagle Exploration, USA (Nickel, Copper)**

Since acquisition of the Eagle Project in July 2013, exploration at Eagle has consisted of a ramp up of surface and underground drilling, an airborne geophysical survey, and a review of geophysical methods and targeting strategies. Underground drilling at Eagle began in September and consists of both exploratory drilling, to trace the mineralized Eagle feeder dike down-plunge, as well as ore delineation drilling.

### **Spain (Copper, Gold) & Ireland (Copper, Zinc, Lead, Silver)**

As part of a strategic review of global exploration programs, the Spain and Ireland programs have been curtailed.

## Metal Prices, LME Inventories and Smelter Treatment and Refining Charges

The average metal prices for copper, zinc and nickel were lower in 2013 compared to the average prices for 2012, with copper, zinc and nickel decreasing 8%, 2% and 14%, respectively. The average metal price for lead was marginally higher, increasing 4%. After a strong January and February, metal prices started to decline in March. This was caused by concerns over the United States ending their third round of quantitative easing, poor gross domestic product numbers from Europe, and a slowed demand for metals in China. During the second quarter of 2013, industrial production and metal demand in China continued to be slow, particularly for copper, a consequence of a tighter credit policy. Exchange inventories of copper rose sharply as a result, which put downward pressure on the copper price. Falling copper prices caused the price of the other exchange traded metals to fall as well. In the second half of 2013, industrial production in Europe continued to fall, while growth in the US was modest. However, China showed some signs of recovery which led to a small increase in metal prices during the fourth quarter of 2013.

(Average LME Price)		Three months ended December 31,			Twelve months ended December 31,		
		2013	2012	Change	2013	2012	Change
Copper	US\$/pound	3.24	3.59	-10%	3.32	3.61	-8%
	US\$/tonne	7,153	7,909		7,322	7,950	
Zinc	US\$/pound	0.86	0.88	-2%	0.87	0.88	-2%
	US\$/tonne	1,907	1,947		1,909	1,946	
Lead	US\$/pound	0.96	1.00	-4%	0.97	0.93	4%
	US\$/tonne	2,111	2,199		2,141	2,061	
Nickel	US\$/pound	6.31	7.70	-18%	6.81	7.95	-14%
	US\$/tonne	13,909	16,967		15,004	17,526	

The LME inventory for copper and nickel increased during 2013 and ended the year 14% and 87% higher, respectively, than the closing levels of 2012. However, LME inventories for zinc and lead decreased during 2013 and ended the year 24% and 33% lower, respectively, than the closing levels of 2012.

During the first half of 2013, the treatment charges (“TC”) and refining charges (“RC”) in the spot market for copper concentrates were trading in a range of a spot TC of \$50-\$70 per dmt of concentrate and a spot RC of \$0.05-\$0.07 per lb of payable copper. The annual low was reached in June, a result of two industrial accidents creating concerns about the supply of copper concentrates. During the second half of the year, there was a considerable increase in spot terms as new mines were commissioned, making more copper concentrates available to the market. In July, the spot TC was \$60 per dmt with a spot RC of \$0.06 per lb of payable copper. However, in December the spot market was trading at a spot TC of \$105 per dmt of concentrates with a RC of \$0.105 per lb payable copper. In the annual negotiations for copper TC and RC for 2013 contracts, the benchmark TC was agreed at \$70 per dmt of concentrate with a RC of \$0.07 per lb payable copper. The increase in the spot TC and RC during the second half of 2013 was reflected in the benchmark terms for annual contracts for 2014. 2014 contracts were agreed to in November of 2013 at a TC of \$92 per dmt of concentrate and a RC of \$0.092 per lb payable copper, an increase over 2013 terms.

There was very little activity in the spot market for zinc concentrates during 2013 and the spot TC fluctuated between \$135 and \$145 per dmt of concentrate, flat, over the year. Imports of zinc concentrates to China were up 12% compared to 2012. Chinese domestic mine production of zinc concentrates was stable at a high level during 2013 and Chinese zinc smelter production is estimated to have increased by 11% year-over-year. The TC for annual contracts for 2013 was settled at \$212 per dmt of concentrate based on a zinc price of \$2,000 per mt and with escalators of 2%-6% and de-escalators of 2%. The annual negotiations for TC under long term contracts

between miners and smelters for 2014 have begun, but so far there has been very little progress. The Company expects that there will be a settlement for the 2014 annual TC in March at the earliest.

Imports of lead concentrates to China are estimated to be about 26% lower in 2013 when compared to 2012, a consequence of the negative arbitrage between the lead price of the SHFE (Shanghai Futures Exchange) and the LME (London Metal Exchange), making imports of lead concentrates unprofitable for Chinese smelters. However, the restart of the La Oroya lead smelter in Peru and the Porto Vesme lead smelter in Italy have absorbed some of the overhanging lead concentrates otherwise destined for China. This has kept the market stable and the spot TC for 2013 has traded in a range of \$130-\$140, flat, over the year. Since lead concentrates are a less homogenous product than copper and zinc concentrates, there is no single benchmark TC. The qualities differ in the content of lead, precious metals, and impurities and each quality is priced on its own merits. In December 2013, the Company concluded terms for the majority of its long term contracts for Zinkgruvan lead concentrates. The TC agreed to for 2014 is in line with the annual TC for 2013. In November 2013, the company also entered into a one year contract for 100% of the 2014 lead concentrate production of the Neves-Corvo mine.

The Company's nickel concentrate production from Aguablanca is sold under a long-term contract at terms which are in line with recent market conditions. The contract provides for regular monthly delivery and pricing of the concentrates which ensures that nickel realizations correlate more closely with LME averages over the year.

The Company has started the sales process for the nickel and copper concentrates from its recently acquired Eagle project in the US and expects to have sales contracts in place during the first quarter of 2014.

## **Liquidity and Financial Condition**

### **Cash Reserves**

Cash and cash equivalents decreased by \$158.5 million to \$116.6 million as at December 31, 2013, from \$275.1 million at December 31, 2012. Cash inflows for the year ended December 31, 2013 included proceeds from the revolving credit facility of \$313.0 million, operating cash flows of \$153.7 million, and receipt of distributions from associates of \$149.4 million. Use of cash was primarily directed towards the acquisition of Eagle (\$318.0 million), investments in mineral properties, plant and equipment (\$243.7 million), the acquisition of Freeport Cobalt (\$116.3 million), and debt repayments (\$87.5 million).

### **Working Capital**

Working capital of \$143.0 million as at December 31, 2013 decreased significantly from the \$315.7 million reported for December 31, 2012. The decrease compared to prior period is primarily the result of lower cash balances, and to a lesser extent, increased trade payables.

### **Long-Term Debt**

As at December 31, 2013, the Company had a \$350 million revolving credit facility, expiring in October 2017, and a term loan of \$250 million.

\$228.0 million was drawn on the revolving credit facility as at December 31, 2013. A letter of credit issued in the amount of SEK 80 million (\$12.3 million) also remains outstanding.

Subject to various risks and uncertainties (*see Managing Risk section, page 33*), the Company believes it will generate sufficient cash flow and has adequate cash and debt facilities to finance on-going operations and planned capital and exploration investment programs.

## Shareholders' Equity

Shareholders' equity was \$3,669.6 million at December 31, 2013, compared to \$3,473.1 million at December 31, 2012. Shareholders' equity increased primarily as a result of net earnings of \$136.7 million, and partly as a result of foreign currency translation adjustments of \$53.5 million in other comprehensive income.

## Sensitivities

Net earnings and earnings per share are affected by certain external factors including fluctuations in metal prices and changes in exchange rates between the Euro, the SEK and the US dollar.

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, 2013 (\$US/tonne)	Change	Effect on pre-tax earnings (\$millions)
Copper	10,511	7,363	+/-10%	+/- \$7.7
Zinc	11,009	2,066	+/-10%	+/- \$2.3
Lead	4,194	2,213	+/-10%	+/- \$0.9
Nickel	1,726	13,880	+/-10%	+/- \$2.4

## Contractual Obligations and Commitments

Largely as a result of the acquisition of the Eagle Project and related construction activities, capital commitments as at December 31, 2013 have increased significantly from the prior year.

The company has the following contractual obligations and capital commitments as at December 31, 2013:

US\$ thousands	Payments due by period				Total
	<1 years	1-3 years	4-5 years	> 5 years	
Long-term debt	690	101,379	128,622	-	230,691
Finance leases	2,657	2,083	527	-	5,267
Reclamation and closure provisions <sup>1</sup>	8,726	17,809	34,200	90,935	151,670
Capital commitments	114,788	-	-	-	114,788
Operating leases and other	15,706	7,439	4,640	3,958	31,743
	142,567	128,710	167,989	94,893	534,159

<sup>1</sup> Reclamation and closure provisions are reported on a discounted basis, after inflation.

The Company may guarantee certain payments and obligations on behalf of Tenke or Freeport Cobalt, as required. As of December 31, 2013, there were no payments or obligations for which the Company had guaranteed on behalf of either Tenke or Freeport Cobalt.

## Financial Instruments

Summary of financial instruments:

	Fair value at December 31, 2013 (\$000s)	Basis of measurement	Associated risks
Trade and other receivables	51,251	Carrying value	Credit/Market/Exchange
Trade receivables	62,945	Fair value through profit and loss	Credit/Market/Exchange
Marketable securities and restricted funds	25,601	Fair value through profit and loss	Market/Liquidity
Marketable securities	9,929	Fair value through OCI	Market/Liquidity
Trade and other payables	127,306	Amortized cost	Interest
Long-term debt and finance leases	228,776	Amortized cost	Interest
Other long-term liabilities	3,234	Amortized cost	Interest

Carrying value – Certain trade and other receivables mature in the short-term and approximate their fair values.

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

Fair value through profit and loss (“FVTPL” securities) – The fair value of investments in shares is determined based on quoted market price and the fair value of warrants is determined using a valuation model that incorporates such factors as the quoted market price, strike price and the volatility of the related shares of which the warrants can be exchanged for and the expiry date of the warrants.

Fair value through other comprehensive income (“OCI”) (Available-for-sale or “AFS” securities) – The fair value of investments in shares is determined based on quoted market price and the fair value of warrants is determined using a valuation model that incorporates such factors as the quoted market price, strike price and the volatility of the related shares and the expiry date of the warrants.

Amortized cost – Trade and other payables, long-term debt and finance leases and other long-term liabilities approximate their carrying values as the interest rates are comparable to current market rates.

During the year ended December 31, 2013, the Company recognized reduced sales of \$10.8 million (2012: increased sales of \$5.5 million) on final settlement of provisionally priced transactions from the prior year, finance costs of \$9.4 million (2012: \$2.3 million) comprised of a revaluation loss on FVTPL securities of \$4.2 million and AFS securities reclassified from OCI of \$5.2 million, and a revaluation loss on AFS securities of \$3.8 million (2012: revaluation gain of \$4.0 million). In addition, a foreign exchange loss of \$13.8 million (2012: \$5.1 million) was realized over the year on US\$-denominated cash and trade receivables that were held in the European group entities.

## 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, 2013, the Company made no cash advances to fund its portion of Tenke expenditures and received \$141.8 million in cash distributions.

### 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 \$7.6 million in cash distributions from Freeport Cobalt during the year ended December 31, 2013.

### 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:

		2013		2012
Wages and salaries	\$	6,283	\$	6,036
Pension benefits		135		109
Share-based compensation		1,805		2,662
	\$	8,223	\$	8,807

During the year ended December 31, 2013, the Company paid \$0.3 million (2012: \$0.3 million) for management services provided by a company owned by the Chairman of the Company. The Company also paid \$0.8 million (2012: \$0.5 million) for the year ended December 31, 2013, to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company. The Company expects to continue these services into the foreseeable future.

## Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

*IAS 19 Employee Benefits* amendments effective January 1, 2013. The changes in this standard resulted in the cessation of the use of the "corridor method" where actuarial gains and losses within a specified threshold were previously unrecognized. In adopting this standard, the Company revised all applicable comparative figures. As at December 31, 2012, a \$2.1 million increase to the provision for pension obligations and a reduction to accumulated other comprehensive income were recorded. There were no impacts to the current period. The effects of this standard had an immaterial effect on the opening balance sheet at January 1, 2012.

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10

requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, *Investments in Associates and Joint Ventures (amended in 2011)*. The other amendments to IAS 28 did not affect the Company. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

IFRS 13, *Fair Value Measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

The Company has adopted the amendments to IAS 1, *Presentation of Financial Statements*, effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IAS 36, *Impairment of Assets*, was amended to limit the scope of required disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and will be applied retrospectively. Earlier application is permitted. The Company has early adopted these amendments.

### **New Accounting Pronouncements**

IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the impairment. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board. The IASB has deferred the mandatory effective date for annual periods beginning on or after January 1, 2015 and has left



it open pending the finalization of the impairment and classification and measurement requirements.

IFRIC 21, *Accounting for Levies Imposed by Governments*, clarifies that obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. This standard is effective for annual periods beginning on or after January 1, 2014 and is not expected to have a significant impact on the Company.

## **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 materially differ 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 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 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 and economic data and the reliance on a number of assumptions. The estimates of the 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 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 reserves would have a relatively greater effect on the amortization of the current mining operations at Aguablanca 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 and the Zinkgruvan mine have longer mine lives and would be less affected by a change in the reserve estimate.

### **Valuation of mineral properties and exploration properties**

The Company carries its mineral properties at cost less any provision for impairment. The Company expenses exploration costs, which are related to specific projects, until the 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 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. An impairment loss 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, reserves 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 balance sheet and statement of earnings.

#### **Valuation of investments in Tenke Fungurume and Freeport Cobalt**

The Company carries its investments at cost and adjusts for its share of earnings of the investee. The Company reviews the carrying value of the investments 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, reserves and resources quantities, future production and sale volumes, metal prices, 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 sales 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 investment.

#### **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.

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.

### **Pension obligations**

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The principal assumptions used in determining the net cost for pensions include the discount rate and the rate of salary increase. Any changes in these assumptions will impact the carrying amount of pension obligations.

### **Share-based compensation**

The Company grants stock options to employees under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. Option pricing models require the input of highly subjective assumptions including expected price volatility of the underlying shares and life of the options. Changes in the input assumptions can materially affect the fair value estimate. Assumption details are discussed in the notes to the financial statements.

### **Critical Accounting Judgments**

Management exercises judgment in applying the Company's accounting policies. These judgments are based on management's best estimate. 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 utilizing the losses.

## **Managing Risks**

### **Risks and Uncertainties**

#### **Metal Prices**

Metal prices, primarily copper, zinc, lead and nickel 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 expectation, inflation or deflation and expectations

with respect to inflation or deflation, speculative activities, changes in global economies, and 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, depending on hedging practices, 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. The Company does not currently hedge metal prices.

#### **Foreign Exchange Risk**

The Company's revenue from operations is received in US dollars while most of its operating expenses are incurred in Euro and SEK. Accordingly, foreign currency fluctuations may adversely affect the Company's financial position and operating results. The Company does not currently engage in foreign currency hedging activities.

#### **Credit Risk**

The Company is exposed to various counterparty risks. The Company is subject to credit risk through its 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. Credit risk relating to derivative contracts arises from the possibility that a counterparty to an instrument with which the Company has an unrealized gain fails to settle the contracts.

#### **Derivative Instruments**

The Company does not currently, but may from time to time, manage exposure to fluctuations in metal prices, foreign exchange and interest rates by entering into derivative instruments approved by the Company's Board of Directors. The Company does not hold or issue derivative instruments for speculation or trading purposes. Such derivative instruments would be marked-to-market at the end of each period and may not necessarily be indicative of the amounts the Company might pay or receive as the contracts are settled.

#### **Reclamation Funds and Mine Closure Costs**

As at December 31, 2013, the Company had \$53.1 million in a number of reclamation funds that will be used to fund future site reclamation and mine closure costs at the Company's various mine sites. The Company will continue to contribute to these funds as required, based on an estimate of the future site reclamation and mine closure costs as detailed in the closure plans. Changes in environmental laws and regulations can create uncertainty with regards to future reclamation costs and affect the funding requirements.

The Company has received regulatory approval for closure at its Galmoy mine and closure activities are ongoing. From time to time Galmoy may need to seek regulatory approval for amendments to its mine closure plan for necessary changes. Mining activity at Galmoy ceased in the fourth quarter of 2012 and all remnant high grade ore was transported to an adjacent mine for treatment during 2013 and 2014.

Rehabilitation programs at the Storliden mine were completed in 2012. The company is currently studying water quality in the mine area and the site remains subject to an ongoing aftercare monitoring program until 2020. The Company also has closure programs in place associated with legacy mining operations previously carried on in Honduras under the ownership of a Lundin Mining subsidiary, which was acquired by the Company in 2007.

The active closure phase at this former gold mine was nearing completion at the end of 2013 and will shortly move to a three year aftercare monitoring program.

Closing a mine can have significant impact on local communities and site remediation activities may not be supported by local stakeholders. The Company endeavours to mitigate this risk by reviewing and updating closure plans regularly with external stakeholders over the life of the mine and considering where post-mining land use for mining affected areas has potential benefits to the communities.

In addition to immediate closure activities (including ground stabilization, infrastructure demolition and removal, top soil replacement, re-grading and re-vegetation), closed mining operations require long-term surveillance and monitoring.

Site closure plans have been developed and amounts accrued in the Company's financial statements to provide for mine closure obligations. Future remediation costs for inactive mines are estimated at the end of each period, including ongoing care, maintenance and monitoring costs. Changes in estimates at inactive mines are reflected in earnings in the period an estimate is revised. Actual costs realized in satisfaction of mine closure obligations may vary materially from management's estimates.

### **Competition**

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other mining companies, many of which have greater financial resources than the Company, for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.

### **Foreign Countries and Regulatory Requirements**

The Company's operations and development projects in Portugal, Sweden, Spain and the US are subject to various laws and environmental regulations. The implementation of new or the modification of existing laws and regulations affecting the mining and metals industry could have a material adverse impact on the Company.

The Company has a significant investment in mining operations located in the DRC. The carrying value of this investment and the Company's ability to advance development plans may be adversely affected by political instability and legal and economic uncertainty. The risks by which the Company's interest in the DRC may be adversely affected include, but are not limited to: political unrest; labour disputes; invalidation of governmental orders, permits, agreements or property rights; risk of corruption including violations under applicable foreign corrupt practices statutes; military repression; war; rebel group and civil disturbances; criminal and terrorist actions; arbitrary changes in laws, regulations, policies, taxation, price controls and exchange controls; delays in obtaining or the inability to obtain necessary permits; opposition to mining from environmental or other non-governmental organizations; limitations on foreign ownership; limitations on the repatriation of earnings; limitations on mineral exports; and high rates of inflation and increased financing costs. These risks may limit or disrupt the Company's operations and projects, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization, expropriation or other means without fair compensation. Africa's status as a developing continent may make it more difficult for the Company to obtain any required exploration, development and production financing for its projects.

There can be no assurance that industries which are deemed of national or strategic importance in countries in which the Company has operations or assets, including mineral exploration, production and development, will not be nationalized. The risk exists that further government limitations, restrictions or requirements, not presently foreseen, will be implemented. Changes in policy that alter laws regulating the mining industry could have a material adverse effect on the Company. There can be no assurance that the Company's assets in these

countries will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by an authority or body.

In addition, in the event of a dispute arising from foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. The Company also may be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. It is not possible for the Company to accurately predict such developments or changes in laws or policy or to what extent any such developments or changes may have a material adverse effect on the Company's operations.

### **Mining and Processing**

The Company's business operations are subject to risks and hazards inherent in the mining industry, including, but not limited to, unanticipated variations in grade and other geological problems, water conditions, surface or underground conditions, metallurgical and other processing problems, mechanical equipment performance problems, the lack of availability of materials and equipment, the occurrence of rock or ramp collapses, accidents, labour force disruptions, force majeure factors, unanticipated transportation costs, and weather conditions, any of which can materially and adversely affect, among other things, the development of properties, production quantities and rates, costs and expenditures and production commencement dates.

The Company's processing facilities are dependent upon continuous mine feed to remain in operation. Insofar as the Company's mines may not maintain material stockpiles of ore or material in process, any significant disruption in either mine feed or processing throughput, whether due to equipment failures, adverse weather conditions, supply interruptions, labour force disruptions or other causes, may have an immediate adverse effect on results of operations of the Company.

The Company periodically reviews mining schedules, production levels and asset lives in its life of mine ("LOM") planning for all of its operating and development properties. Significant changes in the LOM plans can occur as a result of experience obtained in the course of carrying out mining activities, new ore discoveries, changes in mining methods and rates, process changes, investments in new equipment and technology, foreign exchange and metal price assumptions, and other factors. Based on this analysis, the Company reviews its accounting estimates and in the event of an impairment, may be required to write-down the carrying value of a mine or development property. This complex process continues for the economic life of every mine and development property in which the Company has an interest.

### **Energy Prices and Availability**

The Company's mining operations and facilities are intensive users of electricity and carbon based fuels. Energy prices can be affected by numerous factors beyond the Company's control, including global and regional supply and demand, political and economic conditions and applicable regulatory regimes. The availability of energy may be negatively impacted due to a variety of reasons including, fluctuations in climate, severe weather conditions, inadequate infrastructure capacity, equipment failure or the ability to extend supply contracts on economical terms. The prices and various sources of energy the Company relies on may be negatively impacted and any such change could have an adverse effect on profitability.

### **Mine Development Risks**

The Company's ability to maintain, or increase, its annual production of copper, zinc, lead, nickel and other metals will be dependent in significant part on its ability to bring new mines into production and to expand existing mines. Although the Company utilizes the operating history of its existing mines to derive estimates of future operating costs and capital requirements, such estimates may differ materially from actual operating results at new mines or at expansions of existing mines. The economic feasibility analysis with respect to any individual project is based upon, among other things, the interpretation of geological data obtained from drill

holes and other sampling techniques, feasibility studies (which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed), and base metals price assumptions, the configuration of the orebody, expected recovery rates of metals from the ore, comparable facility and equipment costs, anticipated climatic conditions, estimates of labour, productivity, royalty or other ownership requirements and other factors. Some of the Company's development projects are also subject to the successful completion of final feasibility studies, issuance of necessary permits and other governmental approvals, sourcing suitable power and water requirements, confirming the availability of appropriate local area infrastructure, receipt of adequate financing and addressing local stakeholder concerns

The capital expenditures and timeline needed to develop a new mine or expansion are considerable and the economics of and the ability to complete a project can be affected by many factors, including; inability to complete construction and related infrastructure in a timely manner; changes in the legal and regulatory environment; currency fluctuations; industrial disputes, availability of parts, machinery or operators; delays in the delivery of major process plant equipment; inability to obtain, renew or maintain the necessary permits, licenses or approvals; unforeseen natural events and political and other factors. Factors such as changes to technical specifications, failure to enter into agreements with contractors or suppliers in a timely manner, and shortage of capital may also delay the completion of construction or commencement of production or require the expenditure of additional funds. Although the Company's feasibility studies are generally completed with the Company's knowledge of the operating history of similar orebodies in the region, the actual operating results of its development projects may differ materially from those anticipated, and uncertainties related to operations are even greater in the case of development projects. Many major mining projects constructed in the last several years, or under construction currently, have experienced cost overruns that substantially exceeded the capital cost estimated during the basic engineering phase of those projects. There can be no assurance that the Company's development projects will be able to be developed successfully or economically or that they will not be subject to the other risks described in this section.

### **Exploration Risk**

Exploration of mineral properties involves significant financial risk. Very few properties that are explored are later developed into operating mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including; the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical; and government regulation, including regulations relating to prices, taxes, royalties land tenure, land use, importing and exporting of minerals and environment protection. As a result, the Company cannot provide assurance that its exploration efforts will result in any new commercial mining operations or yield new mineral reserves.

### **Community Relations**

The Company's relationships with the communities in which it operates and other stakeholders are critical to ensure the future success of its existing operations and the construction and development of its projects. There is an increasing level of public concern relating to the perceived effect of mining activities on the environment and on communities impacted by such activities. Publicity adverse to us, the Company's operations, or extractive industries generally, could have an adverse effect on the Company and may impact relationships with the communities in which the Company operates and other stakeholders. While the Company is committed to operating in a socially responsible manner, there can be no assurance that its efforts, in this respect, will mitigate this potential risk.

### **Environmental and Other Regulatory Requirements**

All phases of mining and exploration operations are subject to government regulation including regulations pertaining to environmental protection. Environmental legislation is becoming stricter, with increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and heightened

responsibility for companies and their officers, directors and employees. There can be no assurance that possible future changes in environmental regulation will not adversely affect the Company's operations. As well, environmental hazards may exist on a property in which the Company holds an interest, which were caused by previous or existing owners or operators of the properties and of which the Company is not aware at present. Operations at the Company's mines are subject to strict environmental and other regulatory requirements, including requirements relating to the production, handling and disposal of hazardous materials, pollution controls, health and safety and the protection of wildlife. The Company may be required to incur substantial capital expenditures in order to comply with these requirements. Any failure to comply with the requirements could result in substantial fines, delays in production, or the withdrawal of the Company's mining licenses.

Government approvals and permits are required to be maintained in connection with the Company's mining and exploration activities. With the exception of certain of Aguablanca's water licenses (see *Infrastructure*), the Company has all the required permits for its operations as currently conducted; however, there is no assurance that delays will not occur in connection with obtaining all necessary renewals of such permits for the existing operations or additional permits for any possible future changes to the Company's operations, including any proposed capital improvement programs. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws, may have a material adverse impact on the Company resulting in increased capital expenditures or production costs, reduced levels of production at producing properties or abandonment or delays in development of properties.

#### **Mineral Resource and Reserve Estimates**

The Company's reported Mineral Resources and Mineral Reserves are only estimates. No assurance can be given that the estimated Mineral Resources and Mineral Reserves will be recovered or that they will be recovered at the rates estimated. Mineral Resource and Mineral Reserve estimates are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Mineral Resource and Mineral Reserve estimates may require revision (either up or down) based on actual production experience. Market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain Mineral Resources and Mineral Reserves uneconomic and may ultimately result in a restatement of estimated resources and/or reserves. Moreover, short-term operating factors relating to the Mineral Resources and Mineral Reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades or types, may adversely affect the Company's profitability in any particular accounting period.

#### **Estimation of Asset Carrying Values**

The Company annually undertakes a detailed review of the 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 its operating and development properties are assessed by comparing carrying values to estimated future net cash flows and/or market values for each property.

Factors which may affect the recoverability of carrying values include, but are not limited to, metal prices, foreign exchange rates, capital cost estimates, mining, processing and other operating costs, grade and 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 material write-downs of its operating and development properties.

#### **Funding Requirements and Economic Volatility**

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. Failure to obtain such additional funding could result in the delay or indefinite postponement of the exploration and development of the Company's properties.

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, 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.

The Company's access to funds under its credit facilities is dependent on the ability of the financial institutions that are parties to the facilities to meet their funding commitments. Those financial institutions may not be able to meet their funding requirements if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. Moreover, the obligations of the financial institutions under the credit facilities are several and not joint and, as a result, a funding default by one or more institutions does not need to be made up by the others. Such disruptions 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.

#### **Uninsurable Risks**

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, work force health issues, contaminations, labour disputes, changes in regulatory environment, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences, as well as political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks because of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not maintain insurance against political risks.

#### **No Assurance of Titles or Boundaries**

Although the Company has investigated the right to explore and exploit its various properties and obtained records from government offices with respect to all of the mineral claims comprising its properties, this should not be construed as a guarantee of title. Other parties may dispute the title to a property or the property may be subject to prior unregistered agreements and transfers or land claims by aboriginal, native, or indigenous peoples. The title may be affected by undetected encumbrances or defects or governmental actions. The Company has not conducted surveys of all of its properties and the precise area and location of claims or the properties may be challenged.

#### **Market Price of Common Shares**

The Company's share price may be significantly affected by short-term changes in commodity prices or in the Company's financial condition or results of operations. Other factors unrelated to the Company's performance may also have an effect on the price of the Company's common shares. The market price of the Company's common shares, at any given point in time, may not accurately reflect its long-term value.

## **Litigation**

The Company is subject, from time to time, to litigation and may be involved in disputes with other parties in the future, which may result in litigation. The Company cannot accurately predict the outcome of any litigation. If the Company cannot resolve these disputes favourably, the Company's activities, financial condition, results of operations, future prospects and share price may be materially adversely affected.

## **Partner in the Tenke Fungurume Mine**

The operating partner in the Company's Tenke Fungurume copper/cobalt mine is Freeport. There may be risks associated with this partner of which the Company is not aware.

## **Tax**

The Company runs its business in different countries and strives to run its business in as tax efficient a manner as possible. The tax systems in certain of these countries are complicated and subject to changes. By this reason, future negative effects on the result of the Company due to changes in tax regulations cannot be excluded. Any such changes in taxation laws or reviews and assessments could result in higher taxes being payable by the Company which could adversely affect the Company's profitability. Repatriation of earnings to Canada from other countries may be subject to withholding taxes. The Company has no control over changes in tax regulations and withholding tax rates.

## **Employee Relations**

A prolonged labour disruption by employees or suppliers at any of the Company's mining operations or distribution channels could have a material adverse effect on the Company's ability to achieve its objectives with respect to such properties and its operations as a whole.

## **Infrastructure**

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges and power and water supplies are important determinants which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage or government or other interference in the maintenance or provision of such infrastructure could adversely affect the activities and profitability of the Company.

During recent years, the water supply has been the object of political debate between the region in which Aguablanca operates and the neighbouring region. The Company is continuing to advance its application with central and regional authorities to obtain all of the water licenses required to satisfy all of its supply requirements.

## **Acquisition and Integration**

The strategic acquisition of a mining company, property or asset may change the scale of the Company's business and operation, exposing the Company to new geographic, political, operational and financial risks, many of which are inherent in our existing operations (as identified above). In addition, the Company may discover it has acquired a substantial undisclosed liability with little recourse against the seller. Such liabilities could have an adverse impact on the Company's business, financial condition, results of operations and cash flows. The Company's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, complete effective due diligence activities, negotiate acceptable terms and efficiently and effectively integrate the acquired operations into the Company.

## **Key Personnel**

It is crucial that that the Company motivates, retains and attracts highly skilled employees, but there can be no assurance that the Company will successfully retain current key personnel or attract additional qualified

personnel to manage the Company's current or future needs. The Company does not have key person insurance on these individuals.

## **Outstanding Share Data**

As at February 20, 2014, the Company had 584,936,841 common shares issued and outstanding and 9,713,666 stock options outstanding under its incentive stock option plans.

## **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. The 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.

- **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 administration expenses.

- **Cash cost per pound**

Copper, zinc and nickel 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 compared to plan and to assess overall efficiency and effectiveness of the mining operations.

Lundin provides cash cost information as it is a key performance indicator required by users of the Company’s financial information in order to assess the Company’s profit potential and performance relative to its peers. The cash cost figure represents the total of all cash costs directly attributable to the related mining operations after the deduction of credits in respect of by-product sales and royalties. 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. By-product credits are an important factor in determining the cash costs. The cost per pound experienced by the Company will be positively affected by rising prices for by-products and adversely affected when prices for these metals are falling.

## Reconciliation of unit cash costs of payable copper, zinc and nickel metal sold to the consolidated statements of earnings

Cash costs can be reconciled to the Company's operating costs as follows:

	Three months ended December 31, 2013				Three months ended December 31, 2012			
	Total		Cash	Operating	Total		Cash	Operating
	Tonnes Sold	Pounds (000s)	Costs \$/lb	Costs (\$000s)	Tonnes Sold	Pounds (000s)	Costs \$/lb	Costs (\$000s)
<b>Operation</b>								
Neves-Corvo (Cu)	14,197	31,299	1.75	54,773	13,024	28,713	2.17	62,307
Zinkgruvan (Zn)	15,216	33,546	0.37	12,412	16,588	36,570	0.12	4,388
Aguablanca (Ni) <sup>1</sup>	1,346	2,967	2.95	8,753	508	1,120	6.19	6,933
Galmoy (Zn) <sup>2</sup>				1,276				373
				77,214				74,001
Add: By-product credits				47,728				47,475
Treatment costs				(16,621)				(13,825)
Royalties and other				5,048				9,654
<b>Total Operating Costs</b>				<b>113,369</b>				<b>117,305</b>

	Twelve months ended December 31, 2013				Twelve months ended December 31, 2012			
	Total		Cash	Operating	Total		Cash	Operating
	Tonnes Sold	Pounds (000s)	Costs \$/lb	Costs (\$000s)	Tonnes Sold	Pounds (000s)	Costs \$/lb	Costs (\$000s)
<b>Operation</b>								
Neves-Corvo (Cu)	53,394	117,714	1.90	223,657	56,497	124,555	1.79	222,953
Zinkgruvan (Zn)	59,486	131,144	0.32	41,966	71,809	158,312	0.13	20,581
Aguablanca (Ni) <sup>1</sup>	5,472	12,064	3.78	45,602	915	2,017	6.76	17,405
Galmoy (Zn) <sup>2</sup>				5,105				6,580
				316,330				267,519
Add: By-product credits				193,413				151,927
Treatment costs				(62,663)				(61,820)
Royalties and other				14,075				27,371
<b>Total Operating Costs</b>				<b>461,155</b>				<b>384,997</b>

1. 2013 cash costs includes an adjustment to account for the write-down of concentrate inventory to net realizable value in 2012.

2. Operating costs for Galmoy include shipment and processing of ore by an adjacent mine.

## **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, 2013.

### ***Internal control over financial reporting***

The Company's internal control over financial reporting 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 Committee of Sponsoring Organizations of the Treadway Commission ('COSO') framework 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, 2013.

### ***Limitations on scope of design***

During the year, the Company acquired the Eagle Project, however the Company has not had sufficient time to fully assess the design of DCP and ICFR inherent in the organization and accordingly has limited the scope of the above assessment on the design of DCP and ICFR to exclude the Eagle Project.

### ***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, 2013 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](http://www.sedar.com).

## Other Supplementary Information

### 1. *List of directors and officers at February 20, 2014:*

#### (a) **Directors:**

Donald K. Charter  
Paul K. Conibear  
John H. Craig  
Brian D. Edgar  
Peter C. Jones  
Lukas H. Lundin  
Dale C. Peniuk  
William A. Rand

#### (b) **Officers:**

Lukas H. Lundin, *Chairman*  
Paul K. Conibear, *President and Chief Executive Officer*  
Marie Inkster, *Senior Vice President and Chief Financial 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*  
James A. Ingram, *Corporate Secretary*

### 2. **Financial Information**

The report for the first quarter of 2014 is expected to be published by April 29, 2014.

### 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](http://www.lundinmining.com)

Address (UK office):

Lundin Mining UK Limited  
Hayworthe House, 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:**

Sophia Shane, *Investor Relations, North America*: +1-604-689-7842: [sophias@namdo.com](mailto:sophias@namdo.com)

Robert Eriksson, *Investor Relations, Sweden*: +46-8-545-015-50, [robert.eriksson@vostoknafta.com](mailto:robert.eriksson@vostoknafta.com)

John Miniotis, *Senior Manager, Corporate Development and Investor Relations*: +1-416-342-5560, [john.miniotis@lundinmining.com](mailto:john.miniotis@lundinmining.com)

Consolidated Financial Statements of

**Lundin Mining Corporation**

December 31, 2013

## 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 Canadian Institute of Chartered Professional Accountants, 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*

President and Chief Executive Officer

Toronto, Ontario, Canada  
February 20, 2014

*(Signed) Marie Inkster*

Senior Vice President and Chief Financial Officer





February 20, 2014

## **Independent Auditor's Report**

### **To the Shareholders of Lundin Mining Corporation**

We have audited the accompanying consolidated financial statements of Lundin Mining Corporation which comprise the consolidated balance sheets as at December 31, 2013 and 2012 and the consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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T: +1 416 863 1133, F: +1 416 365 8215, [www.pwc.com/ca](http://www.pwc.com/ca)*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lundin Mining Corporation as at December 31, 2013 and 2012 and its financial performance and its 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)	<b>December 31, 2013</b>	December 31, 2012
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 4)	\$ 116,640	\$ 275,104
Trade and other receivables (Note 5)	114,196	110,808
Income taxes receivable	24,909	6,494
Inventories (Note 6)	44,651	48,740
	<b>300,396</b>	441,146
Non-Current		
Restricted funds (Note 7)	63,869	51,617
Marketable securities and other assets (Note 8)	21,617	39,052
Mineral properties, plant and equipment (Note 9)	1,784,868	1,270,813
Investment in associates (Note 10)	2,063,846	2,003,053
Deferred tax assets (Note 11)	24,031	18,893
Goodwill (Note 12)	173,383	165,877
	<b>4,131,614</b>	3,549,305
	<b>\$ 4,432,010</b>	\$ 3,990,451
<b>LIABILITIES</b>		
Current		
Trade and other payables (Note 13)	\$ 155,500	\$ 119,714
Income taxes payable	1,903	5,726
Current portion of deferred revenue (Note 14)	4,849	17,683
Current portion of long-term debt and finance leases (Note 15)	3,341	3,037
Current portion of reclamation and other closure provisions (Note 17)	8,712	6,486
	<b>174,305</b>	152,646
Non-Current		
Deferred revenue (Note 14)	56,163	59,979
Long-term debt and finance leases (Note 15)	225,435	6,985
Reclamation and other closure provisions (Note 17)	142,958	124,244
Other long-term liabilities	3,234	3,625
Provision for pension obligations (Note 19)	20,752	21,216
Deferred tax liabilities (Note 11)	139,558	148,677
	<b>588,100</b>	364,726
	<b>762,405</b>	517,372
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	3,509,343	3,505,398
Contributed surplus	40,379	34,140
Accumulated other comprehensive loss	(27,620)	(77,213)
Retained earnings	147,503	10,754
	<b>3,669,605</b>	3,473,079
	<b>\$ 4,432,010</b>	\$ 3,990,451

Commitments and contingencies (Note 23)

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

**APPROVED BY THE BOARD**

(Signed) Lukas H. Lundin  
Director

(Signed) Dale C. Peniuk  
Director

**LUNDIN MINING CORPORATION**

## CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31, 2013 and 2012

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

	<b>2013</b>	<b>2012</b>
Sales	\$ <b>727,782</b>	\$ 721,106
Operating costs (Note 18)	<b>(461,155)</b>	(384,997)
Depreciation, depletion and amortization (Note 9)	<b>(148,149)</b>	(122,379)
General and administrative expenses	<b>(23,570)</b>	(27,445)
General exploration and business development (Note 20)	<b>(43,668)</b>	(66,064)
Income from equity investment in associates (Note 10)	<b>93,967</b>	101,516
Finance income (Note 21)	<b>1,945</b>	2,983
Finance costs (Note 21)	<b>(14,745)</b>	(10,441)
Other income (Note 22)	<b>17,506</b>	9,311
Other expenses (Note 22)	<b>(18,949)</b>	(9,708)
Asset impairment (Notes 9 and 12)	<b>-</b>	(67,252)
Earnings before income taxes	<b>130,964</b>	146,630
Current tax expense (Note 11)	<b>(12,471)</b>	(51,983)
Deferred tax recovery (Note 11)	<b>18,256</b>	28,533
<b>Net earnings</b>	<b>\$ 136,749</b>	<b>\$ 123,180</b>
Basic and diluted earnings per share	\$ <b>0.23</b>	\$ 0.21
Weighted average number of shares outstanding (Note 16)		
Basic	<b>584,276,739</b>	582,942,459
Diluted	<b>584,938,925</b>	584,013,588

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

## LUNDIN MINING CORPORATION

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2013 and 2012

(in thousands of US dollars)

	2013	2012
Net earnings	\$ 136,749	\$ 123,180
<b>Other comprehensive income, net of taxes</b>		
Items that may be reclassified subsequently to net earnings:		
Unrealized (loss) gain on marketable securities	(8,989)	3,952
Impairment losses on marketable securities reclassified to net earnings (Note 21)	5,221	-
Effects of foreign currency translation	53,548	37,094
Items that will not be reclassified to net earnings:		
Remeasurements for post-employment benefit plans	(187)	(1,755)
<b>Other comprehensive income</b>	<b>49,593</b>	<b>39,291</b>
<b>Comprehensive income</b>	<b>\$ 186,342</b>	<b>\$ 162,471</b>

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2013 and 2012

(in thousands of US dollars, except for shares)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss (Note 19)	Retained earnings (deficit)	Total
Balance, December 31, 2012	584,005,006	\$ 3,505,398	\$ 34,140	\$ (77,213)	\$ 10,754	\$ 3,473,079
Net earnings	-	-	-	-	136,749	136,749
Other comprehensive income	-	-	-	49,593	-	49,593
Total comprehensive income	-	-	-	49,593	136,749	186,342
Exercise of stock options	588,057	3,684	(1,290)	-	-	2,394
Share issuance	50,000	261	-	-	-	261
Share-based compensation	-	-	7,529	-	-	7,529
<b>Balance, December 31, 2013</b>	<b>584,643,063</b>	<b>\$ 3,509,343</b>	<b>\$ 40,379</b>	<b>\$ (27,620)</b>	<b>\$ 147,503</b>	<b>\$ 3,669,605</b>
Balance, December 31, 2011	582,475,287	\$ 3,497,006	\$ 29,450	\$ (116,504)	\$ (112,426)	\$ 3,297,526
Net earnings	-	-	-	-	123,180	123,180
Other comprehensive income	-	-	-	39,291	-	39,291
Total comprehensive income	-	-	-	39,291	123,180	162,471
Exercise of stock options	1,529,719	8,392	(2,545)	-	-	5,847
Share-based compensation	-	-	7,235	-	-	7,235
Balance, December 31, 2012	584,005,006	\$ 3,505,398	\$ 34,140	\$ (77,213)	\$ 10,754	\$ 3,473,079

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, 2013 and 2012

(in thousands of US dollars)

	2013	2012
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings	\$ 136,749	\$ 123,180
Items not involving cash		
Depreciation, depletion and amortization	148,149	122,379
Share-based compensation	7,301	7,739
Income from equity investment in associates	(93,967)	(101,516)
Foreign exchange loss (gain)	7,812	(581)
Deferred tax recovery	(18,256)	(28,533)
Recognition of deferred revenue	(16,660)	(22,020)
Reclamation and closure provisions	2,451	5,027
Finance income and costs	11,816	5,979
Asset impairment	-	67,252
Other	2,284	2,467
Reclamation payments	(6,881)	(3,221)
Pension payments	(1,675)	(1,186)
Prepayments received (Note 14)	-	14,514
Changes in non-cash working capital items (Note 29)	(25,379)	2,568
	<b>153,744</b>	<b>194,048</b>
<b>Investing activities</b>		
Investment in mineral properties, plant and equipment	(243,674)	(159,371)
Acquisition of Eagle Project (Note 3)	(317,955)	-
Acquisition of Freeport Cobalt (Note 10)	(116,253)	-
Investment in associates	-	(15,000)
Distributions from associates	149,427	-
Restricted funds (contribution) withdrawn, net	(9,415)	5,534
Proceeds from sale (acquisition) of marketable securities, net	1,178	(18,379)
Other	(50)	153
	<b>(536,742)</b>	<b>(187,063)</b>
<b>Financing activities</b>		
Common shares issued	1,562	5,847
Proceeds from credit facilities	313,000	-
Long-term debt repayments	(87,490)	(21,644)
Proceeds from government grants	-	15,107
Repayments of government grants	-	(3,220)
Financing fees paid	(6,419)	(1,731)
	<b>220,653</b>	<b>(5,641)</b>
Effect of foreign exchange on cash balances	3,881	8,360
(Decrease) increase in cash and cash equivalents during the year	(158,464)	9,704
Cash and cash equivalents, beginning of year	275,104	265,400
Cash and cash equivalents, end of year	\$ 116,640	\$ 275,104

Supplemental cash flow information (Note 29)

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

# LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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

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## 1. NATURE OF OPERATIONS

Lundin Mining Corporation (the "Company") is a diversified Canadian base metals mining company. The Company's wholly-owned operating assets include the Neves-Corvo copper/zinc mine located in Portugal, the Zinkgruvan zinc/lead mine located in Sweden, and the Aguablanca nickel/copper mine located in Spain. The Company also owns the high grade nickel/copper Eagle project in the United States ("US"), and 24% equity accounted interests in the Tenke Fungurume copper/cobalt 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'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 \$ is to US dollars, C\$ is to Canadian dollars, SEK is to Swedish Krona and € refers to the Euro.

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 20, 2014.

### (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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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

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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 entities to bring their accounting policies in line with those used by the Company. Intra-group transactions, balances, income and expenses are eliminated on consolidation.

(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.

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.



## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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

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(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. 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 net realizable value.

If carrying value exceeds net realizable amount, 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 resources 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 resources are expensed as incurred.
- iii. Deferred stripping costs 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, provide 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 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 reserve, are capitalized as development expenses. 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 deferred as mineral property expenditures when it is probable that additional economic benefit will be derived from future operations.

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v. Incidental pre-production expenditures net of the proceeds from sales generated, if any, are recognized in the consolidated statement of earnings.

vi. 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 reserves.

### (h) Plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment charges. Depreciation 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	20 - 30
Plant and machinery	5 - 20
Equipment	5

### (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

The Company assesses at each reporting period 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, 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 cost of disposal 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 arise from subsequent reviews of the impaired assets where the conditions which gave rise to the original impairments are deemed no longer to apply. The carrying value of the asset

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is increased to the revised estimate of its recoverable amount. 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) Borrowing costs

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.

(l) 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.

Goodwill is reviewed for impairment at least annually or when events or circumstances indicate that an assessment for impairment will be required. For purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the CGU may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which 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.

(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 operating 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

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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 statement 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 risk 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 immediately 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 non-current 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 operating activities. The related 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

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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 in exchange for the provision of services from certain employees and officers. The share options 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 options, with a corresponding credit to contributed surplus. When the share options 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 adjust the total expense to be recognized over the vesting period.

(s) Deferred and current income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently 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 by 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 also dealt with in equity.

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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 per share is calculated using the weighted average number of common shares outstanding during each reporting period. Diluted earnings 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 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.

*Available for sale ("AFS")*

A financial asset is classified as AFS if it is a non-derivative financial asset that is designated as AFS or is not classified as loans and receivables, a held-to-maturity investment or FVTPL.

AFS assets are measured at fair value with changes in fair values recognized in other comprehensive income. When an AFS asset has sustained a loss in value which is significant or prolonged, the loss is recognized in the consolidated statement of earnings. Subsequent losses related to impaired AFS investments will also be recognized in the consolidated statement of earnings and subsequent gains will be recognized in OCI.

*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.

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### *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.

### (v) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all the attached conditions. Government grants relating to costs are deferred and recognized in the consolidated statement of earnings over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to plant and equipment are credited to the cost of the property for which the grant was received. The Company only recognizes grants when there is reasonable assurance that the conditions attached will be complied with and the grants will be received.

### (iii) **New accounting policies adopted during the year**

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

*IAS 19 Employee benefits* amendments effective January 1, 2013. The changes in this standard resulted in the cessation of the use of the "corridor method" where actuarial gains and losses within a specified threshold were previously unrecognized. In adopting this standard, the Company revised all applicable comparative figures. Refer to Note 19 for the effects of the accounting policy change.

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, *Investments in Associates and Joint Ventures (amended in 2011)*. The other amendments to IAS 28 did not affect the Company. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

IFRS 13, *Fair Value Measurement*, provides a single framework for measuring fair value. The measurement

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of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

The Company has adopted the amendments to IAS 1, *Presentation of Financial Statements*, effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be subsequently reclassified to the consolidated statement of earnings and those that will not be reclassified. These changes did not result in any adjustments to comprehensive income.

IAS 36, *Impairment of Assets*, was amended to limit the scope of required disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and will be applied retrospectively. Earlier application is permitted. The Company has early adopted these amendments.

### (iv) New accounting pronouncements

IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the impairment. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board. The IASB has deferred the mandatory effective date for annual periods beginning on or after January 1, 2015 and has left it open pending the finalization of the impairment and classification and measurement requirements.

IFRIC 21, *Accounting for Levies Imposed by Governments*, clarifies that obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. This standard is effective for annual periods beginning on or after January 1, 2014. The Company is still assessing the impact of this standard.

### (v) 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 materially differ 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.



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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 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 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 and economic data and the reliance on a number of assumptions. The estimates of the 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 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 reserves would have a relatively greater effect on the amortization of the current mining operations at Aguablanca 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 and the Zinkgruvan mine have longer mine lives and would be less affected by a change in the reserve estimate.

**Valuation of mineral properties and exploration properties** - The Company carries its mineral properties at cost less any provision for impairment. The Company expenses exploration costs which are related to specific projects until the 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. An impairment loss 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, 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 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, 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

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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 12 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.

**Pension obligations** - The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The principal assumptions used in determining the net cost for pensions include the discount rate and the rate of salary increase. Any changes in these assumptions will impact the carrying amount of pension obligations.

**Share-based compensation** - The Company grants stock options to certain employees under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. Option pricing models require the input of highly subjective assumptions including expected price volatility of the underlying shares and life of the options. Changes in the input assumptions can materially affect the fair value estimate. Assumption details are discussed in Note 16.

### (vi) **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:

**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.

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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.

### 3. ACQUISITION OF EAGLE

On July 17, 2013 the Company acquired 100% of Eagle Mine LLC, which owns a nickel/copper underground mine and an associated mill that are under development (“Eagle Project” or “Eagle”) located in the Upper Peninsula of Michigan, USA. Total cash consideration paid was \$314.9 million, including project expenditures from January 1, 2013 until transaction closing, July 17, 2013 of \$64.9 million. On acquisition, the Company drew down \$200 million on its credit facility to fund a portion of the acquisition price of the Eagle Project. The remaining amounts were funded using cash on hand.

Based on management's judgment, this project does not meet the definition of a business as key processes and infrastructure were not present nor readily obtainable at the date of acquisition. Accordingly, the Company has accounted for the Eagle Project as an asset acquisition. The identifiable assets were measured at cost and then assigned a carrying amount based on their relative fair values.

#### The purchase price is as follows:

Cash consideration	\$	314,908
Acquisition costs		3,047
<b>Total purchase price</b>	<b>\$</b>	<b>317,955</b>

#### Assets acquired and liabilities assumed:

Mineral properties, plant and equipment	\$	341,829
Inventory		30
Trade and other payables		(16,946)
Reclamation and other provisions		(6,958)
	<b>\$</b>	<b>317,955</b>

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	December 31, 2013	December 31, 2012
Cash	\$ 116,603	\$ 243,069
Short-term deposits	37	32,035
	<b>\$ 116,640</b>	<b>\$ 275,104</b>

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### 5. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	December 31, 2013	December 31, 2012
Trade receivables	\$ 85,435	\$ 78,114
Value added tax	15,432	16,748
Other receivables	9,246	12,607
Prepaid expenses	4,083	3,339
	<b>\$ 114,196</b>	<b>\$ 110,808</b>

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 26.

The carrying amounts of trade and other receivables are denominated as follows: \$84.8 million, €17.6 million, SEK19.1 million and C\$1.3 million as at December 31, 2013 (2012 - \$78.0 million, €22.6 million, SEK 13.0 million, C\$0.7 million).

### 6. INVENTORIES

Inventories are comprised of the following:

	December 31, 2013	December 31, 2012
Ore stockpiles	\$ 12,227	\$ 10,933
Concentrate stockpiles	14,470	18,954
Materials and supplies	17,954	18,853
	<b>\$ 44,651</b>	<b>\$ 48,740</b>

The cost of inventories expensed and included in total operating costs for the year was \$575.4 million (2012 - \$471.5 million).

### 7. RESTRICTED FUNDS

Restricted funds are comprised of the following:

	December 31, 2013	December 31, 2012
Reclamation funds	\$ 53,136	\$ 49,341
Restricted cash	10,733	2,276
	<b>\$ 63,869</b>	<b>\$ 51,617</b>

During 2013, the Company contributed \$8.6 million to restricted cash relating to a tax assessment.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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### 8. MARKETABLE SECURITIES AND OTHER ASSETS

Marketable securities and other assets comprise the following:

	<b>December 31, 2013</b>	December 31, 2012
Marketable securities (a)	\$ 17,347	\$ 34,330
Other assets	4,270	4,722
	<b>\$ 21,617</b>	<b>\$ 39,052</b>

#### a) Marketable securities

Marketable securities include FVTPL and AFS investments.

The changes in marketable securities are as follows:

	<b>FVTPL Investments</b>	<b>AFS Investments</b>	<b>Total</b>
As at December 31, 2011	\$ 15,067	\$ -	\$ 15,067
Additions	4,304	15,875	20,179
Disposals	(2,571)	-	(2,571)
Revaluation	(2,321)	3,952	1,631
Effects of foreign exchange	134	(110)	24
As at December 31, 2012	14,613	19,717	34,330
Additions	-	1,272	1,272
Disposals	(2,450)	-	(2,450)
Revaluation	(4,141)	(8,989)	(13,130)
Effects of foreign exchange	(604)	(2,071)	(2,675)
<b>As at December 31, 2013</b>	<b>\$ 7,418</b>	<b>\$ 9,929</b>	<b>\$ 17,347</b>

The Company has investments in companies holding exploration projects considered to have development potential of specific interest to the Company. These investments are classified as AFS investments and the revaluations related to these investments are recorded in OCI. During the year, the Company's AFS investments experienced significant and prolonged losses, and as a result, an impairment was recognized. Upon impairment, all cumulative gains and losses relating to these investments previously recorded in accumulated other comprehensive income are recognized in finance income and costs (see Note 21).

Revaluation on marketable securities designated as FVTPL is recorded in finance income and costs.

During 2013, the Company received cash proceeds of \$2.5 million (2012 - nil) as a result of disposals.

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### 9. 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, 2011	\$ 1,504,273	\$ 617,288	\$ 59,746	\$ 12,127	\$ 2,193,434
Additions	115,559	14,966	-	43,939	174,464
Grants recognized	-	(18,828)	-	-	(18,828)
Impairment	(27,977)	(9,356)	-	(1,835)	(39,168)
Disposals and transfers	2,803	30,249	-	(35,304)	(2,252)
Effects of foreign exchange	51,773	20,559	844	1,493	74,669
As at December 31, 2012	1,646,431	654,878	60,590	20,420	2,382,319
Acquisition of Eagle Project	10,369	15,397	-	316,063	341,829
Additions	63,760	3,438	501	209,274	276,973
Disposals and transfers	1,891	57,873	(721)	(72,816)	(13,773)
Effects of foreign exchange	56,553	26,881	2,860	1,874	88,168
<b>As at December 31, 2013</b>	<b>\$ 1,779,004</b>	<b>\$ 758,467</b>	<b>\$ 63,230</b>	<b>\$ 474,815</b>	<b>\$ 3,075,516</b>

Accumulated depreciation, depletion and amortization	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2011	\$ 723,500	\$ 227,808	\$ -	\$ -	\$ 951,308
Depreciation	79,149	43,230	-	-	122,379
Disposals and transfers	286	(1,339)	-	-	(1,053)
Effects of foreign exchange	28,759	10,113	-	-	38,872
As at December 31, 2012	831,694	279,812	-	-	1,111,506
Depreciation	103,822	44,327	-	-	148,149
Disposals and transfers	(2,810)	(8,324)	-	-	(11,134)
Effects of foreign exchange	28,650	13,477	-	-	42,127
<b>As at December 31, 2013</b>	<b>\$ 961,356</b>	<b>\$ 329,292</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,290,648</b>

Net book value	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2012	\$ 814,737	\$ 375,066	\$ 60,590	\$ 20,420	\$ 1,270,813
<b>As at December 31, 2013</b>	<b>\$ 817,648</b>	<b>\$ 429,175</b>	<b>\$ 63,230</b>	<b>\$ 474,815</b>	<b>\$ 1,784,868</b>

During the year ended December 31, 2013, the Company capitalized \$3.0 million of borrowing costs related to the credit facility drawn for the acquisition and development of the Eagle Project (Note 15).

The net carrying amount of equipment under finance leases is \$4.9 million (2012 - \$5.7 million).

During 2012, the Company recognized a mineral property and plant and equipment impairment of \$39.2 million (\$34.0 million after-tax) related to its Aguablanca mine. This impairment was as a result of reduced open-pit production over life of mine due to pit instability which occurred during late-2012.

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Depreciation, depletion and amortization is comprised of:

	2013		2012	
Operating costs	\$	147,839	\$	121,977
General and administrative expenses		310		402
Depreciation, depletion and amortization	\$	148,149	\$	122,379

### 10. INVESTMENT IN ASSOCIATES

	Tenke		Freeport		Total
	Fungurume		Cobalt		
As at December 31, 2011	\$	1,886,537	\$	-	\$ 1,886,537
Advances		15,000		-	15,000
Share of equity income		101,516		-	101,516
As at December 31, 2012		2,003,053		-	2,003,053
Acquisition		-		116,253	116,253
Distributions		(141,810)		(7,617)	(149,427)
Share of equity income (loss)		97,769		(3,802)	93,967
<b>As at December 31, 2013</b>	<b>\$</b>	<b>1,959,012</b>	<b>\$</b>	<b>104,834</b>	<b>\$ 2,063,846</b>

#### a) Investment in Tenke Fungurume

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"). Freeport McMoRan Copper & Gold Inc. ("FCX") holds the remaining 70% interest in TFH. TFM holds a 100% interest in the Tenke Fungurume copper/cobalt mine. The Company's and FCX's effective interests in TFM are 24% and 56%, respectively. La Générale des Carrières et des Mines ("Gécamines"), a DRC Government-owned corporation, owns a free-carried 20% interest.

FCX is the operator of the Tenke Fungurume mine. The Company exercises significant influence over TFM and accordingly, the Company uses the equity method to account for this investment.

On March 26, 2012, the Company's effective ownership in TFM decreased from 24.75% to 24%. This change did not have a significant impact on the Company's consolidated statement of earnings nor on its consolidated balance sheet position.

The Company received cash distributions of \$141.8 million in 2013. In 2012, the Company made cash advances of \$15.0 million. Commitments relating to Tenke Fungurume are disclosed in Note 23.

The following is a summary of the consolidated financial information of TFH on a 100% basis:

	December 31,		December 31,	
		2013		2012
Total current assets	\$	648,488	\$	626,781
Total non-current assets	\$	2,937,118	\$	2,832,808
Total current liabilities	\$	99,144	\$	116,068
Total non-current liabilities	\$	559,085	\$	888,862

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	2013		2012	
Total sales	\$	1,666,725	\$	1,384,024
Total net earnings	\$	409,214	\$	372,917

### b) Investment in Freeport Cobalt

On March 29, 2013, the Company completed its acquisition of a 24% ownership interest in Kokkola Chemicals Oy, a cobalt refinery in Finland, and its related sales and marketing business. FCX holds a 56% ownership interest and Gécamines owns the remaining 20% interest in Freeport Cobalt. The acquisition cost was \$348 million and the Company funded \$116.3 million based on 30%/70% split with FCX. Additional attributable consideration up to \$73.3 million (the Company's 30% share, up to \$22.0 million) remains potentially payable over a period of two years, contingent upon the achievement of revenue-based performance targets.

## 11. CURRENT AND DEFERRED INCOME TAXES

	2013		2012	
Current tax expense:				
Current tax on net earnings	\$	10,220	\$	51,878
Adjustments in respect of prior years		2,251		105
		12,471		51,983
Deferred tax (recovery) expense:				
Origination and reversal of temporary differences		(17,664)		(39,871)
Change in tax rates		1,898		(2,177)
Utilization of previously unrecognized tax losses and temporary differences		(7,823)		(4,536)
Tax losses for which no deferred income tax asset was recognized		5,333		18,051
		(18,256)		(28,533)
Total tax (recovery) expense	\$	(5,785)	\$	23,450

In 2013, the Company recorded adjustments totalling \$2.3 million in respect of prior years, including a Portuguese tax assessment of \$2.6 million for copper hedging losses in 2010.



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

	<b>2013</b>	<b>2012</b>
Earnings before income tax	\$ <b>130,964</b>	\$ 146,630
Combined basic federal and provincial rates	<b>26.5%</b>	26.5%
Income taxes based on Canadian statutory income tax rates	\$ <b>34,705</b>	\$ 38,857
Effect of lower tax rates in foreign jurisdictions	<b>(28,524)</b>	(30,003)
Tax calculated at domestic tax rates applicable to earnings in the respective countries	<b>6,181</b>	8,854
Tax effects of:		
Non-deductible and non-taxable items	<b>4,454</b>	12,159
Change in tax rates	<b>1,898</b>	(2,177)
Adjustments in respect of prior years	<b>(1,848)</b>	(1,898)
Tax losses for which no deferred income tax asset was recognized	<b>5,333</b>	18,051
Utilization of previously unrecognized tax losses and temporary differences	<b>(7,823)</b>	(4,536)
Tax recovery associated with government grants and other tax credits	<b>(14,309)</b>	(7,576)
Other	<b>329</b>	573
Total tax (recovery) expense	\$ <b>(5,785)</b>	\$ 23,450

The weighted average applicable tax rate for 2013 was -4.4% (2012 – 6.0%). The decrease in the tax rate is caused by an increase in the ratio of income from the equity investment in Tenke Fungurume (held through a subsidiary with a zero tax rate) to consolidated net earnings and also due to the change of profitability of the company's subsidiaries in the respective countries that have tax rates ranging from 22% to 31.5%.

During 2013, Neves-Corvo received tax credits of \$14.3 million to offset 2013 taxes payable. It is also expecting a future tax credit of \$8.6 million in 2014. The future tax rate in Portugal has changed from 29% to 29.5% resulting in additional deferred tax expense of \$1.9 million.

Aguablanca and Galmoy mines utilized deferred tax assets and tax losses which had not been recognized in prior periods to offset 2013 taxable income resulting in a tax recovery of \$7.8 million.

During 2012, Sweden reduced its statutory rate from 26.3% to 22% commencing 2013, resulting in a deferred tax recovery of \$3.0 million.

### Deferred tax assets (liabilities), net

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Deferred tax liabilities:		
Deferred tax liabilities to be settled after more than 12 months	<b>(122,685)</b>	(127,905)
Deferred tax assets (liabilities) to be settled within 12 months	<b>7,158</b>	(1,879)
Deferred tax liabilities, net	\$ <b>(115,527)</b>	\$ (129,784)

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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, 2012	(Expensed)/ recovered	Effects of foreign exchange	As at December 31, 2013
<b>Deferred tax assets:</b>				
Loss carryforwards	\$ 8,745	\$ 29,311	\$ 147	\$ 38,203
Reclamation and other closure provisions	21,801	5,680	1,014	28,495
Pension obligations	2,760	16	3	2,779
Future tax credits	-	10,734	410	11,144
Other	5,280	(2,624)	(140)	2,516
<b>Deferred tax liabilities:</b>				
Mineral properties, plant & equipment	(151,417)	(22,461)	(5,681)	(179,559)
Reserves	(16,953)	(1,823)	(329)	(19,105)
	\$ (129,784)	\$ 18,833	\$ (4,576)	\$ (115,527)

	As at December 31, 2011	(Expensed)/ recovered	Effects of foreign exchange	As at December 31, 2012
<b>Deferred tax assets:</b>				
Loss carryforwards	\$ 5,146	\$ 3,361	\$ 238	\$ 8,745
Reclamation and other closure provisions	19,695	1,660	446	21,801
Pension obligations	3,420	(841)	181	2,760
Other	2,726	2,437	117	5,280
<b>Deferred tax liabilities:</b>				
Mineral properties, plant & equipment	(173,855)	25,955	(3,517)	(151,417)
Reserves	(14,529)	(1,760)	(664)	(16,953)
	\$ (157,397)	\$ 30,812	\$ (3,199)	\$ (129,784)

The Company did not recognize deferred tax assets of \$14.7 million (2012 - \$21.4 million) in respect of mineral properties, plant and equipment, marketable securities and other assets.

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred tax assets of \$67.9 million (2012 - \$65.9 million) in respect of tax losses amounting to \$259.9 million (2012 - \$252.4 million) that can be carried forward against future taxable income, as indicated below:

Year of expiry	Canada	Ireland	Total
2014	\$ 4,082	\$ -	\$ 4,082
2015	6,975	-	6,975
2016	-	-	-
2017	-	-	-
2018 and thereafter	186,092	62,762	248,854
	\$ 197,149	\$ 62,762	\$ 259,911

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

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The aggregate amount of temporary differences related to investments in subsidiaries and associates for which deferred tax liabilities have not been recognized is \$413.7 million as at December 31, 2013 (2012 - \$316.1 million).

### 12. GOODWILL

The Company recognized goodwill resulting from the acquisition of EuroZinc Mining Corporation ("EuroZinc") which relates primarily to the mining operations of Neves-Corvo mine and from the acquisition of Rio Narcea Gold Mines, Ltd. ("Rio Narcea"), which relates to the mining operations of Aguablanca.

Goodwill is allocated to the CGU as follows:

	Neves-Corvo	Aguablanca	Total
Balance at December 31, 2011	\$ 162,670	\$ 27,699	\$ 190,369
Impairment	-	(28,084)	(28,084)
Effects of foreign exchange	3,207	385	3,592
Balance at December 31, 2012	165,877	-	165,877
Effects of foreign exchange	7,506	-	7,506
<b>Balance at December 31, 2013</b>	<b>\$ 173,383</b>	<b>\$ -</b>	<b>\$ 173,383</b>

#### Impairment Testing

The Company performs an impairment assessment annually, or more frequently if there are impairment indicators, for the carrying amount of its CGU 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, reserve and resource 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 2013. The valuation for the recoverable amount is most sensitive to long-term copper and zinc prices, as well as Euro and US dollar exchange rates.

The reserves and resources were based on the Company's last published statement dated June 30, 2013.

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

For the Neves-Corvo CGU impairment review, the Company used a fair value less cost of disposal ("FVLCD") model and assumed an after-tax discount rate of 9% per annum (2012 - 9%) on copper and zinc price ranges of \$3.00/lb to \$3.50/lb (2012 - \$3.00/lb to \$3.80/lb) and \$1.00/lb to \$1.15/lb (2012 - \$1.00/lb to \$1.20/lb), respectively, to calculate the present values of cash flows over the economic years of the Company's life-of-mine plan. Foreign exchange assumptions applied to the impairment test for €/€/\$ was forecasted at 1.30 (2012 - 1.30). Incorporated in the FVLCD, the Company developed fair value estimates for resources not captured in the cash flow model. These estimates were benchmarked using third-party market information. Since the recoverable amount of the CGU was determined to be higher than the carrying value, no impairment was recognized.

Sensitivity analysis to factors which have the most significant impact were performed for the cash flow model.

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Several scenarios were reviewed where key inputs were changed: metal prices (+/-5%), the foreign exchange (+/-5%) and the discount rate (+/-1%). These changes did not have any impact on the goodwill impairment assessment.

### Aguablanca

During 2012, the Company experienced pit wall instability at its Aguablanca mine and determined that the instability would result in a reduced mine life. The shortened mine life had a significant impact on the projected cashflows which resulted in the recoverable amount being lower than the carrying value of the CGU. The goodwill impairment recognized in 2012 was \$28.1 million and resulted in no remaining goodwill balance.

## 13. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

	December 31, 2013	December 31, 2012
Trade payables	\$ 101,147	\$ 71,572
Unbilled goods and services	16,328	12,844
Payroll obligations	27,886	24,947
Royalty payable	10,139	10,351
	<b>\$ 155,500</b>	<b>\$ 119,714</b>

## 14. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

As at December 31, 2011	\$ 81,037
Prepayment received	14,514
Recognition of revenue	(22,020)
Effects of foreign exchange	4,131
As at December 31, 2012	77,662
Recognition of revenue	(16,660)
Effects of foreign exchange	10
	61,012
Less: current portion	4,849
<b>As at December 31, 2013</b>	<b>\$ 56,163</b>

### a) Neves-Corvo mine

The Company has an agreement to deliver all of the silver contained in concentrate produced from its Neves-Corvo mine in Portugal to Silver Wheaton Corp ("Silver Wheaton"). The Company received an up-front payment which was deferred and is being recognized as sales as silver is delivered under the contract and receives the lesser of \$3.90 per ounce (subject to a 1% annual adjustment) and the market price per ounce of silver. The agreement extends to the earlier of September 2057 and the end of mine life of the Neves-Corvo mine.

### b) Zinkgruvan mine

The Company has an agreement with Silver Wheaton to deliver silver contained in concentrate from the Zinkgruvan mine in Sweden. The Company received an up-front payment which was deferred and is being recognized in sales

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as silver is delivered under the contract and receives a payment of the lesser of \$3.90 per ounce (subject to annual adjustments) and the market price per ounce of silver (Note 23d).

### 15. LONG-TERM DEBT AND FINANCE LEASES

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

	December 31, 2013	December 31, 2012
Credit facilities (a)	\$ 220,818	\$ -
Finance lease obligations (c)	5,267	6,375
Rio Narcea debt (d)	2,691	3,647
	<b>228,776</b>	10,022
Less: current portion	3,341	3,037
	<b>\$ 225,435</b>	<b>\$ 6,985</b>

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

As at December 31, 2011	\$ 29,346
Additions	1,443
Payments	(21,644)
Revaluations	160
Effects of foreign exchange	717
As at December 31, 2012	10,022
Additions	306,972
Payments	(87,490)
Revaluations	16
Effects of foreign exchange	(744)
<b>As at December 31, 2013</b>	<b>\$ 228,776</b>

- a) On October 7, 2013, the Company completed amendments to its credit agreement which provide for a new term loan of \$250 million and an extension on the maturity of the existing \$350 million revolving credit facility to October 2017 (together, "the credit facilities"). The terms provide for interest rates on drawn funds from LIBOR + 2.75% to LIBOR + 3.75% depending on the Company's leverage ratio. Certain assets and shares of the Company's material subsidiaries are pledged as security for the credit facilities. As at December 31, 2013, the effective interest rate was 2.9%. Repayments for the new term loan commence in March 2016 and complete in October 2017. This term loan is expected to provide funding required to complete the construction of the Eagle Project. As at December 31, 2013, the Company had \$228 million drawn on the credit facilities, as well as a letter of credit in the amount of \$12.3 million (SEK 80 million).

The Company has deferred financing costs of \$7.2 million.

- b) The Sociedade Mineira de Neves-Corvo, S.A. ("Somincor"), a subsidiary of the Company which owns the Neves-Corvo mine, established a new commercial paper program replacing the previous program which expired in December 2012. The new €30 million program bears interest at LIBOR plus 3.6%. The program matures in December 2015.
- c) Finance lease obligations relate to leases on mining equipment which have remaining lease terms of two to five years and interest rates of approximately 8% over the term of the leases.

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- d) The Rio Narcea debt is an interest free loan extended by the Spanish Department of Trade, Industry and Commerce. The debt is recorded using an imputed interest rate of 1.0% (2012 – 0.8%) and is repayable annually until 2017.

The schedule of principal repayment obligations are as follows:

	Debt	Finance Leases	Total
2014	\$ 690	\$ 2,651	\$ 3,341
2015	690	1,595	2,285
2016	100,690	495	101,185
2017	128,622	259	128,881
2018 and thereafter	-	267	267
<b>Total</b>	<b>\$ 230,692</b>	<b>\$ 5,267</b>	<b>\$ 235,959</b>

## 16. 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, 2013, there were 584,643,063 fully paid voting common shares issued (2012 - 584,005,006).

### (b) Stock options

The Company has an incentive stock option plan (the "Plan") available for certain employees and officers to acquire shares in the Company. The term of any options granted are approved by the Board of Directors and may not exceed ten years from the date of grant. The total number of options that are issuable under the plan is 21,000,000. The vesting requirements for the options include the passage of a specified time period, as well as continued employment.

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 \$7.5 million for 2013 (2012 - \$7.2 million) with a corresponding credit to contributed surplus.

During the year ended December 31, 2013, the Company granted 1.2 million incentive stock options to employees and officers that expire in 2018. 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 1.1% to 1.6% (2012 - 1.1% to 1.6%), no dividend yield, expected life of 3.5 years (2012 - 3.5 years) with an expected price volatility of 52% to 70% (2012 - 54% to 79%). Volatility is determined using daily volatility over the expected life of the options. A forfeiture rate of approximately 18% is applied (2012 - 18%). The weighted average fair value per option granted during 2013 was \$2.09 (2012 - \$2.05). As at December 31, 2013, there was \$4.2 million of unamortized stock compensation expense (2012 - \$9.6 million).

During the year ended December 31, 2013, 588,057 common shares (2012 - 1,529,719) were issued as a result of options being exercised.

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

	Number of options	Weighted average exercise price (C\$)
Outstanding, January 1, 2012	9,084,472	\$ 5.39
Granted	4,303,000	\$ 4.93
Cancelled	(45,000)	\$ 3.89
Forfeited	(178,332)	\$ 5.65
Expired	(1,485,332)	\$ 11.93
Exercised	(1,529,719)	\$ 3.79
Outstanding, December 31, 2012	10,149,089	\$ 4.48
Granted	1,170,000	\$ 4.27
Forfeited	(410,000)	\$ 4.71
Expired	(440,254)	\$ 6.40
Exercised	(679,169)	\$ 4.24
<b>Outstanding, December 31, 2013</b>	<b>9,789,666</b>	<b>\$ 4.38</b>

The following table summarizes options outstanding as at December 31, 2013, as follows:

Range of exercise prices (C\$)	Outstanding Options			Exercisable Options		
	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\$)
\$3.89 to \$3.91	4,256,666	2.8	\$ 3.89	2,574,439	2.8	\$ 3.89
\$3.92 to \$4.47	1,486,000	4.1	\$ 4.10	266,666	3.1	\$ 4.06
\$4.48 to \$5.00	504,000	3.6	\$ 4.74	130,000	3.3	\$ 4.77
\$5.01 to \$5.27	3,543,000	3.9	\$ 5.02	1,154,333	3.9	\$ 5.01
	<b>9,789,666</b>	<b>3.5</b>	<b>\$ 4.37</b>	<b>4,125,438</b>	<b>3.2</b>	<b>\$ 4.24</b>

(c) Diluted weighted average number of shares

The basic weighted average number of common shares outstanding for the year ended December 31, 2013 was 584,276,739 (2012 – 582,942,459).

The total incremental shares added to the basic weighted average number of common shares to arrive at the fully diluted number of shares for the period ended December 31, 2013 is 662,186 shares (2012 – 1,071,129 shares) which relate to exercisable “in-the-money” outstanding stock options.

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### 17. RECLAMATION AND OTHER CLOSURE PROVISIONS

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

	Reclamation provisions	Other closure provisions	Total
Balance, December 31, 2011	\$ 96,317	\$ 13,310	\$ 109,627
Accretion	1,832	-	1,832
Accruals for services	-	5,027	5,027
Changes in estimates	14,190	-	14,190
Payments	(2,988)	(233)	(3,221)
Effects of foreign exchange	2,743	532	3,275
Balance, December 31, 2012	112,094	18,636	130,730
Acquisition of Eagle Project	6,958	-	6,958
Accretion	1,919	-	1,919
Accruals for services	-	2,451	2,451
Changes in estimates	11,237	-	11,237
Payments	(6,064)	(817)	(6,881)
Effects of foreign exchange	4,336	920	5,256
Balance, December 31, 2013	130,480	21,190	151,670
Less: current portion	7,858	854	8,712
	\$ 122,622	\$ 20,336	\$ 142,958

At December 31, 2013, the reclamation and other closure provision for the Neves-Corvo mine was \$83.4 million (2012 - \$85.2 million). The Company expects the payments for site restoration costs at Neves-Corvo to be incurred between 2014 and 2028. A decrease in estimate of \$7.0 million was recorded during 2013 due to an increase in discount rate and a revision in the timing of payments.

The reclamation provision at the Zinkgruvan mine at December 31, 2013 was \$11.9 million (2012 - \$12.0 million). This provision is based on future reclamation costs being paid primarily during 2017. The Company has posted environmental bonds related to its site restoration provision (Note 23c).

The reclamation and other closure provision, including severance, for the Aguablanca mine at December 31, 2013 totaled \$28.8 million (2012 - \$25.2 million). The payments are expected to be settled between 2014 and 2018. There was a \$2.7 million increase during 2013 in the other closure provisions related to severance costs.

The reclamation and other closure obligation for the Eagle Project as at December 31, 2013 was \$22.5 million. There was an increase in estimate of \$15.5 million, from the acquisition date, recorded to reflect the increased percentage of completion of the mine and mill infrastructure at Eagle. The Company expects the payments to be settled between 2022 and 2047.

The reclamation and other closure obligation at the Galmoy mine as at December 31, 2013 was \$2.2 million (2012 - \$6.4 million). It is expected that \$1.2 million will be settled in 2014.



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### 18. OPERATING COSTS

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

	2013		2012
Direct mine and mill costs	\$ 426,943	\$	354,771
Transportation	24,207		19,979
Royalties	10,005		10,247
	461,155		384,997
Depreciation, depletion and amortization (Note 9)	147,839		121,977
Total operating costs	\$ 608,994	\$	506,974

### 19. EMPLOYEE BENEFITS

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

	2013		2012
Operating costs			
Wages and benefits	\$ 116,308	\$	112,463
Pension benefits	2,307		2,324
Share-based compensation	2,953		2,543
	121,568		117,330
General and administrative expenses			
Wages and benefits	9,677		12,052
Pension benefits	385		320
Share-based compensation	4,134		4,920
	14,196		17,292
General exploration and business development			
Wages and benefits	5,484		4,414
Pension benefits	50		44
Share-based compensation	214		276
	5,748		4,734
Total employee benefits	\$ 141,512	\$	139,356

#### 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. The Company adopted IAS 19 which eliminates the corridor method. As a result, a \$2.1 million increase to the provision for pension obligations and a reduction to accumulated other comprehensive income were recorded as at December 31, 2012.

Actuarial assumptions, based on the most recent actuarial valuation dated December 31, 2013, used to determine benefit obligations as at December 31, 2013 and 2012 were as follows:

	2013		2012
Discount rate	3.1%		3.7%
Rate of salary increase	2.5%		2.5%

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

Information about Zinkgruvan's pension obligations is as follows:

	2013		2012
Accrued benefit obligation			
Balance, beginning of the year	\$ 16,396	\$	13,863
Current service costs	272		385
Interest costs	520		548
Actuarial losses	262		1,644
Benefits paid	(1,657)		(1,186)
Effects of foreign exchange	(206)		1,142
Balance, end of the year	15,587		16,396
Other pension accruals	5,165		4,820
Total provision for pension obligations	\$ 20,752	\$	21,216

The defined benefit plan is unfunded and, accordingly, there are no plan assets and the Company made no contributions to the plan. The Company's pension expense related to the defined benefit plan and recorded within operating costs is as follows:

	2013		2012
Current service costs	\$ 272	\$	385
Interest costs	520		548
Payroll taxes	736		529
Pension expense	\$ 1,528	\$	1,462

A 1% change in the discount rate assumption would have an insignificant impact on the pension obligation or the pension expense for 2013.

The Company expects to make payments of \$1.8 million under the defined benefit plan during the next financial year.

### Defined contribution plans

The Company recorded a pension expense in operating costs in the amount of \$0.8 million (2012 - \$0.9 million) and in general and administrative expenses in the amount of \$0.5 million (2012 - \$0.4 million) relating to defined contribution plans.

## 20. GENERAL EXPLORATION AND BUSINESS DEVELOPMENT

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

	2013		2012
General exploration	\$ 34,076	\$	50,851
Corporate development	690		7,239
Project development	8,902		7,974
	\$ 43,668	\$	66,064

Project development expenses include pre-feasibility costs, expenditures to develop an exploration ramp at the Neves-Corvo mine and indirect costs for the Eagle Project.

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Corporate development costs of \$3.0 million were capitalized to the related acquisition of the Eagle Project in 2013.

### 21. FINANCE INCOME AND COSTS

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

	2013	2012
Interest income	\$ 1,423	\$ 2,070
Interest expense and bank fees	(3,465)	(6,288)
Accretion expense on reclamation provisions	(1,919)	(1,832)
Revaluation losses on marketable securities	(9,361)	(2,321)
Other	522	913
<b>Total finance costs, net</b>	<b>\$ (12,800)</b>	<b>\$ (7,458)</b>

Finance income	\$ 1,945	\$ 2,983
Finance costs	(14,745)	(10,441)
<b>Total finance costs, net</b>	<b>\$ (12,800)</b>	<b>\$ (7,458)</b>

During the year, the Company identified AFS investments which had experienced significant declines in value. Accordingly, losses of \$5.2 million were recorded as finance costs. These losses were previously recorded in accumulated other comprehensive income.

### 22. OTHER INCOME AND EXPENSES

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

	2013	2012
Foreign exchange loss	\$ (13,755)	\$ (5,067)
Other income	17,506	9,311
Other expenses	(5,194)	(4,641)
<b>Total other expense, net</b>	<b>\$ (1,443)</b>	<b>\$ (397)</b>

Other income	\$ 17,506	\$ 9,311
Other expenses	(18,949)	(9,708)
<b>Total other expense, net</b>	<b>\$ (1,443)</b>	<b>\$ (397)</b>

During the year ended December 31, 2013, the Company recorded \$15.1 million in other income related to insurance proceeds for business interruption at the Aguablanca mine from the ramp failure which occurred in late-2010. This is in addition to the \$7.9 million which was received and recognized by the Company in 2012.

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Notes to consolidated financial statements

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### 23. COMMITMENTS AND CONTINGENCIES

- a) The Company's wholly-owned subsidiary, 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 the year ended December 31, 2013 in the amount of \$7.5 million (2012 - \$9.4 million) were included in operating costs.
- b) Royalty payments relating to the Aguablanca mine are 2% of net sales. Royalty costs for the year ended December 31, 2013 were \$2.3 million (2012 - \$0.4 million).
- c) A bank has issued a bank guarantee to the Swedish authorities in the amount of \$12.3 million (SEK 80.0 million) relating to the future reclamation costs at the Zinkgruvan mine. The Company has agreed to indemnify the bank for this guarantee.
- d) Under 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 16.6 million ounces has been delivered since the inception of the contract in 2004.
- e) The Company is committed to spend \$4.3 million on exploration expenses during 2014 and 2015.
- f) 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, 2013 are as follows:

2014	\$	11,406
2015		3,897
2016		3,542
2017		2,678
2018		1,962
2019 and thereafter		3,959
<b>Total commitments</b>	<b>\$</b>	<b>27,444</b>

- g) The Company has capital commitments of \$114.8 million to be paid during 2014. Included in this total are capital commitments related to the Eagle Project of \$99.2 million.

### 24. SEGMENTED INFORMATION

The Company is engaged in mining, exploration and development of mineral properties, primarily in Portugal, Spain, Sweden, Ireland, USA 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 is responsible for allocating resources and assessing performance of the operating segments.

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### For the year ended December 31, 2013

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Eagle	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	USA	DRC		
Sales	\$ 420,308	\$ 173,836	\$ 114,027	\$ 19,611	\$ -	\$ -	\$ -	\$ 727,782
Operating costs	(261,762)	(102,350)	(86,468)	(7,351)	-	-	(3,224)	(461,155)
General and administrative expenses	-	-	-	-	-	-	(23,570)	(23,570)
Operating earnings (loss) <sup>1</sup>	158,546	71,486	27,559	12,260	-	-	(26,794)	243,057
Depreciation, depletion and amortization	(98,047)	(26,498)	(21,890)	-	(1,324)	-	(390)	(148,149)
General exploration and business development	(18,912)	(8,416)	-	-	(5,203)	-	(11,137)	(43,668)
Income from equity investment in associates	-	-	-	-	-	97,769	(3,802)	93,967
Finance income and costs, net	(490)	(33)	(249)	56	-	-	(12,084)	(12,800)
Other income and expenses, net	(5,221)	2,633	14,711	(1,962)	-	-	(11,604)	(1,443)
Income tax recovery (expense)	5,616	(7,910)	2,014	(101)	2,789	-	3,377	5,785
Net earnings (loss)	\$ 41,492	\$ 31,262	\$ 22,145	\$ 10,253	\$ (3,738)	\$ 97,769	\$ (62,434)	\$ 136,749
Capital expenditures	\$ 100,299	\$ 32,903	\$ 11,787	\$ -	\$ 98,132	\$ -	\$ 553	\$ 243,674
Total non-current assets <sup>2</sup>	\$ 1,172,887	\$ 248,731	\$ 39,197	\$ 4,968	\$ 477,187	\$ 1,959,014	\$ 120,113	\$ 4,022,097

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### For the year ended December 31, 2012

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	DRC		
Sales	\$ 466,174	\$ 209,621	\$ 22,167	\$ 23,144	\$ -	\$ -	\$ 721,106
Operating costs	(247,610)	(93,478)	(33,046)	(8,122)	-	(2,741)	(384,997)
General and administrative expenses	-	-	-	-	-	(27,445)	(27,445)
Operating earnings (loss) <sup>1</sup>	218,564	116,143	(10,879)	15,022	-	(30,186)	308,664
Depreciation, depletion and amortization	(83,245)	(26,335)	(12,285)	-	-	(514)	(122,379)
General exploration and business development	(40,452)	(3,120)	(1,018)	-	-	(21,474)	(66,064)
Income from equity investment in associates	-	-	-	-	101,516	-	101,516
Finance income and costs, net	672	(2,478)	(391)	180	-	(5,441)	(7,458)
Other income and expenses, net	102	(4,496)	8,631	(1,340)	-	(3,294)	(397)
Asset impairment	-	-	(67,252)	-	-	-	(67,252)
Income tax (expense) recovery	(20,444)	(16,816)	11,145	(412)	-	3,077	(23,450)
Net earnings (loss)	\$ 75,197	\$ 62,898	\$ (72,049)	\$ 13,450	\$ 101,516	\$ (57,832)	\$ 123,180
Capital expenditures	\$ 88,278	\$ 30,517	\$ 40,121	\$ 24	\$ 15,000	\$ 431	\$ 174,371
Total non-current assets <sup>2</sup>	\$ 1,132,267	\$ 242,353	\$ 44,634	\$ 6,394	\$ 2,003,053	\$ 11,042	\$ 3,439,743

1. Operating earnings (loss) is a non-GAAP measure.

2. Non-current assets include mineral properties, plant and equipment, investment in associates and goodwill.

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

	2013	2012
Copper	\$ 398,246	\$ 452,742
Zinc	158,009	164,144
Lead	62,464	71,029
Nickel	77,423	15,548
Other	31,640	17,643
	\$ 727,782	\$ 721,106

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

	2013	2012
Europe	\$ 591,218	\$ 670,781
Asia	116,502	22,167
South America	20,061	28,158
	\$ 727,782	\$ 721,106

## 25. 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 10).
- 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:

	2013	2012
Wages and salaries	\$ 6,283	\$ 6,036
Pension benefits	135	109
Share-based compensation	1,805	2,662
	\$ 8,223	\$ 8,807

- c) **Other related parties** - During the year ended December 31, 2013, the Company paid \$0.3 million (2012 - \$0.3 million) for services provided by a company owned by the Chairman of the Company. The Company also paid \$0.8 million for the year ended December 31, 2013 (2012 - \$0.5 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.

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### 26. 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, 2013 and December 31, 2012:

	Level	December 31, 2013		December 31, 2012	
		Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>					
Fair value through profit or loss					
Trade receivables	2	\$ 62,945	\$ 62,945	\$ 76,237	\$ 76,237
Marketable securities - shares	1	7,406	7,406	14,463	14,463
Marketable securities - warrants	2	12	12	150	150
Restricted funds - shares	1	18,183	18,183	16,779	16,779
		\$ 88,546	\$ 88,546	\$ 107,629	\$ 107,629
Available for sale					
Marketable securities - shares	1	\$ 9,778	\$ 9,778	\$ 18,506	\$ 18,506
Marketable securities - warrants	2	151	151	1,211	1,211
		\$ 9,929	\$ 9,929	\$ 19,717	\$ 19,717
<b>Financial liabilities</b>					
Amortized cost					
Long-term debt and finance leases	2	\$ 228,776	\$ 228,776	\$ 10,022	\$ 10,022
Other long-term liabilities	2	3,234	3,234	3,625	3,625
		\$ 232,010	\$ 232,010	\$ 13,647	\$ 13,647

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 a negative pricing adjustments of \$16.9 million in sales during the year ended December 31, 2013 (2012 - \$4.5 million positive price adjustment).

Marketable securities/restricted funds – The fair value of investments in shares is determined based on quoted market price and the fair value of warrants is determined using a valuation model that incorporates such factors as the quoted market price, strike price, the volatility of the related shares of which the warrants can be exchanged for and the expiry date of the warrants.

Long-term debt and other long-term liabilities – The fair value of the Company's long-term debt approximates



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its carrying value as the interest rates are comparable to current market rates.

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, restricted funds, which are classified as loans and receivables, and trade and other payables which are classified as amortized cost.

### 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, 2013 is the carrying value of its trade receivables.

Concentrate produced at the Company's Neves-Corvo and Zinkgruvan mines are sold to a small number of strategic customers with whom the Company has established long-term relationships. Limited amounts are occasionally sold to metals traders on an ad hoc basis. Production from the Aguablanca mine is sold to a trading company under a long-term contract. The 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 four months following the date of shipment. Sales to metals 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 by an 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, 2013, the Company has two customers that individually account for more than 10% of the Company's total sales. These customers represent approximately 43% and 13% of total sales and relate primarily to the Neves-Corvo and Zinkgruvan mines.

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 committed 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 15).

The maturities of the Company's non-current liabilities are disclosed in (Note 15). All current liabilities are settled within one year.

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### c) Foreign exchange risk

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

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 the US dollar and the local 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.

As at December 31, 2013, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars but held by group companies that have functional currencies in € or SEK:

	US Dollar
Cash and cash equivalents	\$ 36,613
Other working capital items	\$ 83,634
Long-term debt	\$ 60,000

The impact of a US dollar change against the EUR by 10% at December 31, 2013 would have an approximate \$8.4 million impact on pre-tax earnings. The impact of a US dollar change against the SEK by 10% would have an approximate \$3.0 million impact on pre-tax earnings, with all other variables held constant.

### 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, 2013 excluding the effect of the changes in metal prices on smelter treatment charges is as follows:

	Tonnes Payable	Price on December 31, 2013 (\$/tonne)	Change	Effect on pre-tax earnings (\$ millions)
Copper	10,511	7,363	+/- 10%	+/- \$7.7
Zinc	11,009	2,066	+/- 10%	+/- \$2.3
Lead	4,194	2,213	+/- 10%	+/- \$0.9
Nickel	1,726	13,880	+/- 10%	+/- \$2.4

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### e) Interest rate risk

The Company's exposure to interest rate risk arises from the both interest rate impact on its cash and cash equivalents as well as on its debt facilities. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any short-term investments included in cash and cash equivalents as they are generally held to maturity with large financial institutions.

As at December 31, 2013, holding all other variables constant and considering the Company's outstanding debt of \$228.8 million, a 1% change in the interest rate would result in an approximate \$2.2 million interest expense on an annualized basis.

## 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.

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's current policy is to not pay out dividends but rather to reinvest its earnings in the business.

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:

	2013		2012	
Cash and cash equivalents	\$	116,640	\$	275,104
Long-term debt and finance leases		(228,776)		(10,022)
Net (debt) cash	\$	(112,136)	\$	265,082

  

	2013		2012	
Shareholders' equity	\$	3,669,605	\$	3,473,079
Number of shares outstanding		584,643,063		584,005,006
Shareholders' equity per share	\$	6.28	\$	5.95

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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

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### 29. SUPPLEMENTARY CASH FLOW INFORMATION

	2013		2012
Changes in non-cash working capital items consist of:			
Trade receivables, inventories and other current assets	\$ (12,946)	\$	6,139
Trade payables and other current liabilities	(12,433)		(3,571)
	\$ (25,379)	\$	2,568
Operating activities included the following cash payments:			
Interest received	\$ 1,423	\$	2,070
Interest paid	\$ 5,048	\$	2,724
Income taxes paid	\$ 29,016	\$	52,076