lundin mining

Management's Discussion and Analysis
For the year ended December 31, 2011

This management's discussion and analysis has been prepared as of February 22, 2012 and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2011. 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 dollars. Reference herein of $ is to United States dollars. Reference of C$ is to Canadian dollars, reference to SEK is to Swedish krona and € refers to the Euro.

About Lundin Mining

Lundin Mining Corporation ("Lundin", "Lundin Mining" or the "Company") is a diversified Canadian base metals mining company with operations in Portugal, Sweden, Spain and Ireland, producing copper, zinc, lead and nickel. In addition, Lundin Mining holds a development project pipeline which includes an expansion project at its Neves-Corvo mine along with an equity stake in the world class Tenke Fungurume copper/cobalt mine in the Democratic Republic of Congo ("DRC"), which is undergoing expansion to 195,000 tonnes per annum of copper cathode production.

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. Forward-looking statements 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 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; receipt of final detailed documentation on by-law changes resulting from the contract review process and resolution of administrative disputes in the DRC; 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 is, in addition, based on 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 forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

Table of Contents

Highlights 3
Financial Position and Financing 7
Outlook 8
Selected Quarterly and Annual Financial Information 10
Sales Overview 11
Annual Financial Results 13
Fourth Quarter Financial Results 15
Cash Cost Overview 16
Mining Operations 17
Production Overview 17
Cash Cost Overview 17
Neves-Corvo Mine 18
Zinkgruvan Mine 20
Aguablanca Mine 21
Galmoy Mine 22
Tenke Fungurume 23
Exploration Highlights 25
Liquidity and Financial Condition 27
Related Party Transactions 29
Changes in Accounting Policies 30
Managing Risks 37
Outstanding Share Data 43
Non-IFRS Performance Measures 43
Management's Report on Internal Controls 45
Other Supplementary Information 46

Highlights

Operational and Financial Performance

***Wholly-owned operations*:** A strong fourth quarter of production generated higher than guided copper production while zinc and lead production ended the year essentially in line with expectations.

- At Neves-Corvo, ore mined and milled reached record levels helping to overcome production shortfalls earlier in the year caused by mining in large areas of low-grade ore. For five consecutive years, Neves-Corvo has exceeded the previous year's volume of copper ore mined.
- Zinkgruvan also reached new record levels of ore mined and milled and ended the year with its best quarter of zinc and copper production. It overcame production shortfalls earlier in the year caused by mechanical issues at both the zinc and copper mill circuits which have since been resolved.
- At Aguablanca, significant progress has been made in re-establishing the pit ramp ahead of restart of nickel/copper mining operations scheduled for the second half 2012.
- Mining of remnant high grade ore and associated profits from Galmoy continued throughout the year and this provided a better than expected contribution to the Company's cash position.
- In addition to achieving record tonnages mined and milled at Neves-Corvo and Zinkgruvan, the Company also achieved a significant improvement in safety performance. In 2011, Total Recordable Incident Frequency was the lowest in the Company’s history at 1.61. A similar improvement was achieved in the frequency of Lost Time Incidents for the year.

Tenke: The mine and mill at Tenke continues to perform well and met 2011 production guidance.

- Another milestone at Tenke Fungurume was achieved through the formal announcement of advancing the $850 million Phase II Expansion which will bring total production capability of the mine to 195,000 tonnes per annum ("tpa") of copper cathode with associated cobalt. Construction on this major expansion was well advanced by 2011 year end and is tracking on schedule and on budget, targeting completion in 2013.

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

	Years ended December 31				
	2011 Actual	*2011 Guidance*	2010 Actual	2009 Actual	2008 Actual
Copper (tonnes)	**75,877**	*71,500*	80,035	93,451	97,944
Zinc (tonnes)	**111,445**	*111,500*	90,129	101,401	151,157
Lead (tonnes)	**41,130**	*42,000*	39,568	43,852	44,799
Nickel (tonnes)	**nil**	*nil*	6,296	8,029	8,136
Copper (tonnes) Tenke attributable (24.75%)	**31,523**	*30,400*	29,767	17,325	-

- Operating earnings[1] decreased by $87.9 million from $461.7 million in 2010 to $373.8 million in 2011 and sales decreased from $849.2 million in 2010 to $783.8 million in 2011. Both the decreases in sales and operating earnings[1] were largely attributable to the suspension of operations at Aguablanca which had a negative impact of $60.8 million on comparative operating earnings and $131.7 million on sales.

- Excluding Aguablanca, operating earnings for the year were $390.5 million, only $27.1 million lower than the $417.6 million attributable to 2010. Favourable price and price adjustments ($40.8 million) and higher sales volume ($18.8 million) were more than offset by the effect of higher costs of $61.3 million. In addition, the € and SEK both strengthened against the US dollar in 2011 compared to 2010, resulting in a further increase in operating costs of $25.4 million.

- Sales, excluding Aguablanca increased by $66.3 million from $719.4 million in 2010 to $785.7 million in 2011. Higher metal prices ($40.8 million) and an increase in sales volume ($25.5 million), particularly at Galmoy, contributed to the overall increase.

  Average 2011 metal prices for copper and lead were higher by 17% and 12%, respectively, while the average price for zinc remained relatively unchanged compared to 2010.

- Operating costs (excluding depreciation) increased by $14.7 million year on year; excluding Aguablanca, the increase was $85.5 million and is primarily attributable to:

  - Neves-Corvo ($53.4 million): higher production cost in 2011 associated with the mining of lower grade ore and the increased use of contractors, partially offset by a one-time prior period royalty charge in 2010 of $8.1 million;
  - Zinkgruvan ($25.4 million): higher unit costs and the strengthening of the SEK against the US dollar; and
  - Galmoy ($6.7 million): more than doubling of ore mined and metal produced.

- General and administrative expenses increased by $7.8 million. Corporate development costs of $6.8 million were incurred in 2011 associated with the planned merger with Inmet Mining Corporation (“Inmet”), responding to Equinox Mineral Limited’s (“Equinox”) unsolicited take-over bid and the Company’s subsequent strategic review.

- Net earnings of $183.8 million ($0.32 per share) were $122.5 million below the $306.3 million ($0.53 per share) reported in 2010. In addition to lower operating earnings[1] of $87.9 million, the decrease in net earnings was related to:

  - higher depreciation ($31.9 million) as a result of increase in ore mined, commissioning of the new zinc expansion at Neves-Corvo and the new copper mill at Zinkgruvan;
  - lower net finance income ($49.2 million) due to higher revaluation gain on marketable securities of $39.9 million and gain on derivatives contracts of $10.2 million recorded in 2010; and
  - goodwill impairment of $35.7 million related to Aguablanca; partially offset by
  - increase in equity earnings from investment in Tenke Fungurume ($18.8 million), and lower income taxes.

[1] Operating earnings is a non-IFRS measure defined as sales, less operating costs (excluding depreciation) and general and administrative costs. See page 43 of this MD&A for discussion of non-IFRS measures.

- Cash flow from operations for the year was $308.7 million compared to $276.1 million for 2010. The decrease in operating earnings[1] of $87.9 million is offset by the net increase in non-cash working capital change of $89.1 million. Also, included in 2010 is the cash outflow of $30.6 million that the Company paid to settle its derivative contracts.

- An impairment analysis on the Aguablanca operation concluded that the recoverable value of the mine's net assets were lower than their carrying value. A number of factors contributed to the identification of an impairment at Aguablanca in 2011. Associated with the late-2010 slope failure, refined technical plans were developed in 2011 and were a triggering factor. In addition, the Company chose to early adopt IFRIC 20 related to deferred stripping which had the effect of increasing the carrying amount of Aguablanca's assets by $14.9 million. Thus, in comparing Aguablanca's recoverable amount to its carrying value, a $35.7 million impairment loss was measured and was allocated to goodwill during the fourth quarter of 2011.

- In August 2011, a new mine contractor was mobilized at Aguablanca to commence pit push-backs and reinstatement of the pit haul ramp. The restart of Aguablanca concentrate production is expected in the second half of 2012. An underground mining study was also initiated intended to define potential high grade underground feed to supplement open pit production.

- The Neves-Corvo Zinc Expansion project was completed in July 2011 on budget and on schedule. Given the continued high price ratio of copper to zinc, this new circuit was converted to processing copper ore until the end of the year for better margins.

- In September 2011, the Company released the results of a Feasibility Study on the Lombador Phase I development demonstrating that the exploitation of the upper portions of the Lombador zinc/copper ore bodies could extend the mine life to at least 2026 and create a platform for further extensions. The optimal development plan for Lombador is being further examined in conjunction with assessing exploitation concepts for the Semblana copper discovery.

  Initial results of the Future Underground Materials Handling Study indicated two preferred options to pursue the exploitation of the Lombador copper/zinc resource and the Semblana copper deposit (see news release dated January 23, 2012 entitled "*Lundin Mining Reports on Neves-Corvo Future Underground Materials Handling Study").* Additional review is underway, taking into account ongoing exploration results, to further assess the two options.

Tenke Fungurume

- Milling facilities at the Tenke Fungurume mine continued to perform well with throughput averaging 11,100 metric tons of ore per day in 2011.

- For the year ended December 31, 2011, Tenke produced 127,367 tonnes of copper and sold 128,284 tonnes at an average realized price of $3.74 per pound. During the year, 11,182 tonnes of cobalt in hydroxide was produced and 11,515 tonnes were sold at an average realized price of $9.99 per pound.

- During the third quarter of 2011, the Excess Overrun Cost facility ("EOC facility"), related to the Company's proportionate share of the Phase I development at Tenke, was fully repaid enabling the Company's share of ongoing surplus cash from operations to be utilized to fund the Phase II Expansion.

- Attributable operating cash flow at Tenke Fungurume for the 2011 was $149.4 million.

- The Company received its first cash return on its investment in Tenke Fungurume with $7.8 million received during the month of September 2011.

Attributable net cash flow from Tenke, including repayments of the EOC facility, was as follows:

	Three months ended Dec 31		Year ended Dec 31	
(US$ millions)	**2011**	2010	**2011**	2010
Cash advances to Tenke	**(34.5)**	(7.6)	**(64.5)**	(30.5)
Distributions from Tenke	**-**	-	**7.8**	-
Repayments on EOC facility	**-**	40.4	**108.4**	118.7
Attributable net cash (outflow) inflow	**(34.5)**	32.8	**51.7**	88.2

- On April 18, 2011, the Company reported that the government of the DRC had issued a Presidential Decree approving the amendments to the Tenke Fungurume Mining contracts. This formalized the conclusion of the review process by the DRC government and acknowledged the parties' continued commitments to the rights and benefits granted under the contract. The amendments are more fully discussed in a press release dated October 22, 2010 entitled *"Lundin Announces Successful Completion of Tenke Fungurume Contract Review Process".*

- The Phase II Expansion feasibility study to optimize the current plant and increase capacity was completed during the year under the direction of the operator, Freeport-McMoRan Copper & Gold Inc. ("Freeport"). Freeport plans to expand the mill rate to 14,000 tonnes per day. The expansion includes the completion of mill upgrades, acquisition of additional mining equipment, construction of a new tankhouse and a sulfuric acid plant through the investment of $850 million. The Phase II Expansion is expected to take total plant production of copper cathode up to at least 195,000 tpa. Early works on this expansion, funded by the partners and from excess cash flow from operations, continued on site during the year.

Corporate Highlights

- On January 12, 2011, Lundin and Inmet announced that they had entered into an arrangement agreement to merge and create Symterra Corporation. Subsequent to this announcement, Equinox Minerals Limited ("Equinox") made an unsolicited take-over bid to acquire all of the outstanding common shares of Lundin.

  On March 29, 2011, Lundin and Inmet jointly announced the termination of the arrangement agreement dated January 12, 2011. Also on that day, Lundin announced that its Board of Directors had adopted a limited duration Shareholder Rights Plan ("Rights Plan") to enable a full consideration of strategic alternatives.

  On April 25, 2011, Equinox announced the withdrawal of its offer to acquire the common shares of Lundin Mining. Subsequent to the hostile take-over bid for Lundin Mining, Equinox became subject to a take-over bid by Barrick Gold Corporation which was conditional on Equinox abandoning its bid for Lundin Mining.

- On May 25, 2011, Lundin announced the conclusion of its strategic review process and the Rights Plan expired on May 31, 2011 and was not renewed.

- On September 1, 2011, the Company reported its Mineral Reserve and Resource estimates as at June 30, 2011. The full release can be found on the Company's website at www.lundinmining.com.

- In the third quarter of 2011, the Company announced the permanent appointment of Paul Conibear as President and Chief Executive Officer after Mr. Conibear held the role on an interim basis following the retirement of Phil Wright on June 30, 2011.

- On December 15, 2011, the Company released an interim report on exploration activities including an initial Inferred Resource for the Semblana Copper Deposit located adjacent to its 100% owned Neves-Corvo mine in southern Portugal.

Financial Position and Financing

- Net cash[1] at December 31, 2011 was $236.1 million compared to a net cash[1] position $159.2 million at the end of 2010.

- The $76.9 million increase in net cash during the year was primarily attributable to cash flow from operations ($308.7 million), including $54.8 million generated from working capital offset by: investment in mineral property, plant and equipment ($179.1 million), investment in Tenke Fungurume expansion and sustaining capital works ($64.5 million) and net repayment of debt ($10.5 million). Cash on hand at December 31, 2011 was $265.4 million.

[1] Net cash/debt is a non-IFRS measure defined as available unrestricted cash less long-term debt and finance leases.

Outlook

2012 Production and Cost Guidance

- 2012 production targets and a three year production look ahead for wholly-owned operations remain unchanged from the guidance provided on December 12, 2011 (see news release entitled *"Lundin Mining Provides Operating Outlook for 2012-2014"*). 2012 guidance is as follows:

		2012 Guidance	
(contained tonnes)		**Tonnes**	**C1 Cost** [a,b,]
Neves-Corvo	*Cu*	*52,500 – 57,000*	*1.80*
	Zn	*30,000 – 40,000*	
Zinkgruvan	*Zn*	*75,000 – 81,000*	*0.25*
	Pb	*34,000 – 39,000*	
	Cu	*2,000 – 3,000*	
Galmoy [c]	*Zn*	*4,000 – 4,500*	
(in ore)	*Pb*	*500 – 1,000*	
Aguablanca	*Ni*	*500 – 1,000*	
	Cu	*500 – 1,000*	
Total: Wholly-owned operations	*Cu*	*55,000 – 61,000*	
	Zn	*109,000 – 125,500*	
	Pb	*34,500 – 40,000*	
	Ni	*500 - 1,000*	
Tenke: 24.0% attributable share [d]	*Cu*	*31,560*	*1.13*

a. Cash costs remain dependent upon exchange rates (€/USD: 1.35, USD/SEK: 6.50) and metal prices (Cu: $3.50, Zn: $0.95).
b. Cash cost is a non-IFRS measure reflecting the sum of direct costs less by-product credits. See non-IFRS Performance Measures on page 43 of this MD&A.
c. Production tonnage is based on a 50% attributable-share to Lundin Mining.
d. Freeport has provided 2012 sales guidance which is assumed to approximate Tenke's production. Lundin Mining anticipates production from Tenke's attributable share will be reduced to 24.0% from 24.75% after obtaining approval of the modifications to the bylaws, as noted in the *Tenke Fungurume* discussion on page 23 of this MD&A.

- **Neves-Corvo**: Copper production is expected to be reduced from previous years as remaining reserves include a higher proportion of lower grade stockworks which provide for less predictable ore characteristics, lower recoveries and higher costs. Zinc production is expected to be at least 30,000 tonnes.

- **Zinkgruvan**: Zinc, lead and copper production are expected to see modest increases compared to 2011 with further upside potential depending on plant de-bottlenecking initiatives.

- **Aguablanca:** Production is expected to resume in the second half of 2012. Reserves represent approximately five years of production, averaging 7,500 tonnes of nickel and 6,500 tonnes of copper per annum.

- **Galmoy:** High grade mining is expected to conclude in the first half of 2012, with sales continuing to be recognized into 2013 as stockpiled ore is milled at a third party processing facility.

- **Tenke:** Freeport, the mine's operator, expects sales of copper to increase to 131,500 tonnes with sales of cobalt comparable to 2011. The Phase II expansion project to 195,000 tpa of copper cathode (production on a 100% basis) is expected to be completed in 2013.

2012 Capital Expenditure Guidance

Capital expenditures for 2012 are now expected to be $370 million. This represents a $40 million reduction from our previously released estimate of December 12, 2011. The change is a result of updated figures for new investment in Tenke, and our guidance now includes:

- **Sustaining capital in European operations:** $95 million (2011 - $127 million). The decrease is related to slightly lower sustaining capital expenditures at Neves-Corvo for the year ahead.

- **New investment capex in European operations:** $65 million (2011 - $52 million), consisting of:
  - Lombador Phase I ($40 million) including underground development, final SAG mill delivery payments and other critical path items.
  - Neves-Corvo dam ($13 million) related to tailings and water storage capacity increases.
  - Other plant improvements and debottlenecking initiatives ($12 million) at both Neves-Corvo and Zinkgruvan.

- **New investment in Tenke:** Freeport expects the Phase II expansion at Tenke will be completed by the first quarter of 2013. Lundin Mining's share of expansion funding and sustaining capital funding may be up to $210 million for 2012. As guided by Freeport, total capital expenditure for the Phase II Expansion is expected to be $850 million. If metal prices remain strong, the capital spend is expected to be cash neutral to the Company, as Tenke's operating cash flows should be sufficient to meet this capital funding requirement.

Exploration Investment

- Exploration expenditures are expected to increase from $42.6 million in 2011 to $50 million in 2012. Approximately $34 million of this will be spent at Neves-Corvo, where a 90,000 metre surface drilling program is planned for 2012 which will continue to test resource expansion targets at Semblana in addition to drill-testing the multiple high priority targets recently identified within the Neves-Corvo near mine area. In addition, the 2012 exploration program is expected to test several greenfield targets in the Iberian region, as well as continued resource definition drilling at the Company's Clare and Lakelands exploration projects in Ireland.

Selected Quarterly and Annual Financial Information

(USD millions, except per share amounts)	2011	2010	2009[5]
	Years ended December 31		
Sales	**783.8**	849.2	746.0
Operating costs	**(382.0)**	(367.3)	(347.2)
General and administrative	**(28.0)**	(20.2)	(25.6)
Operating earnings[1]	**373.8**	461.7	373.2
Depreciation, depletion and amortization	**(153.8)**	(121.9)	(170.0)
General exploration and project investigation	**(42.6)**	(23.6)	(22.6)
Income from equity investment in Tenke	**94.7**	75.9	0.3
Finance (costs) income, net	**(13.1)**	36.1	(74.3)
Other income (expenses), net	**11.5**	(2.0)	11.2
Impairment charges	**(35.7)**	-	(53.0)
Earnings from continuing operations before income taxes	**234.8**	426.2	64.8
Income tax (expense) recovery	**(51.0)**	(119.9)	3.3
Earnings from continuing operations	**183.8**	306.3	68.1
Gain from discontinued operations	**-**	-	5.6
Net earnings	**183.8**	306.3	73.7
Shareholders' equity	**3,297.9**	3,153.6	2,915.2
Cash flow from operations	**308.7**	276.1	137.4
Capital expenditures (incl. Tenke)	**253.1**	160.3	185.0
Total assets	**3,864.3**	3,826.3	3,740.1
Net cash (debt)[2]	**236.1**	159.2	(49.3)
Key Financial Data:			
Shareholders' equity per share[3]	**5.66**	5.43	5.03
Basic and diluted earnings per share	**0.32**	0.53	0.13
Basic and diluted earnings per share from continuing operations	**0.32**	0.53	0.12
Dividends	**-**	-	-
Equity ratio[4]	**85%**	82%	78%
Shares outstanding:			
Basic weighted average	**582,074,865**	579,924,538	550,000,833
Diluted weighted average	**582,964,608**	580,539,367	550,045,231
End of period	**582,475,287**	580,575,355	579,592,464

($ millions, except per share data)	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10
Sales	**242.1**	146.2	184.0	211.5	309.3	215.1	183.1	141.7
Operating earnings[1]	**129.3**	48.7	82.2	113.6	192.3	121.5	82.1	65.8
Net earnings	**42.5**	12.4	57.7	71.2	146.1	66.0	42.3	51.9
Earnings per share[6], basic and diluted	**0.07**	0.02	0.10	0.12	0.25	0.11	0.07	0.09
Cash flow from operations	**120.3**	(40.6)	96.8	132.2	67.9	51.1	70.8	86.3
Capital expenditure (incl. Tenke)	**90.7**	58.8	57.7	45.9	42.9	40.2	39.1	38.1
Net cash[2]	**236.1**	208.7	308.2	262.0	159.2	125.7	107.8	10.2

[1] Operating earnings is a non-IFRS measure defined as sales, less operating costs (excluding depreciation) and general and administration costs.
[2] Net cash is a non-IFRS measure defined as available unrestricted cash less long-term debt and finance leases.
[3] Shareholders' equity per share is a non-IFRS measure defined as shareholders' equity divided by total number of shares outstanding at the end of the period.
[4] Equity ratio is a non-IFRS measure defined as shareholders' equity divided by total assets at the end of the period.
[5] Conversion to IFRS on January 1, 2011 requires the completion of IFRS compliant financial statements on a comparative basis with 2010. Financial results prior to 2010 remain unchanged and are reported in accordance with Canadian GAAP (see MD&A page 30).
[6] 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.

Sales Overview

Sales Volumes by Payable Metal

	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Copper (tonnes)										
Neves-Corvo	**69,974**	26,026	12,671	14,304	16,973	69,935	23,765	16,398	20,252	9,520
Zinkgruvan	**2,092**	678	680	734	-	-	-	-	-	-
Aguablanca[1]	**(73)**	-	(5)	(15)	(53)	3,793	559	644	1,418	1,172
	71,993	26,704	13,346	15,023	16,920	73,728	24,324	17,042	21,670	10,692
Zinc (tonnes)										
Neves-Corvo	**2,619**	(43)	1,842	5	815	5,251	861	1,459	2,046	885
Zinkgruvan	**61,661**	15,981	15,183	13,529	16,968	59,405	14,657	13,713	18,297	12,738
Galmoy[2]	**16,346**	3,106	4,768	4,694	3,778	6,147	1,755	2,510	1,324	558
	80,626	19,044	21,793	18,228	21,561	70,803	17,273	17,682	21,667	14,181
Lead (tonnes)										
Zinkgruvan	**29,794**	7,906	8,570	7,031	6,287	35,808	8,490	9,735	9,630	7,953
Galmoy[2]	**5,010**	769	1,649	1,517	1,075	1,786	430	791	436	129
	34,804	8,675	10,219	8,548	7,362	37,594	8,920	10,526	10,066	8,082
Nickel (tonnes)										
Aguablanca[1]	**(48)**	-	7	6	(61)	5,116	559	1,029	1,826	1,702

[1] Final weight adjustment related to provisional sales recognized in 2010 but settled in 2011.
[2] 50% of metal is attributable to Galmoy on sale of ore to third party processing facility (see MD&A page 22).

Sales Analysis

	Years ended December 31				
	2011		2010		Change
(US$ millions)	$	%	$	%	$
by Mine					
Neves-Corvo	**558.0**	71	541.3	64	16.7
Zinkgruvan	**188.6**	24	165.3	19	23.3
Aguablanca	**(1.9)**	n/a	129.8	15	(131.7)
Galmoy	**39.1**	5	12.8	2	26.3
	783.8		849.2		(65.4)
by Metal					
Copper	**563.1**	72	557.8	66	5.3
Zinc	**135.1**	17	106.5	12	28.6
Lead	**71.4**	9	69.1	8	2.3
Nickel	**(0.4)**	n/a	92.7	11	(93.1)
Other	**14.6**	2	23.1	3	(8.5)
	783.8		849.2		(65.4)

Lower sales for the current year, compared with the year ended December 31, 2010, reflect the suspension of operations at Aguablanca throughout 2011. The impact of the suspended operations were partially offset by higher average metal prices (particularly for copper and lead which were up 17% and 12%, respectively) and a full year of mining high grade ore at Galmoy, which initiated third party processing of remnant high grade ore in mid-2010.

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 typically are one to four months after shipment.

Annual Reconciliation of Realized Prices

2011	Year ended December 31, 2011				
($ millions)	**Copper**	**Zinc**	**Nickel**	**Lead**	**Total**
Current period sales	596.6	176.6	-	81.7	854.9
Prior period provisional adjustments	0.1	(0.6)	(0.6)	0.2	(0.9)
Sales before other metals and TC/RC	596.7	176.0	(0.6)	81.9	854.0
Other metal sales					14.6
Less: TC/RC					(84.8)
Total Sales					**783.8**
Payable Metal (tonnes)	**71,993**	**80,626**	**(48)**	**34,804**	
Current period sales ($/lb)	$ 3.76	$ 0.99	n/a	$ 1.06	
Prior period provisional adjustments ($/lb)	-	-	n/a	0.01	
Realized prices ($/lb)	**$ 3.76**	**$ 0.99**	**n/a**	**$ 1.07**	

2010	Year ended December 31, 2010				
($ millions)	**Copper**	**Zinc**	**Nickel**	**Lead**	**Total**
Current period sales	599.6	149.6	106.9	81.4	937.5
Prior period provisional adjustments	(5.8)	(0.9)	17.1	(0.9)	9.5
Sales before other metals and TC/RC	593.8	148.7	124.0	80.5	947.0
Other metal sales					23.1
Less: TC/RC					(120.9)
Total Sales					**849.2**
Payable Metal (tonnes)	**73,728**	**70,803**	**5,116**	**37,594**	
Current period sales ($/lb)	$ 3.69	$ 0.96	$ 9.48	$ 0.98	
Prior period provisional adjustments ($/lb)	(0.04)	(0.01)	1.51	(0.01)	
Realized prices ($/lb)	**$ 3.65**	**$ 0.95**	**$ 10.99**	**$ 0.97**	

Provisionally valued sales for the year ended December 31, 2011

Metal	**Tonnes Payable**	**Valued at $ per lb**	**Valued at $ per tonne**
Copper	23,937	3.45	7,597
Zinc	12,441	0.84	1,843
Lead	7,927	0.89	1,966

Annual Financial Results

Operating Costs

Operating costs (excluding depreciation) of $382.0 million for the year ended December 31, 2011 were $14.7 million higher than the year ended December 31, 2010. Costs were higher at both Neves-Corvo and Zinkgruvan by $49.7 million and $16.0 million, respectively, due mainly to higher ore volumes hoisted, mined and milled. In addition, weakness in the United States dollar, in comparison to the € and SEK resulted in higher reported costs ($25.4 million), and Galmoy incurred more costs associated with increased production levels ($6.1 million). These cost increases were partially offset by the reduction of costs incurred at Aguablanca due to the suspension of operations ($70.8 million) and lower royalty charges at Neves-Corvo ($11.7 million). The year ended December 31, 2010 included an incremental $8.1 million royalty charge related to 2008. (*See additional commentary under individual mine discussion*).

Depreciation, Depletion and Amortization

Increased depreciation, depletion and amortization expense for the year ended December 31, 2011 compared with the same period in 2010 is a result of higher amounts of ore mined, commissioning of the new zinc expansion at Neves-Corvo and the new copper mill at Zinkgruvan. These were partially offset by lower depreciation due to the suspension of operations at Aguablanca throughout 2011.

	Years ended December 31		
Depreciation by operation ($ millions)	**2011**	2010	Change
Neves-Corvo	**119.4**	87.5	31.9
Zinkgruvan	**30.9**	14.9	16.0
Aguablanca	**3.1**	19.0	(15.9)
Galmoy	**0.1**	0.1	-
Other	**0.3**	0.4	(0.1)
	153.8	121.9	31.9

General Exploration and Project Investigation

General exploration and project investigation costs increased from $23.6 million in 2010 to $42.6 million for the year ended December 31, 2010. This increase is primarily attributable to an 80,000 metre surface drilling program undertaken to deliver the initial resource estimate for Semblana and an extensive 3D seismic geophysical program conducted around Neves-Corvo to identify additional exploration targets. (*See additional commentary under Exploration Highlights*).

Finance (Costs) Income, net

For the year ended December 31, 2011 compared with the prior year, the net decrease in finance income was primarily attributable to larger gains reported in 2010, namely higher revaluation gain on marketable securities of $39.9 million and gain of $10.2 million on copper derivative contracts.

Other Income and Expenses, net

Other income and expenses is comprised mainly of foreign exchange gains and losses, as well as gains on the sale of non-core assets.

A foreign exchange gain of $8.2 million in the current year and a loss of $2.0 million recorded for the year ended December 31, 2010 relates to US$ cash and trade receivables that were held in the European group entities. Period end exchange rates at December 31, 2011 were $1.29:€1.00 (December 31, 2010 – $1.34:€1.00) and $1.00:SEK6.92 (December 31, 2010 – $1.00:SEK6.71).

Impairment

As required by IFRS, each cash generating unit ("CGU") that has been allocated goodwill must be tested annually for impairment. During 2011, a number of factors contributed to the identification of a CGU impairment for Aguablanca. In part, associated with the late-2010 slope failure, refined technical plans developed during 2011 were a triggering factor. In addition, the Company, adopted IFRIC 20 related to deferred stripping which had the effect of increasing the carrying amount of the CGU by $14.9 million.

In comparing the CGU's recoverable amount and its carrying value, a $35.7 million impairment loss was measured. This loss was fully allocated to goodwill during the fourth quarter of 2011.

The recoverable value of the Aguablanca CGU was based on forecast commodity prices, reserves and resource quantities, operating costs, capital expenditures, discount rates and foreign exchange rates and the resulting cash flow projections.

Current and Deferred Income Taxes

Current Tax Expense	**Years ended December 31**		
($ millions)	**2011**	2010	Change
Neves-Corvo	**54.8**	77.1	(22.3)
Zinkgruvan	**6.3**	5.1	1.2
Aguablanca	**13.9**	0.7	13.2
Galmoy	**0.5**	0.4	0.1
Other	**2.3**	1.9	0.4
Current tax expense	**77.8**	85.2	(7.4)

The decrease in current income tax expense of $7.4 million is a reflection of lower taxable earnings, offset by a Spanish tax assessment relating to deductibility of accelerated depreciation in fiscal years 2004 and 2005. The Company received a negative tax assessment of €9.1 million ($12.5 million), plus €2.0 million ($2.7 million) in interest, which it chose to pay to avoid further interest and penalties but is in the process of appealing the assessment.

The corporate tax rates in the countries where the Company has mining operations range from 25% in Ireland to 30.0% in Spain. The Company paid $125.8 million in income taxes in 2011, including $105.0 million paid in Portugal, net payment of $12.3 million in Spain, $5.4 million in Sweden, $0.7 million in Ireland and $2.4 million in other jurisdictions.

Deferred Tax (Recovery) Expense	**Years ended December 31**		
($ millions)	**2011**	2010	Change
Neves-Corvo	**(17.3)**	13.6	(30.9)
Zinkgruvan	**9.3**	13.5	(4.2)
Aguablanca	**(13.1)**	7.5	(20.6)
Other	**(5.7)**	0.1	(5.8)
Deferred tax (recovery) expense	**(26.8)**	34.7	(61.5)

Deferred income tax recovery for 2011 was $26.8 million compared to a tax expense of $34.7 million in 2010 which reflects current year losses at Aguablanca and utilization of previously unrecognized tax losses. Furthermore, the 2010 deferred tax expense includes a $14.3 million charge related to the increase in the statutory tax rate in Portugal from 26.5% to 29%. In 2011, a further increase in the statutory tax rate of 2.5%, to 31.5%, was enacted in Portugal for 2012 and 2013, resulting in a $1.7 million deferred tax expense and related deferred tax liability.

Fourth Quarter Financial Results

Sales

Sales of $242.1 million for the three months ended December 31, 2011 were $67.2 million lower than the comparable period in 2010 due to lower metal prices and price adjustments ($61.3 million) and suspension of operations at Aguablanca in December 2010 ($31.8 million), partially offset by higher sales volume ($26.0 million).

Operating Earnings[1]

For the three months ended December 31, 2011, operating earnings[1] of $129.3 million were $63.0 million lower than the comparable period in 2010. Average copper, zinc and lead prices for the fourth quarter of 2011 were 13% to 18% lower than the same period in 2010 which, in addition to price adjustments to prior period sales, resulted in lower operating earnings of $61.3 million. Furthermore, higher costs ($15.5 million) and the negative impact of suspended operations at Aguablanca ($5.3 million) also contributed to lower earnings compared to the prior year, partially offset by higher volume of sales ($19.1 million).

Net Earnings

Net earnings for the quarter ended December 31, 2011 of $42.5 million were $103.6 million lower than the comparable period ended December 31, 2010. The reduction in net earnings is largely a reflection of lower operating earnings, compounded by a $35.7 million goodwill impairment loss reported in the fourth quarter of 2011 related to Aguablanca.

Cash Flow from Operations

For the three months ended December 31, 2011, cash flow from operations was $120.3 million, compared to $67.9 million for the three months ended December 31, 2010. The increase of $52.4 million is largely the result of a comparative decrease in non-cash working capital ($70.3 million).

---

[1] Operating earnings is a non-IFRS measure defined as sales, less operating costs (excluding depreciation) and general and administration costs.

Fourth Quarter Reconciliation of Realized Prices

2011	Three months ended December 31, 2011				
($ millions)	**Copper**	**Zinc**	**Nickel**	**Lead**	**Total**
Current period sales	203.7	35.9	-	17.1	256.7
Prior period provisional adjustments	5.6	(0.8)	-	0.1	4.9
Sales before other metals and TC/RC	209.3	35.1	-	17.2	261.6
Other metal sales					4.6
Less: TC/RC					(24.1)
Total Sales					**242.1**
Payable Metal (tonnes)	**26,704**	**19,044**	**-**	**8,675**	
Current period sales ($/lb)	$ 3.46	$ 0.86	n/a	$ 0.89	
Prior period provisional adjustments ($/lb)	0.10	(0.02)	n/a	0.01	
Realized prices ($/lb)	**$ 3.56**	**$ 0.84**	**n/a**	**$ 0.90**	

2010	Three months ended December 31, 2010				
($ millions)	**Copper**	**Zinc**	**Nickel**	**Lead**	**Total**
Current period sales	232.4	41.0	13.8	22.1	309.3
Prior period provisional adjustments	7.0	2.2	9.9	0.5	19.6
Sales before other metals and TC/RC	239.4	43.2	23.7	22.6	328.9
Other metal sales					6.3
Less: TC/RC					(25.9)
Total Sales					**309.3**
Payable Metal (tonnes)	**24,324**	**17,273**	**559**	**8,920**	
Current period sales ($/lb)	$ 4.33	$ 1.08	$ 11.20	$ 1.12	
Prior period provisional adjustments ($/lb)	0.13	0.06	8.08	0.03	
Realized prices ($/lb)	**$ 4.46**	**$ 1.14**	**$ 19.28**	**$ 1.15**	

Cash Cost Overview

	Cash cost / lb (US dollars)		**Cash cost / lb (local currency)**	
	Three months ended December 31		**Three months ended December 31**	
	2011	2010	**2011**	2010
Neves-Corvo (Local in €)				
Gross cost	**1.46**	1.40	**1.08**	1.03
By-product *	**(0.04)**	(0.06)	**(0.03)**	(0.04)
Net Cost – Cu/lb	**1.42**	1.34	**1.05**	0.99
Zinkgruvan (Local in SEK)				
Gross cost	**0.96**	0.81	**6.49**	5.56
By-product *	**(0.59)**	(0.66)	**(4.00)**	(4.53)
Net Cost - Zn/lb	**0.37**	0.15	**2.49**	1.03

*By-product is after related TC/RC

Mining Operations

Production Overview

	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Copper (tonnes)										
Neves-Corvo	**74,109**	26,866	15,070	13,475	18,698	74,011	23,105	19,353	20,342	11,211
Zinkgruvan	**1,768**	622	349	356	441	540	540	-	-	-
Aguablanca	**-**	-	-	-	-	5,484	1,263	1,156	1,432	1,633
	75,877	27,488	15,419	13,831	19,139	80,035	24,908	20,509	21,774	12,844
Zinc (tonnes)										
Neves-Corvo	**4,227**	382	1,874	1,020	951	6,422	897	2,237	1,446	1,842
Zinkgruvan	**75,147**	20,337	17,459	17,582	19,769	72,206	18,546	15,916	20,624	17,120
Galmoy[1]	**32,071**	6,334	9,458	8,802	7,477	11,501	4,039	4,418	2,388	656
	111,445	27,053	28,791	27,404	28,197	90,129	23,482	22,571	24,458	19,618
Lead (tonnes)										
Zinkgruvan	**32,339**	7,621	7,368	7,829	9,521	36,636	8,602	9,641	10,286	8,107
Galmoy[1]	**8,791**	1,652	2,709	2,538	1,892	2,932	868	1,261	667	136
	41,130	9,273	10,077	10,367	11,413	39,568	9,470	10,902	10,953	8,243
Nickel (tonnes)										
Aguablanca	**-**	-	-	-	-	6,296	1,062	1,363	1,715	2,156

[1] represents 50% of contained metal attributable to Galmoy on delivery of ore to a third party processing facility (Galmoy – see MD&A page 22).

Cash Cost Overview

	Cash cost / lb (US dollars)		**Cash cost / lb (local currency)**	
	Years ended December 31		**Years ended December 31**	
	2011	2010	**2011**	2010
Neves-Corvo (Local in €)				
Gross cost	**1.83**	1.40	**1.32**	1.06
By-product *	**(0.07)**	(0.07)	**(0.05)**	(0.05)
Net Cost – Cu/lb	**1.76**	1.33	**1.27**	1.01
Zinkgruvan (Local in SEK)				
Gross cost	**0.93**	0.79	**6.02**	5.75
By-product *	**(0.63)**	(0.57)	**(4.05)**	(4.15)
Net Cost - Zn/lb	**0.30**	0.22	**1.97**	1.60

*By-product is after related TC/RC

Commentary on production and cash costs is included under individual mine operational discussion.

Neves-Corvo Mine

Neves-Corvo is an underground mine, 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 consist of a shaft with up to 4.5 mtpa hoisting capacity for ore and waste, a copper plant with 2.5 mtpa processing capacity and a newly expanded zinc plant with 1 mtpa processing capacity. The processing of zinc-rich ores was suspended in November 2008 pending an improvement in zinc prices and the zinc facility was converted to treat copper ore. Zinc production was restarted at a limited rate in 2010 and a new zinc expansion project was completed in July 2011. The newly expanded zinc plant has the flexibility to process zinc or copper ores.

Operating Statistics

	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Ore mined, copper (tonnes)	**3,126,005**	899,669	749,999	768,806	707,531	2,537,927	776,682	630,304	649,641	481,300
Ore mined, zinc (tonnes)	**86,202**	-	8,973	34,552	42,677	74,295	1,449	38,960	16,133	17,753
Ore milled, copper (tonnes)	**3,197,783**	920,480	797,470	736,050	743,783	2,499,563	750,798	603,340	674,628	470,797
Ore milled, zinc (tonnes)	**63,074**	-	63,074	-	-	100,331	-	38,960	18,506	42,865
Grade per tonne										
Copper (%)	**2.7**	3.4	2.3	2.2	2.9	3.4	3.5	3.8	3.5	2.8
Recovery										
Copper (%)	**85**	85	83	83	86	86	87	85	86	86
Concentrate grade										
Copper (%)	**24.4**	24.3	24.5	24.2	24.5	24.2	24.3	23.9	24.1	24.4
Production- tonnes (metal contained)										
Copper	**74,109**	26,866	15,070	13,475	18,698	74,011	23,105	19,353	20,342	11,211
Zinc	**4,227**	382	1,874	1,020	951	6,422	897	2,237	1,446	1,842
Silver (oz)	**901,085**	296,678	200,902	184,007	219,498	725,260	223,242	176,094	203,035	122,889
Sales ($000s)	**558,044**	193,768	84,678	123,036	156,562	541,313	224,964	135,159	120,980	60,210
Operating earnings ($000s)[1]	**299,053**	118,759	21,029	59,817	99,448	335,696	155,506	85,517	67,860	26,813
Cash cost (€ per pound)[2]	**1.27**	1.05	1.67	1.48	1.13	1.01	0.99	0.92	0.96	1.29
Cash cost ($ per pound)[2]	**1.76**	1.42	2.35	2.13	1.55	1.33	1.34	1.19	1.20	1.78

Operating Earnings[1]

Operating earnings of $299.1 million were $36.6 million lower than 2010. Higher metal prices, net of price adjustments from prior year sales ($17.7 million), were more than offset by the negative impact of higher unit costs ($39.3 million, discussed below under cash costs) and foreign exchange ($15.4 million).

Production

Higher grade stopes averaging 3.4% copper and the utilization of the zinc plant for copper ore processing in the fourth quarter helped make up for shortfalls resulting from issues that hampered production earlier in 2011. The newly expanded zinc plant that was temporarily converted to copper ore processing in August 2011 has now been converted back to zinc processing.

Of particular note is the achievement of another annual tonnage record. In 2010, operations hoisted approximately 2.6 million tonnes of ore and 0.8 million tonnes of waste. In 2011, operations hoisted more than 3.2 million tonnes of ore and 1.0 million tonnes of waste. Total hoisting and milling was up 25% compared to the previous year. For five consecutive years, Neves-Corvo has exceeded the previous year's copper ore mined tonnages.

Cash Costs[1]

Cash costs were lower than guidance ($1.80/lb) at $1.76/lb. Cash costs were higher than the previous year’s average of $1.33/lb mainly due to increased mining costs ($0.27/lb) reflecting proportionally higher use of contractors to mine increased tonnage of lower grade ore. A stronger euro added $0.08/lb.

[1] Operating earnings is a non-IFRS measure - see page 43 of this MD&A for discussion of non-IFRS measures.
[2] Cash cost/lb of payable copper sold - see non-IFRS Performance Measures on page 43 of this MD&A.

Zinc Expansion Project

First ore was milled in early July 2011 and saleable zinc concentrate has been produced and sold. The circuit is designed for 1.0 million tpa ore throughput enabling 50,000 tpa zinc metal production in concentrate. Zinc ore was produced for a few weeks to test all circuits against design and equipment supplier specifications and was then temporarily converted to copper ore processing until the end of the year. In early 2012 it was converted back to zinc duty. The new zinc plant remains capable of being converted back and forth between zinc and copper ore duty with relative ease.

Lombador Zinc/Copper Project

The Lombador Phase I Feasibility Study was completed in the third quarter of 2011. The study shows that Lombador Phase I can be developed as a profitable and value accretive extension to the Neves-Corvo mine. The results of this study were discussed in a September 8, 2011 news release (*Lundin Mining Announces Feasibility Study Results for the Lombador Phase I Project)*.

Lombador Phase I underground development is proceeding on schedule and the downward access ramp has reached 370 level (approximately 850m below surface). It is expected to reach the 300 level by the second quarter of 2012 and this will facilitate the development of an exploration drive on the 335 level to allow for further underground exploration of the Lombador orebody.

Portions of the surface investment to further expand zinc capacity to 2.5 mtpa ore throughput, as described in the Lombador Phase I study, have been put on hold pending advancement of the strategic study for future underground access at Neves-Corvo described below.

Underground Materials Handling Study

In order to seek optimal value from the Neves-Corvo asset, a conceptual level study has been prepared to evaluate the relative merits of accessing and extracting copper rich Semblana deposit mineralization in advance of exploiting deeper zinc and copper mineralization from Lombador ("Lombador Phase II"). This study (see news release dated January 23, 2012 entitled "*Lundin Mining Reports on Neves-Corvo Future Underground Materials Handling Study*") has indicated two preferred options; a conventional shaft system and a decline tunnel system with rock hoisting conveyors. Further assessment is underway, with an anticipated completion during the second quarter of 2012, to select a single preferred option after taking in to account new exploration results and further enhancement of each design. A feasibility study is expected to advance based on the single preferred option with study schedule completion anticipated prior to mid-2013. An initial investment for an access ramp from the existing mining areas of the Zambujal deposit down to the Semblana deposit is being considered for potential approval and start of ramp construction prior to mid-2012. This ramp will enable detailed underground exploration and could contribute to material haulage from Semblana if project economic studies prove positive.

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 1.1 million tonnes of ore.

Operating Statistics

	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Ore mined, zinc (tonnes)	**1,028,523**	226,995	257,365	255,995	288,168	990,657	273,020	234,236	244,945	238,456
Ore mined, copper (tonnes)	**103,349**	5,326	36,097	36,269	25,657	33,640	33,640	-	-	-
Ore milled, zinc (tonnes)	**999,280**	256,160	235,949	231,145	276,026	995,884	266,610	245,543	257,731	226,000
Ore milled, copper (tonnes)	**109,666**	37,651	22,186	20,677	29,152	27,296	27,296	-	-	-
Grade per tonne										
Zinc (%)	**8.2**	8.5	8.0	8.5	8.0	8.0	7.8	7.3	8.8	8.2
Lead (%)	**4.0**	3.7	3.7	4.1	4.2	4.4	4.0	4.5	4.7	4.3
Copper (%)	**1.8**	1.8	1.7	1.9	1.7	2.2	2.2	-	-	-
Recovery										
Zinc (%)	**92**	93	93	90	90	91	90	89	91	92
Lead (%)	**82**	80	83	83	82	84	81	86	85	84
Copper (%)	**90**	91	91	90	89	90	90	-	-	-
Concentrate grade										
Zinc (%)	**52.6**	52.4	53.0	52.7	52.4	52.7	51.8	51.8	53.4	53.5
Lead (%)	**74.8**	73.7	75.4	75.5	74.7	74.9	73.7	74.2	76.9	74.3
Copper (%)	**25.2**	25.6	24.3	24.4	26.2	24.0	24.0	-	-	-
Production – tonnes (metal contained)										
Zinc	**75,147**	20,337	17,459	17,582	19,769	72,206	18,546	15,916	20,624	17,120
Lead	**32,339**	7,621	7,368	7,829	9,521	36,636	8,602	9,641	10,286	8,107
Copper	**1,768**	622	349	356	441	540	540	-	-	-
Silver (oz)	**1,690,863**	389,944	379,164	413,546	508,209	1,800,827	427,865	507,866	478,106	386,990
Sales ($000s)	**188,566**	42,240	48,741	50,000	47,585	165,273	48,421	42,233	38,963	35,656
Operating earnings ($000s)[1]	**93,588**	15,129	28,315	26,178	23,966	95,777	31,849	24,604	20,172	19,152
Cash cost (SEK per pound)[2]	**1.97**	2.49	0.81	1.64	2.76	1.60	1.03	0.85	2.12	2.33
Cash cost ($ per pound)[2]	**0.30**	0.37	0.13	0.26	0.42	0.22	0.15	0.11	0.28	0.33

Operating Earnings[1]

Operating earnings of $93.6 million were slightly lower than $95.8 million recognized in 2010. The decrease is attributable to an increase in unit costs ($17.3 million) and unfavourable exchange rates ($9.4 million) which more than offset higher metal prices ($19.2 million) and sales volumes ($5.3 million).

Production

Zinc production approximated guidance and exceeded the prior year by 4%. Record ore mined (+10% over 2010) and milled (+8% over 2010) was assisted by completion of the daylight ramp in November 2010.

Cash Costs[2]

2011 cash costs at $0.30/lb came in below guidance ($0.32/lb). Compared to last year, C1 cash costs increased $0.08/lb. Higher operating costs ($0.09/lb) and a stronger SEK ($0.07/lb) were partly offset by lower zinc treatment charges ($0.03/lb) and higher by-product credits ($0.05/lb) which included copper sales of $0.12/lb.

---

[1] Operating earnings is a non-IFRS measure - see page 43 of this MD&A for discussion of non-IFRS measures.
[2] Cash cost/lb of payable zinc sold - see non-IFRS Performance Measures on page 43 of this MD&A.

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. The 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. Operations restarted during the third quarter of 2011 at the pit to reinstate the main ore haulage ramp and concentrate production is expected to recommence prior to the end of 2012.

Operating Statistics

	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Ore mined (tonnes)	**24,289**	23,094	1,195	-	-	1,349,336	288,455	272,825	390,646	397,410
Ore milled (tonnes)	**-**	-	-	-	-	1,435,177	318,826	300,347	369,113	446,891
Grade per tonne										
Nickel (%)	**-**	-	-	-	-	0.5	0.4	0.6	0.6	0.6
Copper (%)	**-**	-	-	-	-	0.4	0.4	0.4	0.4	0.4
Recovery										
Nickel (%)	**-**	-	-	-	-	82	79	82	82	82
Copper (%)	**-**	-	-	-	-	93	93	93	93	92
Concentrate grade										
Nickel (%)	**-**	-	-	-	-	6.8	6.1	7.0	7.0	7.1
Copper (%)	**-**	-	-	-	-	6.1	7.2	6.0	5.8	5.4
Production-tonnes (metal contained)										
Nickel	**-**	-	-	-	-	6,296	1,062	1,363	1,715	2,156
Copper	**-**	-	-	-	-	5,484	1,263	1,156	1,432	1,633
Sales ($000s)	**(1,897)**	-	(34)	71	(1,934)	129,784	31,848	32,502	20,776	44,658
Operating earnings (loss) ($000s)[1]	**(16,717)**	1,700	(5,860)	(5,111)	(7,446)	44,128	6,967	13,373	(1,168)	24,956
Cash cost (€ per pound)[2]	**n/a**	n/a	n/a	n/a	n/a	5.34	11.34	4.59	4.32	4.92
Cash cost ($ per pound)[2]	**n/a**	n/a	n/a	n/a	n/a	7.08	15.39	5.93	5.43	6.80

Restart of Operations

The new mining contractor started pre-stripping activities in August 2011. The contractor is focused on preparing the pit for concentrate production in late 2012.

The estimated total investment required to recommence concentrate production is €45 million. Additional future water related de-risking measures have been taken including stream diversion and reinforcing final pit walls. To date, €16.7 million ($22.4 million) has been spent, of which €11.3 million ($14.9 million) has been capitalized as deferred stripping costs.

Operating Loss[1]

Operating loss of $16.7 million for the year was significantly lower than prior year's earnings of $44.1 million as a result of suspension of operations in December 2010. Losses for the year are in support of waste removal, care and maintenance and general & administrative costs.

The Company has early adopted IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine,* in which production stripping costs in a surface mine are capitalized if certain criteria are met. Accordingly in the fourth quarter of 2011 deferred stripping costs of $14.9 million, of which $6.3 million was previously expensed in prior quarters, were capitalized.

[1] Operating earnings (loss) is a non-IFRS measure - see page 43 of this MD&A for discussion of non-IFRS measures.
[2] Cash cost/lb of payable nickel sold - see page 43 of this MD&A for discussion of non-IFRS measures.

Galmoy Mine

The Galmoy underground zinc mine is located in south-central Ireland in County Kilkenny. Mining was originally planned to cease in May 2009 and the mill has since been sold, but due to the positive market factors, the mining of remnant high grade ore has continued on a reduced basis. Ore is being shipped to an adjacent mine for processing. Production tonnage is based on a 50% attributable-share to Lundin Mining.

Operating Statistics

	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Ore mined (tonnes)	**302,446**	77,113	78,996	76,927	69,410	139,681	52,498	50,143	22,988	14,052
Ore sold (tonnes)	**192,535**	46,828	50,125	53,874	41,708	72,983	19,387	27,756	18,741	7,099
Grade per tonne										
Zinc (%)	**22.6**	20.1	24.8	22.5	23.4	22.0	23.5	23.2	18.7	21.5
Lead (%)	**7.5**	5.7	8.9	8.2	7.4	7.4	6.8	8.5	7.2	6.2
Production- tonnes (metal contained)										
Zinc	**32,071**	6,334	9,458	8,802	7,477	11,501	4,039	4,418	2,388	656
Lead	**8,791**	1,652	2,709	2,538	1,892	2,932	868	1,261	667	136
Sales ($000s)	**39,073**	6,122	12,845	10,862	9,244	12,853	4,034	5,234	2,430	1,155
Operating earnings (loss) ($000s)[1]	**26,503**	1,000	10,649	7,030	7,824	6,961	3,011	3,611	428	(89)

Operating Earnings[1]

Mining of high-grade ore for processing by a third party yielded operating earnings of $26.5 million in 2011 up from $7.0 million in 2010. In addition, an amount of $14.6 million is reported as deferred revenue representing cash received for ore delivered that has not as yet been processed. As at December 31, 2011 approximately 165,000 dry metric tonnes of ore were held in inventory at the processing facility, for which final revenue settlement will be recognized as it is milled.

Production

Production is reported based on a 50% attributable-share of the metal contained in ore delivered (after accounting for expected plant recoveries) to a third party processing facility.

Closure Costs

During the year €1.8 million ($2.5 million) was spent on closure activities. The mill has been dismantled and sold. Rehabilitation of the Tailings Management Facility ("TMF") is ongoing. Remaining activities to be completed include final rehabilitation of the TMF, and determination of the future of the replacement water supply scheme. The Company is considering the disposal of property and land to interested parties to potentially enable ongoing employment and economic benefit to the local community.

[1] Operating earnings is a non-IFRS measure - see page 43 of this MD&A for discussion of non-IFRS measures.

Tenke Fungurume

Tenke Fungurume ("Tenke") is a major copper-cobalt mine located in the southern part of Katanga Province, Democratic Republic of Congo ("DRC"). Freeport-McMoRan Copper & Gold Inc. ("Freeport") is the operating partner. La Générale des Carrières et des Mines ("Gécamines"), the Congolese state mining company, holds a repayable carried interest in the project. Owing to Gécamines carried interest, capital funding is provided by Freeport and the Company as to 70% and 30%, respectively.

Lundin Mining holds an effective 24.75% interest in the Tenke Fungurume copper and cobalt concessions in the DRC. The Company's interest in Tenke will be reduced to 24% after receiving the required government approval of the modifications to the Tenke Fungurume Mining's bylaws that reflect the signed agreements with the DRC government.

Operating Statistics

100% Basis	**Total 2011**	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Ore mined (000 tonnes)	**9,995**	2,418	2,720	2,692	2,165	8,541	1,980	2,471	2,389	1,701
Ore milled (000 tonnes)	**4,046**	1,092	1,104	881	969	3,766	1,017	1,083	797	869
Grade per tonne										
Copper (%)	**3.4**	3.4	3.2	3.7	3.4	3.5	3.4	3.2	3.9	3.7
Recovery										
Copper (%)	**93**	94	91	93	92	91	93	91	91	92
Production – tonnes										
Copper	**127,367**	34,891	32,249	29,891	30,336	120,271	31,949	31,115	28,438	28,769
Cobalt	**11,182**	2,854	2,759	2,776	2,793	9,225	2,922	2,421	1,651	2,231
Income from equity investment ($millions)	**94.7**	20.6	17.2	32.0	24.9	75.9	35.6	17.5	8.3	14.5
Cash costs ($ per pound)[1,2]	**1.07**	1.30	1.12	0.94	0.86	0.90	0.89	0.86	0.79	1.04

Income from Equity Investment

Income of $94.7 million was $18.8 million above the prior year. The increase reflects higher sales of copper and cobalt and higher average realized prices on copper, partially offset by higher costs. Sales volume of copper cathode sold during the year, on a 100% basis, amounted to 128,284 tonnes compared to 118,929 tonnes in 2010.

The average price realized for copper sales during the year was $3.74 per pound of cathode sold (2010: $3.45/lb). The average realized price for cobalt sold was $9.99/lb (2010: $10.95/lb).

The Company recognizes its 24.75% interest in the earnings of Tenke and includes adjustments for GAAP harmonization differences and purchase price allocations.

Production

Milling facilities at Tenke continue to perform well with throughput averaging 11,100 metric tons of ore per day in 2011 facilitated in part by plant debottlenecking investments. Mining rates have been increased to enable additional copper cathode production from the initial project capacity of 115,000 tonnes per year to approximately 130,000 tonnes per year.

Freeport is expecting annual sales of copper and cobalt to be approximately 131,500 tonnes and 11,300 tonnes, respectively in 2012.

[1] Cash cost/lb of payable copper sold - see non-IFRS Performance Measures on page 43 of this MD&A.

[2] Cash costs are as calculated and reported by Freeport as operator. Unit costs attributable to Lundin Mining's share of production may vary slightly from time to time due to marginal differences in the basis of calculation.

Cash Costs

During the year, cash operating costs averaged $1.07/lb of copper including the cobalt by-product credit, $0.17/lb higher than 2010 reflecting higher site production and delivery costs related to higher input costs. Freeport projects 2012 cash costs of $1.13/lb, assuming an average cobalt price of $12/lb.

Excess Overrun Facility

The Excess Overrun Cost facility for the completion of Phase I development was fully repaid during the year. The balance at December 31, 2010, of $108.4 million, was repaid out of Tenke operating cash flows.

Expansion

Freeport is undertaking a second phase of an expansion project, which includes optimizing the current plant and increasing capacity. As part of the second phase, Freeport is expanding the mill to 14,000 metric tons of ore per day and is constructing related processing facilities that would target the addition of approximately 70,000 tonnes of copper per year. Construction activities for the approximate $850 million project (Lundin Mining's share: approximately $250 million) which includes mill upgrades, additional mining equipment, and a new tankhouse are underway and are targeted for completion by the first quarter of 2013.

Freeport continues to engage in drilling activities, exploration analyses 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 expansion.

Tenke Funding

During the year, $64.5 million (2010 - $30.5 million) was advanced by the Company to cover sustaining capital, on-going concession exploration and expansion initiatives.

Lundin Mining's 2012 capital investment for Tenke has been assumed, for internal planning purposes, to be $210 million to fund expansion and sustaining capital. Depending on metal prices, it is expected the Company's share of operating cash flows from Tenke will be sufficient to fund these capital and non-capital requirements. Final decisions on capital investment levels for 2012 are ultimately made by Freeport, the mine's operator.

Exploration Highlights

Portugal

Neves-Corvo Mine Exploration (Copper, Zinc)

The 2011 surface exploration program included a completed total of 77,031 metres of a planned 80,000 metres. At Semblana, an initial Inferred Mineral Resource was reported in December 2011 in accordance with the definitions in the Canadian National Instrument 43-101. A new zone of high-grade copper sulphides, which is not included in the initial resource, was subsequently discovered approximately 300 metres to the south of the initial resource block. Drilling around this new discovery, as well as progressively testing other high priority targets, will continue throughout 2012.

Additional drilling in 2012 will work towards defining the limits and grade distribution of Semblana, especially to the west and south, with the objective of increasing the current resource. The program also includes drill-testing of high priority seismic reflectors and step-out drilling of the resource-grade copper mineralization intercepted in the area of the planned new water dam facility. The 2012 program will also focus on testing areas located outside of the scope of the current high priority exploration area in order to allow for optimization of the future underground materials handling study work.

Iberian Pyrite Belt Regional Exploration (Copper, Zinc)

Target definition work was undertaken in 2011, focusing on priority areas along strike to the northwest of the Neves-Corvo mine. A total of 4,549 metres were drilled in 2011 to test two out of seven new targets identified with four parallel 2D seismic lines. The 2012 program will focus on the follow-up of these targets with more definitive 3D seismic coverage and drill-testing of the best resulting targets.

Ireland

Clare Joint Venture Exploration (Zinc, Lead, Silver)

The Company acquired the remaining interest of the Clare Project after the acquisition of JV partner Belmore Resources was completed at the beginning of the third quarter of 2011. The focus of the Clare Project is the development of zinc-lead-silver resources at the Kilbricken Deposit, first discovered in 2009 by Belmore Resources.

The objective of drilling in 2011 was to discover additional new zones of resource grade mineralization along strike of the Kilbricken Discovery Zone in addition to initial step-out drilling on the new zone of zinc-lead and copper sulphide mineralization discovered in late September, located approximately 750 metres west-southwest of the Kilbricken Discovery Zone. A second new zone of resource grade zinc-lead mineralization was also discovered east-southeast of the Kilbricken Discovery Zone.

Drilling in the first quarter of 2012 will continue to focus on step-out drilling of the two new zones of mineralization discovered at Kilbricken in addition to continued wide-spaced step-out drilling looking for more new high-grade zones. A set of five, widely spaced 2D seismic lines will be completed to provide additional structural control for better targeting. Borehole TEM will be done to assist in target generation of any off-hole conductors.

Lakelands Zinc-Lead Project

A total of 785 meters were drilled in 2011 at the Lakelands Project in County Leitrim. Strongly disseminated zinc-lead sulphide mineralization was encountered in two holes within Navan Bed Equivalent host rocks. These holes followed up on the scout drill hole that discovered zinc-lead mineralization in this area. Broad-spaced drilling will continue in 2012 to better understand the geology and to define the extent of the discovered zinc-lead mineralization. An application for an additional area of 377 kilometres of contiguous ground around this property was approved and 13 new licenses are expected to be granted in due course by the Exploration and Mining Division.

Metal Prices, LME Inventories and Smelter Treatment and Refining Charges

The average metal prices for 2011 were marginally higher than the average prices for 2010. During the first half of the year the metal market continued to be strong based on increased industrial output and strong demand and metal prices increased, in some cases to new all-time highs. However, during the second half of 2011 demand for metal slowed down due to tightened Chinese credit policy and renewed concerns about the Eurozone and at the end of 2011 the metal prices were considerably lower than the prices at the end of 2010.

		Three months ended December 31			Twelve months ended December 31		
(Average LME Prices)		**2011**	2010	**Change**	**2011**	2010	**Change**
Copper	US$/pound	**3.40**	3.92	-13%	**4.00**	3.42	17%
	US$/tonne	**7,489**	8,634	-13%	**8,811**	7,539	17%
Zinc	US$/pound	**0.86**	1.05	-18%	**0.99**	0.98	1%
	US$/tonne	**1,897**	2,315	-18%	**2,191**	2,158	1%
Lead	US$/pound	**0.90**	1.08	-17%	**1.09**	0.97	12%
	US$/tonne	**1,983**	2,390	-17%	**2,398**	2,148	12%
Nickel	US$/pound	**8.30**	10.70	-22%	**10.36**	9.89	5%
	US$/tonne	**18,303**	23,598	-22%	**22,831**	21,809	5%

The LME inventory for zinc and lead continued to increase during 2011 and ended the year 17% (zinc) and 70% (lead) higher than the closing levels of 2010. The LME inventory for copper and nickel decreased during 2011 and ended the year 2% (copper) and 34% (nickel) lower than the closing levels of 2010.

The treatment charges ("TC") and refining charges ("RC") in the spot market for copper concentrates increased over the first quarter of 2011. In January, the spot TC was $55 per dmt of concentrate and the spot RC was $0.055 per lb of payable copper and in March, the spot TC peaked at $115 per dmt with a spot RC of $0.115 per lb of payable copper. This was a result of reduced demand for imported concentrates in China and India due to higher inventories. From April 2011 the spot TC and RC started to fall as the Chinese and Indian smelters came back into the market and in December the spot market was trading at a spot TC of $32 per dmt of concentrates with a RC of $0.032 per lb payable copper. Annual negotiations for copper TC and RC have been finalized and for 2012 the benchmark TC have been agreed at $60-63.5 per dmt of concentrates with a RC of $0.06-0.0635 per lb payable copper, slightly above the numbers for 2011 at a TC of $56 per dmt and a RC of $0.056 per lb payable copper.

The spot TC for zinc concentrates decreased during 2011 from $135 per dmt, flat, in January to $60 per dmt, flat, in December. During most of 2011 the differential between the realized TC under the annual contracts and the spot TC have been around $100 per dmt, with the spot TC being lower. However, during the 4th quarter of 2011 this differential increased to about $145 per dmt. This increase is a function of an increase in demand for zinc concentrates and, consequently, the Company expects an improvement in the TC under annual contracts in favour of the mines for 2012.

Lead concentrate imports to China dropped during 2011 compared to 2010. During the year, the Chinese government closed several lead-acid battery manufacturers due to environmental reasons which reduced the demand for lead metal and consequently also reduced the demand for lead concentrates. The spot TC for lead concentrates increased over the year from $75 per dmt, flat, in January 2010 to $145 per dmt in December. Based on the increasing spot TC the Company expects the TC for lead concentrates under annual contracts to increase in favour of the smelters in 2012.

The Company's nickel concentrates are sold under a long term contract at terms which are in line with the recent market conditions. The contract provides for regular monthly delivery and pricing of the concentrates which ensure that nickel realizations correlate more closely with LME averages over the year. However, since the Aguablanca mine stopped production in December 2010 due to damages caused by torrential rainfall, this contract is presently under Force Majeure and the duration of the contract will be extended by the duration of the Force Majeure.

Liquidity and Financial Condition

Cash Reserves

Cash and cash equivalents increased by $66.5 million to $265.4 million as at December 31, 2011, from $198.9 million at December 31, 2010. Cash inflows during the year included operating cash flows of $308.7 million, $7.8 million distribution from Tenke and proceeds of $8.0 million from sale of investments. Uses of cash included:

- $179.1 million investment in mineral property, plant and equipment;
- $64.5 million for Tenke funding;
- $10.5 million for net repayment of long-term debt; and
- $9.5 for purchase of Belmore Resources.

Working Capital

Working capital is $306.6 million as at December 31, 2011, compared to $294.1 million as at December 31, 2010. The nominal increase in working capital reflects a higher cash balance and lower income taxes payable resulting from lower taxable earnings, offset by lower trade and other receivables due to lower fourth quarter sales in 2011 compared to 2010.

Revolving Credit Facility

The Company signed an amended and restated credit agreement in September 2010. The facility was increased from $225.0 million to $300.0 million and extended to a full three-year term, expiring in September 2013.

Aside from a letter of credit issued in the amount of SEK 80 million ($11.6 million), there are no amounts outstanding on the facility.

Shareholders' Equity

Shareholders' equity was $3,297.9 million at December 31, 2011, compared to $3,153.6 million at December 31, 2010. Shareholders' equity increased primarily as a result of net earnings of $183.8 million and partially offset by translation adjustments in other comprehensive income of $49.8 million.

Contractual Obligations and Commitments

	Payments due by period				
US$ thousands	< 1 year	1-3 years	4-5 years	after 5 years	Total
Long-term debt	20,429	1,294	1,294	414	23,431
Finance leases	1,311	2,532	1,685	387	5,915
Reclamation and closure provisions[1]	5,244	9,693	12,463	71,295	98,695
Capital commitments	59,211	-	-	-	59,211
Operating leases and other	1,729	1,255	621	311	3,916
	87,924	14,774	16,063	72,407	191,168

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

Off-Balance Sheet Financing Arrangements

The Company had protection for cost overruns related to the development of Phase I of the Tenke copper/cobalt project. During the fourth quarter of 2008, capital expenditures on Phase I reached a certain threshold beyond which the Company was not required to provide cash funding. Freeport contributed the Company's proportionate share of project funding required by advancing amounts to the project on the Company's behalf. The funding was non-recourse to the Company and was fully repaid from operating cash flows in the third quarter of 2011. No other off-balance sheet arrangements exist as at December 31, 2011.

Financial Instruments

Summary of Financial Instruments

Financial Instrument	Fair value as at December 31, 2011 ($000's)	Basis of measurement	Associated Risks
Cash and cash equivalents	265,400	Carrying value	Interest/Credit/Exchange
Trade and other receivables	37,349	Carrying value	Credit/Market
Trade receivables	78,670	Fair value through profit and loss	Credit/Market/Exchange
Reclamation funds	54,392	Carrying value	Interest/Credit
Marketable securities	15,067	Fair value through profit and loss	Market/Liquidity
Trade payables and accrued liabilities	103,292	Amortized cost	Interest
Long-term debt and finance leases	29,346	Amortized cost	Interest
Other long-term liabilities	5,745	Amortized cost	Interest

Carrying value – Cash and cash equivalents, certain trade and other receivables and reclamation funds mature in the short-term and approximate their fair values.

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

Fair value through profit and loss (marketable 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 quote market price and the historical prices of the shares of which the warrants can be exchanged for and the expiry date of the warrants.

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

Associated risks for all financial instruments are more fully discussed in the *Managing Risks* section below.

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	Provisional price on December 31, 2011 ($US/tonne)	Change	Effect on pre-tax earnings ($ millions)
Copper	7,597	+/- 10%	+/- 18.2
Zinc	1,843	+/- 10%	+/- 2.3
Lead	1,966	+/- 10%	+/- 1.6

Related Party Transactions

Tenke

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, 2011, the Company made cash advances of $64.5 million to fund its portion of Tenke expenditures. The Company had an off-balance sheet financing arrangement whereby Freeport was responsible for funding the Company's share of Phase I project development costs that were in excess of agreed budgets. The remaining $108.4 million of the financing arrangement was completely repaid by August 31, 2011. The Company received its first cash distribution of $7.8 million in 2011. In addition, the Company provides certain letters of credit and guarantees for $1.8 million worth of contracts entered into by Tenke. These letters of credit expire in 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:

		2011		2010
Wages and salaries	**$**	**5,992**	$	6,132
Post-retirement benefits		**146**		264
Share-based compensation		**523**		752
	$	**6,661**	$	7,148

During the year ended December 31, 2011, the Company paid $0.3 million for services provided by a management company owned by the Chairman of the Company. Lundin Mining also paid $0.2 million to a charitable foundation directed by members of the Company's key management personnel to carry out social programs in the DRC on behalf of the Company.

In 2011, the Company also sold a residential property to a senior officer for $0.6 million. This disposition was transacted at fair value and on regular arm's length terms.

Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standard Board ("AcSB") confirmed that IFRS will replace Canadian GAAP ("CGAAP") for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. Accordingly, the Company's first mandatory filing under IFRS will be its consolidated financial statements for December 31, 2011.

The Company has prepared its December 31, 2011 consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants, with an effective transition date of January 1, 2010, including IFRS 1, *First-time adoption of international financial reporting standards*. The consolidated financial statements include IFRS-compliant financial statements on a comparative basis, as well as reconciliations for December 31, 2010 and as at the January 1, 2010 transition date.

The adoption of IFRS has not had a material impact on the Company's financial position, operations and business decisions.

The IFRS 1 *First time adoption of IFRS* elections on transition are as follows:

- **Business Combinations:** In electing this exemption, the Company is not required to apply IFRS 3 *Business combinations* retroactively to transactions prior to the date of transition to IFRS.
- **Fair value as deemed cost:** This exemption allows the use of a previous GAAP revaluation of a mineral property at the date of transition to IFRS as deemed cost.
- **Cumulative translation differences:** Allows the Company to deem the cumulative translation difference at the date of transition to IFRS as zero.
- **Reclamation and closure provisions included in the cost of mineral properties:** In electing this exemption, the Company is able to calculate its asset retirement obligation ("ARO") asset at the transition date using a simplified method based on the related ARO liability.
- **Designation of previously recognized financial instruments:** The Company has elected this option and on transition will reclassify the designation of its available-for-sale ("AFS") securities to fair value through profit and loss ("FVTPL"). This election will have an effect on shareholders' equity as all deferred gains and losses previously recognized in accumulated other comprehensive income ("AOCI") will be reclassified to retained earnings.
- **Share based-payments:** In accordance with IFRS 2 *Share based payments*, the Company will recognize a forfeiture rate on its initial recognition of stock option grants. In applying the IFRS 1 election, the effect of the forfeiture rates will be applied only to unvested options at the date of transition.

The following significant differences in accounting policy have been identified in converting to IFRS:

- **Foreign currency considerations**: The Company has analyzed functional currency under IAS 21 *The effect of changes to foreign exchange rates*. On assessment of primary indicators, the Company has changed the functional currency of two of its group companies.

  As a result of this change, the IFRS 1 *Cumulative translation adjustments* will be elected. This will have the effect of reclassifying all previously recorded translation adjustments from other comprehensive income to retained earnings.

- **Reclamation and closure provisions:** Under IAS 37 *Provisions, contingent liabilities and contingent assets*, the Company has reassessed its reclamation and closure provisions under IFRS. The IFRS standard requires the periodic updating of assumptions such as inflation and discount rates. Accordingly, the Company has made adjustments to the reclamation and closure provision and related asset.

Presented below is the reconciliation of the Company's opening balance sheet showing the adjustments from CGAAP to IFRS.

Transition to IFRS - Opening Consolidated Balance Sheet

Unaudited $US thousands	CGAAP January 1, 2010	Notes	Transition adjustments to IFRS	IFRS January 1, 2010
ASSETS				
Cash and cash equivalents	$ 141,575		$ -	**$ 141,575**
Trade and other receivables	182,210		-	**182,210**
Income tax receivable	13,610		-	**13,610**
Inventories	27,519		-	**27,519**
Prepaid expenses	3,541		-	**3,541**
Current Assets	368,455		-	**368,455**
Reclamation funds	67,076		-	**67,076**
Mineral properties, plant and equipment	1,310,287	(a)	(9,108)	**1,301,179**
Investment in Tenke Fungurume	1,633,740	(b)	(4,987)	**1,628,753**
Marketable securities and other assets	42,508		-	**42,508**
Deferred tax assets	68,707	(f)	4,175	**72,882**
Goodwill	249,820		-	**249,820**
	$ 3,740,593		$ (9,920)	**$ 3,730,673**
LIABILITIES				
Trade and other accounts payable	$ 59,473		-	**$ 59,473**
Accrued liabiliites	48,235		-	**48,235**
Income taxes payable	14,657		-	**14,657**
Current portion of long term debt and capital leases	2,536		-	**2,536**
Current portion of reclamation and closure provisions	5,830		-	**5,830**
Current portion of deferred revenue	5,667		-	**5,667**
Derivative liabilities	40,557		-	**40,557**
Current Liabilities	176,955		-	**176,955**
Long-term debt and finance leases	188,352		-	**188,352**
Other long-term liabilities	11,936		-	**11,936**
Deferred revenue	72,230		-	**72,230**
Provision for pension obligations	16,385		-	**16,385**
Reclamation and closure provisions	120,954	(a)	1,895	**122,849**
Deferred tax liabilities	238,089	(f)	(4,431)	**233,658**
	824,901		(2,536)	**822,365**
SHAREHOLDERS' EQUITY				
Share capital	3,480,487		-	**3,480,487**
Contributed surplus	30,415	(c)	(572)	**29,843**
Accumulated other comprehensive income	265,051	(d), (e)	(265,051)	**-**
Deficit	(860,711)		258,239	**(602,472)**
	2,915,242		(7,384)	**2,907,858**

Transitional adjustments notes:

a) In applying IAS 37 *Provisions, contingent liabilities and contingent assets*, discount and inflation rates were updated resulting in an increase of the ARO by $1.9 million. Under CGAAP, the historical rates were applied. On election of IFRS 1 *Decommissioning liabilities included in the cost of mineral properties,* the Company has adjusted the mineral property balance by $9.1 million.

b) The financial statements of the entity holding the Company's equity investment in Tenke Fungurume are reported in accordance with Generally Accepted Accounting Principles in the United States. As a result, the Company had previously applied CGAAP harmonization adjustments in its recognition of equity income. Under CGAAP increased equity income was recognized subsequent to the date of the transition to recover the Company's share of losses attributable to the non-controlling interest. A new allocation of income was recorded under IFRS to reverse the previous CGAAP adjustment. At the date of transition, the effect of this change was a decrease of $5.0 million to the investment.

c) Under IFRS the Company will recognize a forfeiture rate in its initial recognition of stock option grants. Applied retroactively on all unvested options at the date of transition, contributed surplus was reduced by $0.6 million.

d) On transition to IFRS, and in applying the optional election IFRS 1 *Designation of previously recognized financial instruments*, the Company reclassed deferred gains and losses in AOCI to retained earnings in the amount of $23.5 million.

e) The Company has elected IFRS 1 *Cumulative translation difference.* All cumulative translation differences on the date of transition are deemed to be zero and recognized in retained earnings in the amount of $241.6 million.

f) Related tax effects on above adjustments.

The following is an overview of the impacts to the Company's December 31, 2010 consolidated financial results due to the transition to IFRS.

Comparison between IFRS and CGAAP of selected financial information and key financial data:

		Transition adjustments				
For the year ended, and as at December 31, 2010 ($millions, except per share amounts and percentages)	**CGAAP**	**Revaluation of securities[(a)]**	**Reclamation and closure provisions[(b)]**	**Deferred Tax**	**Other**	**IFRS**
Net Earnings	317.1	(6.7)	2.4	(5.7)	(0.8)	306.3
Operating Earnings	456.6	-	-	-	5.1[d]	461.7
Shareholders' Equity	3,168.1	-	(6.9)	(4.9)[c]	(2.7)[c]	3,153.6
Total Assets	3,833.4	-	0.5	(4.9)[c]	(2.7)[c]	3,826.3
Shareholders' equity per share	5.46					5.43
Basic and diluted income per share	0.55					0.53
Equity ratio	83%					82%

Notes

[a] In applying an IFRS 1 election the Company reclassified its AFS securities to FVTPL. This reclassification resulted in previously recognized revaluation gains and losses recognized in AOCI to be recorded in retained earnings as a transition adjustment.

[b] In applying IAS 37, *Provisions, contingent liabilities and assets* and the related IFRS 1 election, the Company revised its estimate for reclamation and closure provision and the related asset. This change had an impact on accretion and depreciation expense for the year ended December 31, 2010.

[c] Transitional adjustments for the Company's investment in Tenke Fungurume related to US GAAP harmonization and the de-recognition of income taxes related to the acquisition of the investment.

[d] Includes $4.4 million reclassification of accretion expense from operating earnings to financing costs

Deferred Stripping

The Company has early adopted IFRIC 20, *Stripping costs in the production phase of a surface mine,* which had a mandatory effective date for annual periods which begin on or after January 1, 2013. This interpretation provides clarity on how to account for and measure the removal of mine waste materials which provide access to mineral ore deposits, or "stripping activity".

IFRIC 20 requires that stripping activity be accounted for as an asset if it meets certain criteria, namely the probability of future economic benefit, identification of the ore body being accessed and related stripping costs. Stripping costs must be measured as accumulated costs directly attributable to the stripping activity, with reasonable allocation of costs to inventory production, if any.

For the year ended December 31, 2011, deferred stripping costs of $14.9 million, at the Aguablanca mine, met the criteria of IFRIC 20 and were capitalized. The Company has applied this standard retroactively to January 1, 2010. This had no impact on the comparative periods presented.

New Accounting Pronouncements

The Company is currently evaluating the impact of the following pronouncements:

- IFRS 7 *Financial instrument – disclosure,* was amended to require additional disclosure in respect of risk exposures arising from transferred financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011.
- IFRS 7 *Financial instrument – disclosure,* was further amended to provide guideline on the eligibility criteria for offsetting assets and liabilities as a single net amount in the balance sheets. This amendment is effective for annual periods beginning on or after January 1, 2013.
- IFRS 9 *Financial instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

  Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial instruments – Recognition and Measurement*, except that fair value change due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for all annual periods beginning on or after January 1, 2015.
- IFRS 10 *Consolidated financial statements* requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—special purpose entities* and parts of IAS 27 *Consolidated and separate financial statements*. This standard is effective for all annual periods beginning on or after January 1, 2013.

- IFRS 11 *Joint arrangements* requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities—non-monetary contributions by venturers*. This standard is effective for all annual periods beginning on or after January 1, 2013.
- IFRS 12 *Disclosure of interests in other entities* establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for all annual periods beginning on or after January 1, 2013.
- IFRS 13 *Fair value measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for all annual periods beginning on or after January 1, 2013.
- IAS 1 *Presentation of financial statements,* was amended to require entities to group items within other comprehensive income that may be reclassified to profit or loss. This standard is effective for annual periods beginning on or after July 1, 2012.
- IAS 19 *Post-employment benefits,* was amended to eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans. This amendment is effective for annual periods beginning on or after January 1, 2013.
- IAS 28 *Investment in associates,* was amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. This amendment is effective for annual periods beginning on or after January 1, 2013.
- IAS 32 *Financial Instrument: presentation,* was amended to address inconsistencies in current practice when applying the offsetting criteria in IAS 32. Under this amendment, the meaning of "currently has a legally enforceable right of set-off" was clarified as well as providing clarification that some gross settlement systems may be considered equivalent to net settlement. This amendment is effective for annual periods beginning on or after January 1, 2014.

Critical Accounting Estimates

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

The Company has determined that the following accounting estimates are critical and could have a material effect on the financial statements of the Company if there is a change in an estimate.

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 amortizes mineral property and mining equipment and other assets 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 and amortization of the related mining assets and could result in an impairment of the 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 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 in Portugal and the Zinkgruvan mine in Sweden have longer mine lives and would be less affected by a change in the reserve estimate.

Valuation of mineral properties and exploration and development 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 amortized over the economic life of the property on a units-of-production basis. Costs are charged to operations 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, unit sales prices, 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 Investment in Tenke Fungurume

The Company carries its investment at cost and adjusts for its share of earnings 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. This requires making significant estimates of, amongst other things, future production and sale volumes, unit sales prices, future operating and capital 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 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 cash-generating units ("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 base metal prices, currency 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.

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.

Reclamation and closure provisions

The Company has obligations for reclamation and 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 assumptions and judgments are made by management in the determination of closure provisions. The reclamation and 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 closure provisions is to establish provisions for future mine closure costs at the commencement of mining operations 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 operating costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements, and those differences may be material.

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, the rate of salary increase and the inflation rate. 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 the expected price, volatility and expected life. Changes in the input assumptions can materially affect the fair value estimate.

Managing Risks

Risks and Uncertainties

Metal Prices

Metal prices, primarily copper, zinc and lead are key performance drivers and fluctuations in the prices of these commodities can have a dramatic effect on the results of operations. Prices 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, inflation rates, changes in global economies, and political, social and other factors. The supply of metals consists of a combination of new mine production 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 determine 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.

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 process such as using the services of credit agencies. 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.

Foreign Exchange Risk

The Company's revenue from operations is received in United States dollars while most of its operating expenses will be 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.

Derivative Instruments

The Company may, from time to time, manage exposure to fluctuations in metal prices and foreign exchange 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. These derivative instruments are 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, 2011, the Company had $54.4 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 annually 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 in 2011 and closure activities remain on schedule. Remnant high grade ore continues to be mined and is sent to an adjacent mine for processing. Mining activity is expected to conclude in the first half of 2012. Current mining activity does not have a significant effect on closure activities.

Rehabilitation programs were largely completed at the Storliden mine during 2010 following production shutdown in 2008. The site is subject to ongoing monitoring for several years following the completion of closure activities. The Company also has ongoing long-term monitoring programs in place associated with legacy mining operations previously carried on in Honduras under the ownership of a subsidiary of Rio Narcea Gold Mines Ltd., which was acquired by the Company in 2007.

Closing a mine can have significant impact on local communities and site remediation activities may not be supported by local stakeholders. The Company endeavors 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 the 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 in Portugal, Sweden, Ireland and Spain 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 not limited to: political unrest; labour disputes; invalidation of governmental orders, permits, agreements or property rights; risk of corruption including violations under U.S. and Canadian foreign corrupt practices statutes; military repression; war; 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 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 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, 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 mines. This complex process continues for the economic life of every mine in which the Company has an interest.

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), precious 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 and receipt of adequate financing. Although the Company's feasibility studies are generally completed with the Company's knowledge of the operating history of similar ore bodies 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.

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, 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 Revolving Credit Facility is dependent on the ability of the financial institutions that are parties to the Facility 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 Revolving Credit Facility 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 arrangements or other funding for the Company's business needs can be arranged.

Uninsurable Risks

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, 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.

Partner in the Tenke Fungurume Project

The Company's partner in the Tenke Fungurume copper/cobalt project is Freeport-McMoRan Copper & Gold Inc. 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. Repatriation of earnings to Canada from other countries may be subject to withholding taxes. The Company has no control over withholding tax rates.

Employee Relations

A prolonged labour disruption at any of the Company's mining operations 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.

Key Personnel

The Company is dependent on a relatively small number of key employees, the loss of any of whom could have an adverse effect on the Company. The Company does not have key person insurance on these individuals.

Outstanding Share Data

As at February 22, 2012, the Company had 582,497,510 common shares issued and outstanding and 8,978,917 stock options outstanding under its stock-based incentive plans.

Non-IFRS 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-IFRS 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 costs.

- **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, excluding depreciation, as follows:

	Three months ended December 31, 2011				Three months ended December 31, 2010			
	Total Tonnes Sold	Pounds (000s)	Cost $/lb	Cash Operating Costs ($000s)	Total Tonnes Sold	Pounds (000s)	Cost $/lb	Cash Operating Costs ($000s)
Operation								
Neves-Corvo (Cu)	26,026	57,377	1.42	81,475	23,765	52,393	1.34	70,207
Zinkgruvan (Zn)	15,981	35,232	0.37	13,036	14,657	32,313	0.15	4,847
Aguablanca (Ni)[1,2]	-	-	-	(2,861)	559	1,232	15.39	18,960
Galmoy (Zn)[3]	-	-	-	4,687	-	-	-	970
				96,337				94,984
Add: By-product credits				24,509				34,180
Treatment costs				(21,426)				(22,757)
Royalties and other				6,502				5,586
Operating costs, excluding depreciation				**105,922**				**111,993**

	Twelve months ended December 31, 2011				Twelve months ended December 31, 2010			
	Total Tonnes Sold	Pounds (000s)	Cost $/lb	Cash Operating Costs ($000s)	Total Tonnes Sold	Pounds (000s)	Cost $/lb	Cash Operating Costs ($000s)
Operation								
Neves-Corvo (Cu)	69,974	154,266	1.76	271,508	69,935	154,180	1.33	205,059
Zinkgruvan (Zn)	61,661	135,939	0.30	40,782	59,405	130,966	0.22	28,813
Aguablanca (Ni)[1]	-	-	-	14,848	5,116	11,279	7.08	79,855
Galmoy (Zn)[3]	-	-	-	8,360	-	-	-	5,511
				335,498				319,238
Add: By-product credits				105,467				126,717
Treatment costs				(72,000)				(103,100)
Royalties and other				13,055				24,455
Operating costs, excluding depreciation				**382,020**				**367,310**

[1] Pit-slope failure caused suspension of operations in December 2010.
[2] Deferred stripping costs of $6.3 million, previously expensed in prior quarters, were capitalized in the fourth quarter of 2011.
[3] 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 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, 2011.

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.

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, 2011.

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, 2011 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Other Information

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

Other Supplementary Information

1. ***List of directors and officers at February 22, 2012:***

(a) **Directors:**

Lukas H. Lundin, *Chairman*
William A. Rand, *Lead Director*
Paul Conibear
Colin K. Benner
Brian D. Edgar
Dale C. Peniuk
Donald K. Charter
John H. Craig

(b) **Officers:**

Lukas H. Lundin, *Chairman*
Paul Conibear*, President and Chief Executive Officer*
João Carrêlo, *Executive Vice President and Chief Operating Officer*
Marie Inkster, *Chief Financial Officer*
Neil O'Brien, *Senior Vice President, Exploration and Business Development*
Paul McRae, *Senior Vice President, Projects*
Julie Lee Harrs, *Senior Vice President, Corporate Development*
Peter Nicoll, *Vice President, Health, Safety, Environment and Community*
Mikael Schauman, *Vice President, Marketing*
Jinhee Magie, *Vice President, Finance*
James Ingram, *Corporate Secretary*

2. **Financial Information**

The report for the first quarter of 2012 is expected to be published on April 25, 2012.

3. **Other information**

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

Address (UK office):
Lundin Mining UK Limited
70 Oathall Road
West Sussex
RH16 3EL
United Kingdom
Telephone: +44-1-444-411-900
Fax: +44-1-444-456-901

Website: www.lundinmining.com
The corporate number of the Company is 306723-8

For further information, please contact:

Sophia Shane, Investor Relations, North America, +1-604-689-7842, sophias@namdo.com
Robert Eriksson, Investor Relations, Sweden: +46-8-545-015-50, robert.eriksson@vostoknafta.com
John Miniotis, Senior Business Analyst: +1-416-342-5560, john.miniotis@lundinmining.com

Consolidated Financial Statements of

Lundin Mining Corporation

December 31, 2011

Management's Report

The accompanying consolidated financial statements of Lundin Mining Corporation 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, 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 their 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 Accountants.

(Signed) Paul K. Conibear

President and Chief Executive Officer

(Signed) Marie Inkster

Chief Financial Officer

Toronto, Ontario, Canada
February 22, 2012

February 22, 2012

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, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2011 and December 31, 2010 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.

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, 2011 and December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 December 31, 2010 in accordance with International Financial Reporting Standards.

(Signed) PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Lundin Mining Corporation

CONSOLIDATED BALANCE SHEETS

(in thousands of US dollars)	**December 31, 2011**	December 31, 2010 Note 3	January 1, 2010 Note 3
ASSETS			
Current			
Cash and cash equivalents (Note 4)	**$ 265,400**	$ 198,909	$ 141,575
Trade and other receivables (Note 5)	**116,019**	231,970	182,210
Income taxes receivable	**6,869**	1,850	13,160
Inventories (Note 6)	**41,203**	31,688	27,519
Prepaid expenses	**4,047**	5,038	3,541
	433,538	469,455	368,005
Non-Current			
Reclamation funds	**54,392**	61,559	67,076
Mineral properties, plant and equipment (Note 7)	**1,242,126**	1,249,339	1,301,179
Investment in Tenke Fungurume (Note 8)	**1,886,537**	1,735,148	1,628,753
Marketable securities and other assets (Note 9)	**19,515**	32,411	42,508
Deferred tax assets (Note 10)	**37,848**	45,591	72,882
Goodwill (Note 11)	**190,369**	232,813	249,820
	3,430,787	3,356,861	3,362,218
	$ 3,864,325	$ 3,826,316	$ 3,730,223
LIABILITIES			
Current			
Trade and other accounts payable	**$ 72,192**	$ 70,976	$ 59,473
Accrued liabilities (Note 12)	**49,541**	60,675	48,235
Income taxes payable	**5,211**	43,743	14,657
Current portion of long-term debt and finance leases (Note 13)	**21,740**	2,512	2,536
Current portion of reclamation and closure provisions (Note 14)	**6,581**	5,985	5,830
Current portion of deferred revenue (Note 15)	**12,523**	9,719	5,667
Derivative liabiliites (Note 16)	**-**	-	40,557
	167,788	193,610	176,955
Non-Current			
Long-term debt and finance leases (Note 13)	**7,606**	37,152	188,352
Other long-term liabilities (Note 18)	**5,745**	10,881	11,936
Deferred revenue (Note 15)	**68,514**	67,957	72,230
Provision for pension obligations (Note 17)	**18,525**	18,816	16,385
Reclamation and closure provisions (Note 14)	**103,046**	111,408	122,849
Deferred tax liabilities (Note 10)	**195,245**	232,906	233,658
	398,681	479,120	645,410
	566,469	672,730	822,365
SHAREHOLDERS' EQUITY			
Share capital (Note 19)	**3,497,006**	3,485,814	3,480,487
Contributed surplus	**29,450**	30,312	29,843
Accumulated other comprehensive loss	**(116,174)**	(66,349)	-
Deficit	**(112,426)**	(296,191)	(602,472)
	3,297,856	3,153,586	2,907,858
	$ 3,864,325	$ 3,826,316	$ 3,730,223

Commitments and contingencies (Note 26)

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, 2011 and 2010
(in thousands of US dollars, except for shares and per share amounts)

	2011	2010 Note 3
Sales	$ **783,786**	$ 849,223
Operating costs (Note 20)	**(382,020)**	(367,310)
Depreciation, depletion and amortization (Note 7)	**(153,796)**	(121,862)
General and administrative	**(28,008)**	(20,227)
General exploration and project investigation	**(42,575)**	(23,624)
Income from equity investment in Tenke Fungurume (Note 8)	**94,681**	75,874
Finance income (Note 21)	**3,602**	49,301
Finance costs (Note 21)	**(16,741)**	(13,159)
Other income (Note 22)	**16,845**	9,661
Other expenses (Note 22)	**(5,238)**	(11,639)
Impairment of goodwill (Note 11)	**(35,726)**	-
Earnings before income taxes	**234,810**	426,238
Current tax expense (Note 10)	**(77,841)**	(85,193)
Deferred tax recovery (expense) (Note 10)	**26,796**	(34,764)
Net earnings	$ **183,765**	$ 306,281

	2011	2010
Basic and diluted earnings per share	$ **0.32**	$ 0.53
Weighted average number of shares outstanding		
Basic	**582,074,865**	579,924,538
Diluted (Note 19c)	**582,964,608**	580,539,367

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, 2011 and 2010
(in thousands of US dollars)

		2011		2010
				Note 3
Net earnings	**$**	**183,765**	$	306,281
Other comprehensive loss, net of taxes				
Effects of foreign currency translation		**(49,825)**		(66,349)
Comprehensive income	**$**	**133,940**	$	239,932

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2011 and 2010
(in thousands of US dollars, except for shares)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2010 (Note 3)	579,592,464	$ 3,480,487	$ 29,843	$ -	$ (602,472)	$ 2,907,858
Exercise of stock options	982,891	5,327	(1,853)	-	-	3,474
Share-based compensation	-	-	2,322	-	-	2,322
Net earnings	-	-	-	-	306,281	306,281
Effects of foreign currency translation	-	-	-	(66,349)	-	(66,349)
Balance, December 31, 2010 (Note 3)	580,575,355	3,485,814	30,312	(66,349)	(296,191)	3,153,586
Exercise of stock options	1,899,932	11,192	(2,986)	-	-	8,206
Share-based compensation	-	-	2,124	-	-	2,124
Net earnings	-	-	-	-	183,765	183,765
Effects of foreign currency translation	-	-	-	(49,825)	-	(49,825)
Balance, December 31, 2011	**582,475,287**	**$ 3,497,006**	**$ 29,450**	**$ (116,174)**	**$ (112,426)**	**$ 3,297,856**

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, 2011 and 2010
(in thousands of US dollars)

	2011	2010 Note 3
Cash provided by (used in)		
Operating activities		
Net earnings	**$ 183,765**	$ 306,281
Items not involving cash		
Finance income and costs	**8,784**	(38,863)
Share-based compensation	**2,124**	2,322
Depreciation, depletion and amortization	**153,796**	121,862
Foreign exchange gain	**(5,370)**	(3,938)
Income from equity investment in Tenke Fungurume	**(94,681)**	(75,874)
Deferred tax (recovery) expense	**(26,796)**	34,764
Recognition of deferred revenue	**(24,529)**	(5,688)
Impairment of goodwill	**35,726**	-
Other	**(5,397)**	(4,748)
Reclamation payments	**(2,700)**	(5,882)
Pension payments	**(1,293)**	(858)
Prepayments received (Note 15)	**30,443**	3,698
Settlement of derivative contracts	**-**	(30,591)
Changes in non-cash working capital items (Note 30)	**54,791**	(26,402)
	308,663	276,083
Investing activities		
Investment in mineral properties, plant and equipment	**(179,099)**	(129,770)
Acquisition of exploration properties	**(9,532)**	-
Investment in Tenke Fungurume	**(64,508)**	(30,521)
Distribution from Tenke Fungurume	**7,800**	-
Changes in reclamation funds	**5,563**	(1,321)
Proceeds from sale of marketable securities	**7,972**	52,280
Proceeds from sale of investments	**-**	31,500
Other	**934**	1,235
	(230,870)	(76,597)
Financing activities		
Long-term debt repayments	**(28,106)**	(157,637)
Proceeds from long-term debt	**17,592**	-
Common shares issued	**8,206**	3,474
Other	**(335)**	(1,684)
	(2,643)	(155,847)
Effect of foreign exchange on cash balances	**(8,659)**	13,695
Increase in cash and cash equivalents during the year	**66,491**	57,334
Cash and cash equivalents, beginning of year	**198,909**	141,575
Cash and cash equivalents, end of year	**$ 265,400**	$ 198,909

Supplemental cash flow information (Note 30)

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

1. NATURE OF OPERATIONS

Lundin Mining Corporation (the "Company") is a diversified Canadian base metals mining company. The Company's principal wholly-owned operating mine assets include the Neves-Corvo copper/zinc mine located in Portugal, the Zinkgruvan zinc/lead mine located in Sweden, the Aguablanca nickel/copper mine located in Spain, and a 24.75% equity accounted interest in the Tenke Fungurume copper/cobalt mine located in the Democratic Republic of Congo ("DRC").

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, 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 Canadian generally accepted accounting principles as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). In these financial statements, CGAAP refers to Canadian generally accepted accounting principles before the adoption of IFRS.

The consolidated financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in Note 3, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS balance sheet at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company's reported balance sheets, statements of earnings and statement of cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended December 31, 2010 prepared under CGAAP.

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 dollars. Reference herein of $ is to United States dollars. Reference of C$ is to Canadian dollars, reference of 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 items.

These consolidated financial statements were approved by the board of directors for issue on February 22, 2012.

(ii) **Significant accounting policies**

The significant accounting policies used in these consolidated financial statements are as follows:

(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 obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

Where necessary, adjustments are made to the results of the subsidiaries and 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 in 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 profit and loss 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 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, and where exchange differences arise, they are recognized as a separate component of equity.

(d) Cash and cash equivalents

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

(e) Reclamation funds

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

(f) Inventories

Ore stockpile and concentrate stockpile inventories 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 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 average cost less allowances for obsolescence. 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. 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.

iv. Deferred stripping costs represent the cost incurred to remove overburden and other waste materials to access ore. 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, that 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.

v. Pre-production expenditures net of the proceeds from sales generated, if any, relating to any one area of interest are recognized in the statement of earnings.

vi. Once a mining operation has achieved commercial production, mineral property for each area of interest is 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 determined by proceeds received less the carrying amount and are recognized in the statement of earnings.

Useful lives are as follows:

	Years
Buildings	20 - 50
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. Finance expenses are recognized immediately in the 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 compare against the asset's carrying amount. The recoverable amount is the higher of the fair value less cost to sell and the asset's value in use. If the carrying value exceeds the recoverable amount, an impairment loss is recorded in the 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 costs to sell 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 is increased to the revised estimate of its recoverable amount. The increased carrying amount does not 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 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 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 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 derivatives that are separated from their host contracts, are recorded on the consolidated balance sheets at fair value and mark-to-market adjustments on these instruments are included in the consolidated statements of earnings.

(n) Deferred revenue

Deferred revenue consists of payments received by the Company in consideration for future commitments. The Company records a portion of the deferred revenue as sales, when substantial 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 which exceed 10% of the present value of the Company's pension obligations are amortized over the estimated remaining period of services to be received. Actuarial gains and losses which are less than 10% of the present value of the Company's pension obligations are not recognized.

The amount recognized in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

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

(p) Reclamation and closure provisions

The Company has obligations for reclamation and closure costs such as site restoration and decommissioning activities 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 and judgments 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 closure provision as a long-term liability as incurred and records an increase in the carrying value of the related asset by a corresponding amount. The provision is discounted using a current market pre-tax discount. Charges for accretion and reclamation expenditures are recorded as operating activities. The related reclamation and 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 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 closure provision, and a corresponding change in the carrying amount of the related long-lived asset. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, a provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the 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 accounts receivable. 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 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 profit differs 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 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, and interests in joint ventures, 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. Deferred tax assets are recognized to the extent that taxable earnings will be available against which the deductible temporary differences can be utilized. 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.

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 which would be received upon the exercise of outstanding stock options is used to calculate how many common shares could be purchased at the average market price during the year 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 and liabilities at fair value through profit or loss ("FVTPL")

A financial asset or liability 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 and liabilities are re-valued with any gains or losses recognized in the statement of earnings.

The Company has designated its trade receivables, marketable securities and derivatives which do not qualify for hedge accounting as FVTPL assets and liabilities.

Transaction costs for FVTPL assets and liabilities are expensed.

Loans and receivables

Loans and receivables include cash and cash equivalents, reclamation fund and restricted cash, and other current receivables and loans that have fixed or determinable payments that are not quoted in

an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade payables, long-term debt, finance leases and other long-term liabilities. Trade payables are initially recognized at the amount required to be paid. Subsequently, trade payables 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 statement of earnings over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are credited to the cost of the property for which the grant was received for. The Company only recognizes grants when there is reasonable assurance that the conditions attached would be complied and the grants would be received.

(w) Adoption of new accounting standards

The Company has early-adopted IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine,* which has a mandatory effective date for annual periods which begin on or after January 1, 2013. Under this standard, production stripping costs in a surface mine are capitalized if certain criteria are met. The Company has applied this standard retroactively to January 1, 2010. This had no impact on the comparative periods presented.

(iii) **Critical accounting estimates and judgments**

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

Areas of judgment that have the most significant effect on the amounts recognized in the 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 amortizes mineral property and mining equipment and other assets 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 and amortization of the related mining assets and could result in an impairment of the 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 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 in Portugal and the Zinkgruvan mine in Sweden have longer mine lives and would be less affected by a change in the reserve estimate.

Valuation of mineral properties and development 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 amortized over the economic life of the property on a units-of-production basis. Costs are charged to 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, unit sales prices, 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 Investment in Tenke Fungurume – The Company carries its investment at cost and adjusts for its share of earnings 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. This requires making significant estimates of, amongst other things, future production and sale volumes, unit sales prices, future operating and capital 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 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 cash-generating units ("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 base metal prices, currency 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.

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.

Reclamation and closure provisions - The Company has obligations for reclamation and 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 assumptions and judgments are made by management in the determination of closure provisions. The reclamation and 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 closure provisions is to establish provisions for future mine closure costs at the commencement of mining operations 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 operating costs. Actual results could differ from estimates made by management during the preparation of these consolidated financial statements, and those differences may be material.

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, the rate of salary increase and the inflation rate. 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 the expected price, volatility and expected life. Changes in the input assumptions can materially affect the fair value estimate. Assumption details are discussed in the notes to the interim consolidated financial statements.

(iv) **New accounting pronouncements**

The Company is currently evaluating the impact of the following pronouncements and has not yet determined the impact:

- IFRS 7 *Financial instrument – disclosure,* was amended to require additional disclosure in respect of risk exposures arising from transferred financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011.

- IFRS 7 *Financial instrument – disclosure,* was further amended to provide guideline on the eligibility criteria for offsetting assets and liabilities as a single net amount in the balance sheets. This amendment is effective for annual periods beginning on or after January 1, 2013.

- IFRS 9 *Financial instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial instruments – Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognize in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

  Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39 except that fair value change due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for all annual periods beginning on or after January 1, 2015.

- IFRS 10 *Consolidated financial statements* requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—special purpose entities* and parts of IAS 27 *Consolidated and separate financial statements*. This standard is effective for all annual periods beginning on or after January 1, 2013.

- IFRS 11 *Joint arrangements* requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities—non-monetary contributions by venturers*. This standard is effective for all annual periods beginning on or after January 1, 2013.

- IFRS 12 *Disclosure of interests in other entities* establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for all annual periods beginning on or after January 1, 2013.

- IFRS 13 *Fair value measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for all annual periods beginning on or after January 1, 2013.

- IAS 1 *Presentation of financial statements,* was amended to require entities to group items within other comprehensive income that may be reclassified to profit or loss. This standard is effective for annual periods beginning on or after July 1, 2012.

- IAS 19 *Post-employment benefits*, was amended to eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans. This amendment is effective for annual periods beginning on or after January 1, 2013.

- IAS 28 *Investment in associates,* was amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. This amendment is effective for annual periods beginning on or after January 1, 2013.

- IAS 32 *Financial instrument: presentation,* was amended to address inconsistencies in current practice when applying the offsetting criteria in IAS 32. Under this amendment, the meaning of "currently has a legally enforceable right of set-off" was clarified as well as providing clarification that some gross settlement systems may be considered equivalent to net settlement. This amendment is effective for annual periods beginning on or after January 1, 2014.

3. TRANSITION TO IFRS

These are the first annual financial statements issued by the Company that comply with IFRS. These financial statements were prepared as described in Note 2, including the application of IFRS 1 *First time adoption of International Financial Reporting Standards* ("IFRS 1"). IFRS 1 sets out the procedures that the Company must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Company is required to establish its IFRS accounting policies and apply these retrospectively to determine the IFRS opening balance sheet as at the transition date of January 1, 2010.

IFRS 1 deals with the first time adoption of IFRS and permits a number of optional exemptions and requires some mandatory exemptions from full retrospective application.

The Company is required to use the following mandatory exemptions as follows:

- Estimates cannot be created or revised using hindsight. The estimates previously made by the Company under CGAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.
- For non-controlling interests, IFRS 1 lists specific requirements of IAS 27 *Consolidated and separate financial statements* which are applied prospectively.

The Company has elected to use the following optional exemptions as follows:

- IFRS 1 allows for IFRS 3R *Business combinations*, to be applied either retrospectively (as from a date determined by the Company) or prospectively. Retrospective application would require that the Company restate all business combinations occurring before January 1, 2010, the date of transition to IFRS. The

Company has chosen not to restate business combinations prior to January 1, 2010 in the opening balance sheet.

- IAS 21 *The effects of changes in foreign exchange rates*, requires a company to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS. The Company has reset cumulative translation adjustments ("CTA") to zero on transition to IFRS.
- IFRS 1 allows a company to initially measure an item of property, plant and equipment upon transition to IFRS at fair value, or under certain circumstances using a previous GAAP revaluation, as opposed to recreating depreciated cost under IFRS. The Company has used fair value as deemed cost for certain mineral properties.
- The Company elected the optional IFRS 1 election for decommissioning liabilities included in the cost of mineral properties. As part of applying this election, the Company measured its transition date reclamation and closure provision under IAS 37 *Provisions, contingent liabilities and contingent assets*. The transition date reclamation and closure liability was discounted back to the inception of the obligation in order to calculate the inception date asset value.
- The Company elected the IFRS 1 election for share based payments. This election allows all vested options prior to the date of transition to be accounted for under CGAAP. IFRS 2 *Share-based payments* is applied to unvested options from the transition date onwards.
- The Company elected the IFRS 1 election on designation of previously recognized financial instruments. On transition, the Company reclassified its available-for-sale ("AFS") investments to FVTPL.

Impact of IFRS accounting policies on the preparation of the Company's January 1, 2010 financial statements

The discussion below explains the key transitional adjustments between the preparation of financial statements under previous CGAAP and the current IFRS.

Impact of first-time application of IFRS

In compliance with IFRS 1, the Company has prepared financial information for 2010, presenting figures on the impact of transition to IFRS from CGAAP. Reconciliations have been prepared and are listed below. There was no material impact on the statements of cash flow at the transition date or December 31, 2010.

- Reconciliation of consolidated balance sheet totals at the transition date January 1, 2010 and the comparative date December 31, 2010;
- Reconciliation of consolidated statements of changes in equity at the transition date January 1, 2010 and the comparative date December 31, 2010; and
- Reconciliation of consolidated statement of earnings and other comprehensive loss for the year ended December 31, 2010.

Reconciliation of consolidated balance sheet totals reported under CGAAP to IFRS:

		December 31, 2010	January 1, 2010
Total assets - CGAAP		$ 3,833,388	$ 3,740,143
Reclamation provisions included in the cost of mineral properties	(a)	(5,095)	(9,108)
Investment in Tenke Fungurume	(f), (h)	(7,727)	(4,987)
Deferred tax assets recognized on above		5,750	4,175
Total assets - IFRS		**$ 3,826,316**	**$ 3,730,223**
Total liabilities - CGAAP		$ 665,277	$ 824,901
Reclamation provisions included in the cost of mineral properties	(a)	3,724	1,895
Deferred tax liabilities recognized on above		3,729	969
Deferred tax liabilities derecognized	(h)	-	(5,400)
Total liabilities - IFRS		**$ 672,730**	**$ 822,365**

Reconciliation of consolidated statement of changes in equity reported under CGAAP to IFRS:

		December 31, 2010	January 1, 2010
Total equity - CGAAP		$ 3,168,111	$ 2,915,242
Transitional adjustments:			
Accumulated OCI - CTA	(b)	(244,507)	(241,550)
Accumulated OCI - AFS	(c)	(16,835)	(23,501)
Contributed surplus	(d)	(583)	(572)
Retained earnings		247,400	258,239
Total equity - IFRS		**$ 3,153,586**	**$ 2,907,858**

Reconciliation of comprehensive income as previously reported under CGAAP to IFRS:

		Year ended December 31, 2010
Net earnings - CGAAP		$ 317,124
Accretion of reclamation provisions	(a)	710
Depreciation, depletion and amortization	(a)	1,528
Revaluation of marketable securities	(c)	(6,668)
Share-based compensation	(d)	10
Income from investment in Tenke Fungurume	(f)	(2,740)
Foreign exchange	(g)	3,127
Deferred tax on above adjustments		(6,810)
Net earnings - IFRS		**$ 306,281**
Other comprehensive loss - CGAAP		$ (70,062)
Revaluation of AFS	(c)	(36,793)
Reclassification adjustment of gains included in net earnings	(c)	43,460
Cumulative foreign exchange currency translation adjustment	(b),(g)	(2,954)
Other comprehensive loss - IFRS		**$ (66,349)**
Comprehensive income - IFRS		**$ 239,932**

Transitional adjustments

a) The significant changes from the CGAAP method of accounting for reclamation and closure provisions in comparison to IAS 37 includes the periodic re-assessment of discount rates and inflation rates in the measurement of reclamation and closure costs. In addition, the layer approach under CGAAP is no longer applied. During the year ended December 31, 2010, the reduction in accretion expense recorded based on the restated reclamation and closure balance was $0.7 million and the reduction in depreciation expense recorded based on the restated mineral properties balance was $1.5 million.

b) The Company elected the optional IFRS 1 election on cumulative foreign exchange currency translation differences whereby on transition all cumulative translation differences are deemed to be zero and recognized in retained earnings.

c) On the transition date to IFRS, the Company reclassified its AFS investments to FVTPL and as a result previously deferred gains and losses from the revaluation of the AFS investments were reclassified to retained earnings for $23.5 million. Overall, there was no effect on equity. During the year ended December 31, 2010, $6.7 million of previously recognized losses recorded in OCI under CGAAP were recognized in the statement of earnings.

d) In accordance with IFRS 2, the Company now estimates a forfeiture rate in its initial recognition and measurement of the stock option grant.

e) Under CGAAP, a two step process was used to determine impairment. The first step, using undiscounted cash flows, was undertaken to determine if impairment exists. If the carrying values exceeded the undiscounted cash flows, the second step measured the impairment loss using discounted cash flows. In accordance with IAS 36 *Impairment of assets*, the test for impairment is not a two step process and impairment tests are undertaken using discounted cash flows only. For the Company's Neves-Corvo, Aguablanca and Galmoy mines the fair value as deemed cost IFRS 1 election was applied to the mineral properties and certain property, plant and equipment balances. As such, no adjustments were required on the transition date. The basis for the fair value was previously recognized CGAAP valuations. The aggregate fair value used as deemed cost was $63.5 million at the date of transition.

f) The financial statements of the Company's equity investment in Tenke Fungurume Mining Corp S.A.R.L ("TFM") are reported in accordance with generally accepted accounting principles in the United States ("US GAAP"). As a result, the Company applied Canadian GAAP harmonization adjustments in its recognition of equity income. Under CGAAP, increased equity income was recognized subsequent to the date of transition to recover the Company's share of losses attributable to the non-controlling interest. A new allocation of income was recorded under IFRS reversing the previous CGAAP adjustment. During the year ended December 31, 2010, the effect of this change to net earnings was a reduction of $2.7 million.

g) In applying IAS 21, the determination of functional currencies for the Company and its subsidiaries has resulted in the change in the functional currency of the parent company and a wholly-owned holding company. This analysis was based on primary indicators. On transition, the IFRS 1 election was elected to reset cumulative translation differences to retained earnings. During the year ended December 31, 2010, the impact was an increase to foreign exchange gains in the statement of earnings of $3.1 million.

h) In accordance with IAS 12 *Income taxes*, temporary differences which arise on the acquisition of assets are not permitted to be recognized either on initial recognition or subsequently. The Company accounted for its acquisition of Tenke Mining Corp. as an asset purchase and recorded a deferred tax liability under CGAAP. This tax liability was derecognized on transition to IFRS in order to comply with IAS 12.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2011	2010	January 1, 2010
Cash	**$ 265,339**	$ 136,898	$ 102,774
Short-term investments	**61**	62,011	38,801
	$ 265,400	$ 198,909	$ 141,575

5. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	2011	2010	January 1, 2010
Trade receivables	**$ 83,239**	$ 207,508	$ 146,721
VAT and other receivables	**32,780**	24,462	35,489
	$ 116,019	$ 231,970	$ 182,210

The Company does not have any significant balances that are past due and does not have any allowances for doubtful accounts. The Company's credit risk is discussed in Note 28a.

The fair value of the embedded derivative arising from provisionally priced trade receivables is disclosed in Note 27.

The carrying amounts of receivables are $81.8 million, €27.3 million and SEK 37.6 million as at December 31, 2011.

6. INVENTORIES

Inventories comprise the following:

	2011	2010	January 1, 2010
Ore stockpiles	**$ 9,249**	$ 5,156	$ 3,884
Concentrate stockpiles	**11,349**	6,354	2,168
Materials and supplies	**20,605**	20,178	21,467
	$ 41,203	$ 31,688	$ 27,519

The cost of inventories expensed and included in total operating costs for the year was $401.8 million (2010 - $368.2 million) (Note 20).

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Mineral properties, plant and equipment comprise the following:

Cost	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at January 1, 2010	$ 1,451,629	$ 489,527	$ 55,573	$ 48,247	$ 2,044,976
Additions	55,851	18,735	-	52,716	127,302
Disposals and transfers	5,635	(1,112)	-	(6,455)	(1,932)
Effects of changes in foreign exchange rates	(48,997)	(27,920)	(3,718)	2,018	(78,617)
As at December 31, 2010	1,464,118	479,230	51,855	96,526	2,091,729
Additions	89,343	3,784	9,532	87,546	190,205
Disposals and transfers	2,747	159,045	-	(172,649)	(10,857)
Effects of changes in foreign exchange rates	(51,935)	(24,771)	(1,641)	704	(77,643)
As at December 31, 2011	**$ 1,504,273**	**$ 617,288**	**$ 59,746**	**$ 12,127**	**$ 2,193,434**

Accumulated depreciation, depletion and amortization	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at January 1, 2010	$ 561,121	$ 182,676	$ -	$ -	$ 743,797
Depreciation	92,245	29,617	-	-	121,862
Disposals and transfers	-	(6,272)	-	-	(6,272)
Effects of changes in foreign exchange rates	(6,407)	(10,590)	-	-	(16,997)
As at December 31, 2010	646,959	195,431	-	-	842,390
Depreciation	102,835	50,961	-	-	153,796
Disposals and transfers	-	(9,478)	-	-	(9,478)
Effects of changes in foreign exchange rates	(26,294)	(9,106)	-	-	(35,400)
As at December 31, 2011	**$ 723,500**	**$ 227,808**	**$ -**	**$ -**	**$ 951,308**

Carrying value	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at January 1, 2010	$ 890,508	$ 306,851	$ 55,573	$ 48,247	$ 1,301,179
As at December 31, 2010	$ 817,159	$ 283,799	$ 51,855	$ 96,526	$ 1,249,339
As at December 31, 2011	**$ 780,773**	**$ 389,480**	**$ 59,746**	**$ 12,127**	**$ 1,242,126**

During the year ended December 31, 2011, the Company recorded the acquisition of exploration properties in the amount of $10.0 million relating to the purchase of Belmore Resources (Holdings) plc. The total cost of acquisition was $9.5 million, net of $0.5 million cash acquired.

The Company also capitalized $14.9 million (2010 – nil) of deferred stripping costs to mineral properties as part of its early adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (Note 2w).

The net carrying amount of equipment under finance leases is $6.8 million (2010 - $6.4 million).

Depreciation, depletion and amortization is comprised of:

		2011		2010
Operating costs	**$**	**153,433**	$	121,450
General and administrative expenses		**363**		412
Depreciation, depletion and amortization	**$**	**153,796**	$	121,862

8. INVESTMENT IN TENKE FUNGURUME

As at January 1, 2010	$ 1,628,753
Advances	30,521
Share of equity income	75,874
As at December 31, 2010	1,735,148
Advances	64,508
Cash distribution	(7,800)
Share of equity income	94,681
As at December 31, 2011	**$ 1,886,537**

The Company holds a 30% interest in TF Holdings Limited. ("TFH"), a Bermuda company, which in turn holds an 82.5% 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 interest in TFM is 24.75% and 57.75% respectively. La Générale des Carrières et des Mines ("Gécamines"), a DRC Government-owned corporation owns a free-carried 17.5% interest. The Company's interest in TFM will be reduced to 24% after receiving the required government approval of the modifications to the TFM's bylaws that reflect the signed agreements with the DRC government.

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

During the year ended December 31, 2011, the Company made cash advances of $64.5 million to fund its portion of TFM expenditures. The Company had an off-balance sheet financing arrangement whereby FCX was responsible for funding the Company's share of Phase I project development costs that were in excess of agreed budgets. During the year, $108.4 million of the financing arrangement was completely repaid by August 31, 2011. At December 31, 2011 the balance was $nil. The Company received its first cash distribution of $7.8 million in 2011. Other commitments relating to Tenke Fungurume are disclosed in Note 26.

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

		2011		2010
Total assets	**$**	**2,846,798**	$	2,533,463
Total liabilities		**869,608**		1,163,678

		2011		2010
Total revenue	**$**	**1,312,947**	$	1,126,503
Net income		**347,446**		269,914

9. MARKETABLE SECURITIES AND OTHER ASSETS

Marketable securities and other assets comprise the following:

		2011		2010		January 1, 2010
Marketable securities (a)	**$**	**15,067**	$	27,337	$	39,539
Other assets (b)		**4,448**		5,074		2,969
	$	**19,515**	$	32,411	$	42,508

a) Marketable securities

Investments in marketable securities consist of shares in publicly traded mining and exploration companies. The Company does not exercise significant influence over any of the companies in which investments in marketable securities are held, which in all cases, amounts to less than a 20% equity interest in any one company.

On transition to IFRS, the IFRS 1 election on designation of previously recognized financial instruments was applied. AFS securities with a fair value of $39.5 million were designated FVTPL (Note 3).

The changes in marketable securities are as follows:

As at January 1, 2010	$	39,539
Additions		2,962
Disposals		(52,885)
Revaluation		35,943
Effects of changes in foreign exchange rates		1,778
As at December 31, 2010		27,337
Disposals		(8,168)
Revaluation		(3,929)
Effects of changes in foreign exchange rates		(173)
As at December 31, 2011	**$**	**15,067**

During the year, the Company disposed of $8.2 million (2010 - $52.9 million) in marketable securities for cash proceeds of $8.0 million (2010 - $52.3 million).

b) Other assets

In 2010, the Company received final proceeds of $31.5 million in relation to a disposal of an investment in 2008.

10. CURRENT AND DEFERRED INCOME TAXES

		2011		**2010**
Current tax expense:				
Current tax on net earnings	**$**	**63,323**	$	77,007
Adjustments in respect of prior years		**14,518**		8,186
		77,841		85,193
Deferred tax (recovery) expense:				
Origination and reversal of temporary differences		**(23,882)**		21,084
Change in tax rates		**1,709**		14,280
Utilization of previously unrecognized tax losses		**(8,071)**		(1,164)
Tax losses for which no deferred income tax asset was recognized		**3,448**		564
		(26,796)		34,764
Total tax expense	**$**	**51,045**	$	119,957

Included in the adjustments in respect of prior years is a Spanish tax assessment of $12.5 million relating to deductibility of accelerated depreciation in fiscal years 2004 and 2005.

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

		2011		2010
Earnings before tax	**$**	**234,810**	$	426,238
Combined basic federal and provincial rates		**28.2%**		31.0%
Income tax expense based on statutory income tax rates	**$**	**66,329**	$	132,092
Effect of lower tax rates in foreign jurisdictions		**(32,763)**		(41,628)
Tax calculated at domestic tax rates applicable to earnings in the respective countries		**33,566**		90,464
Tax effects of:				
Non-deductible and non-taxable items		**8,558**		4,572
Effect on deferred tax balances due to change in foreign statutory tax rates		**1,709**		14,280
Adjustments in respect of prior years		**9,934**		13,587
Tax losses for which no deferred income tax asset was recognized		**3,448**		564
Utilization of previously unrecognized tax losses		**(8,071)**		(1,164)
Other		**1,901**		(2,346)
Total tax expense	**$**	**51,045**	$	119,957

The weighted average applicable tax rate for 2011 was 14.3% (2010 - 21.2%). The decrease in the tax rate is the result of an increase in the proportionate share of earnings attributable to the equity investment in Tenke Fungurume as well as to the change in the profitability of the Company's subsidiaries in their respective countries that have tax rates ranging from 25.0% to 30.0%.

During 2011, the statutory tax rate in Portugal increased from 29.0% to 31.5% for the 2012 and 2013 taxation years. As a result, an additional $1.7 million deferred tax expense was recorded reflecting the effect on deferred tax assets and liabilities.

During 2010, the statutory tax rate in Portugal changed from 26.5% to 29.0%. As a result, an additional $14.3 million deferred tax expense was recorded reflecting the effect on deferred tax assets and liabilities.

	2011	2010
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	**$ 35,333**	$ 34,788
Deferred tax asset to be recovered within 12 months	**2,515**	10,803
	37,848	45,591
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	**(180,579)**	(196,374)
Deferred tax liabilities to be recovered within 12 months	**(14,666)**	(36,532)
	(195,245)	(232,906)
Deferred tax liabilities (net)	**$ (157,397)**	$ (187,315)

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 January 1, 2010	**Expensed/ (recovered)**	**Effect of changes in foreign exchange rates**	**As at December 31, 2010**
Deferred tax assets:				
Loss carryforwards	$ 26,939	$ (18,754)	$ 546	$ 8,731
Mineral properties, plant & equipment	7,119	253	(129)	7,243
Reclamation and closure provisions	21,651	816	(1,414)	21,053
Pension obligations	3,433	151	268	3,852
Derivative liabilities	10,223	(9,463)	(760)	-
Other	3,517	925	270	4,712
	72,882	(26,072)	(1,219)	45,591
Deferred tax liabilities:				
Mineral properties, plant & equipment	(207,351)	(11,090)	8,985	(209,456)
Reserves	(21,628)	1,730	147	(19,751)
Other	(4,679)	668	312	(3,699)
	$ (233,658)	$ (8,692)	$ 9,444	$ (232,906)

	As at December 31, 2010	**Expensed/ (recovered)**	**Effect of changes in foreign exchange rates**	**As at December 31, 2011**
Deferred tax assets:				
Loss carryforwards	$ 8,731	$ (3,504)	$ (81)	$ 5,146
Mineral properties, plant & equipment	7,243	(266)	(210)	6,767
Reclamation and closure provisions	21,053	(746)	(612)	19,695
Pension obligations	3,852	(334)	(98)	3,420
Other	4,712	(1,659)	(233)	2,820
	45,591	(6,509)	(1,234)	37,848
Deferred tax liabilities:				
Mineral properties, plant & equipment	(209,456)	24,699	4,134	(180,623)
Reserves	(19,751)	4,874	348	(14,529)
Other	(3,699)	3,732	(126)	(93)
	$ (232,906)	$ 33,305	$ 4,356	$ (195,245)

The Company did not recognize deferred tax assets of $9.4 million (2010 - $8.6 million) which are mainly in respect of mineral property, plant and equipment and marketable securities.

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. For 2011, the Spanish subsidiary had non-capital losses of $12.7 million for which a deferred tax asset of $3.8 million has been recognized. Based on the Company's approved 5 year plan, it is anticipated that operations at Aguablanca will restart in late 2012 and will generate sufficient taxable profits in 2013 and 2014 to fully utilize these tax losses.

The Company did not recognize deferred tax assets of $68.4 million (2010 - $73.2 million) in respect of tax losses amounting to $273.5 million (2010 - $287.7 million) that can be carried forward against future taxable income.

As at December 31, 2011, the Company had accumulated non-capital losses for income tax purposes in the following countries:

Year of expiry	Canada	Spain	Sweden	Ireland	Total
2012	$ 9,758	$ -	$ -	$ -	$ 9,758
2013	1,994	-	-	-	1,994
2014	4,416	-	-	-	4,416
2015	7,544	-	-	-	7,544
2016 and thereafter	165,638	12,704	5,075	84,147	267,564
	$ 189,350	$ 12,704	$ 5,075	$ 84,147	$ 291,276

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

The aggregate amount of temporary differences related to investments in subsidiaries and associates for which deferred tax liabilities have not been recognized is $214.3 million as at December 31, 2011.

11. GOODWILL

Goodwill resulted from the acquisition of EuroZinc Mining Corporation ("EuroZinc") which includes primarily the mining operations of Neves-Corvo and from the acquisition of Rio Narcea Gold Mines, Ltd. ("Rio Narcea"), which includes the mining operations of Aguablanca.

Goodwill is allocated to the below CGUs which reflect how it is monitored for internal management purposes.

	EuroZinc	Rio Narcea	Total
As at January 1, 2010	$ 180,259	$ 69,561	$ 249,820
Effect of changes in foreign exchange rates	(12,271)	(4,736)	(17,007)
As at December 31, 2010	167,988	64,825	232,813
Impairment loss	-	(35,726)	(35,726)
Effect of changes in foreign exchange rates	(5,318)	(1,400)	(6,718)
As at December 31, 2011	**$ 162,670**	**$ 27,699**	**$ 190,369**

CGU Impairment

The Company performs an impairment test annually or more frequently if there are impairment indicators for the carrying amount of its CGUs.

The Company did not make any significant changes to the valuation methodology used to assess CGU impairment since the last annual test performed. The recoverable value of a CGU was determined using cash flow projections based on financial budgets and approved life of mine plans. The key assumptions used in cash flow projections consist of forecasted commodity prices, reserve and resource quantities, operating costs, capital expenditures, 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 2011. The valuation for the recoverable amount is most sensitive to long-term copper prices and short-term nickel prices, as well as Euro and US dollar exchange rates.

The reserves and resources were based on the Company's published statement dated June 30, 2011.

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

For the Eurozinc CGU impairment test, the Company used a fair value less cost to sell model and assumed an after-tax discount rate of 9% per annum on copper and zinc price ranges of $2.75/lb to $4.00/lb and $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. Incorporated in the fair value, the Company developed fair value estimates for resources not captured in the cash flow model. These estimates were benchmarked using third-party market information. The impairment test did not result in an impairment loss being recognized as the carrying value of the CGU was below the recoverable amount of the CGU.

Impairment loss

In performing the CGU impairment test for Rio Narcea, the Company concluded that the recoverable amount of the CGU was lower than its carrying value. As a result, the Company recognized an impairment loss of $35.7 million which it has fully allocated to goodwill. Management assessed this CGU for impairment based on the annual test required by IAS 36 and also due to refined technical plans developed during 2011 related to the December 2010 slope failure affecting the main open-pit access ramp. In addition, there was a significant increase to the carrying value of the CGU as a result of the early adoption of IFRIC 20 related to deferred stripping of $14.9 million. The Company used a value-in use cash flow model and a pre-tax discount rate of 18% on nickel and copper price ranges of $8.75/lb to $9.00/lb and $2.75/lb to $4.00/lb respectively.

Sensitivities were performed for the cash flow models. A 5% decrease in the nickel and copper price would result in an approximately $14 million additional goodwill impairment loss for Rio Narcea. For the Eurozinc CGU test, a 5% decrease in the price of copper and zinc would not change the goodwill impairment assessment. Foreign exchange assumptions applied to the impairment test for €/$ was in the range of 1.39 to 1.43. The sensitivity of changes in foreign exchange on the cash flow models had similar quantitative effects as changes in commodity price.

12. ACCRUED LIABILITIES

Accrued liabilities comprise the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Unbilled goods and services	**$ 16,373**	$ 20,876	$ 20,972
Payroll obligations	**18,441**	16,138	19,128
Royalty payable	**14,727**	23,661	8,135
	$ 49,541	**$ 60,675**	$ 48,235

13. LONG-TERM DEBT AND FINANCE LEASES

Long-term debt and finance leases comprise the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Revolving credit facility (a)	**$ -**	$ -	$ 141,620
Somincor commercial paper program (b)	**19,350**	29,276	38,713
Finance lease obligations (c)	**5,915**	5,824	4,693
Rio Narcea debt (d)	**4,081**	4,564	5,862
	29,346	39,664	190,888
Less: current portion due within one year	**21,740**	2,512	2,536
	$ 7,606	$ 37,152	$ 188,352

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

As at January 1, 2010	$ 190,888
Additions	2,245
Payments	(157,637)
Effects of changes in foreign exchange rates	4,168
As at December 31, 2010	39,664
Additions	19,772
Payments	(28,106)
Revaluation	558
Effects of changes in foreign exchange rates	(2,542)
As at December 31, 2011	**$ 29,346**

a) The $300 million revolving credit facility carries a current rate of LIBOR plus 3%. The facility is secured by charges against the Company's mining assets and has covenants customarily required for such debt facilities, including minimum tangible net worth and interest coverage. The credit facility expires on September 1, 2013.

b) The Sociedade Mineira de Neves-Corvo, S.A. ("Somincor"), a subsidiary of the Company which owns the Neves-Corvo mine, has a commercial paper program with terms of a minimum of 7 days and a maximum

of 1 year and bears interest at EURIBOR plus 4.5%. The effective interest rate at December 31, 2011 was 5.9% (December 31, 2010 – 3.0%). The program matures in December 2012.

c) Finance lease obligations relate to leases on mining equipment having lease terms of five to eight years and interest rates of approximately 8% over the term of the leases.

d) The Rio Narcea debt is an interest free loan extended by the Spanish Department of Trade, Industry and Commerce. It is repayable in equal annual installments of €0.5 million on December 15 of each year through 2017. The debt is recorded using an imputed interest rate of 2.0% (2010 – 4.7%).

The principal repayment obligations are scheduled as follows:

	Debt	Finance Leases	Total
2012	$ 20,429	$ 1,311	$ 21,740
2013	647	1,282	1,929
2014	647	1,250	1,897
2015	647	1,232	1,879
2016	647	453	1,100
2017 and thereafter	414	387	801
Total	$ 23,431	$ 5,915	$ 29,346

14. RECLAMATION AND CLOSURE PROVISIONS

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

	Reclamation provisions	Other closure provisions	Total
Balance, January 1, 2010	$ 108,539	$ 20,140	$ 128,679
Accretion	4,396	-	4,396
Accruals for services	-	547	547
Changes in estimates	-	(2,114)	(2,114)
Payments	(5,882)	-	(5,882)
Effect of changes in foreign exchange rates	(5,652)	(2,581)	(8,233)
Balance, December 31, 2010	101,401	15,992	117,393
Accretion	3,261	-	3,261
Accruals for services	-	(1,342)	(1,342)
Changes in estimates	(2,444)	-	(2,444)
Payments	(2,700)	-	(2,700)
Effect of changes in foreign exchange rates	(3,201)	(1,340)	(4,541)
Balance, December 31, 2011	96,317	13,310	109,627
Less: current portion due within one year	5,382	1,199	6,581
	$ 90,935	**$ 12,111**	**$ 103,046**

At December 31, 2011, the reclamation and closure provision for the Neves-Corvo mine was $62.5 million (2010 - $69.7 million). The Company expects the payments for site restoration costs, including severance, to be incurred between 2012 to 2029 in the amount of approximately $74 million (€57 million). Change in estimate of $6.9 million was recorded during 2011 due to a change in the timing of payments and the pre-tax discount rate.

The reclamation and closure provision at the Zinkgruvan mine at December 31, 2011 was $9.5 million (2010 - $8.2 million). This was based on estimated undiscounted future site restoration costs of $10.4 million (SEK 71.7 million). The Company expects the future reclamation costs to be paid primarily during 2017. The Company has posted environmental bonds related to its site restoration provision (Note 26c)

The reclamation and closure provision at the Aguablanca mine was estimated based on undiscounted costs of $17.3 million (€13.4 million) for the mine. The reclamation and closure provision, including severance, for the Aguablanca mine at December 31, 2011 totaled $20.8 million (2010 - $18.4 million). The payments are expected to be settled between 2016 to 2018.

The reclamation and closure obligation at the Galmoy mine as at December 31, 2011 was $5.1 million (2010 - $5.9 million). It is expected that this will be settled primarily in 2013.

15. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

As at January 1, 2010	$	77,897
Prepayments received		3,698
Recognition of revenue		(5,688)
Effects of changes in foreign exchange rates		1,769
As at December 31, 2010		77,676
Prepayments received		30,443
Recognition of revenue		(24,529)
Effects of changes in foreign exchange rates		(2,553)
		81,037
Less: estimated current portion		12,523
As at December 31, 2011	**$**	**68,514**

a) Neves-Corvo mine

The Company has an agreement to sell all of the silver contained in concentrate produced from its Neves-Corvo mine in Portugal to Silver Wheaton Corp ("Silver Wheaton") (formerly Silverstone Resources Corp.). The Company received an up-front payment which was deferred and is being recognized as revenue 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 to Silver Wheaton. The Company received an up-front payment which was deferred and is being recognized as revenue as silver is delivered under the contract and receives a payment of the lesser of $3.90 per ounce (subject to adjustment based on changes in the US consumer price inflation index) and the market price per ounce of silver (Note 26d).

c) Galmoy mine

The Company received customer prepayments related to the sale of ore. Deferred revenue will be recognized in sales during 2012 and 2013.

16. DERIVATIVE LIABILITIES

During 2010, the Company settled 22,577 tonnes of its collar arrangements for copper. The Company paid $30.6 million to settle the contracts and recorded a gain on settlement of $10.2 million. The Company had no outstanding derivative contracts as at December 31, 2011 and December 31, 2010.

17. 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. Actuarial assumptions, based on the most recent actuarial valuation dated January 3, 2012, used to determine benefit obligations as at December 31, 2011 and 2010 were as follows:

	2011	2010
Discount rate	3.7%	4.5%
Rate of salary increase	2.5%	2.5%

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

Information about Zinkgruvan's pension obligations is as follow:

		2011		2010
Accrued benefit obligation:				
Balance, beginning of the year	$	14,021	$	12,237
Current service costs		534		492
Interest costs		615		546
Actuarial losses		599		537
Benefits paid		(1,095)		(858)
Effects of changes in foreign exchange rates		(1,124)		1,067
Balance, end of the year		13,550		14,021
Adjustments of cumulative unrecognized actuarial losses		247		760
Unrecognized actuarial losses		(599)		(537)
Accrued benefit obligation		13,198		14,244
Other pension accruals		5,327		4,572
Total provision for pension obligations	$	18,525	$	18,816

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 recorded within operating costs related to the defined benefit plan is as follows:

		2011		2010
Current service costs	$	534	$	492
Interest costs		615		546
Indirect taxes		279		252
Pension expense	$	1,428	$	1,290

A 1% change in the discount rate assumption would have no impact to the pension obligation or the pension expense for 2011.

The Company expects to make payments of $1.2 million under the defined benefit plan during the next financial year.

Defined contribution plans

In addition, the Company recorded a pension expense in operating costs in the amount of $2.3 million (2010 - $2.1 million) and in general and administrative expenses in the amount of $0.5 million (2010 - $0.5 million) relating to defined contribution plans.

In accordance with the transitional provisions set out in the amendment to IFRS 1, disclosures are presented prospectively from the date of transition.

18. OTHER LONG-TERM LIABILITIES

Included in other long-term liabilities are government grants of $5.7 million previously received that are expected to be repaid during 2012 to 2014 if certain conditions are not met.

19. SHARE CAPITAL

(a) Authorized and issued shares

The 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 of which 582,475,287 voting common shares (2010 – 580,575,355) are issued and fully-paid.

(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 fixed by the Board of Directors and may not exceed ten years from the date of grant. The total options that are issuable are 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 all stock-based payments to employees, directors and officers. Under this method, the Company recorded a stock compensation expense of $2.1 million for 2011 (2010 - $2.3 million) with a corresponding credit to contributed surplus. The fair value of the stock options is estimated as at the date of the grant using the Black-Scholes pricing model assuming risk-free interest rates of 1.0% to 1.6% (2010 – 1.2% to 1.4%) , no dividend yield, expected life of 1.6 to 3.6 years (2010 – 1.5 to 2.1 years) with an expected price volatility ranging from 56% to 79% (2010 - 89% to 93%). Volatility is determined using daily volatility over the expected life of the options. A forfeiture rate of 17.97% is applied (2010 –15.97%). The weighted average fair value per option granted during 2011 was $2.13 (2010 - $2.23). As at December 31, 2011, there was $8.9 million of unamortized stock compensation expense.

During the year ended December 31, 2011, the Company granted 5,814,999 incentive stock options to employees and officers that expire between December 2013 and February 2017.

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

	Number of Options	Weighted average exercise price (C$)
Outstanding, January 1, 2010	9,171,370	$ 6.93
Granted during the year	340,834	4.41
Forfeited during the year	(1,463,768)	10.65
Exercised during the year	(982,891)	3.60
Outstanding, December 31, 2010	7,065,545	6.55
Granted during the year	5,814,999	4.16
Forfeited during the year	(1,252,574)	6.70
Expired during the year	(643,566)	7.81
Exercised during the year	(1,899,932)	4.25
Outstanding, December 31, 2011	9,084,472	$ 5.39

The following table summarizes options outstanding as at December 31, 2011, as follows:

	Outstanding Options			Exercisable Options		
Range of exercise prices (C$)	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (C$)	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (C$)
$2.67 to $3.77	491,668	0.4	$ 2.87	491,668	0.4	$ 2.87
$3.78 to $4.00	5,395,000	4.8	3.90	82,220	3.0	3.89
$4.01 to $4.99	1,363,885	1.5	4.43	1,096,657	1.4	4.43
$5.00 to $10.57	611,919	1.5	8.13	529,688	1.5	8.24
$10.58 to $13.75	1,222,000	0.7	12.68	1,222,000	0.7	12.68
	9,084,472	3.3	$ 5.39	3,422,233	1.07	$ 7.73

In 2011, 1,899,932 options (2010 - 982,891) were exercised which resulted in the issuance of an equal number of common shares. The weighted average share price on the date of exercise for all options exercised during the year was $7.31.

(c) Diluted weighted average number of shares

The basic weighted average number of common shares outstanding for the year ended December 31, 2011 was 582,074,865 (2010 – 579,924,538).

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 year ended December 31, 2011 is comprised of 889,743 (2010 – 614,829) shares which relate to the outstanding in-the-money stock options.

20. OPERATING COSTS

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

		2011		2010
Direct mine and mill costs		**350,074**		321,733
Transportation		**18,165**		18,251
Royalties		**13,781**		27,326
		382,020		367,310
Depreciation, depletion and amortization (Note 7)		**153,433**		121,450
Total operating costs	**$**	**535,453**	$	488,760

21. FINANCE INCOME AND COSTS

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

		2011		2010
Interest income	**$**	**3,602**	$	2,286
Unrealized gain on revaluation of marketable securities		**-**		35,943
Gain on derivative contracts		**-**		10,223
Other		**-**		849
Total finance income	**$**	**3,602**	$	49,301

		2011		2010
Interest expense and bank fees	**$**	**9,011**	$	8,763
Accretion expense on reclamation provisions		**3,261**		4,396
Unrealized loss on revaluation of marketable securities		**3,929**		-
Other		**540**		-
Total finance costs	**$**	**16,741**	$	13,159

22. OTHER INCOME AND EXPENSES

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

		2011		2010
Other income	**$**	**6,428**	$	4,133
Foreign exchange gain		**8,187**		-
Gain on sale of non-core assets		**2,230**		5,528
Total other income	**$**	**16,845**	$	9,661

		2011		2010
Other expense	**$**	**5,238**	$	9,681
Foreign exchange loss		**-**		1,958
Total other expenses	**$**	**5,238**	$	11,639

Other income and other expenses include ancillary activities of the Company.

23. EMPLOYEE BENEFITS

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

		2011		2010
Operating costs				
Wages and benefits	**$**	**108,597**	$	89,570
Pension benefits		**3,672**		3,355
Share-based compensation		**593**		857
		112,862		93,782
General and administrative expenses				
Wages and benefits		**10,157**		8,293
Pension benefits		**505**		546
Share-based compensation		**1,338**		1,173
		12,000		10,012
General exploration and project investigation				
Wages and benefits		**4,708**		3,898
Share-based compensation		**193**		292
Total employee benefits	**$**	**129,763**	$	107,984

24. SEGMENTED INFORMATION

The Company is engaged in mining, exploration and development of mineral properties, primarily in Portugal, Spain, Sweden, Ireland and the DRC. The segments presented reflect the way which the Company's management reviews its business performance. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

Segmented Information
For the year ended December 31, 2011

	Neves-Corvo Portugal	Zinkgruvan Sweden	Aguablanca Spain	Galmoy Ireland	Tenke Fungurume DRC	Other	Total
Sales	$ 558,044	$ 188,566	$ (1,897)	$ 39,073	$ -	$ -	$ 783,786
Operating costs	(258,991)	(94,978)	(14,820)	(12,570)	-	(661)	(382,020)
General and administrative	-	-	-	-	-	(28,008)	(28,008)
Operating earnings (loss)*	299,053	93,588	(16,717)	26,503	-	(28,669)	373,758
Depreciation, depletion and amortization	(119,418)	(30,876)	(3,067)	(72)	-	(363)	(153,796)
General exploration and project investigation	(29,590)	(651)	(1,404)	-	-	(10,930)	(42,575)
Income from equity investment in Tenke	-	-	-	-	94,681	-	94,681
Finance income and costs	(2,117)	(562)	(3,901)	460	-	(7,019)	(13,139)
Other income and expenses	(3,834)	2,019	1,863	1,014	-	10,545	11,607
Impairment of goodwill	-	-	(35,726)	-	-	-	(35,726)
Income tax (expense) recovery	(37,498)	(15,615)	(819)	(549)	-	3,436	(51,045)
Net earnings (loss)	$ 106,596	$ 47,903	$ (59,771)	$ 27,356	$ 94,681	$ (33,000)	$ 183,765
Capital expenditures	$ 117,727	$ 41,506	$ 19,321	$ 34	$ 64,508	$ 10,043	$ 253,139
Total non-current assets**	$ 1,110,803	$ 223,660	$ 81,472	$ 15,337	$ 1,886,537	$ 1,223	$ 3,319,032

For the year ended December 31, 2010	Neves-Corvo Portugal	Zinkgruvan Sweden	Aguablanca Spain	Galmoy Ireland	Tenke Fungurume DRC	Other	Total
Sales	$ 541,313	$ 165,273	$ 129,784	$ 12,853	$ -	$ -	$ 849,223
Operating costs	(205,617)	(69,496)	(85,656)	(5,892)	-	(649)	(367,310)
General and administrative	-	-	-	-	-	(20,227)	(20,227)
Operating earnings (loss)*	335,696	95,777	44,128	6,961	-	(20,876)	461,686
Depreciation, depletion and amortization	(87,459)	(14,915)	(19,003)	(71)	-	(414)	(121,862)
General exploration and project investigation	(19,025)	-	(1,116)	-	-	(3,483)	(23,624)
Income from equity investment in Tenke	-	-	-	-	75,874	-	75,874
Finance income and costs	7,828	(855)	(31)	211	-	28,989	36,142
Other income and expenses	1,651	(7,020)	(5,265)	833	-	7,823	(1,978)
Income tax expense	(90,684)	(18,561)	(8,205)	(416)	-	(2,091)	(119,957)
Net earnings	$ 148,007	$ 54,426	$ 10,508	$ 7,518	$ 75,874	$ 9,948	$ 306,281
Capital expenditures	$ 88,413	$ 37,974	$ 3,127	$ -	$ 30,521	$ 256	$ 160,291
Total non-current assets**	$ 1,155,093	$ 217,985	$ 101,536	$ 6,573	$ 1,735,148	$ 965	$ 3,217,300
Total non-current assets, January 1, 2010**	$ 1,229,442	$ 185,129	$ 129,184	$ 6,982	$ 1,628,753	$ 262	$ 3,179,752

*Operating earnings (loss) is a non-IFRS measure.

**Non-current assets include mineral properties, plant and equipment, investment in Tenke Fungurume and goodwill.

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

	2011	2010
Copper	$ 563,103	$ 557,794
Zinc	135,078	106,514
Lead	71,356	69,082
Nickel	(444)	92,743
Other	14,693	23,090
	$ 783,786	$ 849,223

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

	2011	2010
Europe	$ 732,031	$ 737,722
South America	51,473	18,754
Asia	220	78,873
North America	62	13,874
	$ 783,786	$ 849,223

25. RELATED PARTY TRANSACTIONS

a) Transactions with associates - 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 (Note 8).

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:

	2011	2010
Wages and salaries	**$ 5,992**	$ 6,132
Pension benefits	**146**	264
Share-based compensation	**523**	752
	$ 6,661	$ 7,148

During the year ended December 31, 2011, the Company paid $0.3 million (for the year ended December 31, 2010 - $0.3 million) for services provided by a management company owned by the Chairman of the Company.

During the year, the Company sold a residential property to a senior officer for $0.6 million. This disposition was transacted at fair value and on regular arm's length terms.

The Company paid $0.2 million to a charitable foundation directed by members of the Company's key management personnel to carry out social programs in the DRC on behalf of the Company.

26. COMMITMENTS AND CONTINGENCIES

a) The Company's wholly-owned subsidiary, Somincor, has entered into the following commitments:

   i. Royalty payments under a fifty year concession agreement to pay the greater of 10% of net earnings or 0.75% of mine-gate production revenue with the Portuguese government. Royalty costs for the year ended December 31, 2011 in the amount of $13.1 million (2010 - $24.3 million) were included in operating costs;

   ii. Use of the railways under a railway transport agreement expires in November 2012. The estimated annual cost are $5 million per year;

b) Royalty payments relating to the Aguablanca mine are 2% of net sales. There were no royalty costs for the year ended December 31, 2011 (2010 - $2.6 million).

c) A Swedish bank issued a bank guarantee to the Swedish authorities in the amount of $11.6 million (SEK 80.0 million) relating to the future reclamation costs at the Zinkgruvan mine. Additional bonds of $2.3 million (SEK 16.2 million) and $1.4 million (SEK 10.0 million) were to be followed in 2016 and 2024 respectively. The Company has agreed to indemnify the Swedish bank for this guarantee.

d) Under agreements 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 $1.00 to Silver Wheaton for each ounce of silver not delivered. An aggregate total of approximately 12.7 million ounces has been delivered since the inception of the contract in 2004.

e) The Company provides certain letters of credit and guarantees for $1.8 million worth of contracts entered into by TFM. These letters of credit expire in 2013.

f) The Company is a party to certain contracts relating to operating leases, office rent and capital commitments. Future minimum payments under these agreements as at December 31, 2011 are as follows:

2012	$	60,940
2013		877
2014		378
2015		314
2016		307
2017 and thereafter		311
Total commitments	$	63,127

27. 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, 2011 and December 31, 2010 and January 1, 2010:

		December 31, 2011		December 31, 2010		January 1, 2010	
	Level	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets							
Loans and receivables							
Cash and cash equivalents		$ 265,400	$ 265,400	$ 198,909	$ 198,909	$ 141,575	$ 141,575
Trade receivables		1,719	1,719	30,775	30,775	36,579	36,579
Other receivables		32,780	32,780	24,462	24,462	35,489	35,489
Reclamation funds		54,392	54,392	61,559	61,559	67,076	67,076
		$ 354,291	$ 354,291	$ 315,705	$ 315,705	$ 280,719	$ 280,719
Fair value through profit and loss							
Trade receivables	2	$ 81,520	$ 81,520	$ 176,733	$ 176,733	$ 110,142	$ 110,142
Marketable securities - shares	1	14,624	14,624	24,530	24,530	39,539	39,539
Marketable securities - warrants	2	443	443	2,807	2,807	-	-
		$ 96,587	$ 96,587	$ 204,070	$ 204,070	$ 149,681	$ 149,681
Financial liabilities							
Amortized cost							
Trade payables and accrued liabilities		$ 103,292	$ 103,292	$ 115,513	$ 115,513	$ 88,580	$ 88,580
Long-term debt and finance leases		29,346	29,346	39,664	39,664	190,888	190,888
Other long-term liabilities		5,745	5,745	10,881	10,881	11,936	11,936
		$ 138,383	$ 138,383	$ 166,058	$ 166,058	$ 291,404	$ 291,404
Fair value through profit and loss							
Derivative liabilities	2	$ -	$ -	$ -	$ -	$ 40,557	$ 40,557

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. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the assets or liabilities that 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 forward LME price. During the year, the Company recognized negative pricing adjustments of $29.6 million (2010 - $42.1 million positive adjustment) in sales;

Marketable 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 and the historical prices of the shares of which the warrants can be exchanged for and the expiry date of the warrants;

Derivative liabilities – The fair value is determined using a valuation model that incorporates such factors as the prevailing forward price and volatility of the commodity; and

Long-term debt and other long-term liabilities – The fair value of the Company's long-term debt approximates its carrying value as the interest rates carried are comparable to current market rates.

The carrying value of certain financial instruments maturing in the short-term approximates their fair values. These financial instruments include cash and cash equivalents, other receivables, trade and other accounts payable and accrued liabilities.

28. 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) Concentration of 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, 2011 is the carrying value of its trade receivables.

Concentrate produced at the Company's Neves-Corvo and Zinkgruvan mines and ore produced at the Galmoy mine is 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 expiring in July 2013, extendable for an additional 24 months. The payment terms vary and provisional payments are normally received within 2-4 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 and those not meeting certain credit criteria would be required to make 100% provisional payment up-front. 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, 2011, the Company has three customers that individually account for more than 10% of the Company's total sales. These customers represent approximately 68% 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 credit ratings of at least A or equivalent, or those which have been otherwise approved.

b) Liquidity risk

The Company has in place a planning and budgeting 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 in place a revolving credit facility to meet its cash flow needs (Note 13).

The maturities of the Company's liabilities are as follows:

	Within 1 year	1 to 5 years
Accounts payable and accrued liabilities	$ 121,733	$ -
Long-term debt and finance leases	21,740	7,606
Other long-term liabilities	-	5,745
Outstanding, December 31, 2011	$ 143,473	$ 13,351

c) Foreign exchange risk

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

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 and certain debt 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, 2011, 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	$ 163,095
Other working capital items	$ 81,443

The impact of the US dollar strengthening by 10% at December 31, 2011 against the Company's foreign currencies with all other variables held constant is as follows:

	€	SEK	Total
Pre-tax earnings for the year	$ 8,206	$ 14,025	$ 22,231

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 trade receivables.

The sensitivity of the Company's financial instruments recorded as at December 31, 2011 before considering the effect of changes in metal prices on smelter treatment charges is as follows:

	Price on December 31, 2011 ($US/tonne)	Change	Effect on pre-tax earnings ($ millions)
Copper	7,597	+/-10%	18.2
Zinc	1,843	+/-10%	2.3
Lead	1,966	+/-10%	1.6

e) Interest rate risk

The Company's exposure to interest rate risk arises both from the 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, 2011, holding all other variables constant and considering the Company's outstanding debt of $29.3 million, a 1% change in the interest rate would result in an approximate $0.3 million change in interest expense on an annualized basis.

29. 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 to reinvest its earnings in the business.

Planning, including life-of-mine plans, annual budgeting and controls over major investment decisions are the primary tool 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:

	2011	2010
Cash and cash equivalents	**$ 265,400**	$ 198,909
Long-term debt and finance leases	**(29,346)**	(39,664)
Net cash	**$ 236,054**	$ 159,245

	2011	2010
Shareholders' equity	**$ 3,297,856**	$ 3,153,586
Number of shares outstanding	**582,475,287**	580,575,355
Shareholders' equity per share	**$ 5.66**	$ 5.43

30. SUPPLEMENTAL CASH FLOW INFORMATION

	2011	2010
Changes in non-cash working capital items consist of:		
Accounts receivable, inventories and other current assets	**$ 114,136**	$ (76,665)
Accounts payable and other current liabilities	**(59,345)**	50,263
	$ 54,791	$ (26,402)
Operating activities included the following cash payments		
Interest received	**$ 3,602**	$ 2,286
Interest paid	**$ 6,470**	$ 5,867
Income taxes paid	**$ 125,825**	$ 56,995

The Company has revised its presentation for changes in reclamation funds in the statements of cash flows from operating activities to investing activities.