

## NEWS RELEASE

# LUNDIN MINING REPORTS SECOND QUARTER RESULTS

**Toronto, July 25, 2012 (TSX: LUN; OMX: LUMI) Lundin Mining Corporation** (“Lundin Mining” or the “Company”) today reported net earnings of \$44.1 million (\$0.08 per share) for the three months ended June 30, 2012 compared to \$60.1 million (\$0.10 per share) for the three months ended June 30, 2011.

Sales volumes in the current quarter increased to 16,749 tonnes of copper and 28,949 tonnes of zinc from 15,023 tonnes of copper and 18,228 tonnes of zinc in the second quarter of last year. Unit cash costs<sup>1</sup> for copper fell to \$1.61/lb, compared to \$2.13/lb in the second quarter of 2011, a decrease of 24%. Unit cash costs<sup>1</sup> for zinc were \$0.12/lb for the quarter, compared to \$0.26/lb in the second quarter of last year, a decrease of 54%.

Paul Conibear, President and CEO commented, *“Our second quarter results continue to demonstrate our focus on and commitment to continuously improving our operational performance. Our operational successes year-to-date have resulted in our production and cash costs being better than expected, which has allowed us to revise our copper production guidance upwards for the year.*

*In addition, we are very pleased that the ramp-up at Tenke's Phase II Expansion Project has already resulted in the first copper being produced from half of the expanded tankhouse. This represents a significant milestone for this world-class asset.*

*Our Company remains very well positioned to continue to deliver solid operational performance and provide long-term, sustainable growth going forward supported by a healthy balance sheet.”*

### Summary financial results for the quarter and year-to-date:

US\$ millions (except per share amounts)	Three months ended June 30		Six months ended June 30	
	2012	2011 <sup>2</sup>	2012	2011 <sup>2</sup>
Sales	172.3	184.0	385.1	395.4
Operating earnings <sup>1</sup>	80.4	85.4	185.8	203.8
<b>Net earnings</b>	<b>44.1</b>	60.1	<b>102.4</b>	131.2
Basic & diluted earnings per share	0.08	0.10	0.18	0.23
Cash flow from operations	119.0	99.2	170.3	231.4
Ending cash position	323.6	342.2	323.6	342.2

1 - Operating earnings is a non-GAAP measure defined as sales, less operating costs (excluding depreciation) and general and administrative expenses.

2 - Certain transaction costs related to corporate development activity in prior years have been reclassified from general and administrative expense to general exploration and corporate development costs. In addition, adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, in the fourth quarter of 2011 allowed for the capitalization of certain deferred stripping costs, which had previously been expensed, at the Aguablanca mine.

<sup>1</sup> Cash costs/lb of copper and zinc are non-GAAP measures defined as all cash costs directly attributable to mining operations, less royalties and by-product credits.

## Operational Highlights

**Wholly-owned operations:** After a strong first quarter, the Company continued to perform well in the second quarter with excellent operational results generating higher than expected copper and zinc production. Sales volumes were higher and operating costs lower than expectations.

- Neves-Corvo continued to mill at higher rates than expected and although copper plant recovery was marginally lower than the first quarter, it remained significantly higher than last year, resulting in another solid three months of copper production.
- Zinkgruvan boasted record level production as average zinc grades for the quarter improved to 10.7% and recovery rates increased.
- At Aguablanca, waste stripping activities accelerated with good contractor productivity and the restart of production is expected towards the end of the third quarter of 2012.

**Tenke:** The mine and mill continue to perform well. Construction activities on the \$850 million Phase II expansion are well advanced and start-up of several important sub-projects was achieved. The overall expansion is expected to be on budget and substantially completed by the end of 2012.

- Production in the current quarter was above expectations due to higher mill throughput from the ramp-up of parts of the Phase II expanded facilities including the new jaw crusher. As a result, Tenke's operator, Freeport-McMoRan Copper & Gold Inc. ("Freeport"), has increased copper production guidance for 2012.
- Cobalt production was slightly higher than expected due to higher head grades and increased mill throughput.
- First copper from the start-up of a portion of the Phase II expanded tankhouse was harvested in mid-June 2012 representing a significant milestone in the staged completion of this project. Freeport continues to target approximately 68,000 tonnes of additional copper per year in 2013.
- No cash calls were made to the Company during the first half of the year to fund the Phase II expansion project as surplus cash from Tenke operations was sufficient to cover the Company's share of capital and non-capital requirements.

### Total production from the Company's assets including attributable share of Tenke:

	YTD	Q2	Q1	FY	Q4	Q3	Q2	Q1
(tonnes)	2012	2012	2012	2011	2011	2011	2011	2011
Copper	34,081	16,936	17,145	75,877	27,488	15,419	13,831	19,139
Zinc	66,143	32,400	33,743	111,445	27,053	28,791	27,404	28,197
Lead	21,574	9,808	11,766	41,130	9,273	10,077	10,367	11,413
<i>Tenke attributable<sup>a</sup></i>								
Copper	17,556	8,632	8,924	31,523	8,635	7,982	7,398	7,508

a - Lundin Mining's attributable share of Tenke's production was reduced from 24.75% to 24.0% effective March 26, 2012, when changes to bylaws of Tenke Fungurume Mining SARL ("TFM") were signed.

## Financial Highlights

- Operating earnings<sup>1</sup> for the second quarter of 2012 were \$80.4 million, a decrease of \$5.0 million from the \$85.4 million reported in the comparable quarter of 2011. The decrease was largely attributable to lower metal prices and prior period price adjustments (\$44.7 million), partially offset by the effect of lower costs (\$20.0 million) and higher sales volume (\$9.7 million). In addition, both the € and SEK have weakened against the US dollar in the second quarter of 2012 compared to 2011, resulting in a further decrease in operating costs of \$10.0 million.

On a year-to-date basis, operating earnings<sup>1</sup> decreased by \$18.0 million from \$203.8 million in the first half year of 2011 to \$185.8 million in the current year. The lower operating earnings<sup>1</sup> were mainly attributable to lower metal prices and prior period price adjustments (\$61.5 million), partially offset by increased metal sales (\$24.0 million), lower costs (\$4.8 million) and favourable effects of foreign exchange (\$14.7 million).

- For the quarter ended June 30, 2012, sales of \$172.3 million were relatively consistent compared to the prior year (\$184.0 million). Although lower metal prices (\$34.1 million) and prior period price adjustments (\$10.6 million) had a negative impact on current quarter sales, this was mostly offset by higher sales volume (\$33.0 million).

Sales of \$385.1 million for the six months ended June 30, 2012 were in line with the comparable period in 2011 (\$395.4 million), with lower metal prices (\$70.9 million) offsetting the effects of higher sales volume (\$51.1 million) and prior period price adjustments (\$9.5 million).

- Average metal prices for copper, zinc and lead for the three months and six months ended June 30, 2012 were significantly lower (14% - 23%) than the same periods in the prior year.
- Operating costs (excluding depreciation) of \$85.6 million in the current quarter were slightly lower than the prior year comparative quarter of \$93.7 million, as lower per unit production costs and positive foreign exchange impacts, at both Neves-Corvo and Zinkgruvan, were partially offset by higher volumes.

On a year-to-date basis, operating costs (excluding depreciation) for the six months ended June 30, 2012 of \$185.4 million were marginally higher than the \$181.6 million reported for the first half of 2011.

- Net earnings of \$44.1 million (\$0.08 per share) in the current quarter were \$16.0 million below the \$60.1 million (\$0.10 per share) reported in 2011. Earnings were impacted by:
  - higher exploration and corporate development costs (\$6.4 million) associated with the Company's strategic growth activities;
  - decrease in equity earnings from investment in Tenke Fungurume (\$6.9 million);
  - higher tax expense of \$21.4 million, primarily as a result of increased taxable earnings and a potential re-assessment of Aguablanca's 2007 taxes for which the Company has accrued \$6.1 million; offset by
  - higher other income (\$15.4 million) arising mostly from foreign exchange gains.

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<sup>1</sup> Operating earnings is a non-GAAP measure defined as sales, less operating costs (excluding depreciation) and general and administrative expenses.

- Cash flow from operations for the second quarter was \$119.0 million compared to \$99.2 million for 2011. The comparative increase in non-cash working capital of \$34.5 million is partially offset by lower operating earnings of \$5.0 million and lower prepayments received (\$11.0 million).

For the first half year of 2012, cash flow from operations was \$170.3 million compared to \$231.4 million for 2011 as a result of lower operating earnings (\$18.0 million) and changes in non-cash working capital (\$41.5 million).

### **Tenke Fungurume**

- Milling facilities continued to produce above rated capacity, with throughput averaging over 12,900 metric tonnes of ore per day in the second quarter of 2012, and 12,500 metric tonnes of ore per day so far this year.
- For the quarter ended June 30, 2012, Tenke produced 35,965 tonnes of copper and sold 37,363 tonnes at an average realized price of \$3.45/lb. In addition, 2,868 tonnes of cobalt in hydroxide was produced and 2,694 tonnes were sold at an average realized price of \$8.24/lb.
- Cash costs<sup>1</sup> of \$1.22/lb of copper in the second quarter of 2012 were higher than the \$0.94/lb in the prior year comparable quarter, reflecting lower cobalt credits, partly offset by higher copper volumes.
- No cash advances were made to, or distributions received from, Tenke in the quarter ended June 30, 2012. \$50.1 million in surplus cash from operations was utilized in the quarter to fund Lundin Mining's share of sustaining capital and expansion initiatives.
- Attributable operating cash flow related to Tenke for the second quarter of 2012 was \$49.7 million and now totals \$80.7 million year-to-date.

### **Financial Position and Financing**

- Net cash<sup>2</sup> position at June 30, 2012 was \$312.7 million compared to \$236.1 million at December 31, 2011, \$242.3 million at March 31, 2012 and \$308.2 million at June 30, 2011.
- The Company's commercial paper program was repaid in full during the quarter (\$19.7 million).
- The \$70.4 million increase in net cash<sup>2</sup> during the quarter was primarily attributable to cash flow from operations (\$119.0 million), including \$74.9 million generated from working capital, which was offset by investment in mineral property, plant and equipment (\$47.6 million).
- Year-to-date, net cash<sup>2</sup> increased by \$76.6 million as a result of \$170.3 million cash flow from operations, including \$62.6 million generated from working capital, which was offset by investment in mineral property, plant and equipment (\$93.1 million).

### **Projects**

#### ***The Touro Project***

Early in the second quarter of 2012, the Company entered into a purchase option agreement to acquire a controlling interest in the Touro Copper Project located in Galicia, northern Spain. The Option Agreement gives Lundin Mining an exclusive option until October 1, 2012, to purchase an 80% interest in the Project, pending satisfactory completion of due diligence, including confirmatory and step-out drilling and other technical work currently being conducted by the Company.

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<sup>1</sup> Cash costs/lb of copper and zinc are non-GAAP measures defined as all cash costs directly attributable to mining operations, less royalties and by-product credits.

<sup>2</sup> Net cash/debt is a non-GAAP measure defined as available unrestricted cash less long-term debt and finance leases.

The Option Agreement provides that Lundin Mining may earn an 80% interest in the project by paying €60 million (the "Purchase Price") in stages, with €10 million payable on the exercise of the Option, €30 million when the Company makes a construction decision, and €20 million on the start of commercial production. Upon a decision to construct, Lundin Mining will fund 100% of the project costs, with those costs repayable preferentially with interest from surplus operating cash flows before other distributions. Further details are available in the press release dated April 11, 2012.

During the quarter, Spanish exploration personnel have been involved in an extensive resource evaluation program at the Touro Copper Project. Twin hole drilling confirmed historical results and the drills were moved on to step out drilling on the seven deposits to identify additional resources. 7,706 metres of drilling were completed using three rigs on Touro during the quarter, for a total of 15,281 metres drilled during the first half of the year. Total project spend was \$2.9 million for the quarter ended June 30, 2012 and \$4.1 million year-to-date.

A preliminary economic assessment was initiated with independent consultants which includes metallurgical test work, preliminary technical studies and capital cost benchmarking to support a decision regarding the option. A decision on the option is anticipated in September.

### ***Neves-Corvo Materials Handling***

Studies into the future access and materials handling options for the Semblana and Lombador Phase 2 (lower Lombador) mineralization continue. Preliminary comparisons of technical aspects, costs and schedule between a new shaft and a tunnel bored inclined ramp favour the selection of the ramp option for route flexibility, cost and schedule reasons. At a +/- 25% accuracy level, direct costs of the inclined ramp option for pre-production mine access development, underground services and mining equipment are estimated at approximately €330 million, more than 15% less than the shaft option. These costs do not include associated capital for surface facility expansion. Studies to date have also indicated that the inclined ramp option could allow commencement of production mining more than a year earlier than the five years estimated to design, sink and ready a shaft.

Designs and cost estimates are being refined over the next several months; however, equal priority is now being given to the study of shorter schedule, lower capital cost means of accessing Semblana and Lombador Phase 2 mineralization by extending the current underground infrastructure including debottlenecking the existing Neves-Corvo shaft. Supporting the consideration of lower cost options, additional mine planning is being done to advance copper production from Lombador mineralization facilitated by recent favourable drilling exploration results.

## **Exploration**

### ***Portugal***

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

The 2012 resource exploration program includes a budgeted 90,000 metres of drilling and additional high-resolution 3D seismic surveying. A total of 29,145 metres was drilled with six rigs during the second quarter for a total of 53,306 metres drilled in the first half of the year.

Exploration at both Neves-Corvo and across the entirety of the Company's exploration projects has been impacted by an industry-wide shortage of assay laboratory capacity. Delays have been experienced in receiving results for important drilling in all programs. Consequently release of assay results and subsequent analysis are now expected in conjunction with our annual resource and reserve update intended for issue by early September. An update of the Semblana resource statement is expected in this release as well. The Company is considering ways to reduce the waiting time for receiving assay

results, including the potential expansion of the Company's own accredited laboratory facilities at Neves-Corvo to reduce dependency on external laboratories and allow for more timely interpretation and follow up.

Delineation drilling at Semblana continued over the quarter, focusing on a zone of high-grade copper sulphides, located approximately 300 metres to the south of the initial Semblana resource. Preliminary results to date suggest that given the 800 - 900 metre depth of Semblana mineralization, continued surface drilling will only allow for a modest increase in the present copper-silver resource; underground exploration is required to more efficiently explore the Semblana deposit resource expansion potential. Consequently, an internal exploration ramp has commenced to facilitate underground-based exploration. The ramp is advancing from existing underground mine workings in the Zambujal deposit down towards Semblana. This new ramp is sized such that subject to future underground exploration results, development economics and permitting, the exploration ramp could also be used for production in conjunction with existing Neves-Corvo hoisting infrastructure. The cost of the exploration ramp development and services up to the end of 2015 is estimated at approximately \$25 million, of which \$5 million is budgeted for this year.

Drilling of an additional copper discovery named Monte Branco (water dam area), located approximately 1.2 kilometres to the south of Semblana and just west of the tailings management facility, has been successful in discovering a new massive sulphide deposit. The Monte Branco area, in conjunction with step-outs extending under the tailings facility, will receive a high priority for the balance of this year. The potential for developing new copper resources in this area is considered very good. Depth of mineralization encountered at Monte Branco is approximately 540-700 metres from surface.

## ***Ireland***

### **Clare Project (Zinc, Lead, Silver, Copper)**

A total of 9,275 metres was drilled with two rigs during the quarter for a total of 15,684 metres drilled in the first half of the year. Drilling focussed on wide-spaced testing of target areas located near to the high-grade zinc-lead-silver and copper-silver mineralization (the "Copper Zone") discovered late last year, in addition to fence drilling across the Kilbricken Corridor east and west of the discovery zone. Mineralization remains open to the west, southwest and south of the Copper Zone.

### **Lakelands Project (Zinc, Lead)**

A total of 6,339 metres was drilled with one rig during the second quarter for a total of 10,270 metres drilled in the first half of the year.

Fifteen holes were completed in the Reynold's Hill Prospect in County Leitrim. These widely-spaced, step-out holes continue to follow-up the significant zinc-lead intercept encountered last year in Navan equivalent beds. A significant number of core assay results have been delayed this year, and consequently drilling has been curtailed on the property until all assay results have been delivered and results interpreted. All holes intercepted widespread, disseminated zinc and locally also lead and copper sulphides further indicating that the mineralized system is extensive. Drilling is expected to resume in August with the objective of locating more concentrated zones of zinc-lead sulphides.

## Outlook

### 2012 Production and Cost Guidance

- As a result of excellent year-to-date production and the Company's expectation to continue to achieve its operational targets, it is increasing its guidance on total copper production; guidance for zinc production is reduced with the expected increase in Zinkgruvan's production being more than offset by lower estimates for Neves-Corvo. Given summer shutdowns for scheduled maintenance and other factors, the Company expects that the production in the second half of the year will be less than the first half of the year.
- Further progress on pre-stripping activities at Aguablanca suggests earlier than expected start-up.
- Estimated full year cash costs have been reduced, taking into account actual year-to-date results and expected positive foreign exchange impacts.
- Revised guidance from Freeport on Tenke's copper sales, from 136,000 to 140,600 tonnes (total project) has been reflected below and is based on the assumption that production volumes will approximate sales. In addition, Freeport has increased its guidance on full year cash costs as a result of lower average cobalt prices.

2012 Guidance (contained tonnes)		Prior Guidance		Revised Guidance	
		Tonnes	C1 Cost <sup>a,b</sup>	Tonnes	C1 Cost <sup>a,b</sup>
<b>Neves-Corvo</b>	<i>Cu</i>	52,500 – 57,000	\$ 1.80	55,000 – 60,000	\$ 1.70
	<i>Zn</i>	30,000 – 40,000		25,000 – 30,000	
<b>Zinkgruvan</b>	<i>Zn</i>	75,000 – 81,000	\$ 0.25	77,000 – 83,000	\$ 0.20
	<i>Pb</i>	34,000 – 39,000		34,000 – 39,000	
	<i>Cu</i>	2,000 – 3,000		3,000 – 4,000	
<b>Galmoy<sup>c</sup></b> (in ore)	<i>Zn</i>	7,000 – 8,000		7,000 – 8,000	
	<i>Pb</i>	1,500 – 2,000		1,500 – 2,000	
<b>Aguablanca</b>	<i>Ni</i>	500 – 1,000		1,000 – 1,500	
	<i>Cu</i>	500 – 1,000		1,000 – 1,500	
<b>Total: Wholly-owned operations</b>	<i>Cu</i>	55,000 – 61,000		59,000 – 65,500	
	<i>Zn</i>	112,000 – 129,000		109,000 – 121,000	
	<i>Pb</i>	35,500 – 41,000		35,500 – 41,000	
	<i>Ni</i>	500 – 1,000		1,000 – 1,500	
<b>Tenke: 24.0% attributable share<sup>d</sup></b>	<i>Cu</i>	32,600	\$ 1.13	34,000	\$ 1.16

- Cash costs remain dependent upon exchange rates (forecast at €/USD:1.30, USD/SEK:7.00) and metal prices (forecast at Cu: \$3.30, Zn: \$0.85).
- Cash cost is a non-GAAP measure reflecting the sum of direct costs less by-product credits.
- Galmoy production tonnage is based on a 50% attributable-share to Lundin Mining.
- Lundin Mining's production from Tenke's attributable share was reduced from 24.75% to 24.0%, effective March 26, 2012, after approval of changes to TFM's bylaws.

## 2012 Capital Expenditure Guidance

Capital expenditures for 2012 are expected to be \$410 million, consistent with previous guidance, as described below:

- Sustaining capital in European operations: \$130 million
- New investment capital expenditures in European operations: \$65 million
- Zambujal (Neves-Corvo) - Semblana Internal Ramp: \$5 million
- New investment in Tenke: \$210 million (which is expected to be substantially cash neutral, as operating cash flows from Tenke should be sufficient to meet the total \$850 million capital expenditure budget of the Phase II expansion)

## About Lundin Mining

Lundin Mining Corporation is a diversified 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 expansion projects at its Neves-Corvo mine, along with a 24% equity stake in the world-class Tenke Fungurume copper/cobalt mine in the Democratic Republic of Congo, which is undergoing expansion to 195,000 tonnes per annum copper cathode production.

On Behalf of the Board,

Paul Conibear  
President and CEO

For further information, please contact:

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## Forward Looking Statements

*Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour or interruptions in production; actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses; commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the Company's Annual Information Form and in each management's discussion and analysis. Forward-looking information is, in addition, based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long-term price of copper, zinc, lead and nickel; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment where the Company operates will continue to support the development and operation of mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.*



# lundin mining

## Management's Discussion and Analysis For the three and six months ended June 30, 2012

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This management's discussion and analysis has been prepared as of July 25, 2012 and should be read in conjunction with the Company's condensed interim consolidated financial statements for the three and six months ended June 30, 2012. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company's presentation currency is United States ("US") dollars. Reference herein of \$ is to United States dollars. Reference of C\$ is to Canadian dollars, reference to SEK is to Swedish krona and € refers to the Euro.

### **About Lundin Mining**

Lundin Mining Corporation ("Lundin", "Lundin Mining" or the "Company") is a diversified Canadian base metals mining company with operations in Portugal, Sweden, Spain and Ireland, producing copper, zinc, lead and nickel. In addition, Lundin Mining holds a development project pipeline which includes an expansion project at its Neves-Corvo mine along with a 24% equity stake in the world class Tenke Fungurume copper/cobalt mine in the Democratic Republic of Congo ("DRC"), which is undergoing expansion to 195,000 tonnes per annum of copper cathode production.

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## Highlights

### Operational and Financial Performance

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- Operating earnings<sup>1</sup> for the second quarter of 2012 were \$80.4 million, a decrease of \$5.0 million from the \$85.4 million reported in the comparable quarter of 2011. The decrease was largely attributable to lower metal prices and prior period price adjustments (\$44.7 million), partially offset by the effect of lower costs (\$20.0 million) and higher sales volume (\$9.7 million). In addition, both the € and SEK have weakened against the US dollar in the second quarter of 2012 compared to 2011, resulting in a further decrease in operating costs of \$10.0 million.

On a year-to-date basis, operating earnings<sup>1</sup> decreased by \$18.0 million from \$203.8 million in the first half year of 2011 to \$185.8 million in the current year. The lower operating earnings<sup>1</sup> were mainly attributable to lower metal prices and prior period price adjustments (\$61.5 million), partially offset by increased metal sales (\$24.0 million), lower costs (\$4.8 million) and favourable effects of foreign exchange (\$14.7 million).

- For the quarter ended June 30, 2012, sales of \$172.3 million were relatively consistent compared to the prior year (\$184.0 million). Although lower metal prices (\$34.1 million) and prior period price adjustments (\$10.6 million) had a negative impact on current quarter sales, this was mostly offset by higher sales volume (\$33.0 million).

Sales of \$385.1 million for the six months ended June 30, 2012 were in line with the comparable period in 2011 (\$395.4 million), with lower metal prices (\$70.9 million) offsetting the effects of higher sales volume (\$51.1 million) and prior period price adjustments (\$9.5 million).

- Average metal prices for copper, zinc and lead for the three months and six months ended June 30, 2012 were significantly lower (14% - 23%) than the same periods in the prior year.
- Operating costs (excluding depreciation) of \$85.6 million in the current quarter were slightly lower than the prior year comparative quarter of \$93.7 million, as lower per unit production costs and positive foreign exchange impacts, at both Neves-Corvo and Zinkgruvan, were partially offset by higher volumes.

On a year-to-date basis, operating costs (excluding depreciation) for the six months ended June 30, 2012 of \$185.4 million were marginally higher than the \$181.6 million reported for the first half of 2011.

- Net earnings of \$44.1 million (\$0.08 per share) in the current quarter were \$16.0 million below the \$60.1 million (\$0.10 per share) reported in 2011. Earnings were impacted by:
  - higher exploration and corporate development costs (\$6.4 million) associated with the Company's strategic growth activities;
  - decrease in equity earnings from investment in Tenke Fungurume (\$6.9 million);
  - higher tax expense of \$21.4 million, primarily as a result of increased taxable earnings and a potential re-assessment of Aguablanca's 2007 taxes for which the Company has accrued \$6.1 million; offset by
  - higher other income (\$15.4 million) arising mostly from foreign exchange gains.
- Cash flow from operations for the second quarter was \$119.0 million compared to \$99.2 million for 2011. The comparative increase in non-cash working capital of \$34.5 million is partially offset by lower operating earnings<sup>1</sup> of \$5.0 million and lower prepayments received (\$11.0 million).

For the first half year of 2012, cash flow from operations was \$170.3 million compared to \$231.4 million for 2011 as a result of lower operating earnings (\$18.0 million) and changes in non-cash working capital (\$41.5 million).

<sup>1</sup> Operating earnings is a non-GAAP measure - see page 26 of this MD&A for discussion of non-GAAP measures.

## Tenke Fungurume

- Milling facilities continued to produce above rated capacity, with throughput averaging over 12,900 metric tonnes of ore per day in the second quarter of 2012, and 12,500 metric tonnes of ore per day so far this year.
- For the quarter ended June 30, 2012, Tenke produced 35,965 tonnes of copper and sold 37,363 tonnes at an average realized price of \$3.45/lb. In addition, 2,868 tonnes of cobalt in hydroxide was produced and 2,694 tonnes were sold at an average realized price of \$8.24/lb.
- Cash costs<sup>1</sup> of \$1.22/lb of copper in the second quarter of 2012 were higher than the \$0.94/lb in the prior year comparable quarter, reflecting lower cobalt credits, partly offset by higher copper volumes.
- No cash advances were made to, or distributions received from, Tenke in the quarter ended June 30, 2012. \$50.1 million in surplus cash from operations was utilized in the quarter to fund Lundin Mining's share of sustaining capital and expansion initiatives.
- Attributable operating cash flow related to Tenke for the second quarter of 2012 was \$49.7 million and now totals \$80.7 million year-to-date.

## Corporate Highlights

- Early in the second quarter of 2012, the Company entered into a purchase option agreement to acquire an 80% interest in the Touro Copper Project located in northern Spain. Lundin Mining has recently completed a twin hole drilling program, which confirmed historical results of the previous owners, Rio Tinto Patino. The Company is now working on a step out drilling program to identify additional resources. Conceptual level designs, cost estimates and a preliminary economic assessment are being advanced to support investment decisions. The option agreement expires on October 1, 2012.

The option agreement provides that Lundin Mining may earn an 80% interest in the project by paying €60 million in stages, with €10 million payable on the exercise of the Option, €30 million when the Company makes a construction decision, and €20 million on the start of commercial production. Upon a decision to construct, Lundin Mining will fund 100% of the project costs, with those costs repayable preferentially with interest from surplus operating cash flows before other distributions. Further details are available in the press release dated April 11, 2012.

- With the departure of the previous Chief Operating Officer, effective June 30, 2012, a realignment of operations management was undertaken. Accordingly, Mr. Stephen Gatley has been promoted to Vice President, Technical Services, responsible for production planning and reporting and Mr. Michael Hulmes, Managing Director of the Neves-Corvo mine has been given an expanded role, becoming Managing Director of Iberian Operations which includes the Aguablanca mine. Both Mr. Gatley and Mr. Hulmes will report directly to Mr. Paul Conibear, President and CEO, as will Mr. Bengt Sundelin, Managing Director of the Zinkgruvan mine.

<sup>1</sup> Cash cost/lb of payable copper sold – see page 26 of this MD&A for discussion of Non-GAAP measures.

## Financial Position and Financing

- Net cash<sup>1</sup> position at June 30, 2012 was \$312.7 million compared to \$236.1 million at December 31, 2011, \$242.3 million at March 31, 2012 and \$308.2 million at June 30, 2011.
- The Company repaid its commercial paper program in full during the quarter (\$19.7 million).
- The \$70.4 million increase in net cash<sup>1</sup> during the quarter was primarily attributable to cash flow from operations (\$119.0 million), including \$74.9 million generated from working capital, which was offset by investment in mineral property, plant and equipment (\$47.6 million).
- Year-to-date, net cash<sup>1</sup> increased by \$76.6 million as a result of \$170.3 million cash flow from operations, including \$62.6 million generated from working capital, which was offset by investment in mineral property, plant and equipment (\$93.1 million).
- Cash balance at July 25, 2012 was approximately \$285 million.

## Outlook

### 2012 Capital Expenditure Guidance

Capital expenditures for 2012 are expected to be \$410 million, consistent with previous guidance, as described below:

- **Sustaining capital in European operations** - \$130 million: Primarily in support of pre-stripping costs at Aguablanca and development costs at our Zinkgruvan and Neves-Corvo operations.
- **New investment capital expenditures in European operations** - \$70 million: Consisting largely of Lombador Phase I, Neves-Corvo water dam improvements and an exploration decline to the Semblana copper deposit.
- **New investment in Tenke** - \$210 million: Total capital expenditure for the Phase II expansion is expected to be \$850 million. If metal prices remain strong, the capital spend is expected to be substantially cash neutral to the Company, as Tenke's operating cash flows should be sufficient to meet this capital funding requirement. As at June 30, 2012, no cash calls have been made by TFM from Lundin as surplus cash from operations has covered all Phase II expansion costs incurred during the period.

### 2012 Production and Cost Guidance

- As a result of excellent year-to-date production and the Company's expectation to continue to achieve its operational targets, it is increasing its guidance on total copper production; guidance for zinc production is reduced with the expected increase in Zinkgruvan's production being more than offset by lower estimates for Neves-Corvo. Given summer shutdowns for scheduled maintenance and other factors, the Company expects that the production in the second half of the year will be less than the first half of the year.
- Further progress on pre-stripping activities at Aguablanca suggests earlier than expected start-up.

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

- Estimated full year cash costs have been reduced, taking into account actual year-to-date results and expected positive foreign exchange impacts.
- Revised guidance from Freeport on Tenke's copper sales, from 136,000 to 140,600 tonnes (total project) has been reflected below and is based on the assumption that production volumes will approximate sales. In addition, Freeport has increased its guidance on full year cash costs as a result of lower average cobalt prices.

2012 Guidance (contained tonnes)		Prior Guidance		Revised Guidance	
		Tonnes	C1 Cost <sup>a,b</sup>	Tonnes	C1 Cost <sup>a,b</sup>
<b>Neves-Corvo</b>	<i>Cu</i>	52,500 – 57,000	\$ 1.80	55,000 – 60,000	\$ 1.70
	<i>Zn</i>	30,000 – 40,000		25,000 – 30,000	
<b>Zinkgruvan</b>	<i>Zn</i>	75,000 – 81,000	\$ 0.25	77,000 – 83,000	\$ 0.20
	<i>Pb</i>	34,000 – 39,000		34,000 – 39,000	
	<i>Cu</i>	2,000 – 3,000		3,000 – 4,000	
<b>Galmoy<sup>c</sup></b> (in ore)	<i>Zn</i>	7,000 – 8,000		7,000 – 8,000	
	<i>Pb</i>	1,500 – 2,000		1,500 – 2,000	
<b>Aguablanca</b>	<i>Ni</i>	500 – 1,000		1,000 – 1,500	
	<i>Cu</i>	500 – 1,000		1,000 – 1,500	
<b>Total: Wholly-owned operations</b>	<i>Cu</i>	55,000 – 61,000		59,000 – 65,500	
	<i>Zn</i>	112,000 – 129,000		109,000 – 121,000	
	<i>Pb</i>	35,500 – 41,000		35,500 – 41,000	
	<i>Ni</i>	500 – 1,000		1,000 – 1,500	
<b>Tenke: 24.0% attributable share<sup>d</sup></b>	<i>Cu</i>	32,600	\$ 1.13	34,000	\$ 1.16

- Cash costs remain dependent upon exchange rates (forecast at €/USD:1.30, USD/SEK:7.00) and metal prices (forecast at Cu: \$3.30, Zn: \$0.85).
- Cash cost is a non-GAAP measure reflecting the sum of direct costs less by-product credits. See non-GAAP Performance Measures on page 26 of this MD&A.
- Galmoy production tonnage is based on a 50% attributable-share to Lundin Mining.
- Lundin Mining's production from Tenke's attributable share was reduced from 24.75% to 24.0%, effective March 26, 2012, after approval of changes to TFM's bylaws.

## Selected Quarterly Financial Information

	Three months ended		Six months ended	
	June 30		June 30	
(\$ millions, except per share amounts)	2012	2011 <sup>5</sup>	2012	2011 <sup>5</sup>
<b>Sales</b>	<b>172.3</b>	184.0	<b>385.1</b>	395.4
Operating costs	(85.6)	(93.7)	(185.4)	(181.6)
General and administrative expenses	(6.3)	(4.9)	(13.9)	(10.0)
<b>Operating earnings<sup>1</sup></b>	<b>80.4</b>	85.4	<b>185.8</b>	203.8
Depreciation, depletion and amortization	(29.0)	(37.6)	(58.5)	(73.1)
General exploration and corporate development costs	(19.8)	(13.4)	(31.4)	(27.1)
Income from investment in Tenke Fungurume	25.1	32.0	50.7	56.9
Finance costs, net	(7.0)	(3.7)	(9.7)	(2.1)
Other income (expenses), net	15.7	(2.7)	5.8	(19.2)
<b>Earnings before income taxes</b>	<b>65.4</b>	60.0	<b>142.7</b>	139.2
Income tax (expense) recovery	(21.3)	0.1	(40.3)	(8.0)
<b>Net earnings</b>	<b>44.1</b>	60.1	<b>102.4</b>	131.2
<b>Shareholders' equity</b>	<b>3,373.6</b>	3,394.6	<b>3,373.6</b>	3,394.6
<b>Cash flow from operations</b>	<b>119.0</b>	99.2	<b>170.3</b>	231.4
<b>Capital expenditures (incl. advances to Tenke)</b>	<b>47.6</b>	60.1	<b>93.1</b>	105.0
<b>Total assets</b>	<b>3,934.2</b>	4,084.5	<b>3,934.2</b>	4,084.5
<b>Net cash<sup>2</sup></b>	<b>312.7</b>	308.2	<b>312.7</b>	308.2

### Key Financial Data:

Shareholders' equity per share <sup>3</sup>	5.79	5.83	5.79	5.83
Basic and diluted earnings per share	0.08	0.10	0.18	0.23
Dividends	-	-	-	-
Equity ratio <sup>4</sup>	86%	83%	86%	83%

### Shares outstanding:

Basic weighted average	582,710,010	582,040,278	582,601,626	581,746,484
Diluted weighted average	583,249,683	583,410,167	583,572,096	583,187,790
End of period	582,900,010	582,180,287	582,900,010	582,180,287

(\$ millions, except per share data)	Q2-12	Q1-12	Q4-11 <sup>5,6</sup>	Q3-11 <sup>5,6</sup>	Q2-11 <sup>5,6</sup>	Q1-11 <sup>5</sup>	Q4-10 <sup>5</sup>	Q3-10
<b>Sales</b>	<b>172.3</b>	212.8	242.1	146.2	184.0	211.5	309.3	215.1
<b>Operating earnings<sup>1</sup></b>	<b>80.4</b>	105.4	124.3	53.8	85.4	118.4	193.8	121.5
<b>Net earnings</b>	<b>44.1</b>	58.3	36.1	16.4	60.1	71.2	146.1	66.0
<b>Earnings per share, basic and diluted<sup>7</sup></b>	<b>0.08</b>	0.10	0.06	0.03	0.10	0.12	0.25	0.11
<b>Cash flow from operations</b>	<b>119.0</b>	51.3	113.9	(36.6)	99.2	132.2	67.9	51.1
<b>Capital expenditures (incl. Tenke)</b>	<b>47.6</b>	45.5	84.3	62.8	60.1	45.9	42.9	40.2
<b>Net cash<sup>2</sup></b>	<b>312.7</b>	242.3	236.1	208.7	308.2	262.0	159.2	125.7

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

2. Net cash is a non-GAAP measure defined as available unrestricted cash less long-term debt and finance leases.

3. Shareholders' equity per share is a non-GAAP measure defined as shareholders' equity divided by total shares outstanding at the end of the period.

4. Equity ratio is a non-GAAP measure defined as shareholders' equity divided by total assets at the end of the period.

5. Certain transaction costs related to corporate development activity in prior years have been reclassified from general and administrative expenses to general exploration and corporate development costs.

6. Adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, in the fourth quarter of 2011 allowed for the capitalization of certain stripping costs, which had previously been expensed, at the Aguablanca mine.

7. Earnings per share is determined for each quarter. As a result of using different weighted average number of shares outstanding, the sum of the quarterly amounts may differ from the year-to-date amount.



## Sales Overview

### Sales Volumes by Payable Metal

	YTD 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
<b>Copper (tonnes)</b>								
Neves-Corvo	32,273	15,869	16,404	69,974	26,026	12,671	14,304	16,973
Zinkgruvan	1,349	880	469	2,092	678	680	734	-
Aguablanca <sup>1</sup>	-	-	-	(73)	-	(5)	(15)	(53)
	<b>33,622</b>	<b>16,749</b>	16,873	71,993	26,704	13,346	15,023	16,920
<b>Zinc (tonnes)</b>								
Neves-Corvo	11,486	5,542	5,944	2,619	(43)	1,842	5	815
Zinkgruvan	37,598	19,580	18,018	61,661	15,981	15,183	13,529	16,968
Galmoy <sup>2</sup>	6,423	3,827	2,596	16,346	3,106	4,768	4,694	3,778
	<b>55,507</b>	<b>28,949</b>	26,558	80,626	19,044	21,793	18,228	21,561
<b>Lead (tonnes)</b>								
Zinkgruvan	18,411	8,176	10,235	29,794	7,906	8,570	7,031	6,287
Galmoy <sup>2</sup>	1,118	587	531	5,010	769	1,649	1,517	1,075
	<b>19,529</b>	<b>8,763</b>	10,766	34,804	8,675	10,219	8,548	7,362
<b>Nickel (tonnes)</b>								
Aguablanca <sup>1</sup>	-	-	-	(48)	-	7	6	(61)

1. Final weight adjustment related to provisional sales recognized.

2. 50% of metal is attributable to Galmoy on sale of ore to third party processing facility (see MD&A page 17).

### Sales Analysis

(\$ thousands)	Three months ended June 30					Six months ended June 30				
	2012		2011		Change	2012		2011		Change
	\$	%	\$	%		\$	%	\$	%	
<b>by Mine</b>										
Neves-Corvo	112,274	65	123,036	67	(10,762)	265,185	69	279,598	71	(14,413)
Zinkgruvan	52,934	31	50,000	27	2,934	107,976	28	97,585	25	10,391
Aguablanca	-	-	71	-	(71)	-	-	(1,863)	-	1,863
Galmoy	7,057	4	10,862	6	(3,805)	11,899	3	20,106	4	(8,207)
	<b>172,265</b>		183,969		(11,704)	<b>385,060</b>		395,426		(10,366)
<b>by Metal</b>										
Copper	110,232	64	127,941	70	(17,709)	257,545	67	280,833	71	(23,288)
Zinc	44,156	26	32,781	18	11,375	85,911	22	71,966	18	13,945
Lead	14,417	8	18,970	10	(4,553)	34,080	9	35,970	9	(1,890)
Nickel	-	-	320	-	(320)	-	-	(397)	-	397
Other	3,460	2	3,957	2	(497)	7,524	2	7,054	2	470
	<b>172,265</b>		183,969		(11,704)	<b>385,060</b>		395,426		(10,366)

Sales for the three and six months ended June 30, 2012 were marginally lower than the comparable period in the prior year, mostly due to lower metal prices.

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.

### Quarterly Reconciliation of Realized Prices

2012 (\$ thousands, except per pound amounts)	Quarter ended June 30, 2012				
	Copper	Zinc	Lead	Nickel	Total
Current period sales	127,304	54,883	16,566	-	198,753
Prior period provisional adjustments	(9,020)	54	487	-	(8,479)
Sales before other metals and TC/RC	118,284	54,937	17,053	-	190,274
Other metal sales					3,460
Less: TC/RC					(21,469)
<b>Total Sales</b>					<b>172,265</b>
<b>Payable Metal (tonnes)</b>	<b>16,749</b>	<b>28,949</b>	<b>8,763</b>	<b>-</b>	
Current period sales (\$/lb)	\$ 3.45	\$ 0.86	\$ 0.86	n/a	
Prior period provisional adjustments (\$/lb)	(0.25)	-	0.02	n/a	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.20</b>	<b>\$ 0.86</b>	<b>\$ 0.88</b>	<b>n/a</b>	

2011 (\$ thousands, except per pound amounts)	Quarter ended June 30, 2011				
	Copper	Zinc	Lead	Nickel	Total
Current period sales	140,196	40,636	21,124	-	201,956
Prior period provisional adjustments	(5,362)	3,068	663	320	(1,311)
Sales before other metals and TC/RC	134,834	43,704	21,787	320	200,645
Other metal sales					3,957
Less: TC/RC					(20,633)
<b>Total Sales</b>					<b>183,969</b>
<b>Payable Metal (tonnes)</b>	<b>15,023</b>	<b>18,228</b>	<b>8,548</b>	<b>6</b>	
Current period sales (\$/lb)	\$ 4.23	\$ 1.01	\$ 1.12	n/a	
Prior period provisional adjustments (\$/lb)	(0.16)	0.08	0.04	n/a	
<b>Realized prices (\$/lb)</b>	<b>\$ 4.07</b>	<b>\$ 1.09</b>	<b>\$ 1.16</b>	<b>n/a</b>	

### Provisionally valued sales as of June 30, 2012

Metal	Tonnes Payable	Value at \$ per lb	Valued at \$ per tonne
Copper	13,607	3.49	7,690
Zinc	19,206	0.84	1,855
Lead	10,090	0.86	1,890

## Financial Results

### Operating Costs

Operating costs of \$85.6 million for the three months ended June 30, 2012 were \$8.1 million lower than the three months ended June 30, 2011. Costs were lower at Neves-Corvo and Zinkgruvan by \$3.4 million and \$2.5 million, respectively, mainly due to lower per unit production costs (\$23.7 million) and the foreign exchange impact (\$9.4 million) from a stronger US dollar compared to the € and SEK. This was partially offset by increased volume (\$27.2 million).

For the six months ended June 30, 2012, operating costs were \$3.8 million higher than the comparable period in the prior year. This was mainly attributable to Neves-Corvo, where higher costs from increased volume (\$23.2 million) were only partially offset by lower per unit production costs (\$7.6 million) and a weakness in the Euro against the US dollar (\$10.1 million).

### General and Administrative Expenses

For the quarter ended June 30, 2012 and year-to-date, general and administrative expenses were higher than the comparable periods in 2011 primarily as a result of higher stock-based compensation expense.

### Depreciation, Depletion and Amortization

Decrease in depreciation, depletion and amortization expense for the three months ended June 30, 2012 compared with the same period in 2011 is primarily due to the extended life of Neves-Corvo mine, to 2028 from 2024, as additional reserves were identified.

Depreciation by operation (\$ thousands)	Three months ended June 30			Six months ended June 30		
	2012	2011	Change	2012	2011	Change
Neves-Corvo	<b>21,339</b>	29,710	(8,371)	<b>43,103</b>	58,331	(15,228)
Zinkgruvan	<b>7,343</b>	7,104	239	<b>14,784</b>	13,060	1,724
Aguablanca	<b>196</b>	680	(484)	<b>383</b>	1,485	(1,102)
Other	<b>130</b>	95	35	<b>248</b>	187	61
	<b>29,008</b>	37,589	(8,581)	<b>58,518</b>	73,063	(14,545)

### General Exploration and Corporate Development Costs

General exploration and corporate development costs increased from \$13.4 million in the second quarter of 2011 to \$19.8 million for the three months ended June 30, 2012. The increase is primarily attributable to expanded exploration drilling programs (\$4.3 million) and corporate development costs (\$2.1 million) associated with the Company's initiatives for growth.

For the six months ended June 30, 2012, costs incurred of \$31.4 million were \$4.3 million higher than the same period in the prior year (\$27.1 million). Although exploration costs were higher by \$5.5 million, corporate development costs in the current year were lower by \$1.2 million. Corporate development costs in 2011 included expenses related to the proposed merger with Inmet Mining Corporation and the costs to defend a hostile take-over bid from Equinox Minerals.

In 2012, exploration costs include a 90,000 metre drilling program and additional high-resolution 3D seismic in and around the Neves-Corvo mine, as well as drill-testing of areas away from exploration target areas to assist in optimization of the future underground materials handling study work. (See *additional commentary under Exploration Highlights*).

## Finance Income and Costs

For the three months ended June 30, 2012, net finance costs were \$7.0 million, compared to net finance costs of \$3.7 million in the prior year. In the first half this year, net finance costs were \$7.6 million higher compared to the same prior year period. The net increase in finance costs, for both comparable periods, is primarily attributable to larger revaluation losses on marketable securities in 2012 (\$2.6 million on a quarter over quarter basis and \$4.4 million comparatively year-to-date) and higher finance costs associated with leased equipment.

## Other Income and Expenses

Other net income is comprised mainly of foreign exchange gains.

A foreign exchange gain of \$15.4 million in the current quarter and \$5.9 million year-to-date, relates to US\$-denominated cash and trade receivables that were held in the European group entities. Period end exchange rates at June 30, 2012 were \$1.26:€1.00 (March 31, 2012 – \$1.34:€1.00; December 31, 2011 – \$1.29:€1.00) and \$1.00:SEK6.96 (March 31, 2012 – \$1.00:SEK6.62; December 31, 2011 – \$1.00:SEK6.92).

## Current and Deferred Taxes

Current tax expense (\$ thousands)	Three months ended June 30			Six months ended June 30		
	2012	2011	Change	2012	2011	Change
Neves-Corvo	11,722	8,843	2,879	31,328	28,023	3,305
Zinkgruvan	7,459	5,620	1,839	11,736	8,672	3,064
Aguablanca	6,104	2,181	3,923	6,104	2,314	3,790
Other	(376)	(6,507)	6,131	(1,689)	(5,885)	4,196
	24,909	10,137	14,772	47,479	33,124	14,355

The increase in current income tax expense of \$14.8 million for the three months ended June 30, 2012 and \$14.4 million for the six months ended June 30, 2012, compared to the same periods in 2011 is a reflection of higher taxable earnings, an increase of 2.5% in the corporate tax rate in Portugal, and the re-assessment of Aguablanca's 2007 taxes relating to the deductibility of accelerated depreciation. The Company has accrued €4.9 million (\$6.1 million) in taxes payable, and €1.0 million (\$1.2 million) in interest, related to the potential re-assessment of Aguablanca's 2007 taxes.

Deferred tax recovery (\$ thousands)	Three months ended June 30			Six months ended June 30		
	2012	2011	Change	2012	2011	Change
Neves-Corvo	(2,755)	(4,288)	1,533	(5,285)	(11,032)	5,747
Zinkgruvan	(271)	(393)	122	(991)	(765)	(226)
Aguablanca	731	(10,142)	10,873	(826)	(18,808)	17,982
Other	(1,310)	4,559	(5,869)	(95)	5,415	(5,510)
	(3,605)	(10,264)	6,659	(7,197)	(25,190)	17,993

The decrease in deferred income tax recovery of \$6.7 million for the three months ended June 30, 2012, compared to the same period in 2011, is primarily attributable to the tax benefit recognized on Aguablanca's net losses which were significantly higher in 2011.

For the six months ended June 30, 2012, deferred income tax recovery decreased by \$18.0 million, compared to the six months ended June 30, 2011, as a result of a higher taxable loss at Aguablanca in 2011 and final tax return adjustments at both Neves-Corvo and Aguablanca.

## Mining Operations

### Production Overview

	YTD 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
<b>Copper (tonnes)</b>								
Neves-Corvo	32,559	15,950	16,609	74,109	26,866	15,070	13,475	18,698
Zinkgruvan	1,522	986	536	1,768	622	349	356	441
Aguablanca	-	-	-	-	-	-	-	-
	<b>34,081</b>	<b>16,936</b>	17,145	75,877	27,488	15,419	13,831	19,139
<b>Zinc (tonnes)</b>								
Neves-Corvo	14,639	7,619	7,020	4,227	382	1,874	1,020	951
Zinkgruvan	44,453	24,022	20,431	75,147	20,337	17,459	17,582	19,769
Galmoy <sup>1</sup>	7,051	759	6,292	32,071	6,334	9,458	8,802	7,477
	<b>66,143</b>	<b>32,400</b>	33,743	111,445	27,053	28,791	27,404	28,197
<b>Lead (tonnes)</b>								
Zinkgruvan	20,095	9,747	10,348	32,339	7,621	7,368	7,829	9,521
Galmoy <sup>1</sup>	1,479	61	1,418	8,791	1,652	2,709	2,538	1,892
	<b>21,574</b>	<b>9,808</b>	11,766	41,130	9,273	10,077	10,367	11,413
<b>Nickel (tonnes)</b>								
Aguablanca	-	-	-	-	-	-	-	-

1. represents 50% of contained metal attributable to Galmoy on delivery of ore to a third party processing facility (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	
	2012	2011	2012	2011
<b>Neves-Corvo (Local in €)</b>				
Gross cost	1.86	2.17	1.46	1.51
By-product*	(0.25)	(0.04)	(0.20)	(0.03)
<b>Net Cost - Cu/lb</b>	<b>1.61</b>	2.13	<b>1.26</b>	1.48
<b>Zinkgruvan (Local in SEK)</b>				
Gross cost	0.64	1.09	4.44	6.81
By-product*	(0.52)	(0.83)	(3.62)	(5.17)
<b>Net Cost - Zn/lb</b>	<b>0.12</b>	0.26	<b>0.82</b>	1.64
	Six months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
<b>Neves-Corvo (Local in €)</b>				
Gross cost	1.88	1.88	1.45	1.33
By-product*	(0.26)	(0.06)	(0.20)	(0.04)
<b>Net Cost - Cu/lb</b>	<b>1.62</b>	1.82	<b>1.25</b>	1.29
<b>Zinkgruvan (Local in SEK)</b>				
Gross cost	0.75	0.96	5.13	6.12
By-product*	(0.58)	(0.61)	(3.98)	(3.85)
<b>Net Cost - Zn/lb</b>	<b>0.17</b>	0.35	<b>1.15</b>	2.27

\* By-product is after related TC/RC

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

## Neves-Corvo Mine

Neves-Corvo is an underground mine, 100 km north of Faro, Portugal, in the western part of the Iberian Pyrite Belt. The mine has been a significant producer of copper since 1989 and in 2006 commenced treating zinc ores. The facilities include a shaft with a total hoisting capacity of up to 4.5 mtpa, a copper plant with 2.5 mtpa processing capacity and a newly expanded zinc plant with 1.0 mtpa processing capacity. The zinc plant has the flexibility to process zinc or copper ores.

### Operating Statistics

	Total 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined, copper (000 tonnes)	1,282	638	644	3,126	899	750	769	708
Ore mined, zinc (000 tonnes)	245	132	113	86	-	9	34	43
Ore milled, copper (000 tonnes)	1,267	634	633	3,198	921	797	736	744
Ore milled, zinc (000 tonnes)	258	135	123	63	-	63	-	-
Grade								
Copper (%)	2.8	2.8	2.9	2.7	3.4	2.3	2.2	2.9
Zinc (%)	7.4	7.2	7.6	6.4	-	6.4	-	-
Recovery								
Copper (%)	91	90	91	86	85	83	83	86
Zinc (%)	71	79	69	46	-	46	-	-
Concentrate grade								
Copper (%)	24.0	23.9	24.0	24.4	24.3	24.5	24.2	24.5
Zinc (%)	47.7	48.1	47.3	47.6	-	47.6	-	-
Production- tonnes (metal contained)								
Copper	32,559	15,950	16,609	74,109	26,866	15,070	13,475	18,698
Zinc	14,639	7,619	7,020	4,227	382	1,874	1,020	951
Silver (oz)	501,576	240,325	261,251	901,085	296,678	200,902	184,007	219,498
Sales (\$000s)	265,185	112,274	152,911	558,044	193,768	84,678	123,036	156,562
Operating earnings (\$000s) <sup>1</sup>	139,257	52,467	86,790	299,053	118,759	21,029	59,817	99,448
Cash cost (€ per pound) <sup>2</sup>	1.25	1.26	1.23	1.27	1.05	1.67	1.48	1.13
Cash cost (\$ per pound) <sup>2</sup>	1.62	1.61	1.63	1.76	1.42	2.35	2.13	1.55

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

Operating earnings of \$52.5 million in the current quarter ended June 30, 2012 were \$7.4 million lower than the same period of 2011. Decreased metal prices, net of price adjustments from prior year sales (\$31.5 million), were partially offset by increased sales volume (\$2.1 million), lower unit production costs (\$15.1 million) and a positive foreign exchange impact (\$6.9 million).

For the six months ended June 30, 2012 operating earnings of \$139.3 million were \$20.0 million lower than the same period in the prior year. This is largely attributable to lower metal prices, net of price adjustments from prior year sales (\$39.9 million), but was partially offset by slightly higher sales volume (\$2.3 million), lower unit production costs (\$7.5 million) and a positive exchange rate (\$10.1 million).

<sup>1</sup> Operating earnings is a Non-GAAP measure – see page 26 of this MD&A for discussion of Non-GAAP measures.

<sup>2</sup> Cash cost/lb of payable copper sold – see page 26 of this MD&A for discussion of Non-GAAP measures.

## **Production**

Ore mined and milled exceeded expected levels in the current quarter and on a year-to-date basis. The additional ore resulted from a particularly high volume of "out of reserve" material (ore of good grade which was encountered and mined that was not within the original mineral reserve model and mine plan) and accelerated mining as a result of operational improvements. Total copper and zinc tonnes milled in the current quarter and year-to-date were higher than the comparable periods in 2011. Copper grades for the quarter remained relatively unchanged at 2.8% and recovery levels were excellent at 90%.

On a year-to-date basis, higher grades and record recoveries helped boost production above that generated in 2011.

In the recently expanded zinc plant, ramp up activities continued and recoveries improved month by month during the quarter as mill personnel optimized the process. Further improvements in zinc recovery are expected as throughput increases and a steady feed rate is achieved.

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

Cash costs of \$1.61/lb for the quarter ended June 30, 2012 were well below initial guidance of \$1.80/lb due to increased metal production and favourable exchange rates. Cash costs decreased by \$0.52/lb, significantly lower than the previous corresponding period of \$2.13/lb, due mainly to increases in by-product credits (\$0.20/lb) primarily as a result of increased zinc production, a decrease in mining and milling costs (\$0.07/lb), and a favourable exchange rate (\$0.21/lb).

Similarly, for the six months ended June 30, 2012 cash costs of \$1.62/lb remained below initial guidance of \$1.80/lb due to increased metal production and favourable exchange rates. The decrease in cash costs, from \$1.82/lb in the previous corresponding period, was due mainly to increased by-product credits (\$0.20/lb) as a result of higher zinc production and a positive exchange rate (\$0.14/lb), and was offset by an overall increase in mining and milling costs (\$0.13/lb).

## **Lombador Zinc/Copper Project**

Lombador Phase I underground development continues and the downward main access ramp has reached the 330 level (approximately 900 metres below surface). Development of this ramp remains a high priority and it is expected to reach the base of Phase I, at the 260 level, in the second quarter of 2013. Sublevel development is progressing ahead of plan, but some delays were experienced in vertical development for ventilation raises. These issues are being addressed and should not impact the overall project schedule.

Studies into the future access and materials handling options for the Semblana and Lombador Phase 2 (lower Lombador) mineralization continue. Preliminary comparisons of technical aspects, costs and schedule between a new shaft and a tunnel bored inclined ramp favour the selection of the ramp option for route flexibility, cost and schedule reasons. These design concepts and cost estimates are being refined over the next several months. However, equal priority is now being given to the study of shorter schedule, lower capital cost means of accessing Semblana and Lombador Phase 2 by expanding existing underground infrastructure including further Santa Barbara shaft debottlenecking. In parallel to these lower cost intensity options, additional mine planning is being done to advance copper production from upper Lombador mineralization facilitated by favorable infill drilling exploration results.

<sup>1</sup> Cash cost/lb of payable copper sold – see page 26 of this MD&A for discussion of Non-GAAP measures.

## Zinkgruvan Mine

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

### Operating Statistics

	Total 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined, zinc (000 tonnes)	514	251	263	1,029	228	257	256	288
Ore mined, copper (000 tonnes)	71	44	27	103	5	36	36	26
Ore milled, zinc (000 tonnes)	528	241	287	999	256	236	231	276
Ore milled, copper (000 tonnes)	68	49	19	110	38	22	21	29
Grade								
Zinc (%)	9.1	10.7	7.7	8.2	8.5	8.0	8.5	8.0
Lead (%)	4.5	4.8	4.3	4.0	3.7	3.7	4.1	4.2
Copper (%)	2.4	2.2	3.0	1.8	1.8	1.7	1.9	1.7
Recovery								
Zinc (%)	93	94	92	92	93	93	90	90
Lead (%)	85	85	84	82	80	83	83	82
Copper (%)	92	92	93	90	91	91	90	89
Concentrate grade								
Zinc (%)	53.8	54.5	53.0	52.6	52.4	53.0	52.7	52.4
Lead (%)	75.5	76.2	74.9	74.8	73.7	75.4	75.5	74.7
Copper (%)	25.8	25.9	25.7	25.2	25.6	24.3	24.4	26.2
Production- tonnes (metal contained)								
Zinc	44,453	24,022	20,431	75,147	20,337	17,459	17,582	19,769
Lead	20,095	9,747	10,348	32,339	7,621	7,368	7,829	9,521
Copper	1,522	986	536	1,768	622	349	356	441
Silver (oz)	1,314,715	672,902	641,813	1,690,863	389,944	379,164	413,546	508,209
Sales (\$000s)	107,976	52,934	55,042	188,566	42,240	48,741	50,000	47,585
Operating earnings (\$000s) <sup>1</sup>	59,873	31,616	28,257	93,588	15,129	28,315	26,178	23,966
Cash cost (SEK per pound) <sup>2</sup>	1.15	0.82	1.50	1.97	2.49	0.81	1.64	2.76
Cash cost (\$ per pound) <sup>2</sup>	0.17	0.12	0.22	0.30	0.37	0.13	0.26	0.42

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

Operating earnings of \$31.6 million were \$5.4 million higher than the \$26.2 million reported in the second quarter of 2011. The increase is attributable to higher volumes (\$7.1 million), lower unit costs (\$8.6 million) and a favourable exchange rate (\$2.4 million), which more than offset lower metal prices, net of price adjustments from prior year sales and lower treatment costs (\$12.7 million).

For the six months ended June 30, 2012 operating earnings of \$59.9 million were \$9.7 million higher than the same period last year. Increased sales volumes (\$18.1 million), decreased unit costs (\$9.4 million) and foreign exchange gains (\$3.7 million) more than compensated for the decrease in metal prices, net of prior period price adjustments (\$21.5 million).

<sup>1</sup> Operating earnings is a Non-GAAP measure – see page 26 of this MD&A for discussion of Non-GAAP measures.

<sup>2</sup> Cash cost/lb of payable zinc sold – see page 26 of this MD&A for discussion of Non-GAAP measures.



## **Production**

Zinc and copper production reached all-time record levels in the quarter. Zinc production exceeded the prior corresponding quarter by 37%, as a result of exceptionally high zinc head grades and good metallurgical recoveries. Lead production continued to be at a high level for the quarter and exceeded second quarter 2011 production by 24%.

Year-to-date, zinc, lead and copper production were at an all-time high and exceeded the first half of 2011 by 19%, 16% and 91%, respectively, due to high ore grades, good recoveries and record throughputs.

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

Cash costs for the current quarter were \$0.12/lb, significantly below initial guidance (\$0.25/lb). Compared to last year, second quarter 2012 cash costs decreased by \$0.14/lb. Lower production costs (\$0.26/lb) including \$0.20/lb lower mining costs, decreased treatment charges (\$0.13/lb) and a weaker SEK (\$0.06/lb) more than offset a decrease in by-product credits (\$0.31/lb). Production costs per pound have decreased as a result of increasing production while maintaining cost controls, mainly through reduced usage of contractors. The treatment charge for zinc concentrates for 2012 has been agreed at a lower level than for 2011, which is reflected in the decrease in treatment charges for the quarter over the corresponding period of 2011. Furthermore, during the second quarter of 2012, there was a favourable adjustment in treatment charges for the difference between the provisional and final treatment charges for shipments made during the first quarter of 2012.

Year-to-date, cash costs of \$0.17/lb have decreased \$0.18/lb from the comparable period in the previous year (\$0.35/lb). Decreases in mining costs (\$0.14) and favourable exchange rates (\$0.04/lb) contributed to this decrease. Production costs per pound have decreased as a result of increasing production while maintaining cost control, mainly by using fewer contractors.

<sup>1</sup> Cash cost/lb of payable zinc sold – see page 26 of this MD&A for discussion of Non-GAAP 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 restarted during the third quarter of 2011 in the pit to reinstate the main ore haulage ramp and concentrate production will recommence in the third quarter of 2012.

### Operating Statistics

	Total 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011 <sup>2</sup>	Q3 2011 <sup>2</sup>	Q2 2011 <sup>2</sup>	Q1 2011
Sales (\$000s)	-	-	-	(1,897)	-	(34)	71	(1,934)
Operating loss (\$000s) <sup>1</sup>	<b>(4,728)</b>	<b>(2,505)</b>	(2,223)	(16,717)	(4,642)	(1,873)	(2,756)	(7,446)

### Restart of Operations

Pre-stripping activities have accelerated during the second quarter with good mine contractor productivity. A course ore stockpile of over 200,000 tonnes has been built and with ongoing mining will enable the restart of concentrate production towards the end of the third quarter of 2012.

The estimated total investment required to recommence concentrate production remains €45 million. The stream lining program has been completed and the fresh water dam lining will be completed ahead of the production restart in the third quarter. To date, €39.5 million (\$51.4 million) has been spent, of which €31.5 million (\$41.0 million) has been capitalized as deferred stripping costs.

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

The operating loss of \$2.5 million for the quarter ended June 30, 2012 and \$4.7 million for the six months ended June 30, 2012 were lower than the comparable periods in 2011, primarily as a result of lower care and maintenance costs.

<sup>1</sup> Operating earnings (loss) is a Non-GAAP measure – see page 26 of this MD&A for discussion of Non-GAAP measures.

<sup>2</sup> Adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, in the fourth quarter of 2011 allowed for the capitalization of certain stripping costs, which had previously been expensed, at the Aguablanca mine.

## Galmoy Mine

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

### Operating Statistics

	Total 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined (000 tonnes)	84	5	79	302	77	79	77	69
Ore sold (000 tonnes)	108	69	39	193	47	50	54	42
Grade								
Zinc (%)	17.0	15.5	17.3	22.6	20.1	24.8	22.5	23.4
Lead (%)	4.9	2.7	5.4	7.5	5.7	8.9	8.2	7.4
Production- tonnes (metal contained)								
Zinc	7,051	759	6,292	32,071	6,334	9,458	8,802	7,477
Lead	1,479	61	1,418	8,791	1,652	2,709	2,538	1,892
Sales (\$000s)	11,899	7,057	4,842	39,073	6,122	12,845	10,862	9,244
Operating earnings (\$000s) <sup>1</sup>	6,501	5,692	809	26,503	1,000	10,649	7,030	7,824

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

Mining of high-grade ore for processing by a third party yielded operating earnings of \$5.7 million in the second quarter of 2012, down from \$7.0 million in 2011. For the six months ended June 30, 2012, operating earnings of \$6.5 million was \$8.4 million lower than the same period in 2011. The recording of sales and reporting of operating earnings is impacted by lower grade ore and higher mining and site costs.

An amount of \$14.8 million is reported as deferred revenue as at June 30, 2012, representing cash received for ore delivered but not yet processed. As at June 30, 2012, approximately 152,000 dry metric tonnes ("dmt") of ore were held in inventory at the processing facility, for which final revenue settlement will be recognized as it is milled.

### Production

Production is reported based on a 50% attributable-share of the metal contained in ore delivered (after accounting for expected plant recoveries) to a third party processing facility. Mining was suspended early in the second quarter of this year pending completion of a commercial review, and this resulted in reconfirming that additional mineralized material can be mined to add value. Mining of remnant ore has therefore recommenced and is expected to be fully complete during the third quarter of 2012.

### Closure Costs

Only nominal expenditure on mine closure and rehabilitation work was incurred during the second quarter. This expenditure is expected to increase over the rest of the year as the remaining closure activities are completed including land/tailings area rehabilitation, mine flooding/sealing and replacement water supply activities.

<sup>1</sup> Operating earnings is a Non-GAAP measure – see page 26 of this MD&A for discussion of Non-GAAP measures.

## Tenke Fungurume

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

Lundin Mining holds an effective 24% interest in the Tenke Fungurume copper and cobalt concessions in the DRC.

### Operating Statistics

100% Basis	YTD 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined (000 tonnes)	5,727	2,641	3,086	9,995	2,418	2,720	2,692	2,165
Ore milled (000 tonnes)	2,278	1,172	1,106	4,046	1,092	1,104	881	969
Grade per tonne								
Copper (%)	3.5	3.5	3.6	3.4	3.4	3.2	3.7	3.4
Recovery								
Copper (%)	91	91	91	93	94	91	93	92
Production- tonnes								
Copper	72,095	35,965	36,130	127,367	34,891	32,249	29,891	30,336
Cobalt	5,595	2,868	2,727	11,182	2,854	2,759	2,776	2,793
Income from equity investment (\$000s)	50,671	25,111	25,560	94,681	20,561	17,233	32,022	24,865
Attributable share of operating cash flow (\$000s)	80,674	49,652	31,022	149,392	37,986	21,397	51,834	38,175
Cash cost (\$ per pound) <sup>1,2</sup>	1.23	1.22	1.25	1.07	1.30	1.12	0.94	0.86

### Income from Equity Investment

Income of \$25.1 million in the current quarter was lower than the \$32.0 million recorded in the second quarter of last year. Higher copper sales volume was more than offset by lower average prices of copper and cobalt. Volume of copper cathode sold during the quarter, on a 100% basis, was 37,363 tonnes compared to 34,138 tonnes in the prior year.

The average price realized for copper sales during the current quarter was \$3.45/lb, compared to \$4.08/lb in the second quarter of 2011. The average realized price for cobalt sold was \$8.24/lb (second quarter 2011: \$11.16/lb).

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

### Production

Milling facilities at Tenke continue to perform well with throughput averaging 12,900 metric tonnes of ore per day for the current quarter and 12,500 metric tonnes of ore per day year-to-date facilitated by early commissioning of Phase II projects and plant debottlenecking. Mining rates have been increased to enable additional copper cathode production from the initial project capacity of 115,000 tonnes per year to approximately 140,000 tonnes per year.

<sup>1</sup> Cash cost/lb of payable copper sold - see non-GAAP Performance Measures on page 26 of this MD&A.

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

Freeport is expecting annual sales volumes to be approximately 140,600 tonnes of copper and 11,300 tonnes of cobalt in 2012.

### **Cash Costs<sup>1,2</sup>**

Average cash operating costs, including the cobalt by-product credit, of \$1.22/lb of copper for the quarter and \$1.23/lb year-to-date were higher than guidance, largely as a result of lower realized cobalt prices partially offset by higher copper volumes. Freeport projects 2012 cash costs of \$1.16/lb.

### **Expansion**

Freeport is constructing a second phase of the project, which includes optimizing the current plant and increasing capacity. As part of the second phase, Freeport is expanding the mill rate to 14,000 metric tonnes of ore per day and is constructing related processing facilities that would target the addition of approximately 68,000 tonnes of copper per year in 2013. Construction activities for the approximate \$850 million project (Lundin Mining's share: approximately \$250 million) which includes mill upgrades, additional mining equipment, a new tankhouse and sulphuric acid plant expansion, are progressing well and are expected to be substantially completed by the end of 2012.

Freeport continues to engage in drilling activities, exploration analyses, metallurgical testing and piloting heap leaching on low grade material to evaluate the full potential of the highly prospective minerals district at Tenke. These analyses are being incorporated in the evaluation of opportunities for several further phases of expansion.

### **Tenke Funding**

No direct funding was required by the Company in the current quarter (second quarter 2011 - \$10.5 million) to cover sustaining capital, on-going concession exploration and expansion initiatives.

Attributable operating cash flow at Tenke for the second quarter of 2012 was \$49.7 million and now totals \$80.7 million year-to-date.

Lundin Mining's 2012 capital investment for Tenke has been assumed, for internal planning purposes, to be \$210 million to fund expansion and sustaining capital. During the quarter, \$50.1 million was spent on our attributable share of capital requirements, which was funded by excess cash flow from operations.

Depending on metal prices, it is expected that the Company's share of operating cash flows from Tenke will continue to be sufficient to fund substantially all capital and non-capital requirements.

<sup>1</sup> Cash cost/lb of payable copper sold - see non-GAAP Performance Measures on page 26 of this MD&A.

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

## Exploration

### *Portugal*

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

The 2012 resource exploration program includes a budgeted 90,000 metres of drilling and additional high-resolution 3D seismic surveying. A total of 29,145 metres was drilled with six rigs during the quarter for a total of 53,306 metres drilled in the first half of the year.

Delineation drilling at Semblana continued, focusing on a new zone of high-grade copper sulphides, located approximately 300 metres to the south of the initial Semblana resource. Preliminary results to date suggest that continued surface drilling will only allow for a modest increase in the present copper-silver resource; underground exploration is required to more efficiently explore the deposit with the objective of developing additional significant resources. Step-out drilling of the additional copper discovery, located approximately 1.2 kilometres to the south of Semblana and just west of the tailings management facility, has been successful in discovering a new massive sulphide deposit. Named Monte Branco, it will be the focus of further exploratory drilling in the second half of the year; the potential for developing new copper resources in this area is considered very good. To facilitate this, an exploration ramp has been started from existing underground workings in the Zambujal deposit and this ramp is advancing well. The ramp is sized such that subject to future underground exploration results, reasonable development plan economics and permitting, the exploration ramp could also be used for production extraction from the Semblana deposit using existing mine ramp and hoisting infrastructure.

Drilling of several seismic reflectors in the Rosa Magra target area, located north of Semblana, has adequately tested this target area and no further drilling is currently planned in this zone. Additional high-priority reflector targets will be tested in the next quarter within the Lapa zone, located to the northeast of the tailings management facility. New drill targets are also being developed for testing in the area between Monte Branco and the existing Zambujal orebody, as well as between Monte Branco and Semblana.

Given an industry wide shortage of independent assay laboratory capacity delays have been experienced in receiving results for important drilling such as that on the newly discovered Monte Branco mineralization. Results are expected to be received in time for public release in conjunction with our annual resource and reserve update expected to be issued prior to the end of September. An update of the Semblana resource statement is expected in this release as well.

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

Target definition work continued during the quarter, focusing on priority areas along strike to the northwest of the Neves-Corvo mine. High-resolution 3D seismic surveying initiated in the first quarter to cover northwest and southeast extensions of the 2011 survey coverage is almost complete. The 2012 program includes a 6,000 metre drill budget designed to test the best resulting targets from the survey which will be initiated once seismic data becomes available.

### *Spain*

Spanish exploration personnel have been involved in an extensive resource evaluation program at the Touro Copper Project in Galicia. Accordingly, exploration in Spain during the quarter has been restricted to a small program of copper-zinc and copper-gold generative work in select new areas of Spain.

## ***Ireland***

### **Clare Project (Zinc, Lead, Silver, Copper)**

Results of a 2D reflection seismic survey, extending across the Kilbricken Corridor east and west of the discovery zone, has identified a more extensive and favourable fault system within the corridor, thereby allowing the definition of additional high-priority drill targets.

The 2012 exploration program includes a budgeted 25,500 metres of drilling. A total of 9,275 metres was drilled with two rigs during the quarter for a total of 15,684 metres drilled in the first half of the year. Drilling focussed on wide-spaced testing of target areas located near to the high-grade zinc-lead-silver and copper-silver mineralization (the "Copper Zone") discovered late last year, in addition to fence drilling across the Kilbricken Corridor east and west of the discovery zone. Mineralization remains open to the west, southwest and south of the Copper Zone. A high-resolution aeromagnetic survey was completed over the Kilbricken and Ballvergin target areas with results pending.

Plans for next quarter include drill-testing targets generated from the seismic survey and selected in-fill drilling. Additional drill targets are expected from the results of the aeromagnetic survey. Geochemical surveys are also currently in progress covering selected parts of the Clare property and will further assist target development.

### **Lakelands Project (Zinc, Lead)**

The 2012 exploration program includes a budgeted 15,000 metres of drilling. A total of 6,339 metres was drilled with one rig during the second quarter for a total of 10,270 metres drilled in the first half of the year.

Fifteen holes were completed in the Reynold's Hill Prospect in County Leitrim. These widely-spaced, step-out holes continue to follow-up the significant zinc-lead intercept encountered last year in Navan equivalent beds. Navan beds are host to the ore at the Tara Mine located 80 kilometres to the east. A significant number of core assay results have been delayed this year, and consequently drilling has been curtailed on the property until all assay results have been delivered and results interpreted. All holes intercepted widespread, disseminated zinc and locally also lead and copper sulphides further indicating that the mineralized system is extensive. Drilling is expected to resume in August with the objective of locating more concentrated zones of zinc-lead sulphides.

### **Limerick Project (Zinc-Lead)**

No drilling was done during the second quarter. A high-resolution gradient aeromagnetic survey was completed over the Limerick prospecting licenses and will be interpreted next month in order to assist in delineating favourable structures and target generation.

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

The Eurozone crisis has continued to impact metal consumption and metal prices over the first six months of 2012. Average metal prices decreased over the three months ended June 30, 2012, from the previous quarter, with copper and zinc prices decreasing by 5%, lead by 6% and nickel by 13%. Further, metal prices are significantly lower than the comparable period in the prior year due to the ongoing effects of financial instability in Europe. During the first quarter of the year, the markets showed some subdued optimism in response to the bailout of Greece. The continued growth of China, albeit at a slower pace, also helped the situation. However, political uncertainty in Greece and increasing concerns for the financial stability of other Eurozone countries such as Spain and Portugal have prevented any significant improvement in the current crisis. When combined with increased concern over the slowdown in Chinese growth as well as a strengthened US dollar, these factors have had a negative impact on the metal markets.

(Average LME Price)		Three months ended June 30			Six months ended June 30		
		2012	2011	Change	2012	2011	Change
Copper	US\$/pound	3.57	4.14	-14%	3.67	4.26	-14%
	US\$/tonne	7,869	9,137		8,097	9,398	
Zinc	US\$/pound	0.87	1.02	-14%	0.90	1.05	-15%
	US\$/tonne	1,928	2,250		1,978	2,323	
Lead	US\$/pound	0.90	1.16	-23%	0.92	1.17	-21%
	US\$/tonne	1,974	2,550		2,035	2,578	
Nickel	US\$/pound	7.78	10.96	-29%	8.36	11.60	-28%
	US\$/tonne	17,146	24,165		18,438	25,565	

London Metal Exchange (“LME”) inventory for lead decreased by 7% during the second quarter of 2012 while the LME inventories for zinc and nickel increased during the quarter: zinc by 11% and nickel by 3%, while the LME inventory for copper remained more or less unchanged.

The demand for copper concentrates in the spot market continued to be firm during the second quarter of 2012 with treatment charges (“TC”) of \$23-28 per dmt of concentrates and refining charges (“RC”) of \$0.023-0.028 per lb of payable copper, which were in line with first quarter of the year. For 2012 the terms for annual copper concentrates contracts were agreed at a TC of \$63.50 per dmt of concentrates and a RC of \$0.0635 per payable lb of copper. However, there were also settlements of terms between some mining companies and smelters at slightly lower rates, with a TC of \$60 per dmt and a RC of \$0.06 per payable lb of copper. For the mid-year contracts, running from July 1<sup>st</sup> to June 30<sup>th</sup>, terms have been settled at the same level as the annual benchmark, with a TC of \$63.50 per dmt of concentrates and a RC of \$0.0635 per payable lb of copper.

During the second quarter 2012, the spot TC for zinc concentrates increased from \$85 per dmt of concentrates, flat, i.e. without any escalation, in March to \$100 per dmt, flat, in June. The increase in TC is primarily due to higher domestic mine production in China and reduced Chinese zinc concentrates imports. The benchmark TC between miners and smelters for annual contracts for zinc concentrates for 2012 was agreed at \$191 per dmt of concentrates based on a zinc price of \$2,000 per mt and with lower escalators and de-escalators than for 2011. The agreed terms represents an improvement in favour of the mines of approximately \$18 per dmt of concentrates at the base price compared to last year.

The spot TC for lead concentrates decreased during the quarter from \$100 per dmt of concentrates, flat, in March to \$70 per dmt of concentrates, flat, in June. This reduction in TC is due mainly to the trend in Chinese smelters of re-stocking lead concentrates in anticipation of increased lead demand during the second half of the



year. The lead concentrate market is not as homogenous as the markets for copper and zinc concentrates and there is no clear benchmark. The TC is based on the individual quality and varies with the content of lead, silver and deleterious elements. The Company has settled all its annual contracts for lead concentrates with a modest increase in the TC compared to 2011 and with no change to the RC for silver.

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

## Liquidity and Financial Condition

### Cash Reserves

Cash and cash equivalents increased by \$58.2 million to \$323.6 million as at June 30, 2012, from \$265.4 million at December 31, 2011. Cash inflows for the six months ended June 30, 2012 included operating cash flows of \$170.3 million. Use of cash was primarily directed towards investments in mineral property, plant and equipment (\$93.1 million) and full repayment of the Company's commercial paper program (\$19.7 million).

### Working Capital

Working capital is \$312.8 million as at June 30, 2012, compared to \$306.6 million at December 31, 2011. The slight increase in working capital reflects a higher balance of cash, partially offset by lower trade & other receivables and higher income tax payable.

### Revolving Credit Facility

The Company has a \$300 million facility which expires in September 2013. Aside from a letter of credit issued in the amount of SEK 80 million (\$11.5 million), there are no amounts outstanding on the facility.

### Shareholders' Equity

Shareholders' equity was \$3,373.6 million at June 30, 2012, compared to \$3,297.9 million at December 31, 2011. Shareholders' equity increased as a result of net earnings of \$102.4 million, partially offset by translation adjustments in other comprehensive income of \$31.4 million.

### Sensitivities

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

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

Metal	Provisional price on June 30, 2012 (\$US/tonne)	Change	Effect on pre- tax earnings (\$millions)
Copper	7,690	+/-10%	+/- \$10.5
Zinc	1,855	+/-10%	+/- \$3.6
Lead	1,890	+/-10%	+/- \$1.9

## Financial Instruments

Summary of financial instruments:

	<b>Fair value as at June 30, 2012 (\$ thousands)</b>	<b>Basis of measurement</b>	<b>Associated risks</b>
Cash and cash equivalents	323,568	Carrying value	Interest/Credit/Exchange
Trade and other receivables	3,974	Carrying value	Credit/Market
Trade receivables	78,703	Fair value through profit and loss	Credit/Market/Exchange
Reclamation funds	47,577	Carrying value	Interest/Credit
Marketable securities	12,580	Fair value through profit and loss	Market/Liquidity
Trade payables and accrued liabilities	92,092	Amortized cost	Interest
Long-term debt and finance leases	10,887	Amortized cost	Interest
Other long-term liabilities	5,343	Amortized cost	Interest

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

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

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

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

## Related Party Transactions

### Tenke

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

During the three months ended June 30, 2012, the Company made no cash advances to fund its portion of Tenke expenditures.

### Key Management Personnel

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

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Wages and salaries	1,403	1,126	3,155	3,969
Pension and benefits	20	32	40	64
Share-based compensation	1,130	17	1,498	343
	<b>2,553</b>	1,175	<b>4,693</b>	4,376

During the six month period ended June 30, 2012, the Company paid \$0.2 million for services provided by a company owned by the Chairman of the Company. The Company also paid \$0.5 million for the six months ended June 30, 2012 to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company.

## Critical Accounting Estimates and Judgments

The application of certain accounting policies requires the Company to make estimates and judgments based on assumptions. For a complete discussion of accounting estimates and judgments deemed most critical by the Company, refer to the Company's annual 2011 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 2011 Annual Information Form, available on the SEDAR website, [www.sedar.com](http://www.sedar.com).

## Outstanding Share Data

As at July 25, 2012, the Company had 582,900,010 common shares issued and outstanding and 9,039,749 stock options outstanding under its stock-based incentive plans.

## Non-GAAP Performance Measures

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

- **Operating earnings**

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

- **Cash cost per pound**

Copper, zinc and nickel cash costs per pound are key performance measures that management uses to monitor performance. Management uses these statistics to assess how well the Company’s producing mines are performing compared to plan and to assess overall efficiency and effectiveness of the mining operations.

Lundin provides cash cost information as it is a key performance indicator required by users of the Company’s financial information in order to assess the Company’s profit potential and performance relative to its peers. The cash cost figure represents the total of all cash costs directly attributable to the related mining operations after the deduction of credits in respect of by-product sales and royalties. Cash cost is not an IFRS measure and, although it is calculated according to accepted industry practice, the Company’s disclosed cash costs may not be directly comparable to other base metal producers. By-product credits are an important factor in determining the cash costs. The cost per pound experienced by the Company will be positively affected by rising prices for by-products and adversely affected when prices for these metals are falling.

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

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

Three months ended June 30, 2012					Three months ended June 30, 2011			
	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)	15,869	34,985	1.61	56,326	14,304	31,535	2.13	67,170
Zinkgruvan (Zn)	19,580	43,166	0.12	5,180	13,529	29,826	0.26	7,755
Aguablanca (Ni) <sup>1</sup>	-	-	-	2,505	-	-	-	3,077
Galmoy (Zn) <sup>2</sup>	-	-	-	1,641	-	-	-	2,952
				65,652				80,954
Add: By-product credits				32,048				29,267
Treatment costs				(15,813)				(17,537)
Royalties and other				3,675				1,017
<b>Total Operating Costs</b>				<b>85,562</b>				<b>93,701</b>

Six months ended June 30, 2012					Six months ended June 30, 2011			
	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)	32,273	71,150	1.62	115,263	31,277	68,954	1.81	124,807
Zinkgruvan (Zn)	37,598	82,889	0.17	14,091	30,497	67,234	0.35	23,532
Aguablanca (Ni) <sup>1</sup>	-	-	-	4,728	-	-	-	9,555
Galmoy (Zn) <sup>2</sup>	-	-	-	5,504	-	-	-	4,027
				139,586				161,921
Add: By-product credits				68,535				49,795
Treatment costs				(33,549)				(35,953)
Royalties and other				10,796				5,821
<b>Total Operating Costs</b>				<b>185,368</b>				<b>181,584</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**

### ***Disclosure controls and procedures***

Disclosure controls and procedures have been designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operation of disclosure controls and procedures.

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

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

Management has used the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') framework in order to assess the effectiveness of the Company's internal control over financial reporting.

### ***Changes in internal control over financial reporting***

There have been no changes in the Company's internal control over financial reporting during the three month period ended June 30, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Other Information**

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

## Other Supplementary Information

### 1. *List of directors and officers at July 25, 2012:*

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

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

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

Lukas H. Lundin, *Chairman*  
Paul K. Conibear, *President and Chief Executive Officer*  
Marie Inkster, *Senior Vice President and Chief Financial Officer*  
Julie A. Lee Harrs, *Senior Vice President, Corporate Development*  
Paul M. McRae, *Senior Vice President, Projects*  
Neil P. M. O'Brien, *Senior Vice President, Exploration and New Business Development*  
Stephen T. Gatley, *Vice President, Technical Services*  
Jinhee Magie, *Vice President, Finance*  
Peter G. Nicoll, *Vice President, Health, Safety, Environment and Community*  
J. Mikael Schauman, *Vice President, Marketing*  
James A. Ingram, *Corporate Secretary*

### 2. **Financial Information**

The report for the third quarter of 2012 is expected to be published on October 24, 2012.

### 3. **Other information**

Address (Corporate head office):

Lundin Mining Corporation  
Suite 1500, 150 King Street West  
P.O. Box 38  
Toronto, Ontario M5H 1J9  
Canada  
Telephone: +1-416-342-5560  
Fax: +1-416-348-0303

Address (UK office):

Lundin Mining UK Limited  
70 Oathall Road  
Haywards Heath, 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 Canadian federal corporation number for the Company is 443736-5.

#### **For further information, please contact:**

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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, 2012  
(Unaudited)



**LUNDIN MINING CORPORATION**  
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited - in thousands of US dollars)	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 3)	\$ 323,568	\$ 265,400
Trade and other receivables (Note 4)	100,738	116,019
Income taxes receivable	141	6,869
Inventories (Note 5)	34,567	41,203
Prepaid expenses	4,577	4,047
	<b>463,591</b>	<b>433,538</b>
Non-Current		
Reclamation funds	47,577	54,392
Mineral properties, plant and equipment (Note 6)	1,244,390	1,242,126
Investment in Tenke Fungurume (Note 7)	1,937,208	1,886,537
Marketable securities and other assets	16,069	19,515
Deferred tax assets	40,157	37,848
Goodwill	185,233	190,369
	<b>3,470,634</b>	<b>3,430,787</b>
	<b>\$ 3,934,225</b>	<b>\$ 3,864,325</b>
<b>LIABILITIES</b>		
Current		
Trade and other accounts payable	\$ 55,168	\$ 72,192
Accrued and other liabilities (Note 8)	58,391	49,541
Income taxes payable	37,264	5,211
Current portion of long-term debt and finance leases (Note 10)	2,865	21,740
Current portion of reclamation and closure provisions	5,719	6,581
Current portion of deferred revenue (Note 9)	19,175	12,523
	<b>178,582</b>	<b>167,788</b>
Non-Current		
Long-term debt and finance leases (Note 10)	8,022	7,606
Other long-term liabilities	5,343	5,745
Deferred revenue (Note 9)	58,875	68,514
Provision for pension obligations	18,164	18,525
Reclamation and closure provisions	105,030	103,046
Deferred tax liabilities	186,570	195,245
	<b>382,004</b>	<b>398,681</b>
	<b>560,586</b>	<b>566,469</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	3,498,729	3,497,006
Contributed surplus	32,507	29,450
Accumulated other comprehensive loss	(147,586)	(116,174)
Deficit	(10,011)	(112,426)
	<b>3,373,639</b>	<b>3,297,856</b>
	<b>\$ 3,934,225</b>	<b>\$ 3,864,325</b>

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

**APPROVED BY THE BOARD**

(Signed) Lukas H. Lundin  
**Director**

(Signed) Dale C. Peniuk  
**Director**

## LUNDIN MINING CORPORATION

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

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

	Three months ended		Six months ended	
	June 30		June 30	
	2012	2011	2012	2011
Sales	\$ 172,265	\$ 183,969	\$ 385,060	\$ 395,426
Operating costs (Note 12)	(85,562)	(93,701)	(185,368)	(181,584)
Depreciation, depletion and amortization (Note 6)	(29,008)	(37,589)	(58,518)	(73,063)
General and administrative expenses	(6,336)	(4,883)	(13,942)	(10,043)
General exploration and corporate development costs (Note 14)	(19,754)	(13,367)	(31,422)	(27,121)
Income from equity investment in Tenke Fungurume (Note 7)	25,111	32,022	50,671	56,887
Finance income (Note 15)	513	924	956	2,573
Finance costs (Note 15)	(7,499)	(4,588)	(10,651)	(4,629)
Other income (Note 16)	15,999	510	7,027	1,023
Other expenses (Note 16)	(324)	(3,343)	(1,116)	(20,294)
Earnings before income taxes	65,405	59,954	142,697	139,175
Current tax expense (Note 17)	(24,909)	(10,137)	(47,479)	(33,124)
Deferred tax recovery	3,605	10,264	7,197	25,190
Net earnings	\$ 44,101	\$ 60,081	\$ 102,415	\$ 131,241
Basic and diluted earnings per share	\$ 0.08	\$ 0.10	\$ 0.18	\$ 0.23
Weighted average number of shares outstanding				
Basic	582,710,010	582,040,278	582,601,626	581,746,484
Diluted (Note 11)	583,249,683	583,410,167	583,572,096	583,187,790

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

## LUNDIN MINING CORPORATION

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

(Unaudited - in thousands of US dollars)

	Three months ended		Six months ended	
	June 30		June 30	
	2012	2011	2012	2011
Net earnings	\$ 44,101	\$ 60,081	\$ 102,415	\$ 131,241
Other comprehensive (loss) income, net of taxes				
Effects of foreign currency translation	(81,317)	17,888	(31,412)	104,225
<b>Comprehensive (loss) income</b>	<b>\$ (37,216)</b>	<b>\$ 77,969</b>	<b>\$ 71,003</b>	<b>\$ 235,466</b>

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

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of US dollars, except for shares)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2011	582,475,287	\$ 3,497,006	\$ 29,450	\$ (116,174)	\$ (112,426)	\$ 3,297,856
Exercise of stock options	424,723	1,723	(564)	-	-	1,159
Share-based compensation	-	-	3,621	-	-	3,621
Net earnings	-	-	-	-	102,415	102,415
Effects of foreign currency translation	-	-	-	(31,412)	-	(31,412)
<b>Balance, June 30, 2012</b>	<b>582,900,010</b>	<b>\$ 3,498,729</b>	<b>\$ 32,507</b>	<b>\$ (147,586)</b>	<b>\$ (10,011)</b>	<b>\$ 3,373,639</b>
Balance, December 31, 2010	580,575,355	\$ 3,485,814	\$ 30,312	\$ (66,349)	\$ (296,191)	\$ 3,153,586
Exercise of stock options	1,604,932	9,398	(2,542)	-	-	6,856
Share-based compensation	-	-	1,065	-	-	1,065
Net earnings	-	-	-	-	131,241	131,241
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>\$ (164,950)</b>	<b>\$ 3,396,973</b>

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

## LUNDIN MINING CORPORATION

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited - in thousands of US dollars)

	Three months ended		Six months ended	
	June 30		June 30	
	2012	2011	2012	2011
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings	\$ 44,101	\$ 60,081	\$ 102,415	\$ 131,241
Items not involving cash				
Finance income and costs	5,364	2,886	5,597	1,231
Share-based compensation	2,066	67	3,868	1,065
Depreciation, depletion and amortization	29,008	37,589	58,518	73,063
Foreign exchange (gain) loss	(3,234)	(1,321)	(4,259)	3,746
Income from equity investment in Tenke Fungurume	(25,111)	(32,022)	(50,671)	(56,887)
Deferred tax recovery	(3,605)	(10,264)	(7,197)	(25,190)
Recognition of deferred revenue	(7,402)	(12,448)	(12,277)	(13,971)
Other	4	137	2,561	382
Reclamation payments	(693)	(315)	(822)	(1,627)
Pension payments	(161)	(456)	(595)	(611)
Prepayments received(Note 9)	3,794	14,833	10,608	14,833
Changes in non-cash working capital items	74,909	40,388	62,590	104,081
	<b>119,040</b>	<b>99,155</b>	<b>170,336</b>	<b>231,356</b>
<b>Investing activities</b>				
Investment in mineral properties, plant and equipment	(47,631)	(49,649)	(93,136)	(90,133)
Investment in Tenke Fungurume	-	(10,450)	-	(15,819)
Changes in reclamation funds	2,479	5,711	6,227	2,851
Proceeds from sale (purchase) of marketable securities	-	936	(2,504)	2,721
Other	(86)	152	(72)	165
	<b>(45,238)</b>	<b>(53,300)</b>	<b>(89,485)</b>	<b>(100,215)</b>
<b>Financing activities</b>				
Long-term debt repayments	(20,112)	(467)	(20,590)	(10,744)
Common shares issued	1,051	1,219	1,159	6,844
Other	(214)	-	(214)	-
	<b>(19,275)</b>	<b>752</b>	<b>(19,645)</b>	<b>(3,900)</b>
Effect of foreign exchange on cash balances	(5,135)	1,766	(3,038)	16,014
Increase in cash and cash equivalents during the period	49,392	48,373	58,168	143,255
Cash and cash equivalents, beginning of period	274,176	293,791	265,400	198,909
Cash and cash equivalents, end of period	\$ 323,568	\$ 342,164	\$ 323,568	\$ 342,164

Supplemental cash flow information (Note 21)

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

## **LUNDIN MINING CORPORATION**

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

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

Lundin Mining Corporation (the "Company") is a diversified Canadian base metals mining company. The Company's principal wholly-owned operating mine assets include the Neves-Corvo copper/zinc mine located in Portugal, the Zinkgruvan zinc/lead mine located in Sweden, the Aguablanca nickel/copper mine located in Spain, and a 24% equity accounted interest in the Tenke Fungurume copper/cobalt mine located in the Democratic Republic of Congo ("DRC").

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

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

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

The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") including IAS 34 *Interim financial reporting*. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies and methods of application adopted are consistent with those disclosed in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2011.

The Company's presentation currency is United States ("US") 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.

These consolidated financial statements were approved by the board of directors for issue on July 25, 2012.

#### **(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 consolidated financial statements for the year ended December 31, 2011.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	<b>June 30, 2012</b>	December 31, 2011
Cash	\$ 263,534	\$ 265,339
Short-term deposits	60,034	61
	<b>\$ 323,568</b>	<b>\$ 265,400</b>

### 4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	<b>June 30, 2012</b>	December 31, 2011
Trade receivables	\$ 71,565	\$ 83,239
Value added tax and other receivables	29,173	32,780
	<b>\$ 100,738</b>	<b>\$ 116,019</b>

The Company does not have any significant balances that are past due and the Company does not have an allowance for doubtful accounts. The fair value of the embedded derivative arising from provisionally priced trade receivables is valued using quoted forward London Metals Exchange ("LME") prices. The Company recognized a negative price adjustment of \$14.5 million in sales for the three months ended June 30, 2012 (2011 - \$3.9 million negative price adjustment) and a positive price adjustment of \$1.2 million in sales for the six months ended June 30, 2012 (2011 - \$8.3 million negative price adjustment).

### 5. INVENTORIES

Inventories are comprised of the following:

	<b>June 30, 2012</b>	December 31, 2011
Ore stockpiles	\$ 10,229	\$ 9,249
Concentrate stockpiles	6,756	11,349
Materials and supplies	17,582	20,605
	<b>\$ 34,567</b>	<b>\$ 41,203</b>

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

### 6. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Mineral properties, plant and equipment are comprised of the following:

Cost	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2010	\$ 1,464,118	\$ 479,230	\$ 51,855	\$ 96,526	\$ 2,091,729
Additions	40,708	3,576	-	47,977	92,261
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
As at June 30, 2011	1,619,751	566,615	56,081	112,536	2,354,983
Additions	48,635	208	9,532	39,569	97,944
Disposals and transfers	2,695	120,123	-	(132,687)	(9,869)
Effects of changes in foreign exchange rates	(166,808)	(69,658)	(5,867)	(7,291)	(249,624)
As at December 31, 2011	1,504,273	617,288	59,746	12,127	2,193,434
Additions	68,555	410	-	20,861	89,826
Disposals and transfers	491	6,481	-	(5,584)	1,388
Effects of changes in foreign exchange rates	(34,007)	(14,380)	(1,939)	(527)	(50,853)
<b>As at June 30, 2012</b>	<b>\$ 1,539,312</b>	<b>\$ 609,799</b>	<b>\$ 57,807</b>	<b>\$ 26,877</b>	<b>\$ 2,233,795</b>

Accumulated depreciation, depletion and amortization	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2010	\$ 646,959	\$ 195,431	\$ -	\$ -	\$ 842,390
Depreciation	47,590	25,473	-	-	73,063
Disposals and transfers	-	(522)	-	-	(522)
Effects of changes in foreign exchange rates	50,970	22,935	-	-	73,905
As at June 30, 2011	745,519	243,317	-	-	988,836
Depreciation	55,245	25,488	-	-	82,685
Disposals and transfers	-	(8,956)	-	-	(8,956)
Effects of changes in foreign exchange rates	(77,264)	(32,041)	-	-	(111,257)
As at December 31, 2011	723,500	227,808	-	-	951,308
Depreciation	36,437	22,081	-	-	58,518
Disposals and transfers	-	1,922	-	-	1,922
Effects of changes in foreign exchange rates	(15,414)	(6,929)	-	-	(22,343)
<b>As at June 30, 2012</b>	<b>\$ 744,523</b>	<b>\$ 244,882</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 989,405</b>

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

Net book value	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2011	\$ 780,773	\$ 389,480	\$ 59,746	\$ 12,127	\$ 1,242,126
<b>As at June 30, 2012</b>	<b>\$ 794,789</b>	<b>\$ 364,917</b>	<b>\$ 57,807</b>	<b>\$ 26,877</b>	<b>\$ 1,244,390</b>

During the six months ended June 30, 2012, the Company capitalized \$26.3 million (2011 - \$2.4 million) of deferred stripping costs recorded in mineral properties. In the fourth quarter of 2011, the Company adopted IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which allowed for the capitalization of certain costs which had previously been expensed. As a result of the accounting policy change, mineral properties increased by \$2.4 million for the six months ended June 30, 2011.

Depreciation, depletion and amortization is comprised of:

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Operating costs	\$ 28,906	\$ 37,513	\$ 58,326	\$ 72,912
General and administrative expenses	102	76	192	151
Depreciation, depletion and amortization	\$ 29,008	\$ 37,589	\$ 58,518	\$ 73,063

## 7. INVESTMENT IN TENKE FUNGURUME

As at December 31, 2010	\$ 1,735,148
Advances	15,819
Share of equity income	56,887
As at June 30, 2011	1,807,854
Advances	48,689
Distribution	(7,800)
Share of equity income	37,794
As at December 31, 2011	1,886,537
Share of equity income	50,671
<b>As at June 30, 2012</b>	<b>\$ 1,937,208</b>

The following is a summary of the financial information of TF Holdings Limited on a 100% basis:

	June 30, 2012	December 31, 2011
Total assets	\$ 3,287,610	\$ 2,846,798
Total liabilities	1,105,163	869,608

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Total sales	\$ 328,249	\$ 391,110	\$ 638,526	\$ 700,335
Total earnings	89,319	114,274	179,657	205,084



## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

### 8. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities are comprised of the following:

	June 30, 2012	December 31, 2011
Unbilled goods and services	\$ 16,115	\$ 16,373
Payroll obligations	21,469	18,441
Royalty payable	20,807	14,727
	<b>\$ 58,391</b>	<b>\$ 49,541</b>

### 9. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

As at December 31, 2010	\$ 77,676
Prepayment received	14,833
Recognition of revenue	(13,971)
Effects of changes in foreign exchange rates	5,365
As at June 30, 2011	83,903
Prepayment received	15,610
Recognition of revenue	(10,558)
Effects of changes in foreign exchange rates	(7,918)
As at December 31, 2011	81,037
Prepayment received	10,608
Recognition of revenue	(12,277)
Effects of changes in foreign exchange rates	(1,318)
	78,050
Less: current portion	19,175
<b>As at June 30, 2012</b>	<b>\$ 58,875</b>

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

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

	June 30, 2012	December 31, 2011
Somincor commercial paper program	\$ -	\$ 19,350
Finance lease obligations	6,905	5,915
Rio Narcea debt	3,982	4,081
	<b>10,887</b>	<b>29,346</b>
Less: current portion	<b>2,865</b>	<b>21,740</b>
	<b>\$ 8,022</b>	<b>\$ 7,606</b>

The Company repaid the Somincor commercial paper program in full during the quarter.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

### 11. DILUTED WEIGHTED AVERAGE NUMBER OF SHARES

The total incremental shares added to the basic weighted average number of common shares outstanding to arrive at the fully diluted number of shares is comprised of 539,673 shares for the three months ended June 30, 2012 (2011 - 1,369,889 shares) and 970,470 shares for the six months ended June 30, 2012 (2011 - 1,441,306 shares). The incremental shares relate to in-the-money outstanding stock options.

### 12. OPERATING COSTS

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

	Three months ended		Six months ended	
	June 30		June 30	
	2012	2011	2012	2011
Direct mine and mill costs	\$ 78,107	\$ 88,574	\$ 167,724	\$ 166,842
Transportation	4,971	4,010	10,582	8,328
Royalties	2,484	1,117	7,062	6,414
	85,562	93,701	185,368	181,584
Depreciation, depletion and amortization (Note 6)	28,906	37,513	58,326	72,912
Total operating costs	\$ 114,468	\$ 131,214	\$ 243,694	\$ 254,496

During 2011, the Company adopted IFRIC 20. As a result of this accounting policy change, operating costs decreased by \$2.4 million for the three and six months ended June 30, 2011.

### 13. EMPLOYEE BENEFITS

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

	Three months ended		Six months ended	
	June 30		June 30	
	2012	2011	2012	2011
Operating costs				
Wages and benefits	\$ 28,137	\$ 26,974	\$ 56,953	\$ 55,381
Pension benefits	287	427	595	554
Share-based compensation	518	(46)	1,137	294
	28,942	27,355	58,685	56,229
General and administrative expenses				
Wages and benefits	2,526	2,731	5,246	5,504
Pension benefits	48	89	75	147
Share-based compensation	1,486	90	2,606	654
	4,060	2,910	7,927	6,305
General exploration and corporate development costs				
Wages and benefits	989	895	2,342	1,492
Share-based compensation	62	23	125	117
	1,051	918	2,467	1,609
Total employee benefits	\$ 34,053	\$ 31,183	\$ 69,079	\$ 64,143

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

### 14. GENERAL EXPLORATION AND CORPORATE DEVELOPMENT COSTS

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
General exploration	\$ 16,845	\$ 12,522	\$ 26,902	\$ 21,419
Corporate development	2,909	845	4,520	5,702
	<b>\$ 19,754</b>	<b>\$ 13,367</b>	<b>\$ 31,422</b>	<b>\$ 27,121</b>

The Company has revised its presentation of corporate development costs in the statement of earnings. These costs were previously included in general and administrative expenses. This presentation has been applied for comparative periods.

### 15. FINANCE INCOME AND COSTS

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Interest income	\$ 513	\$ 924	\$ 956	\$ 2,155
Unrealized gain on revaluation of marketable securities	-	-	-	418
<b>Total finance income</b>	<b>\$ 513</b>	<b>\$ 924</b>	<b>\$ 956</b>	<b>\$ 2,573</b>

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Interest expense and bank fees	\$ 2,386	\$ 1,701	\$ 5,595	\$ 2,980
Accretion expense on reclamation provisions	532	915	1,072	1,649
Unrealized loss on revaluation of marketable securities	4,581	1,972	3,984	-
<b>Total finance costs</b>	<b>\$ 7,499</b>	<b>\$ 4,588</b>	<b>\$ 10,651</b>	<b>\$ 4,629</b>

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

### 16. 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	
	2012	2011	2012	2011
Other income	\$ 626	\$ 510	\$ 1,146	\$ 1,023
Foreign exchange gain	15,373	-	5,881	-
<b>Total other income</b>	<b>\$ 15,999</b>	<b>\$ 510</b>	<b>\$ 7,027</b>	<b>\$ 1,023</b>

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Other expense	\$ 324	\$ 3,284	\$ 1,116	\$ 4,086
Foreign exchange loss	-	59	-	16,208
<b>Total other expenses</b>	<b>\$ 324</b>	<b>\$ 3,343</b>	<b>\$ 1,116</b>	<b>\$ 20,294</b>

### 17. INCOME TAXES

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

### 18. COMMITMENT

The Company has capital commitments as at June 30, 2012 as follows:

2012	\$	38,695
2013		113
<b>Total</b>	<b>\$</b>	<b>38,808</b>

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

### 19. SEGMENTED INFORMATION

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

#### Segmented information

##### For the three months ended June 30, 2012

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	DRC		
Sales	\$ 112,274	\$ 52,934	\$ -	\$ 7,057	\$ -	\$ -	\$ 172,265
Operating costs	(59,807)	(21,318)	(2,505)	(1,365)	-	(567)	(85,562)
General and administrative expenses	-	-	-	-	-	(6,336)	(6,336)
Operating earnings (loss) *	52,467	31,616	(2,505)	5,692	-	(6,903)	80,367
Depreciation, depletion and amortization	(21,339)	(7,343)	(196)	(17)	-	(113)	(29,008)
General exploration and corporate development costs	(10,132)	(960)	(196)	-	-	(8,466)	(19,754)
Income from equity investment in Tenke Fungurume	-	-	-	-	25,111	-	25,111
Finance income and costs	(268)	(117)	(1,375)	37	-	(5,263)	(6,986)
Other income and expenses	8,550	4,646	633	19	-	1,827	15,675
Income tax (expense) recovery	(8,967)	(7,188)	(6,835)	(110)	-	1,796	(21,304)
Net earnings (loss)	\$ 20,311	\$ 20,654	\$ (10,474)	\$ 5,621	\$ 25,111	\$ (17,122)	\$ 44,101
Capital expenditures	\$ 24,735	\$ 5,860	\$ 16,826	\$ 24	\$ -	\$ 186	\$ 47,631

##### For the six months ended June 30, 2012

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	DRC		
Sales	\$ 265,185	\$ 107,976	\$ -	\$ 11,899	\$ -	\$ -	\$ 385,060
Operating costs	(125,928)	(48,103)	(4,728)	(5,398)	-	(1,211)	(185,368)
General and administrative expenses	-	-	-	-	-	(13,942)	(13,942)
Operating earnings (loss) *	139,257	59,873	(4,728)	6,501	-	(15,153)	185,750
Depreciation, depletion and amortization	(43,103)	(14,784)	(383)	(34)	-	(214)	(58,518)
General exploration and corporate development costs	(17,114)	(1,511)	(599)	-	-	(12,198)	(31,422)
Income from equity investment in Tenke Fungurume	-	-	-	-	50,671	-	50,671
Finance income and costs	(35)	(2,190)	(1,472)	132	-	(6,130)	(9,695)
Other income and expenses	5,704	1,205	473	34	-	(1,505)	5,911
Income tax (expense) recovery	(26,043)	(10,745)	(5,278)	(238)	-	2,022	(40,282)
Net earnings (loss)	\$ 58,666	\$ 31,848	\$ (11,987)	\$ 6,395	\$ 50,671	\$ (33,178)	\$ 102,415
Capital expenditures	\$ 47,942	\$ 13,862	\$ 30,982	\$ 24	\$ -	\$ 326	\$ 93,136

\* Operating earnings (loss) is a non-GAAP measure

# LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

## Segmented information

### For the three months ended June 30, 2011

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	DRC		
Sales	\$ 123,036	\$ 50,000	\$ 71	\$ 10,862	\$ -	\$ -	\$ 183,969
Operating costs	(63,219)	(23,822)	(2,827)	(3,832)	-	(1)	(93,701)
General and administrative expenses	-	-	-	-	-	(4,883)	(4,883)
Operating earnings (loss) *	59,817	26,178	(2,756)	7,030	-	(4,884)	85,385
Depreciation, depletion and amortization	(29,710)	(7,104)	(680)	(19)	-	(76)	(37,589)
General exploration and corporate development costs	(8,478)	(221)	(299)	-	-	(4,369)	(13,367)
Income from equity investment in Tenke Fungurume	-	-	-	-	32,022	-	32,022
Finance income and costs	(278)	(207)	(563)	169	-	(2,785)	(3,664)
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 earnings (loss)	\$ 13,489	\$ 15,797	\$ 2,549	\$ 5,708	\$ 32,022	\$ (9,484)	\$ 60,081
Capital expenditures	\$ 31,623	\$ 14,109	\$ 3,882	\$ -	\$ 10,450	\$ 35	\$ 60,099

### For the six months ended June 30, 2011

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	DRC		
Sales	\$ 279,598	\$ 97,585	\$ (1,863)	\$ 20,106	\$ -	\$ -	\$ 395,426
Operating costs	(120,333)	(47,441)	(8,339)	(5,252)	-	(219)	(181,584)
General and administrative expenses	-	-	-	-	-	(10,043)	(10,043)
Operating earnings (loss) *	159,265	50,144	(10,202)	14,854	-	(10,262)	203,799
Depreciation, depletion and amortization	(58,331)	(13,060)	(1,485)	(36)	-	(151)	(73,063)
General exploration and corporate development costs	(15,181)	(358)	(822)	-	-	(10,760)	(27,121)
Income from equity investment in Tenke Fungurume	-	-	-	-	56,887	-	56,887
Finance income and costs	284	(281)	(490)	253	-	(1,822)	(2,056)
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 earnings (loss)	\$ 51,809	\$ 24,416	\$ 1,654	\$ 13,703	\$ 56,887	\$ (17,228)	\$ 131,241
Capital expenditures	\$ 61,412	\$ 23,463	\$ 5,158	\$ 34	\$ 15,819	\$ 66	\$ 105,952

\* Operating earnings (loss) is a non-GAAP measure

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Copper	\$ 110,232	\$ 127,941	\$ 257,545	\$ 280,833
Zinc	44,156	32,781	85,911	71,966
Lead	14,417	18,970	34,080	35,970
Nickel	-	320	-	(397)
Other	3,460	3,957	7,524	7,054
	<b>\$ 172,265</b>	<b>\$ 183,969</b>	<b>\$ 385,060</b>	<b>\$ 395,426</b>

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Europe	\$ 172,265	\$ 185,165	\$ 382,338	\$ 368,616
South America	-	(1,256)	2,722	26,493
Other	-	60	-	317
	<b>\$ 172,265</b>	<b>\$ 183,969</b>	<b>\$ 385,060</b>	<b>\$ 395,426</b>

## 20. 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. During the six months ended June 30, 2012, the Company made no cash advances to fund its portion of Tenke expenditures.
- b) Key management personnel - The Company has identified its directors and certain senior officers as its key management personnel. The employee benefits for key management personnel are as follows:

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Wages and salaries	\$ 1,403	\$ 1,126	\$ 3,155	\$ 3,969
Pension benefits	20	32	40	64
Share-based compensation	1,130	17	1,498	343
	<b>\$ 2,553</b>	<b>\$ 1,175</b>	<b>\$ 4,693</b>	<b>\$ 4,376</b>

- c) Other related parties - During the six months ended June 30, 2012, the Company paid \$0.2 million (2011 - \$0.2 million) for services provided by a company owned by the Chairman of the Company. The Company also paid \$0.5 million for the six months ended June 30, 2012 (2011 - \$nil) to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2012 and 2011

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

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### 21. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Six months ended	
	June 30		June 30	
	2012	2011	2012	2011
Changes in non-cash working capital items consist of:				
Accounts receivable, inventories and other current assets	\$ 57,467	\$ 50,838	\$ 28,443	\$ 110,206
Accounts payable and other current liabilities	17,442	(10,450)	34,147	(6,125)
	<b>\$ 74,909</b>	<b>\$ 40,388</b>	<b>\$ 62,590</b>	<b>\$ 104,081</b>
Operating activities included the following cash payments:				
Interest received	\$ 484	\$ 924	\$ 927	\$ 2,155
Interest paid	\$ 761	\$ 710	\$ 1,618	\$ 1,498
Income taxes paid	\$ 1,657	\$ 38,920	\$ 7,344	\$ 47,329

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