

# **lundin mining**

## **Management's Discussion and Analysis For the three and six months ended June 30, 2011**

---

This management's discussion and analysis has been prepared as of July 29, 2011 and should be read in conjunction with the Company's condensed interim consolidated financial statements for the three and six months ended June 30, 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, reference to £ is to British pound 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 its equity stake in the world class Tenke Fungurume copper/cobalt mine in the Democratic Republic of Congo ("DRC").

### **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 labor disputes or other unanticipated difficulties with or shortages of labor 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; documentation of the outcome of 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 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, lead, nickel and zinc; 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 .....	4
Outlook .....	5
Selected Quarterly Financial Information .....	7
Mining Operations .....	12
Production Overview .....	12
Cash Cost Overview .....	12
Neves-Corvo Mine .....	13
Zinkgruvan Mine .....	15
Aguablanca Mine .....	16
Galmoy Mine .....	17
Tenke Fungurume .....	18
Exploration Highlights .....	20
Metal Prices, LME Inventories and Smelter Treatment and Refining Charges .....	21
Liquidity and Financial Condition .....	22
Changes in Accounting Policies .....	23
Managing Risks .....	24
Outstanding Share Data .....	24
Non-IFRS Performance Measures .....	25
Management’s Report on Internal Controls .....	27
Other Supplementary Information .....	28

## Highlights

### Operational and Financial Highlights

- Copper production was below expectations as a result of low head grades at Neves-Corvo coupled with annual plant maintenance brought forward to the month of June 2011. Zinc production was in line with expectations; shortfall in production at Zinkgruvan due to treatment of accumulated material from the floatation overflow facility was compensated by higher production at Galmoy.
- Poor ground conditions surrounding important high grade massive sulphide stopes continued to be an on-going production challenge at Neves-Corvo. This necessitated mining in lower grade stockwork zones. In addition, economic cutoff grades were lowered given continuing high metal prices. It is noted that a higher proportion of lower grade, out-of-reserve ore which accounted for 25% of tonnage milled, contributed to approximately 15% of copper production for the quarter. Overall copper grade of ore processed during the quarter was 2.2%.

Total production was as follows:

	YTD	Q2	Q1	FY	Q4	Q3	Q2	Q1
<i>Wholly-owned operations (tonnes)</i>	<b>2011</b>	<b>2011</b>	2011	2010	2010	2010	2010	2010
Copper	<b>32,970</b>	<b>13,831</b>	19,139	80,035	24,908	20,509	21,774	12,844
Zinc	<b>55,601</b>	<b>27,404</b>	28,197	90,129	23,482	22,571	24,458	19,618
Lead	<b>21,780</b>	<b>10,367</b>	11,413	39,568	9,470	10,902	10,953	8,243
Nickel	-	-	-	6,296	1,062	1,363	1,715	2,156
<i>Tenke attributable (24.75%)</i>								
Copper	<b>14,906</b>	<b>7,398</b>	7,508	29,767	7,908	7,701	7,038	7,120
Cobalt	<b>1,378</b>	<b>687</b>	691	2,283	723	599	409	552

- Operating earnings<sup>1</sup> of \$82.2 million is consistent with the \$82.1 million reported in the second quarter of 2010. Favourable price and price adjustments (\$59.9 million effect) were offset by lower volume (\$25.8 million effect), higher per unit costs (\$22.5 million effect) and foreign exchange (\$14.2 million effect).
- Sales for the quarter were \$184.0 million compared to \$183.1 million for the second quarter of 2010. Higher metal prices (\$59.9 million effect) and recommencement of mining operations at Galmoy (\$8.5 million effect) more than offset lower sales volume from Neves-Corvo and Zinkgruvan (\$46.8 million effect) and suspended mining operations at Aguablanca (\$20.7 million effect). Average copper price was 30% higher than the same quarter in 2010; lead and zinc were also up 31% and 12%, respectively.
- Net income of \$57.7 million (\$0.10 per share) was \$15.4 million ahead of the \$42.3 million (\$0.07 per share) reported for the second quarter of 2010. The increase is largely the result of increased equity earnings from Tenke of \$23.7 million and lower taxes of \$31.6 million from the reversal of a valuation allowance and from the one time Portuguese tax increase in the second quarter of 2010, partially offset by gains on derivative contracts and marketable securities reported in 2010.
- Cash flow from operations for the current quarter was \$102.5 million, compared to \$68.9 million for the corresponding period in 2010. The increase of \$33.6 million relates mainly to changes in working capital associated with higher collection of receivables in the current quarter and the payment of \$9.1 million to settle derivative contracts in the second quarter of 2010.

Cash flow from operations does not include cash flow related to Tenke which is referred to on page 4.

<sup>1</sup> Operating earnings is a Non-IFRS measure defined as sales, less operating costs and general and administration costs. See page 25 of this MD&A for discussion of Non-IFRS measures.

## Corporate Highlights

- On July 12, 2011, the Company acquired Belmore Resources (Holdings) PLC for cash consideration of approximately £6.2 million (\$9.9 million). Belmore has a 100% interest in eleven licenses in County Clare, Ireland which are currently being explored in joint venture with Lundin Mining.

## Tenke Fungurume

- Freeport-McMoRan Copper & Gold Inc. stated they are expecting copper production of 126,500 tonnes in 2011.

For the quarter ended June 30, 2011, Tenke production was 29,891 tonnes of copper; 34,138 tonnes of copper were sold at an average realized price of \$4.08 per pound.

- As at June 30, 2011, the amount outstanding for the Excess Overrun Cost facility (“EOC facility”) related to the Company’s proportionate share of the Phase I development at Tenke was \$32.0 million, a reduction of \$38.6 million during the quarter. At present metal prices, and given contemplated partner capital and tax funding, it is expected that the EOC will be repaid towards the end of the third quarter of 2011.

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

(US\$ millions)	Three months ended June 30	
	2011	2010
Cash advances to Tenke	(10.5)	(6.8)
Repayments on EOC facility	38.6	26.8
Attributable net cash flow	28.1	20.0

## Financial Position and Financing

- Net cash<sup>1</sup> at June 30, 2011 was \$308.2 million compared to \$107.8 million at June 30, 2010 and \$262.0 million at March 31, 2011.

The increase in net cash during the quarter is primarily attributable to cash flow from operations (\$102.5 million) offset by investment in mineral property, plant and equipment (\$47.3 million) and Tenke Fungurume (\$10.5 million).

- Cash on hand at June 30, 2011 was \$342.2 million.
- As at July 25, 2011, cash on hand is approximately \$328.6 million.

<sup>1</sup> Net cash is a Non-IFRS measure defined as available unrestricted cash less financial debt, including capital leases and other debt-related obligations.

## Outlook

### 2011 Production and Cost Guidance

- Production targets for 2011 have been adjusted for lower production in Q2 at Neves-Corvo. Zinkgruvan remains essentially unchanged and we have increased production guidance at Galmoy. C1 cash costs have been updated for forecast production adjustments and changes in the US dollar exchange rates with European currencies.

(contained tonnes)		Revised 2011 Guidance		Previous 2011 Guidance <sup>3</sup>	
		Tonnes	C1 Cost <sup>1,2</sup>	Tonnes	C1 Cost <sup>1,2</sup>
<b>Neves-Corvo</b>	<i>Cu</i>	72,000	\$1.65	76,000	\$1.40
	<i>Zn</i>	6,000		25,000	
<b>Zinkgruvan</b>	<i>Zn</i>	78,000	\$0.21	78,000	\$0.15
	<i>Pb</i>	36,000		38,000	
	<i>Cu</i>	3,400		3,400	
<b>Galmoy</b> (in ore)	<i>Zn</i>	28,000		17,000	
	<i>Pb</i>	8,000		6,000	
<b>Total: Wholly-owned operations</b>	<i>Cu</i>	75,400		79,400	
	<i>Zn</i>	112,000		120,000	
	<i>Pb</i>	44,000		44,000	
<b>Tenke: 24.0% attributable share</b>	<i>Cu</i>	30,400	\$0.97	31,200	<i>Not guided</i>

<sup>1</sup> Cash costs remain dependent upon exchange rates (2011 initial forecast €/USD: 1.30 – USD/SEK: 7.50, revised forecast €/USD: 1.40 – USD/SEK: 6.40).

<sup>2</sup> Cash cost is a Non-IFRS measure reflecting the sum of direct costs and inventory changes less by-product credits. See Non-IFRS Performance Measures on page 25 of this MD&A.

<sup>3</sup> As provided in the MD&A for the three months ended March 31, 2011 dated May 9, 2011.

- Neves-Corvo:** Production from Neves-Corvo comes from a blend of high-grade copper sources (approximately 15% of production) and lower-grade run-of-mine material, often in areas which remain under-defined. The implication for immediate production is that when an area is developed for production there are often large areas of lower-grade but economically viable copper mineralization found (out-of-reserve grade material).

During Q2, production continued to be affected by poor ground conditions surrounding important high grade massive sulphide stopes thus slowing down the high-grade production. This necessitated mining lower-grade stockwork zones. The mine is presently in an area of 500,000 tonnes of out-of-reserve material with a 1.3% grade. This material is economic and, if not mined now in sequence, will be sterilized and not accessible in the future. These two factors significantly lowered head grade for the quarter (2.2% Cu versus a plan of 3.07%). These circumstances are not normal and were not planned. The mine is expected to return to planned high head grades and production no later than Q4. In addition, the annual plant maintenance shutdown was brought forward to June thus reducing plant availability by 8% over the quarter.

In order to maximize copper production this year, given the presently overwhelmingly favourable copper versus zinc price, the newly expanded zinc plant currently being commissioned will be used to treat low-grade copper ores rather than zinc ores. This will help make up the Q2 shortfall in copper production.

As a result of these changes, and the weaker US dollar, C1 cost guidance for the year is increased from \$1.40 to \$1.65/lb copper.

The Neves-Corvo mine continued to hoist and mill record tonnes.

- **Zinkgruvan:** Annual guidance is maintained except for a reduction in lead from 38,000 tonnes to 36,000 tonnes as a result of Q2 plant disruptions and expected lower lead grades to year end. C1 cost guidance has been increased from \$0.15/lb to \$0.21/lb zinc, partly owing to higher costs in the first half of the year as efforts were made to remove waste from the mine, due to additional contractor costs incurred as a result of under-performance of the crusher, and the effects of a weaker US dollar. Overall, C1 costs remain in the lowest-cost quartile.

Between August 26 and September 19 of 2011, there will be an interruption to the shipping of concentrate from Zinkgruvan for three weeks due to maintenance work on the canal between Lake Vanern and the North Sea. The Company is taking action to ensure that there is minimal disruption to the shipping of concentrates, including scheduling of shipments to minimize amounts of concentrate to be warehoused as a result of the shipping suspension. Production of concentrates at Zinkgruvan will not be affected.

- **Aguablanca:** A new mining contractor is currently mobilizing and will start pre-stripping operations in August 2011. First concentrate production is scheduled for the third quarter of 2012.

Guidance on timing and total investment of €40 million to commence full ore production is maintained.

- **Galmoy:** Zinc and lead production continues to exceed targets and thus zinc and lead annual guidance has been increased to 28,000 tonnes and 8,000 tonnes, respectively.
- **Tenke:** As reported by Freeport, copper production guidance has been slightly reduced for the year.

During the quarter, \$10.5 million (2010 - \$6.8 million) was advanced to cover sustaining capital, ongoing concession exploration and expansion initiatives.

Expansion size and timing is contingent upon a number of factors not under the control of Lundin Mining. Final decisions on capital investment levels are ultimately made by Freeport, the mine's operator, and are not yet in place until the expansion feasibility study is complete, although some critical path items are already in progress. The expansion study is expected to be complete in the third quarter of 2011.

## 2011 Capital Expenditure Guidance

- Guidance for total capital expenditures for the year is unchanged from that outlined in the Company's MD&A for the three months ended March 31, 2011.

## Selected Quarterly Financial Information

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
(USD millions, except per share amounts)				
<b>Sales</b>	<b>184.0</b>	183.1	<b>395.4</b>	324.8
<b>Operating earnings<sup>1</sup></b>	<b>82.2</b>	82.1	<b>195.7</b>	148.0
Depreciation, depletion and amortization	(37.6)	(32.2)	(73.1)	(67.9)
General exploration and project investigation	(12.5)	(5.6)	(21.4)	(10.3)
Finance (costs) income	(3.7)	10.5	(2.0)	22.8
Income from equity investment in Tenke	32.0	8.3	56.9	22.8
Other income and expenses	(2.8)	10.7	(19.3)	20.3
<b>Income before income taxes</b>	<b>57.6</b>	73.8	<b>136.8</b>	135.7
Income tax recovery (expense)	0.1	(31.5)	(7.9)	(41.6)
<b>Net income</b>	<b>57.7</b>	42.3	<b>128.9</b>	94.1
<b>Shareholders' equity</b>	<b>3,394.6</b>	2,831.2	<b>3,394.6</b>	2,831.2
<b>Cash flow from operations</b>	<b>102.5</b>	68.9	<b>231.9</b>	157.2
<b>Capital expenditures (incl. Tenke)</b>	<b>57.7</b>	39.1	<b>103.6</b>	77.2
<b>Total assets</b>	<b>4,084.5</b>	3,431.7	<b>4,084.5</b>	3,431.7
<b>Net cash<sup>2</sup></b>	<b>308.2</b>	107.8	<b>308.2</b>	107.8
<b>Key Financial Data:</b>				
Shareholders' equity per share <sup>3</sup>	5.83	4.88	5.83	4.88
Basic and diluted income per share <sup>6</sup>	0.10	0.07	0.22	0.16
Dividends	-	-	-	-
Equity ratio <sup>4</sup>	83%	83%	83%	83%
<b>Shares outstanding:</b>				
Basic weighted average	582,040,278	579,864,628	581,746,484	579,771,573
Diluted weighted average	583,410,167	580,261,614	583,187,790	580,203,254
End of period	582,180,287	579,899,803	582,180,287	579,899,803

(\$ millions, except per share data)	IFRS basis						Canadian GAAP basis <sup>5</sup>	
	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09
<b>Sales</b>	<b>184.0</b>	211.5	309.3	215.1	183.1	141.7	256.7	171.1
<b>Operating earnings<sup>1</sup></b>	<b>82.2</b>	113.6	192.2	121.5	82.1	65.8	152.2	91.8
<b>Impairment charges (after tax)</b>	-	-	-	-	-	-	(37.1)	-
<b>Net income</b>	<b>57.7</b>	71.2	146.1	66.0	42.3	51.9	35.1	3.7
<b>Income per share<sup>6</sup>, basic and diluted</b>	<b>0.10</b>	0.12	0.25	0.11	0.07	0.09	0.06	0.01
<b>Cash flow from operations</b>	<b>102.5</b>	129.3	71.1	49.0	68.9	88.4	97.0	40.0
<b>Capital expenditure (incl. Tenke)</b>	<b>57.7</b>	45.9	42.9	40.2	39.1	38.1	39.0	54.7
<b>Net cash (debt)<sup>2</sup></b>	<b>308.2</b>	262.0	159.2	125.7	107.8	10.2	(49.3)	(132.2)

<sup>1</sup> Operating earnings is a Non-IFRS measure defined as sales, less operating costs and general and administrative costs.

<sup>2</sup> Net cash is a Non-IFRS measure defined as available unrestricted cash less financial debt, including capital leases and other debt-related obligations.

<sup>3</sup> Shareholders' equity per share is a Non-IFRS measure defined as shareholders' equity divided by total number of shares outstanding at end of period.

<sup>4</sup> Equity ratio is a Non-IFRS measure defined as shareholders' equity divided by total assets at the end of period.

<sup>5</sup> Conversion to IFRS on January 1, 2011 requires the completion of IFRS compliant financial statements on a comparative basis for 2010. Financial results prior to 2010 remain unchanged and are reported in accordance with Canadian GAAP.

<sup>6</sup> Income per share is determined for each quarter. As a result of using a 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

	YTD 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
<b>Copper (tonnes)</b>								
Neves-Corvo	31,277	14,304	16,973	69,935	23,765	16,398	20,252	9,520
Zinkgruvan	734	734	-	-	-	-	-	-
Aguablanca <sup>1</sup>	(68)	(15)	(53)	3,793	559	644	1,418	1,172
	<b>31,943</b>	<b>15,023</b>	16,920	73,728	24,324	17,042	21,670	10,692
<b>Zinc (tonnes)</b>								
Neves-Corvo	820	5	815	5,251	861	1,459	2,046	885
Zinkgruvan	30,497	13,529	16,968	59,405	14,657	13,713	18,297	12,738
Galmoy <sup>2</sup>	8,472	4,694	3,778	6,147	1,755	2,510	1,324	558
	<b>39,789</b>	<b>18,228</b>	21,561	70,803	17,273	17,682	21,667	14,181
<b>Lead (tonnes)</b>								
Zinkgruvan	13,318	7,031	6,287	35,808	8,490	9,735	9,630	7,953
Galmoy <sup>2</sup>	2,592	1,517	1,075	1,786	430	791	436	129
	<b>15,910</b>	<b>8,548</b>	7,362	37,594	8,920	10,526	10,066	8,082
<b>Nickel (tonnes)</b>								
Aguablanca <sup>1</sup>	(55)	6	(61)	5,116	559	1,029	1,826	1,702

<sup>1</sup> Final weight adjustment related to provisional sales recognized in 2010 but settled in 2011.

<sup>2</sup> Payable metal in sales of ore (50% attributable to Galmoy – see MD&A page 17).

### Net Sales by Mine

(US\$ millions)	Three months ended June 30			Six months ended June 30		
	2011	2010	Change	2011	2010	Change
Neves-Corvo	123.0	121.0	2.0	279.6	181.2	98.4
Zinkgruvan	50.0	39.0	11.0	97.6	74.6	23.0
Aguablanca	0.1	20.8	(20.7)	(1.9)	65.4	(67.3)
Galmoy	10.9	2.3	8.6	20.1	3.6	16.5
	<b>184.0</b>	183.1	0.9	<b>395.4</b>	324.8	70.6

### Net Sales by Metal

(US\$ millions)	Three months ended June 30			Six months ended June 30		
	2011	2010	Change	2011	2010	Change
Copper	127.9	124.5	3.4	280.8	191.5	89.3
Zinc	32.8	25.9	6.9	72.0	48.4	23.6
Lead	19.0	14.9	4.1	36.0	28.5	7.5
Nickel	0.3	11.3	(11.0)	(0.4)	45.6	(46.0)
Other	4.0	6.5	(2.5)	7.0	10.8	(3.8)
	<b>184.0</b>	183.1	0.9	<b>395.4</b>	324.8	70.6

Higher net sales for the quarter are primarily the result of higher metal prices, with an increase in LME prices for copper, zinc and lead ranging from 12% to 31% higher in the current quarter than the second quarter of 2010. Aguablanca had no sales for the current quarter owing to suspension of operations in December 2010 following a pit-slope failure.

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.

## Reconciliation of realized prices

2011 (\$ millions, except per pound amounts)	Quarter ended June 30, 2011				
	Copper	Zinc	Nickel	Lead	Total
Current period sales	140.2	40.6	-	21.1	201.9
Prior period provisional adjustments	(5.4)	3.1	0.3	0.7	(1.3)
Sales before other metals and TC/RC	134.8	43.7	0.3	21.8	200.6
Other metal sales					4.0
Less: TC/RC					(20.6)
<b>Total Sales</b>					<b>184.0</b>
<b>Payable Metal (tonnes)</b>	<b>15,023</b>	<b>18,228</b>	<b>6</b>	<b>8,548</b>	
Current period sales (\$/lb)	\$ 4.23	\$ 1.01	\$ n/a	\$ 1.12	
Prior period provisional adjustments (\$/lb)	(0.16)	0.08	n/a	0.04	
<b>Realized prices (\$/lb)</b>	<b>\$ 4.07</b>	<b>\$ 1.09</b>	<b>\$ n/a</b>	<b>\$ 1.16</b>	

2010 (\$ millions, except per pound amounts)	Quarter ended June 30, 2010				
	Copper	Zinc	Nickel	Lead	Total
Current period sales	141.1	39.9	35.7	17.6	234.3
Prior period provisional adjustments	(5.8)	(2.6)	(14.5)	0.5	(22.4)
Sales before other metals and TC/RC	135.3	37.3	21.2	18.1	211.9
Other metal sales					6.6
Less: TC/RC					(35.4)
<b>Total Sales</b>					<b>183.1</b>
<b>Payable Metal (tonnes)</b>	<b>21,670</b>	<b>21,667</b>	<b>1,826</b>	<b>10,066</b>	
Current period sales (\$/lb)	\$ 2.95	\$ 0.84	\$ 8.87	\$ 0.79	
Prior period provisional adjustments (\$/lb)	(0.12)	(0.06)	(3.59)	0.03	
<b>Realized prices (\$/lb)</b>	<b>\$ 2.83</b>	<b>\$ 0.78</b>	<b>\$ 5.28</b>	<b>\$ 0.82</b>	

## Outstanding receivables (provisionally valued) as of June 30, 2011

Metal	Tonnes payable	Valued at \$ per lb	Valued at \$ per tonne
Copper	13,244	4.28	9,426
Zinc	19,807	1.02	2,259
Lead	8,702	1.14	2,504

## Operating Results

### Operating Costs

Operating costs of \$96.1 million for the current quarter were the same as the comparable period in 2010. Neves-Corvo's operating costs increased by approximately \$10.1 and Zinkgruvan's costs increased by approximately \$5.0 million of which \$10.0 million and \$4.3 million, respectively, related to unfavourable foreign exchange. Aguablanca's costs were lower by approximately \$16.8 million due to the temporary suspension of operations. (See additional commentary under individual mine discussion).

### General and Administrative

General and administrative costs increased by \$0.8 million from \$4.9 million to \$5.7 million in the current quarter. This increase was almost entirely attributable to corporate development activity, including costs associated with the planned merger with Inmet Mining Corporation, defending Equinox Mineral Limited's unsolicited take-over bid and the Company's recently completed strategic review.

### Depreciation, Depletion and Amortization

Depreciation, depletion and amortization in the second quarter of 2011 was higher than the same period last year. Increased depreciation from the higher amount of ore mined at Neves-Corvo and Zinkgruvan as well as the €/USD exchange rate, was offset by lower depreciation from the suspension of operations at Aguablanca.

Depreciation by operation (\$ millions)	Three months ended June 30			Six months ended June 30		
	2011	2010	Change	2011	2010	Change
Neves-Corvo	29.7	22.6	7.1	58.3	46.7	11.6
Zinkgruvan	7.1	3.2	3.9	13.1	7.2	5.9
Aguablanca	0.7	6.3	(5.6)	1.5	13.8	(12.3)
Other	0.1	0.1	-	0.2	0.2	-
	37.6	32.2	5.4	73.1	67.9	5.2

### General Exploration and Project Investigation

General exploration and project investigation costs increased from \$5.6 million in the second quarter of 2010 to \$12.5 million in the second quarter of 2011. This increase is primarily attributable to an 80,000 metre surface drilling program which is intended to deliver an initial resource estimate for Semblana prior to year end. (See additional commentary under Exploration Highlights).

### Finance (Costs) Income

The Company recorded a gain of \$11.2 million on its copper collar arrangements in the second quarter of 2010. In addition, the Company's marketable securities are re-valued on a quarterly basis with an increase in fair value reported in the second quarter of 2010 of \$1.7 million while the current quarter saw a decrease in fair value of \$2.0 million.

### Other Income and Expenses

Other income and expenses include foreign exchange gains and losses.

A foreign exchange loss of \$0.1 million in the current quarter and a gain of \$10.2 million recorded in the second quarter of 2010 relates to US\$ cash and trade receivables that were held in the European group entities. Period end exchange rates in the second quarter of 2011 were \$1.45:€1.00 (March 31, 2011 – \$1.42:€1.00) and \$1.00:SEK6.31 (March 31, 2011 – \$1.00:SEK6.30).

## Current and Deferred Taxes

Current tax expense (\$ millions)	Three months ended June 30			Six months ended June 30		
	2011	2010	Change	2011	2010	Change
Neves-Corvo	8.8	10.0	(1.2)	28.0	10.0	18.0
Zinkgruvan	5.6	5.8	(0.2)	8.7	10.1	(1.4)
Aguablanca	2.2	4.7	(2.5)	2.3	4.7	(2.4)
Other	(6.5)	0.5	(7.0)	(5.9)	0.9	(6.8)
<b>Current tax expense</b>	<b>10.1</b>	<b>21.0</b>	<b>(10.9)</b>	<b>33.1</b>	<b>25.7</b>	<b>7.4</b>

The decrease in current income tax expense is a reflection of lower taxable earnings and, in particular, a loss at Aguablanca. In addition, the prior year current tax expense includes a year-to-date adjustment for the Portuguese tax rate increase of 2.5%.

The corporate tax rates in the countries where the Company has mining operations range from 25% in Ireland to 30% in Spain. To June 30, 2011, the Company has paid a total of \$47.3 million in income taxes, including \$41.7 million paid in Portugal, \$2.1 million in Sweden and \$3.1 million in Spain.

Deferred tax (recovery) expense (\$ millions)	Three months ended June 30			Six months ended June 30		
	2011	2010	Change	2011	2010	Change
Neves-Corvo	(4.3)	15.6	(19.9)	(11.0)	13.7	(24.7)
Zinkgruvan	(0.4)	(0.3)	(0.1)	(0.8)	(0.6)	(0.2)
Aguablanca	(10.1)	(3.1)	(7.0)	(18.8)	4.8	(23.6)
Other	4.6	(1.7)	6.3	5.4	(2.0)	7.4
<b>Deferred tax (recovery) expense</b>	<b>(10.2)</b>	<b>10.5</b>	<b>(20.7)</b>	<b>(25.2)</b>	<b>15.9</b>	<b>(41.1)</b>

The increase in deferred income tax recovery of \$20.7 million is primarily attributable to the tax benefit recognized on Aguablanca's net loss in the current quarter as well as the reversal of a previously recorded valuation allowance on losses which initially were deemed restricted, but which the Company has been able to subsequently utilize. Furthermore, the prior year deferred tax expense includes a \$14.5 million charge to reflect a 2.5% increase in the corporate income tax rate in Portugal.

## Mining Operations

### Production Overview

	YTD 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
<b>Copper (tonnes)</b>								
Neves-Corvo	32,173	13,475	18,698	74,011	23,105	19,353	20,342	11,211
Zinkgruvan	797	356	441	540	540	-	-	-
Aguablanca	-	-	-	5,484	1,263	1,156	1,432	1,633
	<b>32,970</b>	<b>13,831</b>	19,139	80,035	24,908	20,509	21,774	12,844
<b>Zinc (tonnes)</b>								
Neves-Corvo	1,971	1,020	951	6,422	897	2,237	1,446	1,842
Zinkgruvan	37,351	17,582	19,769	72,206	18,546	15,916	20,624	17,120
Galmoy*	16,279	8,802	7,477	11,501	4,039	4,418	2,388	656
	<b>55,601</b>	<b>27,404</b>	28,197	90,129	23,482	22,571	24,458	19,618
<b>Lead (tonnes)</b>								
Zinkgruvan	17,350	7,829	9,521	36,636	8,602	9,641	10,286	8,107
Galmoy*	4,430	2,538	1,892	2,932	868	1,261	667	136
	<b>21,780</b>	<b>10,367</b>	11,413	39,568	9,470	10,902	10,953	8,243
<b>Nickel (tonnes)</b>								
Aguablanca	-	-	-	6,296	1,062	1,363	1,715	2,156

\* includes payable metal in sales of ore (50% attributable to Galmoy – see MD&A page 17)

### Cash Cost Overview

	Cash cost / lb (US dollars)		Cash cost / lb (local currency)	
	Three months ended June 30		Three months ended June 30	
	2011	2010	2011	2010
<b>Neves-Corvo (Local in €)</b>				
Gross cost	2.17	1.27	1.51	1.01
By-product **	(0.04)	(0.07)	(0.03)	(0.05)
<b>Net Cost – Cu/lb</b>	<b>2.13</b>	1.20	<b>1.48</b>	0.96
<b>Zinkgruvan (Local in SEK)</b>				
Gross cost	1.09	0.69	6.81	5.30
By-product **	(0.83)	(0.41)	(5.17)	(3.18)
<b>Net Cost - Zn/lb</b>	<b>0.26</b>	0.28	<b>1.64</b>	2.12
	Six months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
<b>Neves-Corvo (Local in €)</b>				
Gross cost	1.87	1.47	1.33	1.13
By-product **	(0.06)	(.08)	(0.04)	(0.06)
<b>Net Cost – Cu/lb</b>	<b>1.81</b>	1.39	<b>1.29</b>	1.07
<b>Zinkgruvan (Local in SEK)</b>				
Gross cost	0.96	0.77	6.12	5.70
By-product **	(0.61)	(0.47)	(3.86)	(3.49)
<b>Net Cost - Zn/lb</b>	<b>0.35</b>	0.30	<b>2.26</b>	2.21

\*\*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 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 completed in July 2011. Once commissioned, the expanded plant will have the flexibility to process zinc or copper ores.

### Operating Statistics

	YTD 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Ore mined, copper (tonnes)	1,476,337	768,806	707,531	2,537,927	776,682	630,304	649,641	481,300
Ore mined, zinc (tonnes)	77,229	34,552	42,677	74,295	1,449	38,960	16,133	17,753
Ore milled, copper (tonnes)	1,479,833	736,050	743,783	2,499,563	750,798	603,340	674,628	470,797
Ore milled, zinc (tonnes)	-	-	-	100,331	-	38,960	18,506	42,865
Grade								
Copper (%)	2.6	2.2	2.9	3.4	3.5	3.8	3.5	2.8
Zinc (%)	-	-	-	5.7	-	6.5	6.6	4.6
Recovery								
Copper (%)	85	83	86	86	87	85	86	86
Zinc (%)	-	-	-	73	-	80	77	66
Concentrate grade								
Copper (%)	24.4	24.2	24.5	24.2	24.3	23.9	24.1	24.4
Zinc (%)	-	-	-	44.5	-	47.8	43.2	41.9
Production- tonnes (metal contained)								
Copper	32,173	13,475	18,698	74,011	23,105	19,353	20,342	11,211
Zinc	1,971	1,020	951	6,422	897	2,237	1,446	1,842
Silver (oz)	403,505	184,007	219,498	725,260	223,242	176,094	203,035	122,889
Sales (\$000s)	279,598	123,036	156,562	541,313	224,964	135,159	120,980	60,210
Operating earnings (\$000s) <sup>1</sup>	159,265	59,817	99,448	335,696	155,506	85,517	67,860	26,813
Cash cost (€ per pound) <sup>2</sup>	1.29	1.48	1.13	1.01	0.99	0.92	0.96	1.29
Cash cost (\$ per pound) <sup>2</sup>	1.81	2.13	1.55	1.33	1.34	1.19	1.20	1.78

### Operating Earnings<sup>1</sup>

Operating earnings of \$59.8 million were \$8.1 million lower than for the second quarter of 2010. Lower sales volume (\$23.4 million effect), higher per unit costs (\$16.7 million effect) and unfavourable foreign exchange (\$10.0 million effect) were partially offset by improved metal prices and price adjustments (\$42.0 million effect).

### Production

Copper metal production was lower than targeted due to reduced head grades and annual plant maintenance being brought forward to June resulting in an 8% reduction in mill throughput over the quarter. Average head grades were lower than expected due to further delays in mining the remaining lower sequence high-grade Corvo area, which led to the mining of other lower grade ore sources to partially compensate for the copper production deficit. Furthermore, 25% of tonnage milled during the quarter derived from out-of-reserve ore at grades below 2%, which would have otherwise been sterilized. Lower head grades processed also resulted in lower copper recoveries. Annual production guidance for copper has been adjusted down by 5% to take into account these issues.

### Cash Costs<sup>1</sup>

Cash costs are higher than the prior corresponding period due to higher mining, milling and administrative costs (\$0.68/lb effect), reflecting a 30% reduction in copper sales combined with higher tonnage processed and also was affected by adverse foreign exchange rates (\$0.22/lb effect).

<sup>1</sup> Operating earnings is a Non-IFRS measure - see page 25 of this MD&A for discussion of Non-IFRS measures.

<sup>2</sup> Cash cost/lb of payable copper sold - see page 25 of this MD&A for discussion of Non-IFRS measures.

<sup>1</sup> Cash cost/lb of payable copper sold - see page 25 of this MD&A for discussion of Non-IFRS measures.

### **Neves-Corvo Zinc Expansion Project**

The Neves -Corvo Zinc Expansion Project was completed on schedule and on budget at €44 million. First ore was milled in early July and a saleable zinc concentrate has been produced. The circuit is designed for 1.0 million tonnes per annum (“tpa”) ore throughput enabling 50,000 tpa zinc metal production in concentrate. Processing of zinc ore over the next few weeks is being performed to test all circuits against design and equipment supplier specifications. Thereafter the circuit will be committed to copper production for the balance of the year.

### **Lombador Zinc/Copper/Lead Project**

The Lombador Phase One Feasibility Study is nearing completion and is undergoing internal review. This study is Phase One of a multi-stage development planned to exploit zinc and copper ores from the Lombador South, East and North ore bodies. As previously reported, the grinding mill for the expanded zinc plant was ordered earlier this year and is scheduled for delivery in December 2012.

The Lombador Phase One development schedule contemplates expanded zinc plant start-up in fourth quarter of 2013 using zinc ore from existing Neves-Corvo ore bodies. The downward access ramp into Lombador is on schedule and is presently at the 400 level. It is expected to reach the 300 level (approximately 900 metres below surface) by the second quarter of 2012 and this will facilitate the development of an exploration drive on the 335 level to allow underground exploration of the Lombador orebody.

Bids have been received to commence scoping study work to conceptualize Phase Two development of the deeper portions of the Lombador ore bodies in conjunction with assessing how to access high grade copper from Semblana. Semblana exploration is discussed further on page 20 under Exploration Highlights.

## 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

	YTD 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Ore mined, zinc (tonnes)	544,163	255,995	288,168	990,657	273,020	234,236	244,945	238,456
Ore mined, copper (tonnes)	61,926	36,269	25,657	33,640	33,640	-	-	-
Ore milled, zinc (tonnes)	507,171	231,145	276,026	995,884	266,610	245,543	257,731	226,000
Ore milled, copper (tonnes)	49,829	20,677	29,152	27,296	27,296	-	-	-
Grade								
Zinc (%)	8.2	8.5	8.0	8.0	7.8	7.3	8.8	8.2
Lead (%)	4.2	4.1	4.2	4.4	4.0	4.5	4.7	4.3
Copper (%)	1.8	1.9	1.7	2.2	2.2	-	-	-
Recovery								
Zinc (%)	90	90	90	91	90	89	91	92
Lead (%)	82	83	82	84	81	86	85	84
Copper (%)	90	90	89	90	90	-	-	-
Concentrate grade								
Zinc (%)	52.6	52.7	52.4	52.7	51.8	51.8	53.4	53.5
Lead (%)	75.1	75.5	74.7	74.9	73.7	74.2	76.9	74.3
Copper (%)	25.4	24.4	26.2	24.0	24.0	-	-	-
Production – tonnes (metal contained)								
Zinc	37,351	17,582	19,769	72,206	18,546	15,916	20,624	17,120
Lead	17,350	7,829	9,521	36,636	8,602	9,641	10,286	8,107
Copper	797	356	441	540	540	-	-	-
Silver (oz)	921,755	413,546	508,209	1,800,827	427,865	507,866	478,106	386,990
Sales (\$000s)	97,585	50,000	47,585	165,273	48,421	42,233	38,963	35,656
Operating earnings (\$000s) <sup>1</sup>	50,144	26,178	23,966	95,777	31,849	24,604	20,172	19,152
Cash cost (SEK per pound) <sup>2</sup>	2.26	1.64	2.76	1.60	1.03	0.85	2.12	2.33
Cash cost (\$ per pound) <sup>2</sup>	0.35	0.26	0.42	0.22	0.15	0.11	0.28	0.33

### Operating Earnings<sup>1</sup>

Operating earnings of \$26.2 million were \$6.0 million above the same period in 2010. The increase is attributable to higher metal prices (\$17.9 million effect) partially offset by lower volumes (\$2.4 million effect), an increase in unit costs (\$5.2 million effect) and unfavourable foreign exchange (\$4.3 million effect). During the quarter, the Company shipped its first production of copper concentrate from its Zinkgruvan mine in Sweden.

### Production

Production of metal was lower than expected due to the treatment of accumulated material from the flotation overflow facility in June which required lower throughput rates. Mine ore production was 20% higher than the second quarter of 2010 and the backlog of waste material which had accumulated underground was reduced to normal levels.

### Cash Costs<sup>2</sup>

Higher by-product credits (\$0.42/lb) were more than offset by higher costs (\$0.22/lb) and treatment charges (\$0.05/lb) and the impact of a stronger SEK (\$0.13/lb).

The increase in costs was mainly due to higher contractor fees and fuel costs resulting from ore handling and crushing associated with the daylight ramp, which has facilitated higher ore and waste throughput. Other costs increases included an index adjustment for contractors and higher shotcrete volume due to a more intense support system.

<sup>1</sup> Operating earnings is a Non-IFRS measure - see page 25 of this MD&A for discussion of Non-IFRS measures.

<sup>2</sup> Cash cost/lb of payable zinc sold - see page 25 of this MD&A for discussion of Non-IFRS measures.

## 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 are expected to restart during the third quarter of 2011 at the pit and third quarter of 2012 at the plant.

### Operating Statistics

	YTD 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Ore mined (tonnes)	-	-	-	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								
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)	(1,863)	71	(1,934)	129,784	31,848	32,502	20,776	44,658
Operating (loss) earnings (\$'000s) <sup>1</sup>	(12,557)	(5,111)	(7,446)	44,128	6,967	13,373	(1,168)	24,956
Cash cost (€ per pound) <sup>2</sup>	n/a	n/a	n/a	5.34	11.34	4.59	4.32	4.92
Cash cost (\$ per pound) <sup>2</sup>	n/a	n/a	n/a	7.08	15.39	5.93	5.43	6.80

### Suspension of Operations

As previously reported, high rainfall in December 2010 resulted in a significant slope failure affecting the main open-pit access ramp causing suspension of operations. A contract has been signed with mining contractor EPSA which will enable the restart of mining operations in the third quarter of 2011. The contractor will be focused on several months of prestripping to enable re-establishment of a main haul ramp into the pit. Concentrate production is expected to resume in the third quarter of 2012. Reserves represent approximately five years of production.

The total investment required from the second quarter of 2011 to recommencement of full ore production, including operating expenditures, is €40 million. Operating expenditure (including waste removal, care and maintenance, and general & administration) will be expensed as incurred.

### Operating Loss<sup>1</sup>

Operating loss of \$5.1 million was \$3.9 million below the same period in 2010 owing to the suspension of operations since December 2010.

<sup>1</sup> Operating earnings (loss) is a Non-IFRS measure - see page 25 of this MD&A for discussion of Non-IFRS measures.

<sup>2</sup> Cash cost/lb of payable nickel sold - see page 25 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. Operational mining was originally planned to cease in May 2009 but due to 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

	YTD 2011	Q2 2011	Q1 2011	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Ore mined (tonnes)	146,337	76,927	69,410	139,681	52,498	50,143	22,988	14,052
Ore sold (tonnes)	95,582	53,874	41,708	72,983	19,387	27,756	18,741	7,099
Grade								
Zinc (%)	22.9	22.5	23.4	22.0	23.5	23.2	18.7	21.5
Lead (%)	7.8	8.2	7.4	7.4	6.8	8.5	7.2	6.2
Production- tonnes (metal contained)								
Zinc *	16,279	8,802	7,477	11,501	4,039	4,418	2,388	656
Lead *	4,430	2,538	1,892	2,932	868	1,261	667	136
Sales (\$'000s)	20,106	10,862	9,244	12,853	4,034	5,234	2,430	1,155
Operating earnings (loss) (\$'000s) <sup>1</sup>	14,854	7,030	7,824	6,961	3,011	3,611	428	(89)

\* Estimated production on a 50% attributable-share to Lundin Mining from ore treated at an adjacent mine.

### Operating Earnings<sup>1</sup>

Mining of high-grade ore for processing by a third party yielded operating earnings of \$7.0 million in the second quarter of 2011.

### 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

Mine closure is progressing as planned, and agreement has been reached with the authorities to facilitate the draw-down of the restricted funds, designated to cover closure costs. Adequate provision has been made for closure.

<sup>1</sup> Operating earnings is a Non-IFRS measure - see page 25 of this MD&A for discussion of Non-IFRS measures.

## Tenke Fungurume

Tenke Fungurume (“Tenke”) is a major copper-cobalt operation in its third year of production. Tenke is located in the southern part of Katanga Province, Democratic Republic of Congo (“DRC”). Freeport-McMoRan Copper & Gold Inc. (“FCX” or “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 FCX 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. Lundin’s interest will be reduced to 24% once the government approves the modifications to Tenke Fungurume Mining’s bylaws reflected in the agreement with the DRC government as outlined in the Company’s annual 2010 Management’s Discussion and Analysis.

### Operating Statistics

	YTD	Q2	Q1	Total	Q4	Q3	Q2	Q1
100% Basis	2011	2011	2011	2010	2010	2010	2010	2010
Ore mined (000 tonnes)	4,857	2,692	2,165	8,541	1,980	2,471	2,389	1,701
Ore milled (000 tonnes)	1,850	881	969	3,766	1,017	1,083	797	869
Grade								
Copper (%)	3.5	3.7	3.4	3.5	3.4	3.2	3.9	3.7
Recovery								
Copper (%)	92	93	92	91	93	91	91	92
Production – tonnes								
Copper	60,227	29,891	30,336	120,271	31,949	31,115	28,438	28,769
Cobalt	5,569	2,776	2,793	9,225	2,922	2,421	1,651	2,231
Income from equity investment (\$millions)	56.9	32.0	24.9	75.9	35.6	17.5	8.3	14.5
Cash costs (\$ per pound) <sup>1,2</sup>	0.91	0.94	0.86	0.90	0.89	0.86	0.79	1.04

### Income from Equity Investment in Tenke

Income of \$32.0 million was \$23.7 million above the same period last year. The increase reflects higher volume and realized selling prices. Sales volume of cathode sold during the quarter, on a 100% basis, amounted to 34,138 tonnes compared to 24,997 tonnes in the same period of 2010.

The average price realized for copper sales during the period was \$4.08 per pound of cathode sold (2010: \$2.96/lb).

The Company recognized its 24.75% interest in the earnings of Tenke and includes adjustments for differences in accounting standards and purchase price allocations.

### Production

Copper production during the quarter exceeded nameplate capacity. Milling throughput is now performing consistently above design capacity and, with the procurement of additional mining equipment and changes to the mine plan, Freeport is expecting production to increase from the 120,000 tpa reached in 2010 to approximately 126,500 tpa in 2011.

Cobalt production in the second quarter also exceeded nameplate capacity, as higher tonnages were processed and cobalt recoveries have now approached design levels. Further improvements are likely over the next several quarters, particularly with respect to reduced moisture content and impurity removal from the cobalt hydroxide product.

<sup>1</sup> Cash cost/lb of payable copper sold. See Non-IFRS Performance Measures on page 25 of this MD&A.

<sup>2</sup> Cash costs are as calculated and reported by FCX 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 quarter, cash operating costs averaged \$0.94/lb of copper including the cobalt by-product credit. This was higher than second quarter 2010 cash operating costs of \$0.79/lb copper due to increased mining and milling activities and higher input costs, partially offset by higher cobalt credits. Lundin Mining expects that cash costs will benefit in the future from: higher throughput from planned de-bottlenecking investments; successful implementation of ongoing operating cost reduction efforts; and initiatives to improve operating performance in the sulfur dioxide plant and cobalt circuits.

**Excess Overrun Facility**

At June 30, 2011, the amount owing to FCX on the Excess Overrun Cost facility completion of Phase I was \$32.0 million, down from \$188.9 million at June 30, 2010 and a reduction of \$38.6 million during the quarter.

**Expansion Studies**

Expansion studies are ongoing to optimize the current plant and increase capacity. FCX is contemplating a mill rate expansion from 8,000 tpd to 14,000 tpd at an anticipated capital cost of \$800 million. The increased capacity would take overall copper production up to approximately 200,000 tpa of copper cathode production in 2013. FCX expects that production volumes will continue to expand significantly past this level in further phases of expansion over time.

**Tenke Funding**

During the quarter, \$10.5 million (2010 - \$6.8 million) was advanced to cover sustaining capital, ongoing concession exploration and expansion initiatives.

Expansion size and timing is contingent upon a number of factors not under the control of Lundin Mining. Final decisions on capital investment levels are ultimately made by Freeport, the mine's operator, and are not yet in place until the expansion feasibility study is complete, although some critical path items are already in progress. The expansion study is expected to be complete in the third quarter of 2011.

## Exploration Highlights

### Portugal

#### Neves-Corvo Mine Exploration (Copper, Zinc)

The 2011 surface exploration program is on track with a mid-year total of 40,770 metres completed by the end of June (of 80,000 metres planned). Surface drilling during the second quarter totalled 22,649 metres.

Drilling was focused on the Semblana (four drill rigs) and Lombador (one drill rig) deposits. Drilling at Semblana continued to intersect thick sections of high-grade copper mineralization. A continuous zone of copper mineralization has been delineated, covering an area of 150 x 600 metres. Additional drilling during the remainder of 2011 will work towards defining its limits and grade distribution leading to an initial resource estimate prior to year-end.

Lombador drilling was focused on areas located outside of the scope of the current Feasibility Study area in order to allow for optimization of the mine planning process. The emphasis remained clearly on the discovery of additional copper mineralization. Three holes were completed during the quarter.

A high-resolution 3D seismic survey was completed, covering a 24 square kilometre area surrounding the mine. Preliminary results from this survey provided strong evidence that this novel approach will directly detect any undiscovered massive sulphide deposits within the survey area down to a depth of at least 2,000 metres. Final data processing, interpretation and drill targeting are scheduled for the third quarter.

#### Iberian Pyrite Belt Regional Exploration (Copper, Zinc)

Target definition work continued in the second quarter, focusing on target areas immediately to the northwest of the mine. Personnel and logistical support have been temporarily allocated to help with the 3D seismic survey. A 4,000 metre drill program is planned to begin in July 2012.

### Spain

#### Ossa Morena Belt Regional Exploration (Copper, Gold)

A 4,650 metre drill program began in June 2011 and, by quarter end, a total of 318 metres had been drilled at the Alconchel copper-gold-iron prospect. The first hole intersected two sulphide mineralized zones: a shallow, 17 metre thick zone associated with quartz-veined silicified tuffites and a deeper 28 metre thick zone associated with the main banded iron formation that included a visibly higher grade 9 metre thick copper-mineralized zone containing chalcopyrite and bornite; assays are pending. Drilling will continue in the next quarter with a total of 10 holes planned over the main mineralized section. The drill program will also test two new copper-gold targets developed at the Bilbaina and Cerro de Mina prospects located approximately 30 kilometres to the southeast and south-southeast of Alconchel, respectively, over the same mineralized belt of rocks.

### Ireland

#### Clare Joint Venture Exploration (Zinc, Lead, Silver)<sup>1</sup>

18 holes were completed on the Clare JV project in the second quarter for a total of 20,613 metres drilled. The addition of a second drill contractor during the quarter has substantially increased the drill productivity and will allow for much more rapid delineation of the Kilbricken deposit.

14 holes were drilled in the Kilbricken deposit area, several of which intersected zinc-lead sulphide mineralization with assays pending. Four of the holes were regional exploration holes including three drilled at the Ballyvergin copper prospect, located 7 kilometres to the north of Kilbricken.

Drilling in third quarter will be focused on stepping out along strike from the Kilbricken deposit into highly prospective areas for which surface drill access has just recently been granted. A high-resolution 3D seismic survey was also completed in the second quarter, covering the greater Kilbricken deposit area, which will help define targets to be drilled throughout the remainder of this year's drill program.

---

<sup>1</sup> The Company acquired the joint venture partner, Belmore Resources (Holdings) PLC subsequent to quarter-end and now owns 100% of the project.

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

Macroeconomic events such as the unrest in the Middle East and the debt crisis of the Euro zone have made the metal markets volatile and have had a negative effect on metal prices during the second quarter of 2011.

(Average LME Prices)		Three months ended June 30			Six months ended June 30		
		2011	2010	Change	2011	2010	Change
Copper	US\$/pound	4.14	3.18	30%	4,26	3.23	32%
	US\$/tonne	9,137	7,013		9,398	7,130	
Zinc	US\$/pound	1.02	0.92	12%	1.05	0.98	8%
	US\$/tonne	2,250	2,018		2,323	2,155	
Lead	US\$/pound	1.16	0.88	31%	1.17	0.95	24%
	US\$/tonne	2,550	1,943		2,578	2,084	
Nickel	US\$/pound	10.96	10.15	8%	11.60	9.62	21%
	US\$/tonne	24,165	22,382		25,565	21,212	

LME inventory for nickel decreased by 13% during the second quarter of 2011 while the LME inventories for copper, zinc and lead all increased during the quarter: copper by 6%, zinc by 17% and lead by 14%.

The treatment charges (“TC”) and refining charges (“RC”) in the spot market for copper concentrates decreased over the second quarter 2011. In April, the spot TC was \$110 per dmt of concentrate and the spot RC was \$0.11 per lb of payable copper. However, several disruptions to mine production during the quarter, caused by labour relations and bad weather, have reduced the availability of concentrates, resulting in falling spot terms and the quarter ended with a spot TC of \$75 per dmt of concentrate with a RC of \$0.075 per payable lb of copper.

For 2011 the terms for annual copper concentrates contracts were agreed at a TC of \$56 per dmt of concentrates and a RC of \$0.056 per payable lb of copper. However, there were also settlements of terms between some mining companies and smelters for the first six months of 2011 only, at a TC of \$65 per dmt and a RC of \$0.065 per payable lb of copper. During the second quarter of 2011 terms, under these contracts, charges for the second half of the year were agreed to at a TC of \$90 per dmt of concentrates and a RC of \$0.09 per payable lb of copper. For the mid-year contracts, i.e. contracts running from July 1<sup>st</sup> to June 30<sup>th</sup>, terms have been settled at a TC of \$85 per dmt of concentrates and a RC of \$0.085 per payable lb of copper.

During the second quarter 2011, the spot TC for zinc concentrates dropped from \$135 per dmt of concentrates, flat, i.e. without any escalation, in April to \$110 per dmt, flat, in June. Demand for zinc concentrates in China remains firm and is the main cause for the reduction in the TC.

The spot TC for lead concentrates increased during the quarter from \$85 per dmt of concentrates, flat, in April to \$115 per dmt of concentrates, flat, in June. For lead concentrates containing high silver, i.e. 2,000 grams per dmt or more, the increase has been even more dramatic. The spot market in China for high silver lead concentrates in June was close to \$200 per dmt of concentrates, flat. China is the main market for spot lead concentrates but because of the domestic silver price trading at a discount to the international price the Chinese smelters are reluctant to purchase lead concentrates with high silver unless they are compensated by a higher TC and RC for silver.

## **Liquidity and Financial Condition**

### **Cash Reserves**

Cash and cash equivalents increased by \$143.3 million to \$342.2 million as at June 30, 2011, from \$198.9 million at December 31, 2010. For the six months ended June 30, 2011, cash inflows included operating cash flows of \$231.9 million. Uses of cash included:

- \$87.8 million investment in mineral property, plant and equipment; and
- \$15.8 million for Tenke funding.

### **Working Capital**

At June 30, 2011, there is working capital of \$323.2 million, compared to \$290.4 million at December 31, 2010. The increase in working capital reflects a substantial improvement in cash, partially offset by lower accounts receivable as sales in the current quarter were approximately \$125 million less than the last quarter of 2010.

### **Shareholders' Equity**

Shareholders' equity was \$3,394.6 million at June 30, 2011, compared to \$3,153.6 million at December 31, 2010. Shareholders' equity increased primarily as a result of net income of \$128.9 million and currency translation adjustments in other comprehensive income of \$104.2 million.

### **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. Costs above a certain level were funded by Freeport (see page 19 of this MD&A for details.) 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 is non-recourse to the Company and will be repaid from the operating cash flows of the project with first priority to other shareholder advances and dividends. The balance at June 30, 2011 was \$32.0 million.

## Changes in Accounting Policies

### International Financial Reporting Standards

The Company has prepared its June 30, 2011 condensed interim 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*, and IAS 34, *Interim financial reporting*. The adoption of IFRS has not had a material impact on the Company's financial position, operations and business decisions.

Reconciliation between the Company's financial statements as previously reported under Canadian GAAP ("CGAAP") and current reporting under IFRS is detailed in Note 3 of the condensed interim consolidated financial statements.

The following is an overview of the impacts to the Company's financial results due to the transition to IFRS.

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

Three months ended June 30, 2010 (\$millions, except per share amounts and percentages)	Transition adjustments				IFRS
	CGAAP	Revaluation of securities <sup>(a)</sup>	Decommissioning and other site provisions <sup>(b)</sup>	Other	
Net Income	75.6	(30.7)	0.6	3.2	42.3
Operating Earnings	80.8	-	-	1.3	82.1
Shareholders' Equity	2,839.7	(7.9)	(7.3)	6.7 <sup>c</sup>	2,831.2
Total Assets	3,443.2	-	(3.8)	(7.7) <sup>d</sup>	3,431.7
Shareholders' equity per share	4.90				4.88
Basic and diluted income per share	0.13				0.07
Equity ratio	82%				83%

### Notes

<sup>a</sup> In applying an IFRS 1 election the Company reclassified its available for sale ("AFS") securities to fair value through profit and loss ("FVTPL"). This reclassification resulted in previously recognized revaluation gains and losses recognized in AOCI to be recorded in retained earnings as a transition adjustment.

<sup>b</sup> In applying IAS 37, *Provisions, contingent liabilities and assets* and the related IFRS 1 election, the Company revised its estimate for decommissioning and site restoration provision and the related asset. This change had an impact on accretion and depreciation expense for the three month period ended June 30, 2011.

<sup>c</sup> The effects of changes in foreign exchange rates related to transitional adjustments.

<sup>d</sup> Transitional adjustments for the Company's investment in Tenke Fungurume related to US GAAP harmonization and the derecognition of income taxes related to the acquisition of the investment.

## **New Accounting Pronouncements**

IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*, were issued and replace IAS27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities* for guidance on the consolidation model which identifies the elements of control. These standards provide a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. These standards are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 and IFRS 12.

IFRS 11 *Joint Arrangements*, was issued and supercedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities*, to establish principles for financial reporting by parties to a joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11.

IFRS 13 *Fair Value Measurement*, was issued to set out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13.

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. The Company is currently evaluating the impact of IAS 1 amendments.

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. The Company is currently evaluating the impact of IAS 19 amendments.

## **Critical Accounting Estimates**

The application of certain accounting policies requires the Company to make estimates based on assumptions that may be undertaken at the time the accounting estimate is made. For a complete discussion of accounting estimates deemed most critical by the Company, refer to the Company's annual 2010 Management's Discussion and Analysis.

## **Managing Risks**

### **Risks and Uncertainties**

The operations of Lundin Mining involve certain significant risks, including but not limited to credit risk, foreign exchange risk and derivative risk. For a complete discussion of the risks, refer to the Company's 2010 Annual Information Form, available on the SEDAR website, [www.sedar.com](http://www.sedar.com).

## **Outstanding Share Data**

As at July 29, 2011, the Company had 582,280,287 common shares issued and outstanding and 4,953,346 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. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The following are Non-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 income or loss. Operating earnings is defined as sales, less operating costs and general and administration costs and are shown on the statement of operations as “Income before undernoted”.

- 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.

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

### Reconciliation of unit cash costs of payable copper, zinc and nickel metal sold to the Consolidated Statements of Operations

	Three months ended June 30, 2011				Three months ended June 30, 2010			
	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (\$000s)	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (\$000s)
<b>Operation</b>								
Neves-Corvo (Cu)	14,304	31,535	2.13	67,170	20,252	44,648	1.20	53,578
Zinkgruvan (Zn)	13,529	29,826	0.26	7,755	18,297	40,338	0.28	11,295
Aguablanca (Ni) <sup>1</sup>	-	-	-	5,432	1,826	4,026	5.43	21,861
Galmoy (Zn) <sup>2</sup>	-	-	-	2,952	-	-	-	3,300
				83,309				90,034
Add: By-product credits				29,267				28,763
Treatment costs				(17,537)				(29,486)
Royalties and other				1,017				6,776
<b>Total Operating Costs</b>				<b>96,056</b>				<b>96,087</b>

	Six months ended June 30, 2011				Six months ended June 30, 2010			
	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (000s)	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (000s)
<b>Operation</b>								
Neves-Corvo (cu)	31,277	68,954	1.81	124,807	29,772	65,636	1.39	91,234
Zinkgruvan (zn)	30,497	67,234	0.35	23,532	31,035	68,420	0.30	20,526
Aguablanca (ni) <sup>1</sup>	-	-	-	11,910	3,528	7,778	6.09	47,368
Galmoy (zn) <sup>2</sup>	-	-	-	4,027	-	-	-	3,279
				164,276				162,407
Add: Byproduct credits				49,795				57,612
Treatment costs				(35,953)				(59,581)
Royalties and other				5,821				6,858
<b>Total Operating Costs</b>				<b>183,939</b>				<b>167,296</b>

<sup>1</sup> Pit-slope failure caused suspension of operations in December 2010.

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

## **Management's Report on Internal Controls**

### ***Management's Report on 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 operations of disclosure controls and internal control over financial reporting. There have been no changes in the Company's disclosure controls and procedures during the three months ended June 30, 2011.

### ***Internal Control Over Financial Reporting***

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles. However, due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements and fraud.

There have been no changes in the Company's internal control over financial reporting during the three month period ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Other Supplementary Information

### 1. *List of directors and officers at July 29, 2011:*

#### (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, *Interim President and Chief Executive Officer*  
João Carrêlo, *Executive Vice President and Chief Operating Officer*  
Marie Inkster, *Senior Vice President and Chief Financial Officer*  
Neil O'Brien, *Senior Vice President, Exploration and Business Development*  
Peter Nicoll, *Vice President Health, Safety, Environment and Community*  
Mikael Schauman, *Vice President, Marketing*  
Josephine McCabe, *Vice President, Human Resources*  
Jinhee Magie, *Vice President, Finance*  
James Ingram, *Corporate Secretary*

### 2. **Financial Information**

The report for the third quarter 2011 is expected to be published on October 27, 2011.

### 3. **Other information**

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

Address (UK Office):  
Lundin Mining – UK  
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](http://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](mailto:sophias@namdo.com)

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

John Miniotis, Senior Business Analyst: +1-416-342-5560, [john.miniotis@lundinmining.com](mailto:john.miniotis@lundinmining.com)

Condensed Interim Consolidated Financial Statements of

# **Lundin Mining Corporation**

June 30, 2011  
(unaudited)

# Lundin Mining Corporation

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

	June 30 2011	December 31 2010
<b>(Unaudited - in thousands of US dollars)</b>		
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 342,164	\$ 198,909
Trade and other receivables (Note 4)	117,511	233,820
Inventories (Note 5)	47,962	31,688
Prepaid expenses	6,584	5,038
	<b>514,221</b>	469,455
Non-Current		
Reclamation funds and restricted cash	64,548	61,559
Mineral properties, plant and equipment (Note 6)	1,363,792	1,249,339
Investment in Tenke Fungurume (Note 7)	1,807,854	1,735,148
Marketable securities and other assets	30,160	32,411
Deferred tax assets	52,059	45,591
Goodwill (Note 8)	251,822	232,813
	<b>3,570,235</b>	3,356,861
	<b>\$ 4,084,456</b>	<b>\$ 3,826,316</b>
<b>LIABILITIES</b>		
Current		
Trade and other accounts payable	\$ 64,786	\$ 70,976
Accrued and other liabilities (Note 9)	84,723	64,307
Income taxes payable	41,489	43,743
Current portion of long-term debt and finance leases (Note 10)	2,672	2,512
Current portion of decommissioning and site restoration (Note 11)	7,193	5,985
Current portion of deferred revenue	6,522	6,087
	<b>207,385</b>	193,610
Non-Current		
Long-term debt and finance leases (Note 10)	31,340	37,152
Other long-term liabilities	11,162	10,881
Deferred revenue	69,115	67,957
Provision for pension obligations	20,491	18,816
Decommissioning and site restoration and other provisions (Note 11)	120,839	111,408
Deferred tax liabilities	229,506	232,906
	<b>482,453</b>	479,120
	<b>689,838</b>	672,730
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 12)	3,495,212	3,485,814
Contributed surplus	28,835	30,312
Accumulated other comprehensive income (loss)	37,876	(66,349)
Deficit	(167,305)	(296,191)
	<b>3,394,618</b>	3,153,586
	<b>\$ 4,084,456</b>	<b>\$ 3,826,316</b>

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

### APPROVED BY THE BOARD

(Signed) Lukas H. Lundin  
Director

(Signed) Dale C. Peniuk  
Director

## Lundin Mining Corporation

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
		(Note 3)		(Note 3)
Sales	\$ 183,969	\$ 183,149	\$ 395,426	\$ 324,828
Operating costs	(96,056)	(96,087)	(183,939)	(167,296)
General and administration	(5,728)	(4,926)	(15,745)	(9,563)
Income before undernoted	82,185	82,136	195,742	147,969
Depreciation, depletion and amortization (Note 6)	(37,589)	(32,223)	(73,063)	(67,935)
General exploration and project investigation	(12,522)	(5,641)	(21,419)	(10,273)
Finance (costs) income (Note 14)	(3,664)	10,541	(2,056)	22,834
Income from equity investment in Tenke Fungurume (Note 7)	32,022	8,312	56,887	22,765
Other income and expenses (Note 15)	(2,833)	10,696	(19,271)	20,364
Income before income taxes	57,599	73,821	136,820	135,724
Current income tax expense	(10,137)	(21,037)	(33,124)	(25,730)
Deferred tax recovery (expense)	10,264	(10,513)	25,190	(15,857)
Net income	\$ 57,726	\$ 42,271	\$ 128,886	\$ 94,137
Basic and diluted income per share	\$ 0.10	\$ 0.07	\$ 0.22	\$ 0.16
Weighted average number of shares outstanding				
Basic	582,040,278	579,864,628	581,746,484	579,771,573
Diluted (Note 12)	583,410,167	580,261,614	583,187,790	580,203,254

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

## Lundin Mining Corporation

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited - in thousands of US dollars)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Net income	\$ 57,726	\$ (Note 3) 42,271	\$ 128,886	\$ (Note 3) 94,137
Other comprehensive income (loss), net of taxes				
Cumulative foreign currency translation adjustment	17,888	(101,188)	104,225	(173,121)
<b>Comprehensive income (loss)</b>	<b>\$ 75,614</b>	<b>\$ (58,917)</b>	<b>\$ 233,111</b>	<b>\$ (78,984)</b>

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

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - in thousands of US dollars)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, January 1, 2010	579,592,464	\$ 3,480,487	\$ 29,843	\$ -	\$(602,472)	\$ 2,907,858
<b>For the six months ended June 30, 2010</b>						
Exercise of stock options	307,339	1,982	(984)	-	-	998
Stock-based compensation	-	-	1,354	-	-	1,354
Net income	-	-	-	-	94,137	94,137
Effects of foreign currency translation	-	-	-	(173,121)	-	(173,121)
Balance, June 30, 2010 (Note 3)	579,899,803	3,482,469	30,213	(173,121)	(508,335)	2,831,226
<b>From July 1 to December 31, 2010</b>						
Exercise of stock options	675,552	3,345	(869)	-	-	2,476
Stock-based compensation	-	-	968	-	-	968
Net income	-	-	-	-	212,144	212,144
Effects of foreign currency translation	-	-	-	106,772	-	106,772
Balance, December 31, 2010	580,575,355	3,485,814	30,312	(66,349)	(296,191)	3,153,586
<b>For the six months ended June 30, 2011</b>						
Exercise of stock options	1,604,932	9,398	(2,542)	-	-	6,856
Stock-based compensation	-	-	1,065	-	-	1,065
Net income	-	-	-	-	128,886	128,886
Effects of foreign currency translation	-	-	-	104,225	-	104,225
<b>Balance, June 30, 2011</b>	<b>582,180,287</b>	<b>\$ 3,495,212</b>	<b>\$ 28,835</b>	<b>\$ 37,876</b>	<b>\$(167,305)</b>	<b>\$ 3,394,618</b>

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



## Lundin Mining Corporation

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW  
(Unaudited - in thousands of US dollars)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
		(Note 3)		(Note 3)
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income	\$ 57,726	\$ 42,271	\$ 128,886	\$ 94,137
Items not involving cash				
Finance costs (income)	2,886	(11,795)	1,231	(25,826)
Stock-based compensation	67	507	1,065	1,354
Depreciation, depletion and amortization	37,589	32,223	73,063	67,935
Foreign exchange (gain) loss	(1,321)	(5,975)	3,746	(12,068)
Income from equity investment in Tenke Fungurume	(32,022)	(8,312)	(56,887)	(22,765)
Deferred tax (recovery) expense	(10,264)	10,513	(25,190)	15,857
Recognition of deferred revenue	(1,934)	(1,527)	(3,457)	(2,583)
Other	137	2,340	382	2,066
Settlement of derivative contracts	-	(9,099)	-	(29,519)
Changes in reclamation funds and restricted cash	5,711	(1,934)	2,851	101
Reclamation payments and other closure costs	(315)	(1,089)	(1,627)	(3,118)
Pension payments	(456)	(192)	(611)	(405)
Changes in non-cash working capital items (Note 17)	44,707	20,941	108,400	72,062
	<b>102,511</b>	<b>68,872</b>	<b>231,852</b>	<b>157,228</b>
<b>Investing activities</b>				
Investment in mineral properties, plant and equipment	(47,294)	(32,352)	(87,778)	(62,828)
Investment in Tenke Fungurume	(10,450)	(6,778)	(15,819)	(14,373)
Proceeds from sale of investments and other assets	936	59,903	2,721	71,941
Other	152	772	165	800
	<b>(56,656)</b>	<b>21,545</b>	<b>(100,711)</b>	<b>(4,460)</b>
<b>Financing activities</b>				
Debt repayments	(467)	(45,764)	(10,744)	(145,868)
Common shares issued	1,219	363	6,844	1,050
	<b>752</b>	<b>(45,401)</b>	<b>(3,900)</b>	<b>(144,818)</b>
Effect of foreign exchange on cash balances	1,766	6,595	16,014	51
Increase in cash and cash equivalents during the period	48,373	51,611	143,255	8,001
Cash and cash equivalents, beginning of period	293,791	97,965	198,909	141,575
Cash and cash equivalents, end of period	\$ 342,164	\$ 149,576	\$ 342,164	\$ 149,576

Supplemental cash flow information (Note 19)

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

## **LUNDIN MINING CORPORATION**

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

---

### **1. NATURE OF OPERATIONS**

Lundin Mining Corporation (the "Company") is a diversified Canadian base metals mining company. The Company's principal 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 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 OMX Nordic Exchange. The Company is incorporated under the Canada Business Corporations Act, and its registered address is 150 King Street West, Suite 1500, Toronto, Ontario, Canada.

### **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(i) Basis of presentation and measurement**

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*, and IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The accounting policies followed in these interim financial statements are the same as those applied in the Company's interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies 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 equity as at June 30, 2010 and comprehensive income for the three and six months ended June 30, 2010, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of July 27, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010, and the Company's interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

The condensed Interim 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.

#### **(ii) Critical accounting estimates and judgments**

Areas of judgment that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 2 of the Company's condensed interim financial statements as at and for the three months ended March 31, 2011.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

---

### (iii) New accounting pronouncements

- IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*, were issued and replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities* for guidance on the consolidation model which identifies the elements of control. These standards provide a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. These standards are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 and IFRS 12.
- IFRS 11 *Joint Arrangements*, was issued and supercedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities*, to establish principles for financial reporting by parties to a joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11.
- IFRS 13 *Fair Value Measurement*, was issued to set out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13.
- 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. The Company is currently evaluating the impact of IAS 1 amendments.
- 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. The Company is currently evaluating the impact of IAS 19 amendments.

### 3. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 on the transition to IFRS, presenting figures for the impact of the transition to IFRS from CGAAP. Reconciliations have been prepared and are listed below.

- Reconciliation of consolidated statements of changes in equity at the comparative interim period date, June 30, 2010;
- Reconciliation of consolidated statement of operations and comprehensive income (loss) for the comparative interim period six months ended June 30, 2010; and
- There was no material impact on the statements of cash flow for the six month period ended June 30, 2010.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

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

	<b>June 30 2010</b>
Total equity - CGAAP	\$ 2,839,736
<i>Transitional adjustments:</i>	
AOCI - CTA	(b) (239,042)
AOCI - AFS	(c) (7,881)
Contributed surplus	(d) (424)
Deficit	238,837
<b>Total equity - IFRS</b>	<b>\$ 2,831,226</b>

### Reconciliation of comprehensive loss as previously reported under CGAAP to IFRS:

	<b>Three months ended June 30 2010</b>	<b>Six months ended June 30 2010</b>
Net income - CGAAP	\$ 75,553	\$ 113,538
Accretion of decommissioning and site restoration provisions	(a) 194	392
Stock-based compensation	(d) 36	(148)
Depreciation, depletion and amortization	(a) 413	878
Income from investment in Tenke Fungurume	(e) -	(2,740)
Revaluation of marketable securities	(c) (30,671)	(15,620)
Foreign exchange loss	(f) (3,029)	(1,793)
Future income tax recovery on above adjustments	(225)	(370)
<b>Net income - IFRS</b>	<b>\$ 42,271</b>	<b>\$ 94,137</b>
Other comprehensive loss - CGAAP	\$ (135,182)	\$ (191,248)
Revaluation of AFS investments	(c) (1,723)	(17,599)
Reclassification adjustment of gains included in net income	(c) 32,394	33,219
Cumulative foreign exchange currency translation adjustment	(f) 3,323	2,507
<b>Other comprehensive loss - IFRS</b>	<b>\$ (101,188)</b>	<b>\$ (173,121)</b>
<b>Comprehensive loss - IFRS</b>	<b>\$ (58,917)</b>	<b>\$ (78,984)</b>

### Transitional adjustments

- a) Significant changes from the CGAAP method of accounting for decommissioning and site restoration liability in comparison to IAS 37 includes the re-assessment of discount rates and inflation rates in the measurement of decommissioning and site restoration at each reporting period. In addition, the layer approach under CGAAP is no longer applied. During the six months ended June 30, 2010, the reduction in accretion expense recorded based on the restated decommissioning and site restoration balance was \$0.4 million and the reduction in depreciation expense recorded based on the restated mineral properties balance was \$0.9 million.
- b) The Company elected the optional IFRS 1 election on cumulative translation differences whereby on transition all cumulative translation differences are deemed to be zero and can be recognized in retained earnings.
- c) On the transition date to IFRS, the Company reclassified its available-for-sale ("AFS") investments to fair value through profit or loss ("FVTPL") and as a result previously deferred gains and losses from the revaluation of the AFS investments were reclassified to retained earnings. Overall, there was no effect on equity. During the six months ended June 30, 2010, \$15.6 million of previously recognized gains recorded in OCI under CGAAP was recognized in the statement of operations.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

- d) In accordance with IFRS 2, the Company now recognizes a forfeiture rate in its initial recognition of the stock option grant. During the six months ended June 30, 2010, the impact of this change resulted in a \$0.1 million decrease in comprehensive income.
- e) The financial statements of the Company's equity investment in Tenke Fungurume are reported in accordance with US GAAP. As a result, the Company applies 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. During the six months ended June 30, 2010, the effect of this change to comprehensive income is a reduction of \$2.7 million.
- f) 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 six months ended June 30, 2010, the impact on foreign exchange gains and losses on the statement of operations was a decrease of \$1.8 million.

### 4. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	June 30 2011	December 31 2010
Trade receivables	\$ 78,104	\$ 207,508
VAT and other receivables	39,407	26,312
	<b>\$ 117,511</b>	<b>\$ 233,820</b>

The Company does not have any significant balances that are past due. All trade receivables are current, and the Company does not have an allowance for doubtful accounts. Due to their short-term maturities, the fair value of trade and other receivables approximates their carrying value.

The carrying amounts of trade and other receivables are denominated as follows \$74.8 million, €14.9 million, SEK44.1 million and C\$0.9 million.

### 5. INVENTORIES

Inventories comprise the following:

	June 30 2011	December 31 2010
Ore stockpiles	\$ 17,705	\$ 5,156
Concentrate stockpiles	9,815	6,354
Materials and supplies	20,442	20,178
	<b>\$ 47,962</b>	<b>\$ 31,688</b>

The \$4.7 million recovery of inventories during the quarter ended June 30, 2011 was credited to operating costs (for the quarter ended June 30, 2010 - \$7.8 million was expensed).

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

### 6. 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	29,321	324	-	32,651	62,296
Disposals and transfers	(12,477)	3,075	-	(3,269)	(12,671)
Effects of changes in foreign exchange rates	(111,262)	(42,144)	(7,979)	(6,647)	(168,032)
As at June 30, 2010	1,357,211	450,782	47,594	70,982	1,926,569
Additions	26,530	18,411	-	20,065	65,006
Disposals and transfers	18,112	(4,187)	-	(3,186)	10,739
Effects of changes in foreign exchange rates	62,265	14,224	4,261	8,665	89,415
As at December 31, 2010	1,464,118	479,230	51,855	96,526	2,091,729
Additions	38,353	3,576	-	47,977	89,906
Disposals and transfers	52	38,922	-	(39,962)	(988)
Effects of changes in foreign exchange rates	114,873	44,887	4,226	7,995	171,981
<b>As at June 30, 2011</b>	<b>\$ 1,617,396</b>	<b>\$ 566,615</b>	<b>\$ 56,081</b>	<b>\$ 112,536</b>	<b>\$ 2,352,628</b>

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, depletion and amortization	49,177	19,238	-	-	68,415
Disposals and transfers	-	(403)	-	-	(403)
Effects of changes in foreign exchange rates	(3,748)	(1,444)	-	-	(5,192)
As at June 30, 2010	606,550	200,067	-	-	806,617
Depreciation, depletion and amortization	43,068	11,266	-	-	54,334
Disposals and transfers	-	(5,869)	-	-	(5,869)
Effects of changes in foreign exchange rates	(2,659)	(10,033)	-	-	(12,692)
As at December 31, 2010	646,959	195,431	-	-	842,390
Depreciation, depletion and amortization	45,638	25,473	-	-	71,111
Disposals and transfers	-	(522)	-	-	(522)
Effects of changes in foreign exchange rates	52,922	22,935	-	-	75,857
<b>As at June 30, 2011</b>	<b>\$ 745,519</b>	<b>\$ 243,317</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 988,836</b>

Net book value	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2010	\$ 817,159	\$ 283,799	\$ 51,855	\$ 96,526	\$ 1,249,339
<b>As at June 30, 2011</b>	<b>\$ 871,877</b>	<b>\$ 323,298</b>	<b>\$ 56,081</b>	<b>\$ 112,536</b>	<b>\$ 1,363,792</b>

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

Depreciation, depletion and amortization is comprised of:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Operating costs	\$ 37,513	\$ 32,128	\$ 72,912	\$ 67,738
General and administrative expenses	76	95	151	197
Depreciation, depletion and amortization	\$ 37,589	\$ 32,223	\$ 73,063	\$ 67,935

### 7. INVESTMENT IN TENKE FUNGURUME

As at January 1, 2010	\$ 1,628,753
Advances	14,373
Share of equity income	22,765
As at June 30, 2010	1,665,891
Advances	16,148
Share of equity income	53,109
As at December 31, 2010	1,735,148
Advances	15,819
Share of equity income	56,887
<b>As at June 30, 2011</b>	<b>\$ 1,807,854</b>

During the quarter ended June 30, 2011, the Company made cash advances of \$10.5 million to fund its portion of Tenke Fungurume Mining Corp S.A.R.L ("TFM") expenditures.

The Company has an off-balance sheet financing arrangement whereby Freeport-McMoRan Copper & Gold Inc. ("FCX") was responsible for funding the Company's share of Phase I project development costs that were in excess of agreed budgets. The amounts were funded through loans from FCX to the project and are non-recourse to the Company. During the quarter, \$38.6 million of the balance of this financing arrangement was repaid to FCX by TFM (June 30, 2011 outstanding balance, \$32.0 million). The balance owing will be repaid to FCX on a priority basis from future operating cash flows of TFM.

The following is a summary of the financial information of TF Holdings on a 100% basis presented in accordance with IFRS:

	June 30		December 31	
	2011		2010	
Total assets	\$ 2,682,059	\$	2,533,463	
Total liabilities	\$ 1,025,068	\$	1,163,678	

  

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Total revenue	\$ 391,110	\$ 215,821	\$ 700,335	\$ 464,452
Net income	\$ 114,274	\$ 43,770	\$ 205,084	\$ 104,171

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

### 8. GOODWILL

The change in the carrying value of goodwill for the periods presented is related to the effects of changes in foreign exchange rates.

### 9. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities comprise the following:

	June 30 2011	December 31 2010
Unbilled goods and services	\$ 31,492	\$ 29,994
Payroll obligations	11,700	10,652
Royalty payable	27,640	23,661
Unearned revenue	13,891	-
	<b>\$ 84,723</b>	<b>\$ 64,307</b>

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

	June 30, 2011	December 31, 2010
Somincor commercial paper program	\$ 21,583	\$ 29,276
Capital lease obligations	7,421	5,824
Rio Narcea debt	5,008	4,564
	<b>34,012</b>	<b>39,664</b>
Less: current portion due within one year	<b>2,672</b>	<b>2,512</b>
	<b>\$ 31,340</b>	<b>\$ 37,152</b>



## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

### 11. DECOMMISSIONING AND OTHER SITE RESTORATION PROVISIONS

Decommissioning and other site restoration provisions relating to the Company's wholly-owned mining operations are as follows:

	Decommissioning provisions	Other site restoration	Total
Balance, January 1, 2010	\$ 108,539	\$ 20,140	\$ 128,679
Accretion	2,283	-	2,283
Accruals for services	-	1,086	1,086
Changes in estimates	-	-	-
Payments	(3,118)	-	(3,118)
Effect of changes in foreign exchange rates	(13,627)	(2,994)	(16,621)
Balance, June 30, 2010	94,077	18,232	112,309
Accretion	2,113	-	2,113
Accruals for services	-	(539)	(539)
Changes in estimates	-	(2,114)	(2,114)
Payments	(2,764)	-	(2,764)
Effect of changes in foreign exchange rates	7,975	413	8,388
Balance, December 31, 2010	101,401	15,992	117,393
Accretion	1,649	-	1,649
Accruals for services	-	706	706
Changes in estimates	660	-	660
Payments	(1,627)	-	(1,627)
Effect of changes in foreign exchange rates	7,851	1,400	9,251
<b>Balance, June 30, 2011</b>	<b>109,934</b>	<b>18,098</b>	<b>128,032</b>
Less: current portion due within one year	7,001	192	7,193
	<b>\$ 102,933</b>	<b>\$ 17,906</b>	<b>\$ 120,839</b>

### 12. SHARE CAPITAL

#### (a) Stock options

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 \$0.1 million for the quarter ended June 30, 2011 (for the quarter ended June 30, 2010 - \$0.5 million) with a corresponding credit to contributed surplus. The fair value of the stock options granted at the date of the grant using the Black-Scholes pricing model assumes risk-free interest rate of 1.6%, no dividend yield, expected life of 2 years with an expected price volatility of 62%. Volatility is determined using daily volatility over the expected life of the options. A forfeiture rate of 17.8% is applied. As at June 30, 2011, there was \$0.6 million of unamortized stock compensation expense (June 30, 2010 - \$1.8 million).

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

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 period	223,334	4.40
Cancelled/forfeited during the period	(620,433)	9.10
Exercised during the period	(307,339)	3.48
Outstanding, June 30, 2010	8,466,932	6.83
Granted during the period	117,500	4.45
Cancelled/forfeited during the period	(843,335)	11.79
Exercised during the period	(675,552)	3.66
Outstanding, December 31, 2010	7,065,545	6.55
Granted during the period	348,333	7.92
Cancelled/forfeited during the period	(735,600)	7.48
Exercised during the period	(1,604,932)	4.21
<b>Outstanding, June 30, 2011</b>	<b>5,073,346</b>	<b>\$ 5.91</b>

(b) Diluted weighted average number of shares

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 quarter ended June 30, 2011 is comprised of 1,369,889 shares (for the quarter ended June 30, 2010 – 396,986) which relate to exercisable outstanding stock options.

### 13. EMPLOYEE BENEFITS

The Company's employee benefits include wages, salaries and other benefits and are disclosed in the statements of operations as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Operating costs				
Wages and salaries	\$ 26,974	\$ 22,617	\$ 55,381	\$ 44,895
Post-retirement benefits	427	192	554	405
Stock-based compensation	(46)	237	294	569
	<b>27,355</b>	<b>23,046</b>	<b>56,229</b>	<b>45,869</b>
General and administrative expenses				
Wages and salaries	2,731	2,148	5,504	4,340
Post-retirement benefits	89	83	147	262
Stock-based compensation	113	270	771	785
	<b>2,933</b>	<b>2,501</b>	<b>6,422</b>	<b>5,387</b>
General exploration and project investigation				
Wages and salaries	895	559	1,492	1,078
	<b>\$ 31,183</b>	<b>\$ 26,106</b>	<b>\$ 64,143</b>	<b>\$ 52,334</b>

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

### 14. FINANCE (COSTS) INCOME

The Company's finance (costs) income is comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Interest expense and bank fees	\$ (1,701)	\$ (1,648)	\$ (2,980)	\$ (3,859)
Accretion of decommissioning and site restoration provisions	(915)	(1,097)	(1,649)	(2,283)
Interest income	924	394	2,155	867
Gain on derivative contracts	-	11,170	-	10,710
Revaluation (loss) gain on marketable securities	(1,972)	1,722	418	17,399
Finance (costs) income	\$ (3,664)	\$ 10,541	\$ (2,056)	\$ 22,834

During the quarter ended June 30, 2010, the Company recorded a \$11.2 million gain on its copper collar arrangements and paid \$9.1 million to settle 9,326 tonnes of copper derivative contracts. There are no copper derivative contracts outstanding at June 30, 2011.

### 15. OTHER INCOME AND EXPENSES

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Other income	\$ 375	\$ 3,893	\$ 888	\$ 4,539
Other expense	(3,284)	(3,382)	(4,086)	(3,707)
Gain on sale of non-core assets	135	-	135	755
Foreign exchange (loss) gain	(59)	10,185	(16,208)	18,777
Other income and expenses	\$ (2,833)	\$ 10,696	\$ (19,271)	\$ 20,364

### 16. COMMITMENTS

The Company has capital commitments with future minimum payments as at June 30, 2011 as follows:

2011	\$ 26,741
2012	13,031
Total	\$ 39,772

## **LUNDIN MINING CORPORATION**

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

---

### **17. SEGMENTED INFORMATION**

The Company is engaged in mining, exploration and development of mineral properties, primarily in Portugal, Spain, Sweden, Ireland and the DRC. The Company has reportable segments as identified by the individual mining operations at each of its operating mines as well as its significant investment in the Tenke Fungurume Mine. Segments are operations reviewed by the executive management. Each segment is identified based on quantitative factors.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

### Segmented information - operational

For the three months ended June 30, 2011

	Tenke						Total
	Neves Corvo Portugal	Zinkgruvan Sweden	Aguablanca Spain	Galmoy Ireland	Fungurume DRC	Other	
Sales	\$ 123,036	\$ 50,000	\$ 71	\$ 10,862	\$ -	\$ -	\$ 183,969
Income before undernoted	59,817	26,178	(5,111)	7,030	-	(5,729)	82,185
Depreciation, depletion and amortization	(29,710)	(7,104)	(680)	(19)	-	(76)	(37,589)
General exploration and project investigation	(8,478)	(221)	(299)	-	-	(3,524)	(12,522)
Finance (costs) income	(278)	(207)	(563)	169	-	(2,785)	(3,664)
Income from equity investment in Tenke	-	-	-	-	32,022	-	32,022
Other income and expenses	(3,307)	2,378	(1,114)	(1,335)	-	545	(2,833)
Income tax (expense) recovery	(4,555)	(5,227)	7,961	(137)	-	2,085	127
Net income (loss)	\$ 13,489	\$ 15,797	\$ 194	\$ 5,708	\$ 32,022	\$ (9,484)	\$ 57,726
Capital expenditures	\$ 31,623	\$ 14,109	\$ 1,527	\$ -	\$ 10,450	\$ 35	\$ 57,744

For the six months ended June 30, 2011

	Tenke						Total
	Neves Corvo Portugal	Zinkgruvan Sweden	Aguablanca Spain	Galmoy Ireland	Fungurume DRC	Other	
Sales	\$ 279,598	\$ 97,585	\$ (1,863)	\$ 20,106	\$ -	\$ -	\$ 395,426
Income before undernoted	159,265	50,144	(12,557)	14,854	-	(15,964)	195,742
Depreciation, depletion and amortization	(58,331)	(13,060)	(1,485)	(36)	-	(151)	(73,063)
General exploration and project investigation	(15,181)	(358)	(822)	-	-	(5,058)	(21,419)
Finance income (costs)	284	(281)	(490)	253	-	(1,822)	(2,056)
Income from equity investment in Tenke	-	-	-	-	56,887	-	56,887
Other income and expenses	(17,237)	(4,122)	(1,841)	(1,119)	-	5,048	(19,271)
Income tax (expense) recovery	(16,991)	(7,907)	16,494	(249)	-	719	(7,934)
Net income (loss)	\$ 51,809	\$ 24,416	\$ (701)	\$ 13,703	\$ 56,887	\$ (17,228)	\$ 128,886
Capital assets*	\$ 1,072,611	\$ 243,549	\$ 39,659	\$ 7,087	\$ 1,807,854	\$ 886	\$ 3,171,646
Total segment assets	\$ 1,487,763	\$ 441,500	\$ 166,680	\$ 56,274	\$ 1,807,854	\$ 124,385	\$ 4,084,456
Capital expenditures	\$ 61,412	\$ 23,463	\$ 2,803	\$ 34	\$ 15,819	\$ 66	\$ 103,597

\* Capital assets consist of mineral and exploration properties, property, plant and equipment, and investments in Tenke Fungurume.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

### Segmented information - operational

For the three months ended June 30, 2010

	Tenke						Total
	Neves Corvo Portugal	Zinkgruvan Sweden	Aguablanca Spain	Galmoy Ireland	Fungurume DRC	Other	
Sales	\$ 120,980	\$ 38,963	\$ 20,776	\$ 2,430	\$ -	\$ -	\$ 183,149
Income (loss) before undernoted	67,860	20,172	(1,168)	429	-	(5,157)	82,136
Depreciation, depletion and amortization	(22,629)	(3,210)	(6,272)	(17)	-	(95)	(32,223)
General exploration and project investigation	(4,820)	-	(183)	-	-	(638)	(5,641)
Finance income (costs)	9,812	(185)	189	150	-	575	10,541
Income from equity investment in Tenke	-	-	-	-	8,312	-	8,312
Other income and expenses	7,875	4,961	4,343	1,214	-	(7,697)	10,696
Income tax (expense) recovery	(25,555)	(5,547)	(1,597)	(93)	-	1,242	(31,550)
Net income (loss)	\$ 32,543	\$ 16,191	\$ (4,688)	\$ 1,683	\$ 8,312	\$ (11,770)	\$ 42,271
Capital expenditures	\$ 23,001	\$ 8,493	\$ 833	\$ -	\$ 6,778	\$ 25	\$ 39,130

For the six months ended June 30, 2010

	Tenke						Total
	Neves Corvo Portugal	Zinkgruvan Sweden	Aguablanca Spain	Galmoy Ireland	Fungurume DRC	Other	
Sales	\$ 181,190	\$ 74,619	\$ 65,434	\$ 3,585	\$ -	\$ -	\$ 324,828
Income (loss) before undernoted	94,673	39,324	23,788	339	-	(10,155)	147,969
Depreciation, depletion and amortization	(46,662)	(7,215)	(13,824)	(37)	-	(197)	(67,935)
General exploration and project investigation	(8,323)	-	(540)	-	-	(1,410)	(10,273)
Finance income (costs)	8,645	(418)	(104)	135	-	14,576	22,834
Income from equity investment in Tenke	-	-	-	-	22,765	-	22,765
Other income and expenses	14,575	5,708	4,228	1,310	-	(5,457)	20,364
Income tax (expense) recovery	(23,685)	(9,577)	(9,528)	(204)	-	1,407	(41,587)
Net income (loss)	\$ 39,223	\$ 27,822	\$ 4,020	\$ 1,543	\$ 22,765	\$ (1,236)	\$ 94,137
Capital assets*	\$ 892,785	\$ 183,456	\$ 36,730	\$ 6,094	\$ 1,665,891	\$ 887	\$ 2,785,843
Total segment assets	\$ 1,220,318	\$ 231,923	\$ 171,034	\$ 33,405	\$ 1,665,891	\$ 109,139	\$ 3,431,710
Capital expenditures	\$ 41,742	\$ 20,035	\$ 978	\$ -	\$ 14,373	\$ 73	\$ 77,201

\* Capital assets consist of mineral and exploration properties, property, plant and equipment, and investments in Tenke Fungurume.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Copper	\$ 127,941	\$ 124,496	\$ 280,833	\$ 191,461
Zinc	32,781	25,870	71,966	48,368
Lead	18,970	14,859	35,970	28,503
Nickel	320	11,343	(397)	45,595
Other	3,957	6,581	7,054	10,901
	<b>\$ 183,969</b>	<b>\$ 183,149</b>	<b>\$ 395,426</b>	<b>\$ 324,828</b>

The Company's geographical analysis of segment revenue based on the destination of product is as follow

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Europe	\$ 185,165	\$ 163,281	\$ 368,616	\$ 262,550
South America	(1,256)	18,188	26,493	15,940
Asia	60	(6,642)	255	38,016
North America	-	8,322	62	8,322
	<b>\$ 183,969</b>	<b>\$ 183,149</b>	<b>\$ 395,426</b>	<b>\$ 324,828</b>

### 18. 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 7).
- b) Key management personnel -The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel is as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Wages and salaries	\$ 1,126	\$ 1,484	\$ 3,969	\$ 3,005
Post-retirement benefits	32	30	64	57
Stock-based compensation	17	150	343	375
	<b>\$ 1,175</b>	<b>\$ 1,664</b>	<b>\$ 4,376</b>	<b>\$ 3,437</b>

- c) Other related parties - During the quarter ended June 30, 2011, the Company paid \$0.1 million (for the quarter ended June 30, 2010 - \$0.1 million) for services provided by a company owned by the Chairman of the Company.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2011 and 2010

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

### 19. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Changes in non-cash working capital items				
consist of:				
Trade receivables and other current assets	\$ 50,838	\$ (1,757)	\$ 110,206	\$ 40,350
Trade payables and other current liabilities	(6,131)	22,698	(1,806)	31,712
	\$ 44,707	\$ 20,941	\$ 108,400	\$ 72,062
Operating activities included the following cash payments:				
Interest paid	\$ 710	\$ 1,250	\$ 1,498	\$ 3,400
Income taxes paid	\$ 38,920	\$ 9,977	\$ 47,329	\$ 12,349

### 20. SUBSEQUENT EVENT

On July 12, 2011, Lundin Mining Exploration Limited, a wholly owned subsidiary of the Company, acquired Belmore Resources (Holdings) Plc for cash consideration of £6.2 million (\$9.9 million).