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## NEWS RELEASE

### LUNDIN MINING PUBLISHES 2013 ANNUAL FILINGS

Toronto, April 30, 2014 (TSX: LUN; OMX: LUMI) Lundin Mining Corporation (“Lundin Mining” or the “Company”) today announces that the 2013 Annual Filings Document is available for download from the Company’s website: <http://www.lundinmining.com/s/FinancialStatements.asp>.

#### About Lundin Mining

Lundin Mining Corporation is a diversified Canadian base metals mining company with operations and development projects in Portugal, Sweden and Spain and the USA, producing copper, zinc, lead and nickel. In addition, Lundin Mining holds a 24% equity stake in the world-class Tenke Fungurume copper/cobalt mine in the Democratic Republic of Congo and in the Freeport Cobalt Oy business, which includes a cobalt refinery located in Kokkola, Finland.

On Behalf of the Board,

Paul Conibear  
President and CEO

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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. This report includes, but is not limited to, forward looking statements with respect to the Company’s estimated full year metal production, cash costs, exploration expenditures, and capital expenditures, as noted in the Outlook section and elsewhere in this document. These estimates and other forward-looking statements are based on a number of assumptions and are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the estimated cash costs, timing and amount of production from the Eagle project, cost estimates for the Eagle project, foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company’s expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour or interruptions in production; actual ore mined varying from estimates of grade, tonnage, dilution and*

*metallurgical and other characteristics; the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; litigation risks; and other risks and uncertainties, including those described in the Risk and Uncertainties section of the Company's Annual Information Form and in each Management's Discussion and Analysis. Forward-looking information may also be based on other various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of copper, zinc, lead and nickel; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment where the Company operates will continue to support the development and operation of mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.*

# **lundin mining**

## **2013 Annual Filings**

**December 31, 2013**

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# lundin mining

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

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This management's discussion and analysis ("MD&A") has been prepared as of February 20, 2014 and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2013. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company's presentation currency is United States ("US") dollars. Reference herein of \$ is to United States dollars, C\$ is to Canadian dollars, SEK is to Swedish krona and € refers to the Euro.

### **About Lundin Mining**

Lundin Mining Corporation ("Lundin", "Lundin Mining" or the "Company") is a diversified Canadian base metals mining company with operations and development projects in Portugal, Sweden, Spain, and the US, producing copper, zinc, lead and nickel. In addition, Lundin Mining holds a 24% equity stake in the world-class Tenke Fungurume copper/cobalt mine in the Democratic Republic of Congo ("DRC") and in the Freeport Cobalt Oy business, which includes a cobalt refinery located in Kokkola, Finland.

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

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

## Highlights

### Operational and Financial Performance

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

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

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

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

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

## Production Summary:

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

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

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

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

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

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

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

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

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

### Corporate Highlights

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

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

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

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



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

## **Financial Position and Financing**

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

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

## Outlook

### 2014 Production and Cost Guidance

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

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

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

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

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

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

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

## 2014 Capital Expenditure Guidance

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

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

## Exploration Investment

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

## Selected Quarterly and Annual Financial Information

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

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

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

## Sales Overview

### Sales Volumes by Payable Metal

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

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

### Sales Analysis

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

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

Sales are recorded using the metal price received for sales that settle during the reporting period. For sales that have not been settled, an estimate is used based on the expected month of settlement and the forward price of the metal at the end of the reporting period. The difference between the estimate and the final price received is recognized by adjusting gross sales in the period in which the sale (finalization adjustment) is settled. The finalization adjustment recorded for these sales depends on the actual price when the sale settles. Settlement dates are typically one to four months after shipment.

### Year to Date Reconciliation of Realized Prices

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

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

1. Includes provisional price adjustments on current period sales.

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

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

## Annual Financial Results

### Operating Costs

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

### General and Administrative Expenses

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

### Depreciation, Depletion and Amortization

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

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

### General Exploration and Business Development

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

### Income from Equity Investment in Associates

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

### Finance Income and Costs

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

### Other Income and Expense

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

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

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

### Current and Deferred Taxes

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

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

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

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



## Fourth Quarter Financial Results

### Sales

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

### Fourth Quarter Reconciliation of Realized Prices

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

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

1. Includes provisional price adjustments on current period sales.

## Operating Earnings

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

## Net (Loss) Earnings

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

## Cash Flow from Operations

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

## Cash Cost Overview

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

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

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

## Mining Operations

### Production Overview

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

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

### Cash Cost Overview

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

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

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

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

## Neves-Corvo Mine

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

### Operating Statistics

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

### Operating Earnings

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

### Production

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

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

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

### Cash Costs

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

## **Projects**

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

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

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

## Zinkgruvan Mine

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

### Operating Statistics

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

### Operating Earnings

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

### Production

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

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

### Cash Costs

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

**Projects**

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

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

## Aguablanca Mine

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

### Operating Statistics

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

### Operating Earnings

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

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

### Production

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

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

### Cash Costs

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



## Galmoy Mine

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

### Operating Statistics

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

### Operating Earnings

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

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

### Production

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

### Closure Costs

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

## Tenke Fungurume

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

### Operating Statistics

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

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

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

### Income from Equity Investment

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

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

### Production

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

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

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

### **Cash Costs**

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

### **Future Expansion Studies**

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

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

### **Tenke Cash Flow**

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

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

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

## **Eagle Project**

*The Eagle Project consists of the Eagle underground mine, located approximately 55 km northwest of Marquette, Michigan, U.S.A. and the Humboldt mill, located 45 km west of Marquette in Champion, Michigan. The mine and mill are currently under development and construction is expected to be completed in the fourth quarter of 2014. Once in operation, the mine is expected to produce an average of 17ktpa each of nickel and copper over the current mine life of 8 years at an average cash cost of \$2.50/lb of nickel. The Eagle Project was acquired from Rio Tinto in July 2013.*

### **Project Development**

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

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

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

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

### **Mine**

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

### **Mill**

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

### **Transportation**

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

### **Operational Readiness**

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

### **Permitting**

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

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

## **Exploration**

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

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

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

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

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

### **Peru (Copper)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Liquidity and Financial Condition**

### **Cash Reserves**

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

### **Working Capital**

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

### **Long-Term Debt**

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

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

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

## Shareholders' Equity

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

## Sensitivities

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

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

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

## Contractual Obligations and Commitments

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

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

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

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

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



## Financial Instruments

Summary of financial instruments:

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

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

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

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

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

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

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

## Related Party Transactions

### Tenke Fungurume

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

During the year ended December 31, 2013, the Company made no cash advances to fund its portion of Tenke expenditures and received \$141.8 million in cash distributions.

### Freeport Cobalt

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

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

### Key Management Personnel

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

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

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

## Changes in Accounting Policies

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

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

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

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

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

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

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

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

### **New Accounting Pronouncements**

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

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

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

## **Critical Accounting Estimates and Assumptions**

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

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

### **Depreciation, depletion and amortization of mineral properties, plant and equipment**

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

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

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

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

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

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

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

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

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

#### **Goodwill**

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

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

#### **Reclamation and other closure provisions**

The Company has obligations for reclamation and other closure activities related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of closure

provisions. The reclamation and other closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

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

### **Pension obligations**

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

### **Share-based compensation**

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

### **Critical Accounting Judgments**

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

#### **Income taxes**

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

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

## **Managing Risks**

### **Risks and Uncertainties**

#### **Metal Prices**

Metal prices, primarily copper, zinc, lead and nickel are key performance drivers and fluctuations in the prices of these commodities can have a dramatic effect on the results of operations. Prices can fluctuate widely and are affected by numerous factors beyond the Company's control. The prices of metals are influenced by supply and demand, exchange rates, interest rates and interest rate expectation, inflation or deflation and expectations

with respect to inflation or deflation, speculative activities, changes in global economies, and political, social and other factors. The supply of metals consists of a combination of new mine production, recycling and existing stocks held by governments, producers and consumers.

If the market prices for metals fall below the Company's full production costs and remain at such levels for any sustained period of time, the Company may, depending on hedging practices, experience losses and may decide to discontinue mining operations or development of a project at one or more of its properties. If the prices drop significantly, the economic prospects of the mines and projects in which the Company has an interest could be significantly reduced or rendered uneconomic. Low metal prices will affect the Company's liquidity, and if they persist for an extended period of time, the Company may have to look for other sources of cash flow to maintain liquidity until metal prices recover. The Company does not currently hedge metal prices.

### **Foreign Exchange Risk**

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

### **Credit Risk**

The Company is exposed to various counterparty risks. The Company is subject to credit risk through its trade receivables. The Company manages this risk through evaluation and monitoring of industry and economic conditions and assessment of customers' financial reports. The Company transacts with credit worthy customers to minimize credit risk and if necessary, employs pre-payment arrangements and the use of letters of credit, where appropriate, but cannot always be assured of the solvency of its customers. Credit risk relating to derivative contracts arises from the possibility that a counterparty to an instrument with which the Company has an unrealized gain fails to settle the contracts.

### **Derivative Instruments**

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

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

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

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

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

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

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

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

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

### **Competition**

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

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

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

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

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



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

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

### **Mining and Processing**

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

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

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

### **Energy Prices and Availability**

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

### **Mine Development Risks**

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

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

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

### **Exploration Risk**

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

### **Community Relations**

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

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

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

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

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

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

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

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

The Company annually undertakes a detailed review of the LOM plans for its operating properties and an evaluation of the Company's portfolio of development projects, exploration projects and other assets. The recoverability of the Company's carrying values of its operating and development properties are assessed by comparing carrying values to estimated future net cash flows and/or market values for each property.

Factors which may affect the recoverability of carrying values include, but are not limited to, metal prices, foreign exchange rates, capital cost estimates, mining, processing and other operating costs, grade and metallurgical characteristics of ore, mine design and timing of production. In the event of a prolonged period of

depressed prices, the Company may be required to take material write-downs of its operating and development properties.

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

The Company does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfill its obligations under any applicable agreements. Failure to obtain such additional funding could result in the delay or indefinite postponement of the exploration and development of the Company's properties.

Lundin Mining is a multinational company and relies on financial institutions worldwide to fund its corporate and project needs. Instability of large financial institutions may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. Disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation of financial institutions, reduced alternatives or failures of significant financial institutions could adversely affect the Company's access to the liquidity needed for the business in the longer term.

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

### **Uninsurable Risks**

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

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

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

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

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

## **Litigation**

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

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

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

## **Tax**

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

## **Employee Relations**

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

## **Infrastructure**

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

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

## **Acquisition and Integration**

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

## **Key Personnel**

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

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

## **Outstanding Share Data**

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

## **Non-GAAP Performance Measures**

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

- **Operating earnings**

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

- **Cash cost per pound**

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

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

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

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

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

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

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

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

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

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

Disclosure controls and procedures ("DCP") have been designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operation of disclosure controls and procedures and has evaluated the effectiveness of the Company's disclosure controls and procedures and has concluded that they were effective as at December 31, 2013.

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

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

### ***Control Framework***

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

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

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

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

There have been no changes in the Company's internal control over financial reporting during the three month period ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### ***Other Information***

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



# **lundin mining**

## **Consolidated Financial Statements**

For the Year Ended December 31, 2013

## Management's Report

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

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

*(Signed) Paul K. Conibear*

President and Chief Executive Officer

*(Signed) Marie Inkster*

Senior Vice President and Chief Financial Officer

Toronto, Ontario, Canada  
February 20, 2014

February 20, 2014

## **Independent Auditor's Report**

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

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

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

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

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

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

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

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

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lundin Mining Corporation as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*(Signed) "PricewaterhouseCoopers LLP"*

**Chartered Professional Accountants, Licensed Public Accountants**

**LUNDIN MINING CORPORATION**

## CONSOLIDATED BALANCE SHEETS

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

Commitments and contingencies (Note 23)

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

**APPROVED BY THE BOARD**(Signed) Lukas H. Lundin  
Director(Signed) Dale C. Peniuk  
Director

## LUNDIN MINING CORPORATION

### CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31, 2013 and 2012

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

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

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

## LUNDIN MINING CORPORATION

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2013 and 2012

(in thousands of US dollars)

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

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2013 and 2012

(in thousands of US dollars, except for shares)

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

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

## LUNDIN MINING CORPORATION

### CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2013 and 2012

(in thousands of US dollars)

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

Supplemental cash flow information (Note 29)

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

# LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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

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## 1. NATURE OF OPERATIONS

Lundin Mining Corporation (the "Company") is a diversified Canadian base metals mining company. The Company's wholly-owned operating assets include the Neves-Corvo copper/zinc mine located in Portugal, the Zinkgruvan zinc/lead mine located in Sweden, and the Aguablanca nickel/copper mine located in Spain. The Company also owns the high grade nickel/copper Eagle project in the United States ("US"), and 24% equity accounted interests in the Tenke Fungurume copper/cobalt mine located in the Democratic Republic of Congo ("DRC") and the Freeport Cobalt Oy business ("Freeport Cobalt"), which includes a cobalt refinery located in Kokkola, Finland.

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

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

### (i) Basis of presentation and measurement

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

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

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

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

These consolidated financial statements were approved by the Board of Directors of the Company for issue on February 20, 2014.

### (ii) Significant accounting policies

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

#### (a) Basis of consolidation

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

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



## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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

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date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

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

(b) Investments in associates

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

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

(c) Translation of foreign currencies

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

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

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

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

(d) Cash and cash equivalents

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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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

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(e) Reclamation funds

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

(f) Inventories

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

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

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

(g) Mineral properties

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

- i. Acquisition costs which consist of payments for property rights and leases, including the estimated fair value of exploration properties acquired as part of a business combination or the acquisition of a group of assets.
- ii. Exploration, evaluation and project investigation costs incurred on an area of interest once a determination has been made that a property has economically recoverable resources and there is a reasonable expectation that costs can be recovered by future exploitation or sale of the property. Exploration, evaluation and project investigation expenditures made prior to a determination that a property has economically recoverable resources are expensed as incurred.
- iii. Deferred stripping costs represent the cost incurred to remove overburden and other waste materials to access ore in an open pit mine. Stripping costs incurred prior to the production phase of the mine are capitalized and included as part of the carrying value of the mineral property. During the production phase, stripping costs which provide probable future economic benefits, provide identifiable improved access to the ore body and which can be measured reliably are capitalized to mineral properties. Capitalized stripping costs are amortized using a unit-of-production basis over the proven and probable reserve to which they relate.
- iv. Development costs incurred on an area of interest once management has determined that, based on a feasibility study, a property is capable of economical commercial production as a result of having established a proven and probable reserve, are capitalized as development expenses. Development costs are directly attributable to the construction of a mine. When additional development expenditures are made on a property after commencement of production, the expenditure is deferred as mineral property expenditures when it is probable that additional economic benefit will be derived from future operations.

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

vi. Once a mining operation has achieved commercial production, capitalized mineral property expenditures for each area of interest are depleted on a unit-of-production basis using proven and probable reserves.

### (h) Plant and equipment

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

Useful lives are as follows:

	Number of years
Buildings	20 - 30
Plant and machinery	5 - 20
Equipment	5

### (i) Mining equipment under finance lease

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

### (j) Impairment

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

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

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

Reversals of impairment arise from subsequent reviews of the impaired assets where the conditions which gave rise to the original impairments are deemed no longer to apply. The carrying value of the asset

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is increased to the revised estimate of its recoverable amount. The increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as a gain in the consolidated statement of earnings in the period it is determined.

(k) Borrowing costs

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

(l) Business combinations and goodwill

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

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

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

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

(m) Derivatives

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

Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless closely related to the host contract. All derivative instruments, including certain embedded

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derivatives that are separated from their host contracts, are recorded on the consolidated balance sheets at fair value and mark-to-market adjustments on these instruments are included in the consolidated statement of earnings.

(n) Deferred revenue

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

(o) Provision for pension obligations

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

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

(p) Reclamation and other closure provisions

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

The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Since the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

As the estimate of the obligations is based on future expectations, a number of assumptions are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

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

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

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cost is charged to the consolidated statement of earnings.

(q) Revenue recognition

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

(r) Share-based compensation

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

(s) Deferred and current income taxes

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

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

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

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

(t) Earnings per share

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

(u) Financial instruments

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

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

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

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

Transaction costs for FVTPL assets are expensed.

*Available for sale ("AFS")*

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

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

*Loans and receivables*

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

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### *Financial liabilities at amortized cost*

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

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

### (v) Government grants

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

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

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

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

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

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

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



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

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

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

### (iv) New accounting pronouncements

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

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

### (v) Critical accounting estimates and assumptions

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

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

**Depreciation, depletion and amortization of mineral properties, plant and equipment** - Mineral properties, plant and equipment comprise a large component of the Company's assets and as such, the depreciation, depletion and amortization of these assets have a significant effect on the Company's financial statements.

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Upon commencement of commercial production, the Company depletes mineral property over the life of the mine based on the depletion of the mine's proven and probable reserves. In the case of mining equipment or other assets, if the useful life of the asset is shorter than the life of the mine, the asset is amortized over its expected useful life.

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

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

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

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

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

**Valuation of Investment in Tenke Fungurume and Freeport Cobalt** - The Company carries its investment at cost and adjusts for its share of earnings and capital transactions of the investee. The Company reviews the carrying value of the investment whenever events or changes in circumstances indicate that impairment may be present. In undertaking this review, the Company makes reference to future operating results and cash flows. For the investment in Tenke Fungurume, this requires making significant estimates of, amongst other things, reserve and resource quantities, and future production and sale volumes, metal prices and future operating and capital costs to the end of the mine's life. For the investment in Freeport Cobalt, critical assumptions are made related

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to future sale volumes, operating and capital costs and metal prices. These estimates are subject to various risks and uncertainties which may ultimately have an effect on the expected recoverability of the carrying values of the investments.

**Goodwill** - The amount by which the purchase price of a business acquisition exceeds the fair value of identifiable assets and liabilities acquired is recorded as goodwill. Goodwill is allocated to the CGUs acquired based on the assessment of which CGU would be expected to benefit from the synergies of the acquisition. Estimates of recoverable value may be impacted by changes in metal prices, foreign exchange rates, discount rates, level of capital expenditures, operating costs and other factors that may be different from those used in determining fair value. Changes in estimates could have a material impact on the carrying value of the goodwill. Refer to Note 12 for sensitivities.

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

**Reclamation and other closure provisions** - The Company has obligations for reclamation and other closure activities related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of closure provisions. The reclamation and other closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

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

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

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

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

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

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

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

### 3. ACQUISITION OF EAGLE

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

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

#### The purchase price is as follows:

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

#### Assets acquired and liabilities assumed:

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

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

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

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### 5. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

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

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

The fair value of trade and other receivables, including the embedded derivative arising from provisionally priced trade receivables, is disclosed in Note 26.

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

### 6. INVENTORIES

Inventories are comprised of the following:

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

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

### 7. RESTRICTED FUNDS

Restricted funds are comprised of the following:

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

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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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

### 8. MARKETABLE SECURITIES AND OTHER ASSETS

Marketable securities and other assets comprise the following:

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

#### a) Marketable securities

Marketable securities include FVTPL and AFS investments.

The changes in marketable securities are as follows:

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

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

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

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

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### 9. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Mineral properties, plant and equipment comprise the following:

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

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

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

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

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

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

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Depreciation, depletion and amortization is comprised of:

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

### 10. INVESTMENT IN ASSOCIATES

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

#### a) Investment in Tenke Fungurume

The Company holds a 30% interest in TF Holdings Limited ("TFH"), a Bermuda company, which in turn holds an 80% interest in a Congolese subsidiary company, Tenke Fungurume Mining Corp S.A.R.L. ("TFM"). Freeport McMoRan Copper & Gold Inc. ("FCX") holds the remaining 70% interest in TFH. TFM holds a 100% interest in the Tenke Fungurume copper/cobalt mine. The Company's and FCX's effective interests in TFM are 24% and 56%, respectively. La Générale des Carrières et des Mines ("Gécamines"), a DRC Government-owned corporation, owns a free-carried 20% interest.

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

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

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

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

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



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

### b) Investment in Freeport Cobalt

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

## 11. CURRENT AND DEFERRED INCOME TAXES

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

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

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

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

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

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

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

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

### Deferred tax assets (liabilities), net

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

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

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

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

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

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

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

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

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

### 12. GOODWILL

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

Goodwill is allocated to the CGU as follows:

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

#### Impairment Testing

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

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

Commodity prices used in the cash flow projections are within the range of current market consensus observed during the fourth quarter of 2013. The valuation for the recoverable amount is most sensitive to long-term copper and zinc prices, as well as Euro and US dollar exchange rates.

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

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

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

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

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

### Aguablanca

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

## 13. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

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

## 14. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

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

### a) Neves-Corvo mine

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

### b) Zinkgruvan mine

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

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

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

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

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

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

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

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

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

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

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

The schedule of principal repayment obligations are as follows:

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

## 16. SHARE CAPITAL

### (a) Authorized and issued shares

Authorized share capital consists of an unlimited number of voting common shares with no par value and one special non-voting share with no par value. As at December 31, 2013, there were 584,643,063 fully paid voting common shares issued (2012 - 584,005,006).

### (b) Stock options

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

The Company uses the fair value method of accounting for the recording of stock option grants to employees and officers. Under this method, the Company recorded a share-based compensation expense of \$7.5 million for 2013 (2012 - \$7.2 million) with a corresponding credit to contributed surplus.

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

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

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

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

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

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

(c) Diluted weighted average number of shares

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

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



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### 17. RECLAMATION AND OTHER CLOSURE PROVISIONS

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

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

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

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

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

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

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

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### 18. OPERATING COSTS

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

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

### 19. EMPLOYEE BENEFITS

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

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

#### Provision for pension obligations

The Company has calculated its liability relating to the defined benefit plan at the Zinkgruvan mine using the accrued benefit pro-rated on services method. The Company adopted IAS 19 which eliminates the corridor method. As a result, a \$2.1 million increase to the provision for pension obligations and a reduction to accumulated other comprehensive income were recorded as at December 31, 2012.

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

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

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

Information about Zinkgruvan's pension obligations is as follows:

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

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

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

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

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

### Defined contribution plans

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

## 20. GENERAL EXPLORATION AND BUSINESS DEVELOPMENT

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

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

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

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

### 21. FINANCE INCOME AND COSTS

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

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

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

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

### 22. OTHER INCOME AND EXPENSES

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

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

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

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

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Notes to consolidated financial statements

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### 23. COMMITMENTS AND CONTINGENCIES

- a) The Company's wholly-owned subsidiary, Somincor, has entered into a fifty year concession royalty agreement with the Portuguese government to pay the greater of 10% of prescribed net earnings or 1% of mine-gate production revenue. Royalty costs for the year ended December 31, 2013 in the amount of \$7.5 million (2012 - \$9.4 million) were included in operating costs.
- b) Royalty payments relating to the Aguablanca mine are 2% of net sales. Royalty costs for the year ended December 31, 2013 were \$2.3 million (2012 - \$0.4 million).
- c) A bank has issued a bank guarantee to the Swedish authorities in the amount of \$12.3 million (SEK 80.0 million) relating to the future reclamation costs at the Zinkgruvan mine. The Company has agreed to indemnify the bank for this guarantee.
- d) Under agreement with Silver Wheaton, the Company has agreed to deliver all future production of silver contained in concentrate produced from the Zinkgruvan mine. The Silver Wheaton agreement with the Zinkgruvan mine includes a guaranteed minimum delivery of 40 million ounces of silver over an initial 25 year term. If at the end of the initial term the Company has not met its minimum obligation, it must pay Silver Wheaton \$1.00 for each ounce of silver not delivered. An aggregate total of approximately 16.6 million ounces has been delivered since the inception of the contract in 2004.
- e) The Company is committed to spend \$4.3 million on exploration expenses during 2014 and 2015.
- f) The Company is a party to certain contracts relating to operating leases and service and supply agreements. Future minimum payments under these agreements as at December 31, 2013 are as follows:

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

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

### 24. SEGMENTED INFORMATION

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

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### For the year ended December 31, 2013

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

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### For the year ended December 31, 2012

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

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

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

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

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

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

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

## 25. RELATED PARTY TRANSACTIONS

- a) **Transactions with associates** - The Company enters into transactions related to its investment in associates. These transactions are entered into in the normal course of business and on an arm's length basis (Note 10).
- b) **Key management personnel** - The Company has identified its directors and certain senior officers as its key management personnel. The employee benefits for key management personnel are as follows:

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

- c) **Other related parties** - During the year ended December 31, 2013, the Company paid \$0.3 million (2012 - \$0.3 million) for services provided by a company owned by the Chairman of the Company. The Company also paid \$0.8 million for the year ended December 31, 2013 (2012 - \$0.5 million) to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company.



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### 26. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial assets and financial liabilities have been classified into categories that determine their basis of measurement. The following table shows the carrying values, fair values and fair value hierarchy of the Company's financial instruments as at December 31, 2013 and December 31, 2012:

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

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

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

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

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

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

Trade receivables – The fair value of the embedded derivatives on provisional sales are valued using quoted market prices based on the forward London Metals Exchange price. The Company recognized a negative pricing adjustments of \$16.9 million in sales during the year ended December 31, 2013 (2012 - \$4.5 million positive price adjustment).

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

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

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

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

### 27. MANAGEMENT OF FINANCIAL RISK

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

#### a) Credit risk

The exposure to credit risk arises through the failure of a customer or another third party to meet its contractual obligations to the Company. The Company believes that its maximum exposure to credit risk as at December 31, 2013 is the carrying value of its trade receivables.

Concentrate produced at the Company's Neves-Corvo and Zinkgruvan mines are sold to a small number of strategic customers with whom the Company has established long-term relationships. Limited amounts are occasionally sold to metals traders on an ad hoc basis. Production from the Aguablanca mine is sold to a trading company under a long-term contract. The payment terms vary and provisional payments are normally received within one to four weeks of shipment, in accordance with industry practice, with final settlement up to four months following the date of shipment. Sales to metals traders are made on a cash up-front basis. Credit worthiness of customers are reviewed by the Company on an annual basis or more frequently, if warranted, and those not meeting certain credit criteria are required to make 100% provisional payment up-front or by an acceptable payment instrument such as a letter of credit. The failure of any of the Company's strategic customers could have a material adverse effect on the Company's financial position. For the year ended December 31, 2013, the Company has two customers that individually account for more than 10% of the Company's total sales. These customers represent approximately 43% and 13% of total sales and relate primarily to the Neves-Corvo and Zinkgruvan mines.

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

#### b) Liquidity risk

The Company has in place a planning and forecasting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there is sufficient committed capital to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. The Company has a revolving credit facility in place to assist with meeting its cash flow needs as required (Note 15).

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

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### c) Foreign exchange risk

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

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

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

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

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

### d) Commodity price risk

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

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

The sensitivity of the Company's financial instruments recorded as at December 31, 2013 excluding the effect of the changes in metal prices on smelter treatment charges is as follows:

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

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### e) Interest rate risk

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

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

## 28. MANAGEMENT OF CAPITAL RISK

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

Through the ongoing management of its capital, the Company will modify the structure of its capital based on changing economic conditions in the jurisdictions in which it operates. In doing so, the Company may issue new shares or debt, buy back issued shares, or pay off any outstanding debt. The Company's current policy is to not pay out dividends but rather to reinvest its earnings in the business.

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

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

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

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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2013 and 2012

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

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### 29. SUPPLEMENTARY CASH FLOW INFORMATION

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

# **lundin mining**

**Annual Information Form  
For the Year Ended December 31, 2013**

**March 31, 2014**

## DEFINITIONS

In this Annual Information Form all units are SI metric unless otherwise noted. Abbreviations are as defined below unless the context otherwise indicates:

**Ag** means silver.

**AIF** means this Annual Information Form.

**ARMC** means Amended and Restated Mining Convention.

**C\$** means Canadian dollars.

**CIM** means the Canadian Institute of Mining, Metallurgy and Petroleum.

**CIM Standards** means the definitions adopted by CIM Council on November 27, 2010, which were adopted by the Canadian Securities Administrators in National Instrument 43-101.

**Co** means cobalt.

**Cu** means copper.

**DRC** means Democratic Republic of the Congo.

**Dollars** or **\$** means United States dollars.

**€** means the Euro.

**Eagle Project or Eagle** means Eagle Mine LLC (United States), a wholly-owned indirect subsidiary of the Company that owns the Eagle project located in the state of Michigan, United States of America.

**Equinox** means Equinox Minerals Limited.

**EuroZinc** means EuroZinc Mining Corporation, which was acquired by the Company on October 31, 2006 and subsequently amalgamated with the Company effective November 30, 2006.

**FCX or Freeport** means Freeport-McMoRan Copper & Gold Inc., a premier U.S. based natural resource company with an industry leading global portfolio of mineral assets, significant oil and gas resources and a growing production profile. FCX has headquarters in Phoenix, Arizona, and owns the majority of TF Holdings and Freeport Cobalt and is indirectly majority owner and operator of TFM.

**Freeport Cobalt** means Freeport Cobalt Oy a large scale cobalt chemical refinery located in Kokkola, Finland and the related sales and marketing areas.

**Freeport-McMoRan Corporation or FMC** means the company formally called Phelps Dodge Corporation.

**GAAP** means generally accepted accounting principles.

**Galmoy** means Galmoy Mines Ltd. (Ireland), a wholly-owned indirect subsidiary of the Company that owns the Galmoy mine located in Ireland.

**Gécamines** means La Générale des Carrières et des Mines, the GDRC state-owned mining company.

**GDRC** means the Government of the DRC.

**Gpm** means gallons per minute.

**ha** means hectare.

**HSEC** means Health, Safety, Environment and Community.

**IFC** means the International Finance Corporation.

**IFRS** means International Financial Reporting Standards.

**Inmet** means Inmet Mining Corporation.

**km** means kilometre.

**LOM** means life of mine.

**Lundin Mining** or the **Company** means Lundin Mining Corporation, including Lundin Mining Corporation and its subsidiaries.

**m** means metre.

**mm** means millimetre.

**MD&A** means Management's Discussion and Analysis of results of operations and financial condition of the Company for the fiscal year ended December 31, 2013, dated February 20, 2014.

**mtpa** means million tonnes per annum.

**National Instrument 43-101** means National Instrument 43-101 "Standards for Disclosure For Mineral Projects" adopted by the Canadian Securities Administrators.

**National Instrument 52-110** means National Instrument 52-110 "Audit Committees" adopted by the Canadian Securities Administrators.

**Ni** means nickel.

**NSR** means Net Smelter Return.

**OMX** means the NASDAQ OMX Nordic Exchange, Stockholm.

**Oz** means ounces.

**Pb** means lead.

**PD or Phelps Dodge** means Phelps Dodge Corporation.

**Qualified Person** means a qualified person as defined within National Instrument 43-101.

**Rights Plan** means Shareholder Rights Plan.

**Rio Narcea** means Rio Narcea Gold Mines, Ltd. (Canada), a wholly-owned indirect subsidiary of the Company.

**Rio Tinto** means the Rio Tinto Group.

**SEDAR** means the System for Electronic Document Analysis and Retrieval.

**SEK** means Swedish kronor.

**SI** means International System of Units.

**Silverstone** means Silverstone Resources Corp.

**Silver Wheaton** means Silver Wheaton Corp., which acquired Silverstone in May 2009.

**Somincor** means Somincor-Sociedade Mineira de Neves-Corvo, S.A. (Portugal), a wholly-owned indirect subsidiary of the Company that owns the Neves-Corvo mine located in Portugal.

**Tenke Holdings** means Tenke Holdings Ltd. (Bermuda), a wholly-owned subsidiary of the Company that owns a minority interest in TF Holdings and a minority indirect interest in TFM.

**Tenke Mining** means Tenke Mining Corp. which was acquired by the Company on July 3, 2007 and subsequently amalgamated with the Company effective July 31, 2007.

**TF Holdings** means TF Holdings Limited (formerly, Lundin Holdings Ltd.), a Bermuda company owned 30% by Tenke Holdings and 70% by a wholly-owned subsidiary of FCX that owns a controlling position of TFM.

**TFM** means Tenke Fungurume Mining SARL, a Congolese company that owns the Tenke Fungurume mine.



**Tenke Fungurume mine** means the deposits of copper, cobalt and associated minerals under mining concessions granted to TFM in 1996 at Tenke and Fungurume, Katanga Province, DRC.

**tpa/d** means tonnes per annum/day.

**TSX** means the Toronto Stock Exchange.

**Zinkgruvan** means Zinkgruvan Mining AB (Sweden), a wholly-owned indirect subsidiary of the Company that owns the Zinkgruvan mine located in Sweden.

**Zn** means zinc.

## CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

*Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the Ontario Securities Act. This report includes, but is not limited to, forward looking statements with respect to the Company's expected exploration, drilling and development activities, various site expansion programs, commercial production at Eagle Mine and closure activities at former operating sites. These estimates and other forward-looking statements are based on a number of assumptions and are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the estimated cash costs, timing and amount of production from the Eagle Mine, cost estimates for the Eagle Mine, foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour or interruptions in production; actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; litigation risks; and other risks and uncertainties, including those described under the Risks and Uncertainties section of this document and in each Management's Discussion and Analysis. Forward-looking information may also be based on other various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of copper, zinc, lead and nickel; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment where the Company operates will continue to support the development and operation of mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.*

## ITEM 1 INTRODUCTION

### 1.1. Date of Information

All information in this AIF is as of December 31, 2013 unless otherwise indicated.

### 1.2. Currency

The Company reports its financial results and prepares its financial statements in United States (“US”) dollars. All currency amounts in this AIF are expressed in United States dollars, unless otherwise indicated. The United States dollar exchange rates for the Company’s principal operating currencies and for the Canadian dollar are as follows:

As at December 31	2013	2012	2011
Canadian dollar (C\$)	1.0636	0.9949	1.0170
Euro (€)	0.7251	0.7579	0.7729
Swedish krona (SEK)	6.5084	6.5156	6.9234

### 1.3. Accounting Policies and Financial Information

Financial information is presented in accordance with IFRS as issued by the International Accounting Standards Board and with interpretations of the International Financial Reporting Interpretations Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting.

This AIF refers to various non-GAAP measures, such as “operating earnings” and “cash cost per pound”, which are used by the Company to manage and evaluate operating performance at each of Lundin Mining’s mines and are widely reported in the mining industry as benchmarks for performance but do not have standardized meaning. To facilitate a better understanding of these measures, as calculated by the Company, please refer to the MD&A where detailed descriptions and reconciliations, where applicable, have been provided.

### 1.4. Conversion Table

In this AIF, metric units may be used with respect to Lundin Mining’s various mineral properties and operations. Conversion rates from imperial measures to metric units and from metric units to imperial measures are provided in the table set out below.

<u>Imperial Measure</u>	=	<u>Metric Unit</u>	<u>Metric Unit</u>	=	<u>Imperial Measure</u>
2.47 acres		1 hectare	0.4047 hectares		1 acre
3.28 feet		1 metre	0.3048 metres		1 foot
0.62 miles		1 kilometre	1.609 kilometres		1 mile
2.2 pounds		1 kilogram	0.454 kilograms		1 pound
0.032 ounces (troy)		1 gram	31.1 grams		1 ounce (troy)
2,204.62 pounds		1 tonne	0.000454 tonnes		1 pound

### 1.5. Classification of Mineral Reserves and Resources

In this AIF, the definitions of proven and probable Mineral Reserves and measured, indicated and inferred Mineral Resources are those used by Canadian Securities Administrators and conform to the definitions utilized by the CIM in the CIM Guidelines. Where Mineral Resources are stated alongside Mineral Reserves, those Mineral Resources are inclusive of, and not in addition to, the stated Mineral Reserves.

## ITEM 2 CORPORATE STRUCTURE

### 2.1. Name, Address and Incorporation

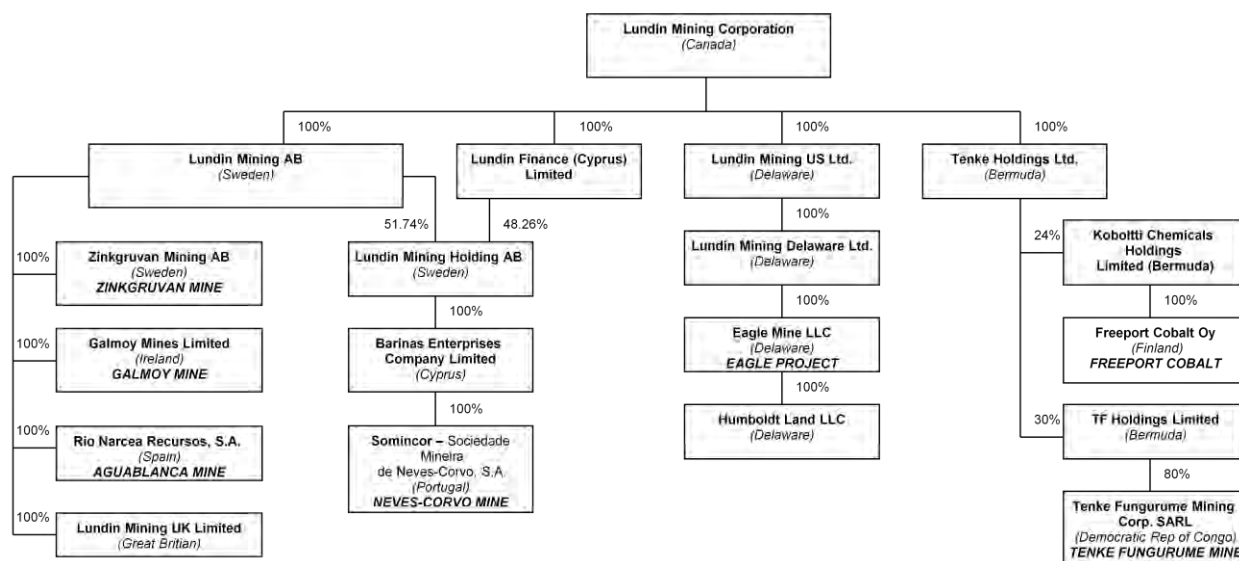
Lundin Mining was incorporated by Articles of Incorporation on September 9, 1994, under the *Canada Business Corporations Act* as South Atlantic Diamonds Corp. and subsequently changed its name to South Atlantic Resources Ltd. on July 30, 1996, and to South Atlantic Ventures Ltd. on March 25, 2002. The Company changed its name to Lundin Mining Corporation on August 12, 2004.

The Company amalgamated with EuroZinc effective November 30, 2006 and with Tenke Mining effective July 31, 2007.

As at December 31, 2013, the Company's registered and records office and corporate head office was located at 150 King Street West, Suite 1500, Toronto, Ontario, Canada M5H 1J9; telephone: +1 416 342 5560.

### 2.2. Inter-Corporate Relationships

A significant portion of the Company's business is carried on through its various subsidiaries. The following chart illustrates, as at December 31, 2013, the Company's significant subsidiaries, including their respective jurisdiction of incorporation and the percentage of voting securities in each that are held by the Company either directly or indirectly:



## **ITEM 3            GENERAL DEVELOPMENT OF THE BUSINESS**

Lundin Mining is a diversified Canadian base metals mining company with operations and development projects in Portugal, Sweden, Spain, and the US, producing copper, zinc, lead and nickel. In addition, Lundin Mining holds a 24% equity stake in the world-class Tenke Fungurume copper/cobalt mine in the DRC and in the Freeport Cobalt business, which includes a cobalt refinery located in Kokkola, Finland.

### **3.1.    Three Year History**

#### **2011**

- a) On January 12, 2011, Lundin Mining and Inmet announced that they had entered into an arrangement agreement (the “Arrangement Agreement”) to merge and create Symterra Corporation, a leading international copper producer. The transaction was valued at approximately C\$9 billion.
- b) On February 27, 2011, Lundin Mining announced that it had been advised by Equinox that Equinox intended to make an unsolicited take-over bid for the shares of Lundin Mining.
- c) On March 29, 2011, Lundin Mining and Inmet jointly announced the termination of the Arrangement Agreement dated January 12, 2011. Also on that day, Lundin Mining announced that its Board of Directors had adopted a limited duration Rights Plan to enable a full consideration of strategic alternatives.
- d) On April 18, 2011, Lundin Mining announced that the government of the DRC had issued a Presidential Decree approving the amendments to the Tenke Fungurume mining contracts and the decree was published in the DRC Official Gazette.

This decree formalized the conclusion of a contract review process by the DRC government and confirmed that the Tenke Fungurume contracts were in good standing, and acknowledged the parties' continuing commitment to the rights and benefits granted under the Tenke Fungurume Mining contracts.

- e) On April 25, 2011, Equinox announced the withdrawal of its offer to acquire the common shares of Lundin Mining. Subsequent to the hostile take-over bid for Lundin Mining, Equinox became subject to a take-over bid by Barrick Gold Corporation which was conditional on Equinox abandoning its bid for Lundin Mining.
- f) On May 25, 2011, Lundin Mining announced the conclusion of its strategic review process and the expiration of the Rights Plan, which was not renewed.
- g) In September 2011, the Company announced the results of the Feasibility Study for the Lombador Phase I project. The Feasibility Study showed that Lombador Phase I could be developed as a profitable and value accretive extension to the Neves-Corvo mine, and would extend the mine life to at least 2026.
- h) On October 31, 2011, the Company announced the formal appointment of Mr. Paul Conibear as President and Chief Executive Officer, after having held the role on an interim basis following the retirement of Mr. Philip Wright on June 30, 2011.
- i) On November 1, 2011, the Company reported that FCX, as operator of the Tenke Fungurume mining operations, approved the undertaking of a second phase expansion (“Phase 2 Expansion”) of the Tenke Fungurume mine to add approximately 68,000 tonnes of copper cathode production annually. The Phase 2 Expansion was designed to increase annual copper production by 50% to approximately 195,000 tonnes of copper cathode and 15,000 tonnes of cobalt in hydroxide, by 2013. The expansion cost of approximately \$850 million includes additional mining equipment, mill upgrades, acid plant expansion and a doubling of tank house capacity.

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

## 2012

- a) On January 23, 2012, Lundin Mining released a summary of the results of the initial Future Underground Materials Handling Study (the "Study") for its Neves-Corvo mining complex in southern Portugal. This conceptual level Study identified and evaluated various underground materials handling and access options necessary to pursue the exploitation of the deeper Lombador copper/zinc resources as well as the Semblana copper deposit which are adjacent to the Company's Neves-Corvo mine.
- b) On March 26, 2012 the President and Prime Minister of the DRC signed a decree approving the bylaw changes for TFM as announced in October 2010 and approved by Presidential Decree in April 2011. Accordingly, as of March 26, 2012, Lundin Mining's effective ownership interest in TFM was reduced from 24.75% to 24% and \$50 million in intercompany loans were converted to equity.
- c) On April 11, 2012, the Company announced that it had entered into a purchase option agreement ("Option Agreement") to acquire an 80% interest in the Touro copper project located in northern Spain owned by two private Spanish companies. The Option Agreement gave 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 to be conducted by the Company.
- d) At the end of August 2012, Aguablanca restarted production ahead of schedule after a pit slope failure in 2010.
- e) On September 25, 2012, the Company announced that it had notified the owners of the Touro copper project that it did not intend to exercise its option under the Option Agreement to acquire a controlling interest in the project.
- f) In December 2012, Lundin Mining announced that it executed an amendment to its revolving credit facility increasing the amount of its revolving credit facility to \$350 million from \$300 million and extending the term of the facility to December 2015.

## 2013

- a) On March 29, 2013, the Company announced the closing of the acquisition of the large scale cobalt chemical refinery located in Kokkola, Finland and the related sales and marketing business from OM Group, Inc. The acquisition would provide direct end-market access for the cobalt hydroxide production from the Tenke Fungurume mine among other advantages. Lundin Mining would hold an effective 24% ownership interest in the joint venture, with Freeport holding an effective 56% ownership interest and acting as operator of the joint venture and Gécamines would hold a 20% interest. Initial consideration of \$348 million, excluding cash acquired, was paid at closing. Under the terms of the agreement, there is the potential for additional consideration of up to \$110 million payable over a period of three years from the acquisition date, contingent upon the achievement of revenue-based performance targets. Lundin Mining's share of the investment, including acquired cash, was \$116 million based on a 30/70% split with Freeport and will be repaid in full prior to any distributions.
- b) In late January 2013, Lundin Mining filed updated independent NI 43-101 Technical Reports on the Neves-Corvo mine and Semblana deposit and the Zinkgruvan mine which were filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

- c) In March 2013, the Company announced amendments to its by-laws to include an advance notice policy (the "Policy") which requires advance notice to the Company in circumstances where nominations of persons for election to the Board of Directors are made by shareholders of the Company other than pursuant to: (i) the requisition of a meeting, or (ii) a shareholder proposal, both made pursuant to the provisions of the *Canada Business Corporations Act*. The amended by-laws, which include the Policy, are effective as of the date they were approved by the Board of Directors, being February 21, 2013. In accordance with the Act, the amendments to the Company's by-laws were confirmed by shareholders at the annual shareholders meeting.
- d) On June 12, 2013 the Company announced that it had entered into a definitive agreement with Rio Tinto Nickel Company, a subsidiary of Rio Tinto plc, to purchase the high grade Eagle Project.
- e) On July 17, 2013, the Company completed the acquisition of the high grade Eagle Project from Rio Tinto Nickel Corporation, a subsidiary of Rio Tinto plc. Total consideration paid was \$315 million, consisting of a \$250 million purchase amount plus project expenditures from January 1, 2013 until transaction closing of \$65 million, subject to customary closing adjustments.
- f) In late July 2013, Lundin Mining filed an independent NI 43-101 Technical Report for its Eagle nickel/copper mine which was filed on SEDAR ([www.sedar.com](http://www.sedar.com)).
- g) In September 2013, the Company reported its Mineral Reserve and Resource Estimate Update as at June 30, 2013. The full release can be found on the Company's website at [www.lundinmining.com](http://www.lundinmining.com).
- h) On September 25, 2013, the Company announced the appointment of Mr. Peter Jones to the Company's Board of Directors, replacing Mr. Colin Benner who stepped down for personal reasons in July 2013.
- i) On October 7, 2013, the Company announced that it had completed amendments to its credit agreement, which included the provision for a new term loan of \$250 million and an extension of the maturity of the existing \$350 million revolving credit facility to October 2017. This arrangement is expected to provide funding in excess of that which is required to complete the construction of the Eagle Project.

## **ITEM 4 DESCRIPTION OF THE BUSINESS**

Lundin Mining is a diversified Canadian base metals mining company with operations and development projects in Portugal, Sweden, Spain, and the US, producing copper, zinc, lead and nickel. In addition, Lundin Mining holds a 24% equity stake in the world-class Tenke Fungurume copper/cobalt mine in the DRC and in the Freeport Cobalt business, which includes a cobalt refinery located in Kokkola, Finland.

### **4.1 Principal Products and Operations**

Lundin Mining's principal products and sources of sales are copper, zinc, lead and nickel concentrates from Neves-Corvo, Zinkgruvan and Aguablanca. Lundin Mining also holds a minority interest in TFM and Freeport Cobalt. Information related to Lundin Mining's segmented information is set forth in Note 24 to the consolidated annual financial statements for the year ended December 31, 2013. The MD&A discusses each operation that is separately defined as a segment.

Production from operations was as follows:

	2013	2012	2011
Copper (tonnes)	66,246	63,878	75,877
Zinc (tonnes)	124,748	122,204	111,445
Lead (tonnes)	34,370	38,464	41,130
Nickel (tonnes)	7,574	2,398	-
Copper (tonnes) Tenke attributable (24%) <sup>(1)</sup>	50,346	38,105	31,523

<sup>(1)</sup> The Company's interest in Tenke was reduced from 24.75% to 24.0% effective March 26, 2012 as a result of signed modifications to Tenke Fungurume Mining's bylaws that reflect the signed agreements with the DRC government.

## 4.2 Employees

As of December 31, 2013, Lundin Mining has a total of approximately 1,700 employees and 1,750 contract employees located in Canada, Ireland, Portugal, Spain, Sweden, United Kingdom and the United States.

## 4.3 Health, Safety, Environment and Community

Lundin Mining's policy is to conduct its business responsibly and in a manner designed to protect its employees, adjacent communities and the natural environment. The Company is committed to achieving a safe, productive and healthy work environment and to upholding the values of human rights. Lundin Mining seeks to create sustainable value for employees, business partners and the communities in which it operates. These commitments are described in the Company's HSEC policy.

The HSEC policy, approved by the Board of Directors, commits the Company to compliance with applicable legal requirements as a minimum and to go beyond those requirements where deemed appropriate.

HSEC planning is part of the Company's business planning processes to assess the potential safety, health and environmental effects of its activities and integrate these considerations into its operational decisions and processes.

The Company is committed to design, develop and operate its facilities with a view to minimizing the environmental impact of its operations; providing efficient use of energy, water and other resources; reducing or preventing pollution; limiting waste generation and disposal; and where waste must be disposed of, doing so responsibly.

The Company has in place closure plans for all its operations and these are reviewed and updated in accordance with relevant national legislation. Each mine has in place an agreed financial mechanism to meet anticipated closure costs. Wherever practicable, the operations progressively rehabilitate areas no longer required for ongoing operations using environmentally sound methods.

Lundin Mining has a company-wide HSEC system that formalizes the Company's implementation of the HSEC policy supporting consistency across sites owned or operated by the Company, and clearly setting out expectations for HSEC management for joint ventures. The management system describes how the Company's operations and projects will comply with the Company's corporate values and commitments.

The HSEC system exists to:

- a) Ensure that sound management practices and processes are in place in sites across the Company resulting in strong HSEC performance.
- b) Describe and formalize the expectations of the Company with respect to HSEC management.



- c) Provide a systematic approach to the identification of HSEC issues and ensure that a system of risk identification and risk management is in place.
- d) Provide a framework for HSEC responsibility and a systematic approach for the attainment of corporate HSEC objectives.
- e) Provide a structure to drive continuing improvement of HSEC programs and performance.

In applying the HSEC system, the Company engages its employees, contractors, the community, regulators and other interested parties to ensure that stakeholder concerns are considered in managing aspects of our business that have the potential to impact health, safety, the environment and adjacent communities.

The Company strives for continuous improvement in its HSEC performance through the development of objectives and targets. To achieve this, the Company advises and trains employees and contractors as necessary to meet HSEC undertakings and the operations establish clear accountabilities for employees, and especially managers, with respect to their HSEC performance.

To ensure that the Company meets its objectives and targets, management monitors and reviews performance and publicly reports progress.

For further information on the Company's social and community programs and other HSEC information please consult Lundin Mining's most recent Sustainability Report which is available on the Company's website at [www.lundinmining.com](http://www.lundinmining.com).

## **4.4 Description of Properties**

### **4.4.1 MATERIAL PROPERTIES**

The following descriptions of Lundin Mining's material operating properties, being Neves-Corvo, Zinkgruvan, as well as Tenke Fungurume and Lundin Mining's development project, Eagle, are based on filed technical reports, the most recent 2013 Resource and Reserve Estimate Update, included in this AIF as Schedule "A", and on the Company's previously filed material change reports, financial statements and MD&A. Unless noted otherwise, all of the technical reports referenced in this AIF have been filed on SEDAR under the Company's profile. For more detailed information in respect of Lundin Mining's properties, direct reference should be made to these technical reports.

#### **4.4.1.1 NEVES-CORVO MINE**

The following information has been based the NI 43-101 technical report entitled "NI 43-101 Technical Report for Neves-Corvo Mine and Semblana Deposit, Portugal" dated January 18, 2013 (the "Neves-Corvo Report") prepared for Lundin Mining by Mark Owen, BSc, MSc (MCSM), CGeol, EurGeol, FGS and Lewis Meyer, ACSM, MCSM, BEng, MSc, PhD, CEng, FIMMM, qualified persons as defined by NI 43-101. The authors have reviewed and approved all scientific and technical information in this summary, including all scientific and technical information relating to any updates to the Neves-Corvo mine since the date of the Neves-Corvo Report. Updates to Mineral Reserve and Mineral Resource estimates are due to mining activities and have been reviewed and approved as indicated in Schedule A. The Neves-Corvo Report is available for review under Lundin Mining's SEDAR profile at [www.sedar.com](http://www.sedar.com)

##### **4.4.1.1.1 Project Description and Location**

The Neves-Corvo mine is owned and operated by the Portuguese company Somincor, which is a subsidiary of Lundin Mining. It is situated approximately 220 km southeast of Lisbon in the Alentejo district of southern Portugal. The mine site is located some 15 km southeast of the town of Castro Verde and exploits five major orebodies from an underground mine. The ore is processed on-site and tailings are disposed of in the Cerro de Lobo impoundment some 3 km from the plant. Concentrates are dispatched by rail and road for onward shipping to customers.

The mining operations are contained within a mining concession contract between the State and Somincor covering 13.5 km<sup>2</sup>, located in the parishes of Santa Bárbara de Padrões and Senhora da Graça de Padrões, counties of Castro Verde and Almodôvar, district of Beja. The concession provides the rights to exploit the Neves-Corvo deposits for copper, zinc, lead, silver, gold, tin and cobalt for an initial period of fifty years (from November 24, 1994) with two further extensions of twenty years each.

This mining concession is in turn surrounded by the Castro Verde exploration concession, signed in 2006, covering an area of 294 km<sup>2</sup>.

The mine is operated under an Integrated Pollution Prevention and Control Licence (IPPC) granted by the Portuguese Environmental Agency in 2008.

#### **4.4.1.1.2 Accessibility, Climate, Local Resource, Infrastructure and Physiography**

Neves-Corvo has good connections to the national road network which links with Faro to the south and Lisbon to the north. The mine has a dedicated rail link into the Portuguese rail network and to the port of Setúbal.

There are no major centres of population close to the mine, although a number of small villages with populations numbered in the hundreds are located within the mining concession. Most employees travel to the mine by company-provided buses or private cars.

The climate of the region is semi-arid with an average July temperature of 23°C (maximum 40°C) and an average minimum temperature in winter of 3.8°C. Rainfall averages 426 mm, falling mainly in the winter months.

The topography around the mine is relatively subdued, comprising low hills with minimal rock outcrop. The mine collar is 210 m above sea level. The area supports low intensity agriculture confined to stock rearing and the production of cork and olives.

Fresh water is supplied to the mine via a 400 mm diameter pipeline from the Santa Clara reservoir, approximately 40 km west of the mine. The mine is connected to the national grid by a single 150 kV, 50 MVA rated, overhead power line 22.5 km long.

The mining concession provides sufficient surface rights to accommodate the existing mine infrastructure and allows for expansion if required.

#### **4.4.1.1.3 History**

The Neves-Corvo ore bodies were discovered in 1977. The Portuguese company Somincor was established to exploit the deposit and by 1983, the Corvo, Graça, Neves and Zambujal sulphide deposits had been partially outlined, covering an area of some 1.5 km by 2 km. Rio Tinto became involved in the project in 1985, effectively forming a 49%:51% joint venture with the Portuguese government (EDM). The project was reappraised with eventual first production commencing from the Upper Corvo and Graça orebodies in January 1989.

During the development of the mine, high-grade tin ores were discovered, associated with the copper mineralization, which led to the rapid construction of a tin plant that was commissioned in 1990.

The railway link between Neves-Corvo and Setúbal was constructed between 1990 and 1992 for the shipment of concentrates and the hauling of sand for backfill on the return journey. This was followed between 1992 and 1994 by a major mine deepening exercise to access the Lower Corvo orebody through the installation of an inclined conveyor ramp linking the 700 and 550 levels.

In June 2004, EuroZinc acquired a 100% interest in Somincor for consideration of €128 million. In October 2006, EuroZinc merged with Lundin Mining and the Lundin Mining name was retained.

In 2006, zinc production was commenced at Neves-Corvo with processing through the modified tin plant. In June 2007, Silver Wheaton (formerly Silverstone) agreed to acquire 100% of the life-of-mine payable silver production from the mine, as the mine produces around 0.5 million ounces of silver per year in copper concentrate. Zinc production was suspended in November 2008 due to the low prevailing zinc price. In September 2009, the decision was made to expand the zinc plant at an estimated cost of €43 million, to a design capacity of 50,000 tpa zinc in concentrate and first zinc production was achieved from the expanded plant in mid-2011.

In mid-2009, a copper tailings retreatment circuit was commissioned to recover both copper and zinc, and in late 2010, tailings disposal changed from subaqueous to paste methods at the Cerro do Lobo facility.

In October 2010, the copper rich Semblana deposit was discovered located one km to the northeast of the Zambujal copper-zinc orebody within the Castro Verde exploration concession. In December 2011, following extensive diamond drilling, an initial Inferred Mineral Resource was published, and that was further updated in June 2012. A high-resolution 3D seismic survey carried out in 2011 also identified several new exploration targets in the Neves-Corvo vicinity.

A feasibility study on the Lombador Phase 1 Project, which contemplated mining this zinc rich orebody and expanding the overall zinc capacity at Neves-Corvo to 2.5 mtpa, was completed in September 2011. The underground elements of this project were advanced in 2013 with the first zinc stopes mined to provide high grade feed to the existing 1.0 mtpa zinc plant. Development of the mine accesses initiated in 2012 to the Semblana orebody were suspended in mid 2013 pending resolution of discussions with government on royalties and concession rights. Studies continue on low capital cost expansion opportunities to exploit the large remaining copper and zinc Mineral Resource and Reserves particularly in the Lombador South and North orebodies.

#### **4.4.1.1.4 Geological Setting**

Neves-Corvo is located in the western part of the Iberian Pyrite Belt, which stretches through southern Spain into Portugal and which has historically hosted numerous major stratiform volcano-sedimentary massive sulphide deposits.

The Neves-Corvo deposits occur within the Volcanic Sedimentary Complex, which consists of acid volcanics separated by shale units, with a discontinuous black shale horizon immediately below the lenses. Above the mineralization, there is a thrust-faulted repetition of volcano-sedimentary and flysch units. The whole assemblage has been folded into a gentle anticline oriented northwest to southeast which plunges to the southeast, resulting in orebodies distributed on both limbs of the fold. All the deposits have been affected by both sub-vertical and low angle thrust faults, causing repetition in some areas.

#### **4.4.1.1.5 Exploration**

Exploration work within the mining concession has concentrated primarily on the extension of known orebodies by both underground and surface drilling. Some of the Neves-Corvo orebodies have not been completely delineated. Drilling from both surface and underground in the last few years has identified significant new zinc and copper mineralization within the Lombador massive sulphide lens and associated stockworks, as well as important bridge fissural copper mineralization between the Lower Corvo, Neves and Lombador orebodies.

In 2010, the Semblana deposit, a new massive sulphide deposit containing a zone of copper-rich sulphide mineralization, was discovered by surface drilling. Semblana, lies 1.3 km northeast of the Zambujal orebody and is located in the exploration concession that surrounds the mine. In 2011, surface exploration drilling focused on delineating the extent of Semblana and defining an initial Mineral Resource. In December 2011, a National Instrument 43-101 compliant Inferred Mineral Resource of 6.58 million tonnes grading 3.0% copper was announced; this was updated with additional drilling in

September 2012 to 7.13 million tonnes grading 2.8% copper. This incorporated the copper mineralization discovered in late 2011, located approximately 300 metres south of the Semblana resource.

A high resolution 3D seismic survey covering the area immediately east and southeast of the mine was also completed in 2011. This survey was successful in detecting both the Lombador and Semblana massive sulphide bodies in great detail, in addition to identifying several seismic reflectors that have similar characteristics to massive sulphide bodies. Drilling of one of these high-priority reflectors led to the discovery of the high-grade copper sulphides located just south of Semblana. During the fourth quarter of 2011, a new copper discovery was made called Monte Branco, located just west of the tailings dam. Drilling continued on extending the Monte Branco mineralization approximately 1.4 km south of Semblana in the vicinity of the tailings management facility. Priority was given to ongoing exploration of this new discovery in 2012 and 2013.

#### **4.4.1.1.6 Mineralization**

Six massive sulphide lenses have been defined at Neves-Corvo comprising Neves (divided into North and South), Corvo, Graça, Zambujal, Lombador (divided North, South and East), and Semblana. The base metal grades are segregated by the strong metal zoning into copper, tin and zinc zones, as well as barren massive pyrite. The massive sulphide deposits are typically underlain by stockwork sulphide zones which form an important part of the copper orebodies.

#### **4.4.1.1.7 Drilling**

Surface and underground exploration drilling is an ongoing operation at the mine with the work undertaken by both contractors and in-house drill rigs. The nominal hole spacing on the underground diamond drilling is between 17.5 m and 35 m, with surface drilling on a spacing of 75 m to 100 m. As a standard procedure, drill holes are surveyed with an Eastman Single Shot or Reflex EZ-Shot tool at 30 m intervals, which provides an accurate location of the drill intersections.

In 2013, 49,034 m of drilling was completed from surface with 46 holes completed and 42,685 m was drilled from underground in 249 holes.

#### **4.4.1.1.8 Sampling and Analysis**

Industry standard exploration drill core splitting, sampling, insertion of quality control samples and density measurement protocols and procedures are in place at Neves-Corvo. In addition to drill core sampling, underground grade control sampling is carried out using face sampling in the areas subject to drift-and-fill mining and short diamond drill holes in the bench-and-fill areas. Samples are prepared on-site and analyzed at either the mine's fully accredited assay laboratory facility or by the ALS Chemex laboratory in Vancouver, Canada.

#### **4.4.1.1.9 Security of Samples**

Data and sample security procedures that conform to industry standards are in place at Neves-Corvo. All drill cores are logged and photographed, and the cores and sampling splits are stored on-site. Traceability records prevent errors of identification and ensure sample history can be followed.

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

Mineral Resources at Neves-Corvo are estimated using three dimensional interpretation and modelling methods with calculations performed using specialized software and in particular Leapfrog® and Vulcan® 3D. The ordinary kriging method of interpolation is used to estimate metal grades and a multiple regression formula using the estimated metal grades is used to estimate density.

Mineral Reserves are calculated by the Neves-Corvo mine planning department primarily using Vulcan® 3D software. Stopping volumes are cognizant of the method of access to allow for the cut-off grade

boundary and include an allowance for planned and unplanned dilution and ore loss. An effective minimum mining width of 5 m is applied.

The Semblana Mineral Resource was modelled and estimated using Datamine Studio software. Metal grades were estimated using ordinary kriging or inverse distance weighting. Bulk density was estimated using inverse distance weighting.

Details of the June 2013 Mineral Resource and Reserve estimates for Neves-Corvo and Semblana are included in Schedule A, attached to this AIF.

#### **4.4.1.1.11 Mining Operations**

Neves-Corvo is a major underground mine. The principal means of mine access are provided by one vertical 5 m diameter shaft and a ramp from surface. The shaft is used to hoist ore from the 700 m level. The surface is nominally 1,200 m above datum. A conveyor decline descends from the 700 m level to the 550 m level and provides ore hoisting from the deeper levels of the mine. The mine is highly mechanized and a number of different stoping methods are employed but the most significant are bench-and-fill and drift-and-fill. Backfill is provided by hydraulically placed sand, paste tailings and internally generated waste rock.

The treatment facility at Neves-Corvo comprises of two processing plants. The copper plant treats copper ores and has a maximum capacity of approximately 2.6 mtpa and the zinc plant (former tin plant) which treats zinc or copper ores was expanded to 1.0 mtpa capacity during 2011. Both processing plants comprise secondary crushing, rod and ball mill grinding circuits, flotation cells and concentrate thickening and dewatering. In mid-2009, modifications to the copper plant were completed to regrind and recover additional copper and zinc concentrate from the copper tailings stream.

Concentrates are transported by rail to a dedicated port facility at Setúbal, Portugal from where they are shipped to smelter customers.

Tailings disposal was changed from subaqueous to paste techniques during 2010 following approval by the Portuguese authorities. Tailings are thickened and pumped from a new facility located at the Cerro de Lobo tailings impoundment, 3 km from the mine site.

Copper, zinc and lead concentrates from the mine are sold to a variety of smelter customers that are primarily European based. Multi-year sales contracts are normally agreed with customers and treatment, refining and penalty charges are typical of those for copper, zinc and lead sulphide concentrates.

The mine operates under an IPPC licence (No.18/2008) granted by the Portuguese Environmental Agency in 2008. The licence includes conditions covering environmental management systems, tailings and waste rock disposal, water and energy consumption, emissions to atmosphere, emissions to water courses and water treatment, noise, industrial waste disposal, emergency and closure planning. Key environmental issues include the acid-generating potential of the ore and waste rocks; the close proximity of the Oeiras River to the mine site; the groundwater is a significant aquifer and connects to local water supplies and the Oeiras River; and the dispersal of dust and noise from the mine site. The mine permit requires that closure plans for the mine are updated every 5 years, and an accumulating closure fund is in place to cover final closure costs.

The corporation tax rate in Portugal is 25%, and a local tax of 1.5% is also payable. For 2013, an extra tax rate of 3% for profits between €1.5 million and €7.5million (2012-€10 million) was applicable, increasing to 5% for profits above €7.5 million (2012-€10 million). Royalties are either a profit-related royalty of 10%, or a revenue-based royalty of 1% (at the State's discretion). The payment may be reduced by 0.25% of the revenue-based royalty provided that the corresponding amount of such percentage is spent on mining development investment.

The current copper Mineral Reserves at Neves-Corvo will support a mine life of around 10 years with copper production, based on currently known reserves, gradually decreasing, and planned zinc

production increasing. The Lombador Phase 1 ramp reached its planned depth in 2013 and initial production of both copper and high grade zinc mineralization commenced. Development of twin access ramps to the Semblana orebody was suspended in 2013. Studies continue on low capital cost expansion opportunities to exploit the large remaining copper and zinc Mineral Resource and Reserves particularly in the Lombador South and North orebodies.

#### **4.4.1.1.12 Exploration and Development**

Surface drilling in 2014 will focus on exploring for extensions to the Monte Branco deposit. In addition there will be drill testing of various 3D seismic targets and step-outs to investigate areas between Zambujal and Monte Branco and the area between Semblana and Monte Branco. Underground drilling will focus primarily on upgrading the Lombador North ore body.

#### **4.4.1.2 ZINKGRUVAN MINE**

The following information has been based on the NI 43-101 technical report entitled “NI 43-101 Technical Report for the Zinkgruvan Mine, Central Sweden” dated January 18, 2013 (the “Zinkgruvan Report”) prepared for Lundin Mining by Mark Owen, BSc, MSc (MCSM), CGeol, EurGeol, FGS and Lewis Meyer, ACSM, MCSM, BEng, MSc, PhD, CEng, FIMMM, qualified persons as defined by NI 43-101. The authors have reviewed and approved all scientific and technical information in this summary, including all scientific and technical information relating to any updates to the Zinkgruvan mine since the date of the Zinkgruvan Report. Updates to Mineral Reserve and Mineral Resource estimates are due to mining activities and have been reviewed and approved as indicated in Schedule A. The Zinkgruvan Report is available under Lundin Mining’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

##### **4.4.1.2.1 Project Description and Location**

The Zinkgruvan mine is located approximately 200 km southwest of Stockholm in south central Sweden. The mine site is some 15 km from the town of Askersund and comprises a deep underground mine, a processing plant and associated infrastructure and tailings disposal facilities. Concentrates are trucked from the mine to the inland port of Otterbäcken on Lake Vänern from where they are shipped via canal and sea to European smelter customers.

The mining operations are contained within two exploitation concessions covering the deposit and its immediate area. The Zinkgruvan concession was amalgamated from a large number of smaller rights in 2000, has an area of 254 ha and is valid until 2025. The neighbouring Klara concession was granted in 2002, has an area of 355 ha and is valid until 2027. These concessions are automatically extendable for periods of 10 years provided the concession is being regularly exploited. In addition, the mine currently holds exploration concessions in the area totaling 10,096 ha. For exploitation concessions granted before 2005, there are no mining royalties in Sweden.

The mine is currently operated under an environmental licence granted by the Swedish authorities that is valid until December 2017.

##### **4.4.1.2.2 Accessibility, Climate, Local Resource, Infrastructure and Physiography**

Zinkgruvan has good local road access and is close to the main E18 highway linking Stockholm and Oslo. Rail and air links are available at the town of Örebro some 60 km distant. Lake Vänern, the largest lake in Sweden, is 100 km distant and provides access to coastal shipping via a series of inland canals and the port of Göteborg.

The climate of the area is mild in the summer with average temperatures of 18°C, while in the winter temperatures are below freezing with a average low of -4°C in February. Annual rainfall is approximately 750 mm with modest snowfalls during the winter months.

The topography around the mine comprises gently rolling terrain approximately 175 m above sea level. The area is largely forested and is bisected by slow-moving streams in shallow valleys.

There is ready access to power, telephone lines and domestic water and industrial water sources. The mine owns sufficient freehold surface land to accommodate the existing and planned mine infrastructure.

#### **4.4.1.2.3 History**

The Zinkgruvan deposit has been known since the sixteenth century but it was not until 1857 that large scale production commenced under the ownership of the Belgian Vieille Montagne Company (“Vieille Montagne”). The processing plant for these operations was initially based in Åmmeberg on the shores of Lake Vättern with ore transported approximately 5 km from the mine site by narrow gauge railway.

In the mid-1970s, a decision was made to significantly expand production to 600,000 tpa. A new shaft, named P2, was sunk to access deeper ore and a new concentrator and tailings facility established adjacent to the mine site.

In 1990, Vieille Montagne merged with Union Miniere, and in 1995, North Limited of Australia (“North”) acquired the Zinkgruvan mine. In August 2000, Rio Tinto became the owner of the mine following its acquisition of North. In June 2004, Lundin Mining purchased the mine from Rio Tinto.

In December 2004, Silver Wheaton agreed to purchase the LOM silver production from the Zinkgruvan mine. In October 2007, the Zinkgruvan expansion program was announced, a project to increase ore production by 300,000 tpa through the addition of copper to the current zinc-lead production.

In late 2010, the copper plant was commissioned and during 2011 modifications were made to allow this plant’s 300,000 tpa ore capacity to be used to also treat zinc/lead ores. In November 2010, an access ramp from the surface to the underground workings was completed, allowing a significant increase in the mine’s operational flexibility. Studies initiated in 2012 to modernize the front end of the processing plant have been deferred indefinitely while low cost modifications to the ore handling system have been successful.

#### **4.4.1.2.4 Geological Setting**

Zinkgruvan is located in the south west corner of the Proterozoic aged Bergslagen greenstone belt. The district is comprised of a series of small, elongated basins with felsic metavolcanics overlain by metasediments. The basins are surrounded by mainly granitoid intrusions of which the oldest are the same age as the metavolcanics.

The Zinkgruvan deposit is situated in an east-west striking synclinal structure. The tabular-shaped Zn-Pb-Ag orebodies occur in a 5 m to 25 m thick stratiform zone in the upper part of the metavolcanic-sedimentary group. The orebody is 5 km long and is proven to a depth of 1,500 m below surface. A major sub-vertical fault splits the ore deposit in two parts, the Knalla mine to the west and the Nygruvan to the east.

#### **4.4.1.2.5 Exploration**

Exploration has focused primarily on replacing depleted resources initially by exploring the Nygruvan and Burkland areas at depth, and more recently in the Knalla area to the west. Due to the depth of the exploration areas and the relatively complex geometry, exploration is done by underground drilling. Additional underground development is required in order to provide drill platforms to fully evaluate the potential of new zones intersected from initial surface drilling.

#### **4.4.1.2.6 Mineralization**

The Zinkgruvan orebodies are dominated by sphalerite and galena and are generally massive, well banded and stratiform. Remobilization of galena and silver has occurred in response to metamorphism and deformation, and is most pronounced in the lead-rich western extension of Nygruvan and in the Burkland area.

Copper stockwork mineralization has been identified in the structural hanging wall of the Burkland deposit. Chalcopyrite is the main copper mineral and occurs as coarse disseminations and patches within a marble host rock.

#### **4.4.1.2.7 Drilling**

Underground exploration, comprising resource and stope definition drilling, is carried out on an ongoing basis. Stope definition holes are drilled from underground with intersections typically on 15 m by 20 m centres. All drill holes are surveyed at 3 m intervals using Maxibore surveying equipment which provides an accurate location of the drill intersections. In 2013, 29,989 m of drilling was completed from underground. From surface 3,105 m was completed into the Isåsen and Dalby areas.

#### **4.4.1.2.8 Sampling and Analysis**

Industry standard exploration drill core splitting, sampling, insertion of QC samples and density measurement protocols and procedures are in place. Samples are prepared on-site and sent to ACME's laboratory in Vancouver, Canada for assay.

#### **4.4.1.2.9 Security of Samples**

Data and sample security procedures that conform to industry standards are in place at Zinkgruvan. All drill core is logged and photographed, and the cores and sampling splits are stored on-site in a purpose built facility at the mine site. Traceability records prevent errors of identification and ensure sample history can be followed.

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

Mineral Resources at Zinkgruvan are estimated using two methods: the polygonal method and 3D block modelling. The polygonal method is generally used at the early stages of resource assessment and is carried out on parts of Nygruvan, Mellanby, and Sävsjön. The remaining areas of Nygruvan and all of Burkland are estimated using block modelling with Microstation® AutoCad and Prorok® software. ordinary kriging and inverse distance weighting methods are used for grade estimation and density estimation uses a regression formula based on estimated metal grades.

Mineral Reserves are calculated from the resources using Prorok® and Microstation® software. A zinc equivalent cut-off is applied together with dilution and mining recovery factors that are based on the mine's long operating experience.

Details of the June 2013 Mineral Resource and Reserve estimate for Zinkgruvan are included in Schedule A, attached to this AIF.

#### **4.4.1.2.11 Mining Operations**

Zinkgruvan is an underground mine with a long history. Mine access is currently via three shafts, with the principal P2 shaft providing hoisting and man access to the 800 m and 850 m levels with the shaft bottom at 900 m. A ramp connecting the underground workings with surface was completed in 2010 and now provides vehicle access direct to the mine. A system of ramps is employed to exploit resources below the shaft and the deepest mine level is now at 1,130 m below surface. The mine is highly mechanized and uses longhole primary secondary panel stoping in the Burkland area of the mine, sublevel benching in the Nygruvan area and in the Cecilia area. All stopes are backfilled with either paste tailings and cement or waste rock.

The processing plant is located adjacent to the P2 shaft. The run-of-mine ore is secondary crushed and then ground in an AG and ball mill circuit. A bulk flotation concentrate is produced initially before further flotation to separate zinc and lead concentrates. The concentrates are thickened and filtered and then



stockpiled under cover. Tailings are pumped some 4 km to a dedicated tailings impoundment from which decant water is returned to the process.

A separate 0.3 mtpa copper treatment line in the processing plant was commissioned during 2010, and copper production has commenced. This line was further modified during 2011 to allow it the flexibility to treat zinc-lead ore as well as copper ore.

Current Mineral Reserves at Zinkgruvan are sufficient for a mine life in excess of 10 years and the mine is able to fund all currently planned capital program through cash flow.

Zinc and lead concentrates from the mine are sold to a variety of European smelters. Multi-year sales contracts are normally agreed upon with customers and treatment, refining and penalty charges are typical of those for zinc and lead sulphide concentrates. The lead concentrates are particularly high grade and contain elevated levels of silver.

The mine is currently operated under an environmental licence granted by the Swedish authorities that is valid until December 2017. The licence includes conditions covering production levels, tailings disposal, water discharge limits, hazardous materials, process chemicals, water recirculation, noise levels, dust pollution, waste handling, energy use and closure planning.

The corporation tax rate in Sweden is 22% and Zinkgruvan does not pay mining royalties.

#### **4.4.1.2.12 Exploration and Development**

Exploration activities in 2014 will focus on converting Inferred Mineral Resources to Indicated Resources through in-fill definition drilling, defining new Inferred Resources through down-dip and step-out drilling of existing Mineral Resources. Exploration drives will continue to be developed in order to establish underground drill platforms to allow drilling of deep extensions of known orebodies. Drilling of approximately 3,000m from surface to explore the continuation of the Dalby area is also planned in 2014.

#### **4.4.1.3 TENKE FUNGURUME MINE**

The following information has been based on the NI 43-101 technical report entitled “Technical Report Expansion Feasibility Study for the Tenke Fungurume Mine, Katanga Province, Democratic Republic of Congo” dated December 15, 2011 (the “**Tenke Report**”) prepared for Lundin Mining by John Nilsson, P.Eng., Ronald G. Simpson, P.Geo. and William MacKenzie, P. Eng., qualified persons as defined by NI 43-101. The authors have reviewed and approved all scientific and technical information in this summary, including all scientific and technical information relating to any updates to the Tenke Fugurume mine since the date of the Tenke Report. Updates to Mineral Reserve and Mineral Resource estimates are due to mining activities and have been reviewed and approved as indicated in Schedule A. The Tenke Report is available under Lundin Mining’s SEDAR profile at [www.sedar.com](http://www.sedar.com)

##### **4.4.1.3.1 Property Description and Location**

TFM’s copper-cobalt deposits comprise one of the world’s largest known copper-cobalt resources. The deposits are located on contiguous concessions which total in excess of 1,500 km<sup>2</sup>. These concessions are located in Katanga Province, DRC, approximately 175 km northwest of Lubumbashi, the provincial capital.

Construction started in late 2006 on open-pit and oxide ore processing facilities designed to produce 115,000 tpa of cathode copper and over 8,000 tpa of cobalt in hydroxide. Commissioning of the copper facilities occurred at the end of the first quarter 2009, and of the cobalt hydroxide facilities at the end of the second quarter. By year end 2009, full name plate capacities for both products were being achieved. Subsequent debottlenecking and plant upgrades allowed expansion to increase to 132,000 tpa of copper cathode and approximately 11,000 tpa cobalt hydroxide. A further Phase 2 Expansion of the plant was substantially completed at the end of 2013, which has increased nameplate capacity to 195,000 tpa of copper cathode and 15,000 tpa cobalt hydroxide.

This is one of several stages of development contemplated with the objective of ultimately producing up to 500,000 tpa of copper mining multiple deposits concession-wide.

#### **4.4.1.3.2 Accessibility, Climate, Local Resources, Infrastructure and Physiography**

The main highway, railroad and power line connecting Kolwezi and Likasi with Lubumbashi pass through the concessions. Scheduled air services are available between Lubumbashi and the capital Kinshasa, as well as from Johannesburg, South Africa and Zambia. An airstrip constructed on the concession can accommodate freight aircraft and small passenger jets. Most copper and cobalt product and bulk mine consumables are transported primarily by truck and to an extent by rail between Tenke and ports in Durban, South Africa and Dar-es-Salaam, Tanzania.

The site climate is characterized as mild, rainy, sub-tropical mid-latitude with dry winters, with three seasons. The average annual rainfall is approximately 1,150 mm. Monthly average temperatures are 28°C (max); 20°C (min) in September and 22°C (max); 13°C (min) in June.

Tailings facilities are located to the north of the process plant site and a first raise of the initial facility was completed during 2010. The current tailings storage location is of sufficient size to handle the majority of currently proven/probable reserves. Other adjacent areas have been identified to provide life-of-mine storage capacity. A potential location for a future sulphide concentrator has been identified as having potential heap leach pad areas.

Electrical power is provided from the national grid. The local Nseke hydro power station is being renovated and expanded as part of the project and new local power lines have been constructed. Water from local boreholes supplements runoff water collected and the project is operated in line with a zero discharge water management philosophy.

The dominant landform is the Dipeta Syncline, an east-west trending valley approximately 15 km long and 3 km wide. The Dipeta River runs along the valley bottom while the Kwatebala, Tenke (formerly called Goma) and Fwaulu orebodies lie on the north-western crest of this valley. The orebodies presently form hills and ridges rising to elevations of about 1,500 m above sea level and up to 170 m above adjacent valleys. The plant site elevation is 1,200 m above sea level. The ore deposits lie on a surface water divide, with waters to the north flowing into the Mofya River and waters to the south flowing into the Dipeta River.

The flora of the concessions is dominated by an agricultural mosaic of croplands and fallow fields. The second most common vegetation type is miombo woodland. The third most common type of vegetation is degraded miombo woodland (miombo woodland that has been impacted by agricultural clearing activity). Copper-cobalt vegetation types occupy less than five percent of the area.

#### **4.4.1.3.3 History and Development Terms**

The Tenke Fungurume deposits have a history dating back to at least 1917. A controlling interest in the concessions was acquired from Gécamines following a lengthy tender process, and in November 1996, pursuant to a mining convention and TFM formation agreement, the concessions were transferred to TFM in exchange for a series of transfer bonus payments and other significant commercial and development commitments. TFM was established in December 1996 under the DRC Companies Act and formed for the purpose of developing the deposits of copper, cobalt and associated minerals under mining concession n° 198<sup>1</sup> and mining concession n° 199<sup>2</sup> granted to TFM in 1996 at Tenke and Fungurume. TF Holdings paid Gécamines the first stage of the transfer payments (\$50 million) in May 1997.

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<sup>1</sup>Renumbered n° 123 by the *Cadastre Minier Certificat d'Exploitation* n° CAMI/CE/940/2004 dated November 3, 2004; subsequently divided and renumbered n° 123, n° 9707 and n° 9708 by the *Ministère des Mines* through Ministerial Decree dated February 20, 2009.

<sup>2</sup>Renumbered n° 159 by the *Cadastre Minier Certificat d'Exploitation* n° CAMI/CE/941/2004 dated November 3, 2004; subsequently divided and renumbered n° 159, n° 4728 and n° 4729 by the *Ministère des Mines* through Ministerial Decree dated July 7, 2006.

In December 1998, Tenke Mining concluded an option agreement with BHP Copper Inc. (now BHP Billiton (“BHPB”)) which established a formal structure for BHPB to acquire, directly or indirectly, a controlling interest in the Tenke Fungurume project. In December 2000, Phelps Dodge entered into an agreement with BHPB, whereby Phelps Dodge had the opportunity to earn up to one-half of BHPB’s position. On September 13, 2002, BHPB’s rights and obligations under the option agreement with the Corporation were formally transferred to Phelps Dodge.

As a result of the DRC’s new 2002 World Bank sponsored mining code and other developments resulting from the DRC conflict, an extensive renegotiation process commenced upon formation of the transitional government in 2003, which successfully concluded with amended agreements (“Amended Agreements”) in late 2005. Pursuant to the terms agreed in the Amended Agreements, including the ARMC, the single purpose joint venture company, TF Holdings then controlled 70:30% by FCM and Tenke Mining, agreed to pay Gécamines an additional US\$50 million in stages based on pre-agreed development-related milestones. In accordance with shareholding agreements finalized between FCM and Tenke Mining in January 2004, FCM was obligated to fund \$42.5 million of this balance, with Tenke Mining funding the remaining \$7.5 million.

Upon the entry into force of the Amended Agreements, TF Holdings paid Gécamines \$15 million. Additional payments of \$5 million on a positive build decision; \$10 million on commencement of commercial operations, and \$10 million on each of the two successive anniversaries of commencement of commercial operations were made, which payments have now been paid in full. As the deposits have been brought to the ‘exploitation stage’, TFM enjoys all rights and privileges with respect to mining activity including surface usage. A positive build decision was made in December 2006 by then operator FMC.

Initial facilities were ultimately designed for a capacity of 115,000 tpa copper production. The Amended Agreements contain objectives without guarantee of reaching in excess of 130,000 tpa copper production by year 5 and 400,000 tpa by year 11 of operations, subject to a number of qualifications including DRC conditions and markets.

In early 2007, Freeport acquired FMC, which resulted in them taking over as operator and owner of a 70% interest in TF Holdings. In mid-2007, Lundin Mining acquired Tenke Mining, resulting in Lundin Mining controlling the remaining 30% of TF Holdings. This resulted in FCX indirectly holding 57.75% of TFM, and Lundin Mining indirectly holding 24.75% of TFM. Gécamines held the balance of ownership – 17.5% by way of a directly held carried interest in TFM.

In accordance with the Amended Agreements, a base metals royalty is payable at the rate of 2% of net sales. In addition, a 1% net sales metals export duty applies. Full repatriation of funds is allowed, subject to a 10% expatriated dividends withholding tax. Income tax is payable at the rate of 30% and certain other minor taxes and duties apply as defined in TFM’s Amended Agreements consistent with the 2002 DRC Mining Code Title IX. In addition to the 15% of the base metals royalty that is defined to be repatriated by the GDRC to the region of the mine, TFM has committed to a 0.3% net sales social fund, to be administered annually to benefit local communities.

In February 2008, the Ministry of Mines, Government of the DRC, sent a letter seeking comment on proposed material modifications to the mining contracts for the Tenke Fungurume concession, including the amount of transfer payments payable to the government, the government’s percentage ownership and involvement in the management of the mine, regularization of certain matters under Congolese law and the implementation of social plans.

In October 2010, the government of the DRC announced the conclusion of the review of TFM’s mining contracts. The conclusion of the review process confirmed that TFM’s existing mining contracts are in good standing and acknowledged the rights and benefits granted under those contracts. TFM’s key fiscal terms, including a 30% income tax rate, a 2% mining royalty rate and a 1% export fee, will continue to apply and are consistent with the rates in the DRC’s current Mining Code. In connection with the review, TFM made several commitments, which have been reflected in amendments to its mining contracts, including: an increase in the ownership interest of Gécamines, which is wholly owned by the government of the DRC, from 17.5% (non-dilutable) to 20.0% (non-dilutable), resulting in a decrease of Freeport’s

effective ownership interest from 57.75% to 56% and Lundin Mining's effective ownership interest from 24.75% to 24%; an additional royalty of \$1.2 million for each 100,000 tonnes of proven and probable copper reserves above 2.5 million tonnes at the time new reserves are established by FCX; additional payments totalling \$30 million to be paid in six equal installments of \$5 million upon reaching certain production milestones; conversion of \$50 million in intercompany loans to equity; a payment of approximately \$5 million for surface area fees and ongoing surface area fees of approximately \$0.8 million annually; incorporating clarifying language stating that TFM's rights and obligations are governed by the ARMC; and expanding Gécamines' participation in TFM management. TFM has also reiterated its commitment to the use of local services and Congolese employment. In connection with the modifications, the annual interest rate on advances from TFM shareholders increased from a rate of LIBOR plus 2% to LIBOR plus 6%.

In December 2010, the addenda to TFM's ARMC and Amended and Restated Shareholders' Agreement were signed by all parties. In April 2011, the amended agreements were ratified by a Presidential Decree. On March 26, 2012, the President and Prime Minister of the DRC signed a decree approving the bylaw changes for TFM. Accordingly, the change in Lundin Mining's ownership interest in TFM and the conversion of intercompany loans to equity became effective at that date.

#### **4.4.1.3.4 Geological Setting**

The Tenke Fungurume copper-cobalt deposits are typical of those that comprise the Central African Copperbelt. The Copperbelt is located in a major geological structure called the Lufilian Arc, a 500 km fold belt that stretches from Kolwezi in the southern DRC to Luanshya in Zambia. The deposits of the Tenke Fungurume district are located at the northernmost apex of the arc. The arc formed between the Angolan Plate to the southeast and Congo Plate to the northwest during the late Neoproterozoic, approximately 650 to 600 million years before present (Ma). Rocks in the arc are exposed in a series of tightly folded and thrust anticlines and synclines, generally trending east-west to southeast-northwest in the southern DRC. The Tenke Fungurume group of sediment-hosted copper cobalt deposits occurs near the base of a thick succession of sedimentary rocks belonging to the Katanga System of Proterozoic age (1050-650 Ma).

The older rocks of the basement complex belonging to the Kibara Supergroup form the framework within which the Katangan sediments were deposited and consist of granitic rocks and metamorphosed sediments. Sedimentation took place in shallow intra-cratonic basins bounded by rifts. A series of cratonic events of Pan African age (650 Ma to 500 Ma) resulted in extensive deformation of these rocks. The principal tectonic event is referred to as the Lufilian Orogeny and this led to the formation of the Lufilian Arc. All of the major Zambian and Congolese copper-cobalt deposits are located along this 500 km long arcuate structure, which extends from Kolwezi in the DRC to Luanshya in Zambia. The Tenke and Fungurume deposits are located in the northernmost apex of the arc.

#### **4.4.1.3.5 Exploration and Concession Potential**

The mineral concessions have been subject to multiple phases of exploration over time. Exploration in 2013 continued the focus on finding additional high-grade oxide resources and the investigation of deeper mixed and sulphide mineralization. A total of 108,762 m of diamond drilling was completed during 2013 in 597 individual holes. The exploration objectives were to convert oxide and mixed resources to reserve class, locate additional oxide resources, add to existing resources of sulphide and mixed material and supply samples for mixed ore metallurgical sampling.

A concession-wide airborne geophysical survey was carried out in June and July of 2013 by Fugro Airborne Surveys Ltd. A total of 5,545 line kilometres were flown over an area of approximately 1,000 km<sup>2</sup>. The aircraft carried a time-domain electromagnetic CGG:TEMPEST system and also gathered radiometric data. TEMPEST was designed to acquire high resolution, fully calibrated TEM data that can be used in a quantitative fashion for both conductivity mapping applications and conductive target detection. Results will be used to define new exploration targets in the Mines Series units characterized by low conductivity near surface and higher conductivity at depth due to the presence of sulphide minerals.

Underground development for bulk metallurgical sampling was started at Fungurume in 2012. A vertical shaft started in June 2012 and reached its final depth in late 2013. A crosscut has been started to intersect the mineralized units. The goal is to obtain mixed oxide-sulphide bulk samples for metallurgical testing in 2014. A similar shaft is also underway at Kwatebala again with bulk samples due in 2014.

Due to data and time availability, there are still a number of deposits that have yet to be assessed with Mineral Resource and Reserve models.

#### **4.4.1.3.6 Mineralization**

The copper-cobalt mineralization is mainly associated with two dolomitic shale horizons, each ranging in thickness from 5 m to 15 m, separated by 20 m of cellular silicified dolomite (RSC).

The main economic minerals present are malachite, chrysocolla, bornite, and heterogenite. Primary copper and cobalt mineralogy is predominately chalcocite, digenite, bornite, and carrollite. Oxidation has resulted in widespread alteration producing malachite, pseudomalachite, chrysocolla (hydrated copper silicate) and heterogenite.

The primary copper-cobalt mineral associations are homogeneous in both mineralized zones and any variations are due to the effect of oxidation and supergene enrichment. Consequently the mineral assemblages can be grouped into three main categories dependent upon the degree of alteration – oxide, mixed and sulphide zones. Dolomite and quartz are the main gangue minerals present. Dolomite or dolomitic rocks make up the bulk of the host strata. Weathering of the host rocks is normally depth-related, intensity decreasing with increasing depth, producing hydrated iron oxides and silica at the expense of dolomite, which is leached and removed.

#### **4.4.1.3.7 Drilling**

The exploration and drilling history of Tenke Fungurume deposits began in 1919. Union Minière du Haut Katanga explored the surface and drilled exploration core holes between 1919-1921, 1942-1951 and 1958-1968. Gécamines conducted exploration and drilling 1968-70 and 1981-1991. SMTF carried out exploration and core drilling 1971-1976. TFM carried out additional core drilling in 1997. These campaigns totalled 186,376 m of drilling plus mapping, trenching and exploration audits. Exploration core drilling carried out by FMC/FCX between 2006 and the end of 2013 comprised 3,561 core holes totaling approximately 580,884 m. Reverse circulation drilling was used locally to drill through unmineralized waste.

In 2014, drilling will continue for metallurgical sampling and resource conversion on some of the smaller oxide models. Drilling will also support geotechnical and metallurgical information gathering. Drilling is budgeted at 30,000 m for exploration, 1,750 m for metallurgical sampling, 12,000 m for development, and 4,000 m for geotechnical holes.

Underground bulk sample of mixed/sulphide mineralization will be obtained via small shafts and underground development in the Fungurume and Kwatebala orebodies for metallurgical testwork purposes.

#### **4.4.1.3.8 Sampling and Analysis**

Industry standard exploration drill core splitting, sampling, quality control sample insertion and density measurement protocols have been followed by FMC and subsequently by FCX. Regular independent audits to review sampling activities with respect to quality assurance, quality control and sample security are completed. In addition to drill core and drill cutting sampling, open-pit grade control sampling is carried out using a trench cutting tool.

Samples are prepared on-site and analyzed at the mine's assay laboratory facility. Strict quality assurance/quality control protocols are in place including placement and assaying of duplicates, blanks

and check samples. A computerized Laboratory Information Management System is used to manage data.

#### **4.4.1.3.9 Security of Samples**

Data and sample security procedures that conform to industry standards are in place. All drill cores are logged and photographed and the cores and sampling splits are stored on-site. These and other traceability records prevent errors of identification and ensure sample history can be followed.

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

The current mineral resources at Tenke Fungurume have been estimated with 14 deposit models within the concessions: Kwatebala, Tenke, Fwaulu, Mwadinkomba, Kansalawile, Fungurume, Fungurume V1/VI Extension, Katuto, Shinkusu, Kazinyanga, Mambilima, Pumpi, Zikule and Mudilandima.

Mineral Resources have been estimated using three dimensional modelling methods with Minesight® software being used for geological modeling. Grade estimation has been carried out using specially developed Local Anisotropy Kriging (LAK) techniques to account for the narrow and complex nature of the orebodies.

The open-pit designs were optimized for all the 14 deposits listed above. Datamine NPV Scheduler was used for nine of the deposits with Tenke, Fungurume and Katuto being evaluated using Minesight® as it uses a rotated model. In each case, a Lerch Grossman algorithm was used to maximize the gross value of the pit. Pits were designed with 38 degree inter-ramp slope angle, 35 degree overall slope angle and double 5 m benches between berms. Input parameters to the open-pit optimizations were updated in 2013 and include revisions to the mine operating costs, cobalt recovery factors and the gangue acid consumption estimations.

Dilution is potentially a significant issue as mineralized zones are long, typically narrow (6 m to 15 m wide), faulted and folded, and contacts are relatively sharp. To address this issue, the resource and reserve models have block dimensions of 5 m by 2.5 m by 2.5 m; the ore mining fleet uses small equipment and 0.625 m ore cuts broken by the surface miners. For mine planning purposes, resource grades are reduced by 5% to account for anticipated grade dilution during operations. A Minesight® ore control system based on the reserve block model and refined by trench sampling is used to control the selectivity of mining.

Details of the December 2013 resource and reserve estimate for Tenke Fungurume are included in Schedule A, attached to this AIF.

#### **4.4.1.3.11 Mining Operations**

The Tenke Fungurume operation mines copper-cobalt oxide ores by open-pit mining techniques. Continuous miners are used to break the ore, and drill and blast is employed in the waste rock. Conventional loaders and trucks transport the ore to the crusher or stockpiles and the waste to dumps. Larger mining equipment is currently being introduced to enable increased mining rates. In 2013, production was sourced primarily from the Kwatebala, Fwaulu, Tenke and Mwandinlomba orebodies. The other orebodies are scheduled to be mined in a number of phases over time.

The latest proven process technology is being used to extract copper and cobalt. Copper is extracted using standard SAG milling, sulphuric acid leach, solvent extraction and electro-winning (“SXEW”) to produce copper cathode. Solution from the copper SXEW plant feeds the cobalt plant where cobalt hydroxide is produced through purification and precipitation processes. Copper is marketed with guidance from FCX’s global copper marketing program. Cobalt is sold as cobalt hydroxide under contract and on the spot market.

Nominal daily mill feed of oxide ore has increased from the original design of 8,000 tpd to 11,000 tpd to 14,500 tpd following several phases of plant debottlenecking and the completion of a Phase 2 expansion. Planned copper production levels have increased from 115,000 tpa to 132,000 tpa to 208,000 tpa.

Capital investment of approximately \$2.0 billion was made for the initial project facilities, which included aspects to support major future expansions. This included a projected \$250 million for loans and overseeing of the provincial hydro power rehabilitation project to provide reliable power to the mine and national grid. Total power available to the TFM mine resulting from the power loan investment under agreement with SNEL (DRC power authority) is in excess of 200 MW to support expansions, which is more than sufficient for current plans.

The Phase 2 expansion of Tenke Fungurume was substantially complete at 2013 year end increasing annual copper production by 50% to a nameplate of 195,000 tonnes copper cathode and 15,000 tonnes cobalt hydroxide. The expansion, which was substantially completed under budget at a cost of \$670 million, included additional mining equipment, mill upgrades, acid plant expansion and a doubling of the existing tank house capacity. During 2011 and 2012, test scale on/off heap leach pads were constructed and operated on site to evaluate the potential of commencing heap leaching of the low grade ores that are currently being mined and stockpiled, and future utilization of the excess SX-EW capacity.

FCX continues to engage in drilling activities, exploration analyses and metallurgical testing on mixed and sulphide ores to evaluate the full potential of the highly prospective minerals district at Tenke. These analyses are being incorporated in the evaluation of several further phases of expansion.

#### **4.4.1.3.12 Environmental and Social Aspects**

The Tenke project has been developed in accordance with Equator Principles, Voluntary Principles of Security and Human Rights, applicable World Bank/IFC standards and the Extractive Industries Transparency Initiative. Development and operation are subject to a number of DRC laws, regulations and standards dealing with the protection of public health, public safety and the environment. Permits and authorizations are in place for construction and operation.

Key environmental issues addressed by the project include mitigation of damage to sensitive indigenous flora unique to highly mineralized areas of the DRC copper belt, design of the project to zero discharge objectives, and adoption of fully plastic-lined process water and tailings storage impoundments. As this is the first commercial development of mining on the concessions, there are no known existing environmental liabilities.

Key social investments addressed during project development include extensive community consultation and stimulation of both direct and indirect employment – during the initial phase of construction, employment peaked at more than 8,000 DRC nationals. As of December 2013, TFM employed approximately 3,400 full time personnel and 3,800 contractors. According to an economic impact assessment commissioned by TFM, both directly and indirectly TFM accounts for 5 percent of all formal employment in the DRC's private sector.

Other social investments include medical, fresh water supply, education, agricultural and regional infrastructure investments in power, roads and border crossings.

#### **4.4.1.4 EAGLE PROJECT**

The following information has been based on the NI 43-101 technical report entitled "NI 43-101 Technical Report on the Eagle Mine, Upper Peninsula of Michigan, USA (the **Eagle Report**)" dated 26 July 2013 prepared for Lundin Mining by Mark Owen, BSc, MSc (MCSM), CGeol, EurGeol, FGS and Lewis Meyer, ACSM, MCSM, BEng, MSc, PhD, CEng, FIMMM, qualified persons as defined by NI 43-101. The authors have reviewed and approved all scientific and technical information in this summary, including all scientific and technical information relating to any updates to the Eagle mine since the date of the Eagle Report. Updates to Mineral Reserve and Mineral Resource estimates are due to mining activities and have been

reviewed and approved as indicated in Schedule A. The Eagle Report is available under Lundin Mining's SEDAR profile at [www.sedar.com](http://www.sedar.com).

#### **4.4.1.4.1 Project Description and Location**

The Eagle mine is located in the Upper Peninsula of Michigan, USA, in Michigamme Township, Marquette County. The property is on the watershed divide of the Yellow Dog River and Salmon Trout Rivers.

The closest community to the mine site is Big Bay, 24km from the property by road. Big Bay is an unincorporated community within Powell Township and has limited services. The closest full service community is Marquette, 53km by road from the property. Marquette provides a regional airport, rail and shipping facilities, and a full range of commercial services.

The Humboldt mill property, a former iron ore processing facility, occupying approximately 142 hectares, is located 61km west of Marquette, Michigan. The facility is located in the township of Humboldt, Marquette County, Michigan.

Ore from the Eagle mine will be trucked 105 km to the Humboldt mill for processing.

#### **4.4.1.4.2 Accessibility, Climate, Local Resource, Infrastructure and Physiography**

Road access to the mine property is by means of maintained loose surface and paved roads from the communities of Big Bay to the east, L'Anse to the west, and Marquette to the south. The Humboldt mill is located close to the main US Route 41. The route for trucking ore from the Eagle mine to the Humboldt mill is 105km long.

Eagle mine and Humboldt mill sites are located in a temperate region. The area's weather is characterised by variable weather patterns and large seasonal temperature variations. Summers are often warm and humid and winters can be very cold with frequent snow falls and snow cover. Extreme recorded temperatures range from -33.6°C along the coast to +43.6°C inland. Snowfall is heaviest inland, averaging 508 cm, and is least along the coast, averaging 304-355cm. Average annual precipitation is 81 to 91 cm; the heaviest precipitation falls at high elevations inland.

The property is in the Marquette Highland physiographic region characterized by uplands of variable topography controlled by bedrock. In some areas, the terrain consists of low rocky ridges less than 15 m high, with many small lakes and swamps. Eagle mine is located on Yellow Dog plain where two erosionally resistant hillocks of peridotite protrude through the till. Lakes, rivers and smaller streams are numerous.

Both the mine and mill sites are serviced by grid power. An existing non-potable well, in conjunction with a potable well, provides service and drinking water to the mine site and each is capable of delivering 100 gpm. There are plans to refurbish the existing Humboldt mill potable water well for future facility operations. Hydrology studies at both sites indicate viable long term aquifers.

The area is served by an extensive network of paved roads, a regional airport, rail service, excellent telecommunications facilities, national grid electricity, an ample supply of water and a highly educated work force.

#### **4.4.1.4.3 History**

The Eagle deposit was first drilled in 2002 as part of a nickel exploration program commenced by Rio Tinto in 2000. Following further drilling an initial Mineral Resource was estimated in early 2004.

Following further drilling, feasibility studies, and the receipt of all relevant permits Rio Tinto began construction of the Eagle mine site in 2010 and began underground development in September 2011. The re-construction work at the Humboldt mill also commenced in 2011.



In July 2013, Lundin Mining acquired the Eagle mine from Rio Tinto. Following the purchase, construction of the project has been accelerated and first concentrate production is expected to be achieved in late 2014.

#### **4.4.1.4.4 Geological Setting**

Eagle is an ultramafic-intrusive-hosted high grade Ni-Cu deposit, with associated cobalt, platinum, palladium, silver and gold, which is interpreted to have formed from multiple intrusive phases. The peridotite intrusive is hosted in paleoproterozoic metasediments, which exhibit hornfels at the contact with the intrusion. The whole area is mostly covered by pleistocene glacial till.

The Eagle deposit is hosted by one of two peridotite intrusions historically known as the Yellow Dog Peridotites and referred to as Eagle peridotites within the project lexicon. The eastern intrusion forms a prominent outcrop that rises above the Yellow Dog Plains and is being evaluated as the Eagle East target. The western intrusion, 650m to the west and host to Eagle, is only poorly exposed in a small outcrop on the north side of Salmon Trout River. The intrusions are characterized by very prominent magnetic highs relative to the surrounding sedimentary rocks.

The high-grade Eagle deposit measures approximately 300m in strike length, up to 85m in width, and 340m in vertical depth.

#### **4.4.1.4.5 Exploration**

Exploration work within the mining concession in 2013 has concentrated primarily on searching for an extension of the known orebody by both underground and surface drilling. A small number of regional generative targets were also tested.

#### **4.4.1.4.6 Mineralization**

The Eagle deposit is a high-grade magmatic sulphide deposit containing nickel and copper mineralization and minor amounts of cobalt, precious and platinum group metals (PGMs). The economic minerals associated with this deposit are predominately pentlandite and chalcopyrite.

Three distinct types of sulphide mineralization occur at the Eagle deposit. They are described as disseminated, semi-massive and massive sulphide. Massive sulphide is generally over 90% pyrrhotite-pentlandite-chalcopyrite. Semi-massive, or matrix ore, is 30% or greater net textured sulphide. Disseminated mineralization is generally uneconomic. The semi-massive and massive sulphides occur in separate zones called the Massive Sulphide, Semi-massive East, and Semi-massive West zones.

#### **4.4.1.4.7 Drilling**

Surface and underground exploration drilling is an ongoing operation at the mine with the work undertaken by contractors. The nominal hole spacing of the underground diamond drilling is between 15 m and 25 m, with surface drilling averaging a spacing of less than 25 m within the Eagle deposit. Drilling at Eagle on the resource is restricted to diamond core using various size tools. Down hole surveys at Eagle are predominantly either north seeking (rate) gyros or normal gyro surveys in conjunction with a drill contractor FLEXIT tool.

In 2013, 3,357 m of drilling was completed from surface with 7 holes and 2,641 m was drilled from underground in 43 holes.

#### **4.4.1.4.8 Sampling and Analysis**

Industry standard exploration drill core splitting, sampling, insertion of QC samples and density measurement protocols and procedures are in place. Samples are prepared on-site and sent to ALS Minerals (ALS Chemex) laboratory in Vancouver, Canada for assay.

#### **4.4.1.4.9 Security of Samples**

Data and sample security procedures that conform to industry standards are in place at Eagle. All drill core is logged and photographed, and the cores and sampling splits are stored in secure facilities near Negaunee. Traceability records prevent errors of identification and ensure sample history can be followed.

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

Mineral Resources at Eagle are estimated using 3D block modelling using Maptrek Vulcan mining software. Ordinary Kriging is used for grade and density estimation.

Mineral Reserves are calculated from the resources by designing stopes and sill layouts using Vulcan software. An NSR cut-off is applied together with dilution and mining recovery factors.

Details of the June 2013 Mineral Resource and Reserve estimate for Eagle are included in Schedule A, attached to this AIF.

#### **4.4.1.4.11 Mining Operations**

Eagle is a relatively shallow underground mine with access gained via a surface ramp that will serve as the route for waste, ore and backfill haulage. The mine will employ transverse bench-and-fill stoping with mining in an up-dip primary secondary sequence. Backfilling will be undertaken using cemented and uncemented rockfill. Two ventilation shafts are in place, with the downcast shaft also equipped for emergency egress. Ore from the mine will be stored in a covered coarse ore stockpile facility prior to transport by road 105km to the Humbolt mill site.

The Humbolt mill is a former iron ore processing plant that is being converted for processing Eagle ore. From a further covered coarse ore storage facility, the ore will be processed using a conventional crush, grind and differential flotation process to produce separate nickel and copper concentrates. Tailings from the plant will be deposited sub-aqueously in the adjacent former Humbolt iron ore open pit.

Nickel and copper concentrates will be stored in a covered concentrate building on site. A rail spur in to the site will be used to transport the concentrate direct to smelter facilities within North America or to the ports of Quebec, Montreal or Vancouver for shipment to overseas smelters.

Current Mineral Reserves at Eagle are sufficient for a mine life of 8 years.

Both the mine and mill operate under a number of local, state and federal permits and all key permits are in place for the start of operations. The Eagle mine and Humbolt mill are currently under construction and first commercial concentrate production is scheduled for the fourth quarter of 2014.

Federal taxes for Eagle comprise the greater of a regular income tax of 35% or the alternative minimum tax ("AMT") of 20%. The state of Michigan imposes an additional severance tax of 2.75% on "taxable minerals". A combination of state and private royalties are payable at 7.0% and 2.5% respectively.

#### **4.4.1.4.12 Exploration and Development**

In 2014, exploration will continue to focus on near-mine extensions to the known Eagle deposit. Drilling will also be carried out to trace the feeder dyke below Eagle and further explore the currently uneconomic Eagle East intrusion.

## **4.4.2 OTHER PROPERTIES**

### **4.4.2.1 Aguablanca Mine**

The Aguablanca mine is a single open-pit mine and is located approximately 100 km north of Seville in the Extremadura region of southern Spain. The mine lies some 30 km south of the town of Monesterio.

Mining operations use a conventional drill and blast, and truck and shovel fleet. The pit is mined with 8 m benches and the final slopes are designed with a double bench configuration. Waste rock is stacked to the immediate north of the open pit and the waste dumps form the downstream wall of the tailings impoundment. Run-of-mine ore is stockpiled, blended and then primary crushed. The crushed ore is conveyor fed to a conventional grinding and flotation circuit to produce a bulk nickel-copper concentrate. The concentrate is thickened and filtered to produce a filter cake suitable for onward transport. The concentrate is truck hauled approximately 125 km to Huelva port from where it is shipped to customer smelter facilities. Tailings from the process plant are pumped to a fully lined tailings impoundment to the north of the plant site area. Decant water from the tailings dam is returned to the process plant.

Open pit instabilities occurred in the south wall of the open pit during the third quarter of 2012. Significant effort was expended during 2013 in stabilising the south wall of the open pit including further push backs, slope reinforcement, increased drainage and, prior to year end, the successful mining of two drainage tunnels beneath the affected slope. These initiatives have been successful and consistent open pit production was achieved throughout the year.

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

All bulk nickel-copper concentrate produced from the Aguablanca operation is sold under a single, long-term contract. Principle payable metals are nickel and copper with by-product payments made for platinum, palladium, cobalt and gold, and the payment terms are typical of those for bulk nickel/copper sulphide concentrates.

The Aguablanca Mine operates under environmental permits granted by the Spanish Government. These permits include conditions covering environmental management systems, tailings and waste rock disposal, water and energy consumption, emissions to atmosphere, emissions to water courses and water treatment, noise, industrial waste disposal, emergency and closure planning. Key environmental issues include; the potential lack of water during drought periods; the dispersal of dust and noise from the mine site; and mine site rehabilitation.

The corporation tax rate in Spain is 30% and royalties of 2% of NSR apply.

Lundin Mining holds exploration rights over an area of 1,864 km<sup>2</sup>, largely to the north and west of Aguablanca, known as the Ossa Morena. Additional exploration potential exists for nickel-copper and copper-gold mineralization within this area.

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

Mineral resources at Aguablanca were estimated at 30 June 2013 using three dimensional geological block modelling methods and specialized software (Datamine®). The Ordinary Kriging method of interpolation was used to estimate six metal grades (Ni, Cu, Pt, Pd, Co and Au) and the Inverse Distance Squared method was used for the density estimation.

Mineral Reserves for the open pit were estimated from the June 2013 Mineral Resource block model within a re-configured open pit shell originally produced by Golder Associates (using the specialized software Whittle® Four-X) in March 2011.

Mineral Reserves for the underground mine were estimated from designed sub-level caving and sub-level open stoping mining panels beneath the open pit, with appropriate allowances made for mining dilution and recovery.

Details of the June 2013 Mineral Resource and Reserve estimate for Aguablanca, including the underground Mineral Reserves, are included in Schedule A attached to this AIF.

#### **4.4.3. FREEPORT COBALT**

During 2013, Lundin Mining acquired, through a newly formed joint venture entity with Freeport, a large scale cobalt chemical refinery located in Kokkola, Finland and the related sales and marketing business. The acquisition provided direct end-market access for the cobalt hydroxide production from the Tenke Fungurume mine among other advantages. Lundin Mining holds an effective 24% ownership interest in the joint venture, with Freeport holding an effective 56% ownership interest and acting as operator of the joint venture and Gécamines holding a 20% interest. Initial consideration of \$348 million, excluding cash acquired, was paid at closing. Under the terms of the agreement, there is the potential for additional consideration of up to \$110 million payable over a period of three years from the acquisition date, contingent upon the achievement of revenue-based performance targets. Lundin Mining's share of the investment, including acquired cash, was \$116 million based on a 30/70% split with Freeport and will be repaid in full prior to any distributions.

The operations were re-branded Freeport Cobalt.

The refinery located on the Baltic Sea in Finland processes unrefined cobalt and related metals and manufactures advanced inorganic products for use in a variety of applications in fast-growing end use markets. Freeport Cobalt is one of the world's largest suppliers of cobalt chemicals and powders for use in batteries, chemicals and ceramics and powder metallurgy.

The Kokkola refinery has been in operation since 1968 and has an experienced management team, over 400 employees and global sales and marketing footprint that services approximately 500 customers in over 50 countries in Asia, Europe and the Americas.

#### **4.4.4 MINE CLOSURES**

The Galmoy mine in county Kilkenny, Ireland was acquired by Lundin Mining in 2005. The final mining of high-grade zinc lead ore for treatment at an adjacent mine was completed in October 2012, and milling of this ore was substantially completed during 2013. The approved closure plan for the mine is being followed with the mill dismantled and sold, the mine entrances sealed and capped, and rehabilitation of the tailings management facility well advanced. Closure activities are expected to be largely completed in 2014 and the restricted cash closure fund accumulated during the mine life will continue to be drawn down to meet the closure obligations.

Lundin Mining acquired the Vueltas del Rio gold mine in Honduras, as part of the acquisition of Rio Narcea in 2007. Reclamation of the property continued throughout 2013 in accordance with the mine closure plans approved by the local authorities. Completion of the closure plan is expected in early 2014 with an approved aftercare program then initiated.

Production ceased in 2008 at the Storliden zinc-copper mine in northern Sweden. A rehabilitation program has been completed in accordance with the approved closure plan. The site is now subject to a long-term monitoring program.

## ITEM 5 RISKS AND UNCERTAINTIES

### 5.1 Risks and Uncertainties

The Company is subject to various risks and uncertainties, including but not limited to those listed below.

#### ***Metal Prices***

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

If the market prices for metals fall below the Company's full production costs and remain at such levels for any sustained period of time, the Company may, depending on hedging practices, experience losses and may decide to discontinue mining operations or development of a project at one or more of its properties. If the prices drop significantly, the economic prospects of the mines and projects in which the Company has an interest could be significantly reduced or rendered uneconomic. Low metal prices will affect the Company's liquidity, and if they persist for an extended period of time, the Company may have to look for other sources of cash flow to maintain liquidity until metal prices recover. The Company does not currently hedge metal prices.

#### ***Foreign Exchange Risk***

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

#### ***Credit Risk***

The Company is exposed to various counterparty risks. The Company is subject to credit risk through its trade receivables. The Company manages this risk through evaluation and monitoring of industry and economic conditions and assessment of customer financial reports. The Company transacts with credit worthy customers to minimize credit risk and if necessary, employs pre-payment arrangements and the use of letters of credit, where appropriate, but cannot always be assured of the solvency of its customers. Credit risk relating to derivative contracts arises from the possibility that a counterparty to an instrument with which the Company has an unrealized gain fails to settle the contracts.

#### ***Derivative Instruments***

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

#### ***Competition***

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

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

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

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

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

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

### ***Mining and Processing***

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

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

The Company periodically reviews mining schedules, production levels and asset lives in its life of mine ("LOM") planning for all of its operating and development properties. Significant changes in the LOM plans can occur as a result of experience obtained in the course of carrying out mining activities, new ore

discoveries, changes in mining methods and rates, process changes, investments in new equipment and technology, foreign exchange and metal price assumptions, and other factors. Based on this analysis the Company reviews its accounting estimates and in the event of an impairment, may be required to write-down the carrying value of a mine or development property. This complex process continues for the economic life of every mine in which the Company has an interest.

### ***Infrastructure***

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

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

### ***Energy Prices and Availability***

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

### ***Mine Development Risks***

The Company's ability to maintain, or increase, its annual production of copper, zinc, lead, nickel and other metals will be dependent in significant part upon its ability to bring new mines into production and to expand existing mines. Although the Company utilizes the operating history of its existing mines to derive estimates of future operating costs and capital requirements, such estimates may differ materially from actual operating results at new mines or at expansions of existing mines. The economic feasibility analysis with respect to any individual project is based upon, among other things, the interpretation of geological data obtained from drill holes and other sampling techniques, feasibility studies (which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed), and base metals price assumptions, the configuration of the orebody, expected recovery rates of metals from the ore, comparable facility and equipment costs, anticipated climatic conditions, estimates of labour, productivity, royalty or other ownership requirements and other factors. Some of the Company's development projects are also subject to the successful completion of final feasibility studies, issuance of necessary permits and other governmental approvals, sourcing suitable power and water requirements, confirming the availability of appropriate local area infrastructure, receipt of adequate financing and addressing local stakeholder concerns.

The capital expenditures and timeline needed to develop a new mine or expansion are considerable and the economics of and the ability to complete a project can be affected by many factors, including; inability to complete construction and related infrastructure in a timely manner, changes in the legal and regulatory environment, currency fluctuations, industrial disputes, availability of parts, machinery or operators, delays in the delivery of major process plant equipment, inability to obtain, renew or maintain the necessary permits, licences or approvals, unforeseen natural events and political and other factors. Factors such as changes to technical specifications, failure to enter into agreements with contractors or suppliers in a timely manner, and shortage of capital may also delay the completion of construction or commencement of production or require the expenditure of additional funds. Although the Company's feasibility studies are generally completed with the Company's knowledge of the operating history of similar orebodies in the region, the actual operating results of its development projects may differ materially from those anticipated, and uncertainties related to operations are even greater in the case of development projects. Many major mining projects constructed in the last several years, or under

construction currently, have experienced cost overruns that substantially exceeded the capital cost estimated during the basic engineering phase of those projects. There can be no assurance that the Company's development projects will be able to be developed successfully or economically or that they will not be subject to the other risks described in this section.

### ***Depletion of Reserves***

Subject to any future expansion or other development, production from existing operations at the Company's mines will typically decline over the life of mine. As a result, the ability to maintain or increase current production of base metals will depend significantly upon the Company's ability to discover or acquire new reserves at existing mines. Even if the Company identifies and acquires an economically viable orebody, several years may elapse from the initial stages of development. The Company may incur major expenses to locate and establish new mineral reserves, to develop metallurgical processes and to construct any additional mining and/or processing facilities required. As a result, the Company cannot provide assurance that its efforts will yield new mineral reserves to replace or expand current mineral reserves.

### ***Exploration Risk***

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

### ***Community Relations***

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

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

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

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

Rehabilitation programs at the Storliden mine were completed in 2012. The Company is currently studying water quality in the mine area and the site remains subject to an ongoing aftercare monitoring program until 2020. The Company also has closure programs in place associated with legacy mining operations previously carried on in Honduras under the ownership of a Lundin Mining subsidiary, which was acquired by the Company in 2007. The active closure phase at this former gold mine was nearing completion at the end of 2013 and will shortly move to a three year aftercare monitoring program.

Closing a mine can have significant impact on local communities and site remediation activities may not be supported by local stakeholders. The Company endeavours to mitigate this risk by reviewing and



updating closure plans regularly with external stakeholders over the life of the mine and considering where post-mining land use for mining affected areas has potential benefits to the communities.

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

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

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

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

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

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

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

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

The Company annually undertakes a detailed review of the LOM plans for its operating properties and an evaluation of the Company's portfolio of development projects, exploration projects and other assets. The recoverability of the Company's carrying values of its operating and development properties are assessed by comparing carrying values to estimated future net cash flows and/or market values for each property.

Factors which may affect the recoverability of carrying values include, but are not limited to, metal prices, foreign exchange rates, capital cost estimates, mining, processing and other operating costs, grade and metallurgical characteristics of ore, mine design and timing of production. In the event of a prolonged period of depressed prices, the Company may be required to take material write-downs of its operating and development properties.

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

The Company does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfill its obligations under any applicable agreements. Failure to obtain such additional funding could result in the delay or indefinite postponement of the exploration and development of the Company's properties.

Lundin Mining is a multinational company and relies on financial institutions worldwide to fund its corporate and project needs. Instability of large financial institutions may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. Disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation of financial institutions, reduced alternatives or failures of significant financial institutions could adversely affect the Company's access to the liquidity needed for the business in the longer term.

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

### ***Current Global Financial Conditions***

Recent events in global financial markets, including sovereign debt crises, have had a profound impact on the global economy and global financial conditions have been subject to volatility. Many industries, including the mining sector, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and base metals markets and a lack of market liquidity. A continuing slowdown in financial markets or other economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of financial markets, interest rates, and tax rates may adversely affect the Company's business, financial condition, results of operations and ability to grow.

### ***Uninsurable Risks***

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

decline in the value of the securities of the Company. The Company does not maintain insurance against political risks.

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

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

#### ***Employee Relations***

Certain of the Company's employees and suppliers are employed under collective bargaining agreements. The Company cannot predict at this time whether future agreements with unionized workforces will be completed without a work stoppage. Further, relations with employees and suppliers may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in the jurisdictions in which the Company operates. Changes in such legislation or otherwise in the Company's relationship with its employees and suppliers may result in labour unrest or disruptions such as strikes, lockouts or other work stoppages and could have a material adverse effect on our business as a whole, financial condition, results of operations or share price.

#### ***Key Personnel***

The Company is dependent on a relatively small number of key employees, the loss of any of whom could have an adverse effect on the Company. The Company does not have key person insurance on these individuals. The success of the Company's operations depends in part on the ability to attract, motivate and retain geologists, engineers, metallurgists and other personnel with specialized skill and knowledge.

#### ***Tax***

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

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

The operating partner in the Tenke Fungurume copper/cobalt project is Freeport-McMoRan Copper & Gold Inc. There may be risks associated with this partner of which the Company is not aware.

#### ***Litigation***

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

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

The Company's share price may be significantly affected by short-term changes in commodity prices or in the Company's financial condition or results of operations. Other factors unrelated to the Company's performance that may also have an effect on the price of the Company's common shares include a lessening in trading volume and general market interest in the Company's securities and the size of its public float. As a result of any of these factors, the market price of the Company's common shares, at any given point in time, may not accurately reflect its long-term value. Securities class action litigation has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation.

## **Acquisition and Integration**

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

## **ITEM 6 DIVIDENDS AND DISTRIBUTIONS**

### **6.1 Dividends and Distributions**

The Company's ability to pay dividends and make other distributions is restricted in certain circumstances by covenants contained in the Company's credit agreement. The Company has not paid dividends on its common shares in the last five years and it has no present intentions of paying any dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business. The directors of the Company will determine if and when dividends should be declared and paid in the future, based on the Company's financial position at the relevant time.

## **ITEM 7 DESCRIPTION OF CAPITAL STRUCTURE**

### **7.1 General Description of Capital Structure**

The authorized share capital of the Company consists of an unlimited number of common shares without nominal or par value of which 584,643,063 common shares are issued and outstanding, and one special share without nominal or par value. The special share is not issued and outstanding at this time.

The holders of common shares are entitled to receive notice of and attend all meetings of shareholders with each common share held entitling the holder to one vote on any resolution to be passed at such shareholder meetings. The holders of common shares are entitled to dividends if, as and when declared by the board of directors of the Company. The common shares are entitled, upon liquidation, dissolution or winding up of the Company, to receive the remaining assets of the Company available for distribution to shareholders.

## **ITEM 8 MARKET FOR SECURITIES**

### **8.1 Exchange Listings**

The common shares of the Company are traded in Canada on the TSX under the symbol "LUN". In Sweden, the common shares are represented by Swedish Depositary Receipts which trade on the NASDAQ OMX Nordic Exchange under the symbol "LUMI".

## 8.2 Trading Price and Volume

The following table provides information as to the monthly high and low closing prices of the Company's common shares during the 12 months of the most recently completed financial year, as well as the volume of shares traded for each month on the TSX:

Month	High (C\$)	Low (C\$)	Volume
January 2013	5.37	5.07	37,943,115
February 2013	5.30	4.59	57,470,855
March 2013	4.88	4.33	33,289,135
April 2013	4.61	3.69	61,185,435
May 2013	4.63	3.77	44,850,681
June 2013	4.47	3.68	41,414,748
July 2013	4.33	3.74	30,439,594
August 2013	4.80	3.99	33,740,156
September 2013	4.93	4.48	30,306,670
October 2013	4.94	4.29	36,862,085
November 2013	4.80	4.19	31,032,960
December 2013	4.64	4.03	26,716,219

## ITEM 9 ESCROWED SECURITIES

### 9.1 Escrowed Securities

There are no Lundin Mining securities in escrow.

## ITEM 10 DIRECTORS AND OFFICERS

### 10.1 Name, Address, Occupation and Security Holding of Directors and Officers

The Board of Directors of the Company is currently comprised of eight directors who are elected annually and whose term of office will expire at the Company's annual and special meeting scheduled to be held on or about May 9, 2014. Each director holds office until the next annual meeting of shareholders or until his successor is duly elected unless his office is earlier vacated in accordance with the by-laws of the Company. The names, provinces and countries of residence of each of the directors and officers of the Corporation as at the date of this AIF, their respective positions and offices held with the Company, their principal occupations within the preceding five years and the number of securities of the Company owned by them as at the date of this AIF is set forth in the following table:

Name, residence and current position(s) held in the Company	Principal occupations for last five years	Served as director since	Number of securities owned (directly or indirectly) or controlled at present <sup>(1)</sup>
<b>Lukas H. Lundin</b> Vaud, Switzerland <i>Chairman and Director</i>	Chairman and a director of the Company; chairman; president and/or director of a number of publicly traded resource-based companies which include Denison Mines	September 9, 1994	2,271,449 common shares

	Corp., Fortress Minerals Corp., Lucara Diamond Corp., Lundin Petroleum AB, and NEX Resources Inc.		
<b>Paul K. Conibear</b> British Columbia, Canada <i>President, Chief Executive Officer and Director</i>	President and Chief Executive Officer since June 30, 2011; Senior Vice President, Corporate Development since October 2009; Senior Vice President, Projects, of the Company from July 2007 to October 2009; President and Chief Executive Officer of Suramina Resources Inc. from June 11, 2007 to September 30, 2007; President and Chief Executive Officer of Tenke Mining Corporation from November 26, 2002 to July 13, 2007.	June 30, 2011	789,904 common shares <sup>(2)</sup>
<b>Donald K. Charter</b> Ontario, Canada <i>Director</i>	Corporate director with experience in executive leadership positions in mining and financial services; President and Chief Executive Officer of Corsa Coal Corp. from August 2010 to July 2013; President of 3Cs Corporation, his private consulting and investment company since January 2006.	October 31, 2006	42,424 common shares
<b>John H. Craig</b> Ontario, Canada <i>Director</i>	Lawyer, partner of Cassels Brock & Blackwell LLP.	June 11, 2003	213,849 common shares
<b>Brian D. Edgar</b> British Columbia, Canada <i>Director</i>	Chairman of Silver Bull Resources, Inc.; director of Rand Edgar Investment Corp. since October 1992; director of a number of publicly traded companies.	September 9, 1994	130,000 common shares
<b>Peter C. Jones</b> Alberta, Canada <i>Director</i>	Corporate director and retired executive with over 40 years of experience in the mining industry, including work in Europe, Africa, North and South America, Australia and Asia; Interim President and CEO of IAMGOLD Corporation from January 2010 to November 2010; President and Chief Operating Officer of Inco Ltd. from April 2001 to December 2006; President and Chief Executive Officer of Hudson Bay Mining & Smelting Co. from January 1990 to December 1996; director of a number of publicly traded companies.	September 20, 2013	22,070 common shares
<b>Dale C. Peniuk C.A.</b> British Columbia, Canada <i>Director</i>	Chartered Professional Accountant and corporate director; formerly an assurance partner with KPMG LLP, Chartered Accountants; director of a number of publicly traded companies.	October 31, 2006	50,000 common shares <sup>(3)</sup>
<b>William A. Rand</b> British Columbia, Canada <i>(Lead) Director</i>	President and director of Rand Edgar Investment Corp.; director of a number of publicly traded companies.	September 9, 1994	223,424 common shares

<b>Susan J. Boxall</b> United Kingdom <i>Vice President, Human Resources</i>	Vice President, Human Resources of the Company since August 2012; Group HR Director with De Beers from March 2010 to July 2012; Executive Director HR with Element Six from November 1990 to March 2010.	N/A	Nil
<b>Stephen T. Gatley</b> United Kingdom <i>Vice President, Technical Services</i>	Vice President, Technical Services of the Company since June 2012; Director, Technical Services of the Company from January 2006 to May 2012; General Manager Galmoy Mine from June 2001 to January 2006.	N/A	35,000 common shares
<b>James A. Ingram</b> Ontario, Canada <i>Corporate Secretary</i>	Corporate Secretary of the Corporation since February 2010; Vice President, Secretary and General Counsel with Hudson's Bay Company from March 1998 to July 2009.	N/A	Nil
<b>Marie Inkster</b> Ontario, Canada <i>Senior Vice President and Chief Financial Officer</i>	Chief Financial Officer of the Company since May 2009; Vice President, Finance of the Company from September 2008 to April 30, 2009.	N/A	130,200 common shares
<b>Julie A. Lee Harrs</b> Ontario, Canada <i>Senior Vice President, Corporate Development</i>	Senior Vice President, Corporate Development since November 2011; President and Chief Operating Officer, Energizer Resources Inc. from September 2009 to September 2011, Senior Vice President, General Counsel and Secretary, Sherritt International Corp. from May 2006 to October 2008.	N/A	125 common shares
<b>Jinhee Magie</b> Ontario, Canada <i>Vice President, Finance</i>	Vice President, Finance of the Company since May 2009; Director of Finance of the Company from September 2008 to April 2009; formerly, Director of Corporate Compliance, LionOre Mining International Ltd.	N/A	Nil
<b>Paul M. McRae</b> United Kingdom <i>Senior Vice President, Projects</i>	Senior Vice President, Projects of the Company since January 2012; Project Director, AMEC from June 2009 to December 2011; Project Director of the Company from February 2008 to May 2009; Project Director, AMEC from August 2003 to January 2008.	N/A	Nil
<b>Neil P. M. O'Brien</b> Ontario, Canada <i>Senior Vice President, Exploration and Business Development</i>	Senior Vice President, Exploration and New Business Development of the Company since March, 2007; Vice President, Exploration of the Company from September 2005 to February 2007.	N/A	122,000 common shares
<b>J. Mikael Schauman</b> Sweden <i>Vice President, Marketing</i>	Vice President, Marketing of the Company since February 2007.	N/A	Nil

(1) On a non-diluted basis. The information as to common shares beneficially owned has been provided by the directors and officers themselves.

(2) Includes 80,850 common shares registered in the name of Mr. Conibear's spouse.

(3) Includes 15,000 common shares registered in the name of Mr. Peniuk's spouse and 100 common shares registered in the name of Mr. Peniuk's child.

Certain directors of the Company have other business interests and do not devote all of their time to the affairs of the Company. See “Conflicts of Interest” below.

The directors and officers of the Company hold, as a group, a total of 4,030,445 common shares, representing 0.69% of the number of common shares of the Company issued and outstanding.

There are currently four standing committees of the board. These committees are the Audit Committee, the Corporate Governance and Nominating Committee, the Health, Safety, Environment and Community Committee and the Human Resources/Compensation Committee. The following table identifies the members of each of these Committees:

<b>Audit Committee</b>	<b>Human Resources and Compensation Committee</b>	<b>Corporate Governance and Nominating Committee</b>	<b>Health, Safety, Environment and Community Committee</b>
Dale C. Peniuk (Chair) Donald K. Charter William A. Rand	Donald K. Charter (Chair) Peter C. Jones William A. Rand	Brian D. Edgar (Chair) John H. Craig Dale C. Peniuk	Peter C. Jones (Chair) Paul K. Conibear Brian D. Edgar

## 10.2 Corporate Cease Trade Orders or Bankruptcies

Except as noted below, no director or executive officer of the Company is, as at the date of this AIF, or was within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including Lundin Mining), that:

- (a) was subject to: (i) a cease trade order; (ii) an order similar to a cease trade order; or (iii) an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (collectively, an “order”) that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or
- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Mr. Edgar and Mr. Rand were directors of New West Energy Services Inc. (formerly Lexacal Investment Corp.) (TSX-V) when, on September 5, 2006, a cease trade order was issued against that company by the British Columbia Securities Commission for failure to file its financial statements within the prescribed time. The default was rectified and the order was rescinded on November 9, 2006.

Except as noted below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- a) is, as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any company (including Lundin Mining) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, state the fact; or
- b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.



Ms. Inkster was Vice President, Finance of GBS Gold International Inc. ("GBS") from September 2007 to June 2008. On September 15, 2008, GBS put its Australian group of subsidiaries into voluntary liquidation proceedings. In March 2009, GBS announced that it had agreed to transfer its remaining valued assets to the secured promissory note holders pursuant to the terms of a note indenture and general security deed entered into on May 27, 2008. The shares of GBS have been suspended from trading on the NEX board and it has effectively ceased business.

The foregoing information, not being within the knowledge of the Company, has been furnished by the respective directors, officers and any controlling shareholder of the Company individually.

### **10.3 Penalties or Sanctions**

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **10.4 Conflicts of Interest**

The Company's directors and officers may serve as directors or officers of other companies or have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or the terms of such participation. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties, thereby allowing for their participation in larger programs, the involvement in a greater number of programs or a reduction in financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the laws of Canada, the directors or the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and the financial position at that time.

The directors and officers of the Company are aware of the existence of laws governing the accountability of directors and officers for corporate opportunity and requiring disclosure by the directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors and officers. All such conflicts will be disclosed by such directors or officers in accordance with the *Canada Business Corporations Act* and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law. Other than as disclosed above, the directors and officers of the Company are not aware of any such conflicts of interest in any existing or contemplated contracts with or transactions involving the Company.

## ITEM 11      AUDIT COMMITTEE

### 11.1    Overview

The Audit Committee of the Company's board of directors is principally responsible for recommending to the Company's board of directors the external auditor to be nominated for election by the Company's shareholders at each annual meeting of shareholders and approving the compensation of such external auditor, overseeing the work of the external auditor, reviewing the Company's annual and interim financial statements, MD&A and press releases regarding earnings before they are reviewed and approved by the board of directors and publicly disseminated by the Company, and reviewing the Company's financial reporting procedures with respect to the public disclosure of financial information extracted or derived from its financial statements.

### 11.2    Audit Committee Mandate/Charter

The Company's board of directors has adopted an audit committee mandate (the "Mandate") which sets out the Audit Committee's purpose, procedures, organization, powers, roles and responsibilities. The complete Mandate is attached as Schedule B to this AIF.

### 11.3    Composition of the Audit Committee

Below are the details of each Audit Committee member, including his name, whether he is independent and financially literate as such terms are defined under National Instrument 52-110 and his education and experience as it relates to the performance of his duties as an Audit Committee member. The qualifications and independence of each member is discussed below and in the Company's Management Information Circular dated March 31, 2014, prepared in connection with the Company's annual and special meeting of shareholders to be held on or about May 9, 2014, a copy of which is available under the Company's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

<b>Member Name</b>	<b>Independent<sup>(1)</sup></b>	<b>Financially Literate<sup>(2)</sup></b>	<b>Education and Experience Relevant to Performance of Audit Committee Duties</b>
Dale C. Peniuk (Chair)	Yes	Yes	Mr. Peniuk is a chartered professional accountant and a graduate of the University of British Columbia (B.Comm). Mr. Peniuk was an assurance partner with KPMG LLP Canada from 1996 to 2006 and was the leader of their British Columbia mining practice. In addition to Lundin Mining, he is presently a director and audit committee chair of Argonaut Gold Inc. and Capstone Mining Corp.
Donald K. Charter	Yes	Yes	Mr. Charter has both an Honours B.A. in economics and an LLB, both from McGill University. Mr. Charter has attained financial experience and exposure to accounting and financial issues in his current role as a director of several publically traded Canadian companies, and in his previous roles as Chairman and Chief Executive Officer of Dundee Securities Corporation and as Executive Vice President of Dundee Corporation and Dundee Wealth Management.
William A. Rand	Yes	Yes	Mr. Rand is a retired corporate and securities lawyer and mining executive with a B.Comm. from McGill University (Honours in Economics and Major in Accounting), who has been a member of a number of boards and audit committees of public companies for over 30 years. Through this education and experience, Mr. Rand has experience overseeing and assessing the performance of companies and public accountants with respect to the preparation, auditing and evaluation of financial statements.

- (1) A member of an audit committee is independent if the member has no direct or indirect material relationship with the Company which could, in the view of the board of directors, reasonably interfere with the exercise of a member's independent judgment, or is otherwise deemed to have a material relationship pursuant to NI 52-110.
- (2) An individual is financially literate if he has the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues and can reasonably be expected to be raised by the Company's financial statements.

#### 11.4 Audit Committee Oversight

Since the commencement of the Company's most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor which was not adopted by the Company's board.

#### 11.5 Pre-Approval Policies and Procedures

All audit and non-audit services performed by the external auditor are pre-approved by the Audit Committee.

#### 11.6 External Auditor Service Fees (By Category)

The following table discloses the fees billed to the Company by its external auditors during the financial year ended December 31, 2013 and 2012. Services billed in C\$, SEK or € were translated using average exchange rates that prevailed during 2013 and 2012.

Fiscal Year Ending	Audit Fees <sup>(1)</sup>	Audit-Related Fees <sup>(2)</sup>	Tax Fees <sup>(3)</sup>	All other Fees <sup>(4)</sup>
December 31, 2013	\$860,258	\$92,716	\$50,933	\$85,852
December 31, 2012	\$816,470	\$125,694	\$10,495	\$17,866

- (1) Audit fees represent the aggregate fees billed by the Company's auditors for audit services.
- (2) Audit-related fees represent the aggregate fees billed for assurance and related services by the Company's auditors that are reasonably related to the performance of the audit or review of the Company's financial statements and not disclosed in the Audit Fees column.
- (3) Tax fees represent the aggregate fees billed for professional services rendered by the Company's external auditor for tax compliance, tax advice and tax planning.
- (4) All other fees represent the aggregate of fees billed for products and services provided by the Company's auditors other than services reported under clauses (1), (2) and (3) above.

PricewaterhouseCoopers LLP, Chartered Professional Accountants, Licensed Public Accountants, have prepared the Independent Auditors' Report dated February 20, 2014 in respect of the Company's consolidated financial statements as at December 31, 2013 and 2012 and for the years then ended, and February 21, 2013 in respect of consolidated financial statements as at December 31, 2012 and 2011 and for the years then ended.

### ITEM 12 LEGAL PROCEEDINGS AND REGULATORY ACTIONS

#### 12.1 Legal Proceedings

The Company is not currently a party to any material legal proceedings; however, from time to time, the Company may become party to routine litigation incidental to Lundin Mining's business.

#### 12.2 Regulatory Actions

No penalties or sanctions were imposed by a court relating to securities legislation or by a securities regulatory authority during the Company's recently completed financial year, nor were there any other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision, nor were any settlement agreements entered into before a court relating to securities legislation or with a securities regulatory authority during the Company's recently completed financial year.

## **ITEM 13 INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

### **13.1 Interest of Management and Others in Material Transactions**

To the best of the Company's knowledge, none of the directors, officers or principal shareholders of the Company, and no associate or affiliate of any of them, has or has had any material interest in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Company.

## **ITEM 14 TRANSFER AGENTS AND REGISTRARS**

### **14.1 Transfer Agents and Registers**

The transfer agent and registrar for the common shares of the Company is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario and Vancouver, British Columbia.

## **ITEM 15 MATERIAL CONTRACTS**

### **15.1 Material Contracts**

There were no other contracts, other than those entered into in the ordinary course of business, that were material to the Company and that were entered into between January 1, 2013 and up to the date of this AIF or that were entered into prior to January 1, 2013 and remain in effect during 2013, other than as follows:

- (a) Amended and Restated Credit Agreement dated September 1, 2010, as amended by a first amending agreement dated December 19, 2012, and a second amending agreement dated October 7, 2013, between the Company and a banking syndicate comprised of The Bank of Nova Scotia, ING Bank NV, Bank of Montreal, Export Development Canada, Bank of America, N.A., Société Générale and Skandinaviska Enskilda Banken AB. The second amending agreement, among other things, provided for a term loan in the amount of \$250 million together with the revolving credit facility in the amount of \$350 million, and extended the term of the facility to October 2017 from December 2015.
- (b) Membership interest purchase agreement dated June 12, 2013 between Lundin Mining Delaware Ltd. and Rio Tinto Nickel Company, in conjunction with the acquisition of the Eagle Project.

## **ITEM 16 INTERESTS OF EXPERTS**

### **16.1 Interests of Experts**

The Qualified Persons as defined by NI 43-101 who have supervised the preparation of the Company's Mineral Reserve and Mineral Resource estimates during 2013 or authored portions of the technical reports disclosed in this AIF are as follows:

- Messrs. John Nilsson, P.Eng., Nilsson Mine Services Ltd., and Ronald G. Simpson, P.Geo, GeoSim Services Inc. in respect of the Tenke Fungurume Mineral Resource and Mineral Reserve estimate;
- Messrs. John Nilsson, P.Eng., Nilsson Mine Services Ltd., Ronald G. Simpson, P.Geo, GeoSim Services Inc. and William McKenzie, P. Eng., Global Project Management Corporation in respect of the Tenke Fungurume technical report.

- Messrs. Nelson Pacheco, Chief Geologist, Neves-Corvo, and Michael Hulmes, Managing Director, Iberian Operations, Lundin Mining, in respect of the Neves-Corvo Mineral Resource and Mineral Reserve estimate;
- Mr. Graham Greenway, Group Resource Geologist, Lundin Mining, in respect of the Semblana Mineral Resource estimate.
- Dr. Lewis Meyer and Mr Mark Owen of Wardell Armstrong International Ltd., in respect of the Neves-Corvo technical report;
- Messrs. Graham Greenway, Group Resource Geologist, and David Allison, Group Mining Engineer, both employees of Lundin Mining, in respect of the Zinkgruvan Mineral Resource and Mineral Reserve estimate;
- Dr. Lewis Meyer and Mr Mark Owen of Wardell Armstrong International Ltd., in respect of the Zinkgruvan technical report;
- Messrs. Graham Greenway, Group Resource Geologist, and David Allison, Group Mining Engineer, both employees of Lundin Mining, in respect of the Aguablanca Mineral Resource and Mineral Reserve estimate;
- Messrs. Juan Alvarez, Sia Khosrowshahi and Juan Pablo Gonzalez of Golder Associates Global Iberica, S.L.U., and Mr. Stephen Gatley, Vice President Technical Services, Lundin Mining (author of the section entitled "Additional Requirements for Development and Production Properties") in respect of the Aguablanca technical report;
- Robert Mahin, Chief Geologist and Steve Kirsch, Mine Manager, respectively, both of whom are employees of Eagle mine in respect of the Eagle Mineral Resource and Mineral Reserve estimates; and
- Dr. Lewis Meyer and Mr Mark Owen of Wardell Armstrong International Ltd., in respect of the Eagle technical report.

The above noted qualified persons have reviewed and approved the summaries of the properties for which they have been involved and approve the related scientific and technical disclosure in this AIF, including the Mineral Resource and Mineral Reserve Table included in Schedule A.

PricewaterhouseCoopers LLP, Chartered Professional Accountants, Licensed Public Accountants, have advised the Company that they are independent in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Ontario.

No person or company named or referred to under this Item beneficially owns, directly or indirectly, 1% or more of any class of the Corporation's outstanding securities.

## **ITEM 17            ADDITIONAL INFORMATION**

### **17.1    Additional Information**

Additional information regarding the Company is available on SEDAR website at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, if any, and securities authorized for issuance under equity compensation plans is contained in the Company's Management Information Circular dated March 31, 2014 prepared in connection with the annual and special meeting of shareholders of the Company to be held on or about May 9, 2014. Additional financial information is provided in the consolidated financial statements of the Company as at December 31, 2013 and December 31, 2012 and for the years ended December 31, 2013 and 2012, together with auditors' report thereon and the notes thereto, and MD&A for the year ended December 31, 2013.

**RESOURCE AND RESERVE ESTIMATE - 2013**
**SCHEDULE A**
**Mineral Reserves**

Category	000's Tonnes	Cu %	Zn %	Pb %	Ag g/t	Ni %	Co %	Contained Metal 000's (Ounces millions)						
								Cu	Zn	Pb	Ag	Ni	Co	Lundin
								T	T	T	Oz	T	T	Interest
<b>Copper</b>														
Neves-Corvo	Proven	5,821	4.6	1.1	0.2	41			265	65	13	8		100%
	Probable	21,192	2.5	0.7	0.2	36			527	152	39	25		100%
	<b>Total</b>	<b>27,013</b>	<b>2.9</b>	<b>0.8</b>	<b>0.2</b>	<b>37</b>			<b>792</b>	<b>217</b>	<b>52</b>	<b>32</b>		<b>100%</b>
Zinkgruvan	Proven	3,798	2.2	0.4		31			84	15		4		100%
	Probable	77	2.1	0.5		35			2	-		-		100%
	<b>Total</b>	<b>3,875</b>	<b>2.2</b>	<b>0.4</b>		<b>31</b>			<b>85</b>	<b>16</b>		<b>4</b>		<b>100%</b>
Tenke	Proven	52,116	3.7				0.4		1,907				203	24%
Fungurume	Probable (Stockpile)	30,696	1.3				0.3		384				101	24%
	Probable	61,323	3.1				0.3		1,883				202	24%
	<b>Total</b>	<b>144,135</b>	<b>2.9</b>				<b>0.4</b>		<b>4,174</b>				<b>506</b>	<b>24%</b>
<b>Zinc</b>														
Neves-Corvo	Proven	10,700	0.3	8.4	2.1	74			32	899	224	25		100%
	Probable	12,578	0.4	6.6	1.6	67			49	834	199	27		100%
	<b>Total</b>	<b>23,278</b>	<b>0.4</b>	<b>7.4</b>	<b>1.8</b>	<b>70</b>			<b>82</b>	<b>1,733</b>	<b>424</b>	<b>53</b>		<b>100%</b>
Zinkgruvan	Proven	8,508		9.5	4.0	86				808	340	24		100%
	Probable	3,301		7.8	2.7	51				257	89	5		100%
	<b>Total</b>	<b>11,809</b>		<b>9.0</b>	<b>3.6</b>	<b>76</b>			<b>1,066</b>	<b>429</b>	<b>29</b>			<b>100%</b>
<b>Nickel</b>														
Aguablanca	Proven	2,636	0.4				0.6		12				16	100%
	Proven (Stockpile)	200	0.3				0.6		1				1	100%
	Probable	2	0.2				0.2		0				0	100%
	Probable (U'ground)	2,613	0.6				0.7		15				18	100%
	<b>Total</b>	<b>5,451</b>	<b>0.5</b>				<b>0.6</b>		<b>27</b>				<b>35</b>	<b>100%</b>
Eagle	Proven	1,649	3.4				4.2	0.1	55				69	2 100%
	Probable	3,677	2.1				2.5	0.1	78				93	3 100%
	<b>Total</b>	<b>5,326</b>	<b>2.5</b>				<b>3.1</b>	<b>0.1</b>	<b>134</b>				<b>163</b>	<b>4 100%</b>
Note: totals may not summate correctly due to rounding								<b>Lundin's share</b>	<b>2,121</b>	<b>3,031</b>	<b>905</b>	<b>118</b>	<b>197</b>	<b>126</b>

**Mineral Resources - inclusive of reserves**

Category	000's Tonnes	Cu %	Zn %	Pb %	Ag g/t	Ni %	Co %	Contained Metal 000's (Ounces millions)						
								Cu	Zn	Pb	Ag	Ni	Co	Lundin
								T	T	T	Oz	T	T	Interest
<b>Copper</b>														
Neves-Corvo	Measured	10,401	4.8	1.0	0.3	46			504	102	28	15		100%
	Indicated	44,867	2.5	1.0	0.3	46			1,123	468	156	67		100%
	Inferred	24,701	1.8	1.1	0.4	45			437	272	108	35		100%
Semblana	Inferred	7,776	2.9			26			223		7			100%
Zinkgruvan	Measured	5,020	2.2	0.4		30			110	20		5		100%
	Indicated	624	2.4	0.3		37			15	2		1		100%
	Inferred	616	1.8	0.5		34			11	3		1		100%
Tenke	Measured	160,748	3.0				0.3		4,785				501	24%
Fungurume	Indicated	418,511	2.4				0.3		9,945				1,072	24%
	Inferred	343,237	2.0				0.2		5,496				635	24%
<b>Zinc</b>														
Neves-Corvo	Measured	23,545	0.3	7.5	1.9	68			69	1,763	437	51		100%
	Indicated	67,313	0.3	5.5	1.3	58			224	3,698	850	126		100%
	Inferred	22,496	0.3	4.5	0.9	51			78	1,022	207	37		100%
Zinkgruvan	Measured	8,524		11.3	4.8	103				963	409	28		100%
	Indicated	6,426		9.3	4.2	93				598	270	19		100%
	Inferred	4,988		8.7	3.2	83				434	160	13		100%
<b>Nickel</b>														
Aguablanca	Measured	7,183	0.6				0.7		40				49	100%
	Indicated	243	0.3				0.5		1				1	100%
	Inferred	42	0.2				0.5		-				-	100%
Eagle	Measured	1,496	3.8				4.8	0.1	58				72	100%
	Indicated	3,315	2.5				3.1	0.1	84				102	3 100%
	Inferred	49	1.1				1.0		1				-	- 100%
Lundin's share not including Inferred Resources								<b>5,762</b>	<b>7,614</b>	<b>2,151</b>	<b>312</b>	<b>224</b>	<b>382</b>	

### **Notes on Mineral Reserves and Resources Table**

Mineral Reserves and Resources are shown on a 100 percent basis for each mine. Mineral Resources for all operations are inclusive of Reserves. All estimates, with the exception of Tenke Fungurume and the underground Mineral Reserves at Aguablanca, are prepared as at June 30, 2013. The Tenke Fungurume Mineral Resource and Reserve and Aguablanca underground Mineral Reserves estimates are dated December 31, 2013.

Estimates for all 100% owned operations are prepared by or under the supervision of a Qualified Person as defined in NI 43-101. Tenke Proven and Probable Mineral Reserves are estimated by the operator Freeport, are prepared to SEC standards and are reviewed by Lundin Mining's independent Qualified Persons.

Except as noted below, Mineral Reserves have been calculated using metal prices of US\$2.50/lb copper, US\$1.00/lb zinc, US\$1.00/lb lead, US\$8.50/lb nickel and exchange rates of EUR/USD 1.25 and USD/SEK 6.75.

### **Neves-Corvo**

The Mineral Resources are reported above cut-off grades of 1.0% for copper and 3.0% for zinc. The copper and zinc Mineral Reserves have been calculated using variable Net Smelter Return (NSR) values based on area and mining method. The NSR is calculated on a recovered payable basis taking in to account copper, lead, zinc and silver grades, metallurgical recoveries, prices and realization costs. The copper Mineral Reserves are reported above a site average cut-off grade equivalent to 1.6%. For zinc Mineral Reserves an average cut-off grade equivalent to 4.8% is used. Mineral Reserves and Resources for Neves-Corvo were estimated by the mine's geology and mine engineering departments under the guidance of Nelson Pacheco, Chief Geologist and Fernando Cartaxo, Chief Mine Planning Engineer. Qualified Persons are Nelson Pacheco and Michael Hulmes, Managing Director, Iberian Operations, Lundin Mining.

### **Semblana**

The Mineral Resources are reported above a cut-off grade of 1.0% copper. The Mineral Resource estimate was prepared by Graham Greenway, Group Resource Geologist, Lundin Mining.

### **Zinkgruvan**

The zinc Mineral Resources and Reserves are reported above a site average cut-off grade of 3.8% zinc equivalent for zinc. The copper Mineral Resources and Reserves are reported above cut-off grades of 1.0% and 1.5% respectively. The Mineral Reserves have been calculated using variable NSR values based on area and mining method. The NSR is calculated on a recovered payable basis taking in to account copper, lead, zinc and silver grades, metallurgical recoveries, prices and realization costs. The Zinkgruvan Mineral Resource and Reserve estimates are prepared by the mine's geology and mine engineering department under the guidance of Lars Malmström, Resource Manager, employed by Zinkgruvan mine. Qualified Persons are Graham Greenway and David Allison, Group Mining Engineer, Lundin Mining.

### **Aguablanca**

The Mineral Resources and Reserves within the open pit are reported above a 0.18% nickel cut-off, whereas the underground Mineral Resources and Mineral Reserves are reported above a 0.35% nickel cut-off. Mineral Resources and Reserves for Aguablanca were estimated by the mine's geology and mine engineering departments under the guidance of César Martinez and Carlos Moreira. Qualified Persons are Graham Greenway and David Allison.

### **Eagle**

The Mineral Resources and Mineral Reserves are reported above a fixed NSR cut-off of US\$118/t. The NSR is calculated on a recovered payable basis taking in to account nickel, copper, cobalt, gold and PGM grades, metallurgical recoveries, prices and realization costs. The Qualified Persons responsible for the Eagle Mineral

Resource and Reserve estimates are Robert Mahin, Chief Geologist and Steve Kirsch, Mine Manager, respectively, both of whom are employees of Eagle mine.

### **Tenke Fungurume**

The Mineral Resources are an estimate of what is mineralized material in the ground based on a cut-off of 1.3% copper equivalent and a cobalt to copper factor of 4.0 without assigning economic probability. The 2013 Mineral Reserves are based on smoothed pit designs for Measured and Indicated Resources using metal prices of US\$2.00/lb copper and US\$10.00/lb cobalt which result in a cut off grade of approximately 1.33% copper equivalent. The Mineral Resources (not reported by Tenke operator Freeport) and Reserve estimates (reported under United States SEC guidelines) for Tenke have been prepared by Freeport staff and reviewed by independent consultants and Qualified Persons John Nilsson, P.Eng. of Nilsson Mine Services Ltd and Ron Simpson P.Geo. of GeoSim Services Inc., on behalf of Lundin Mining.

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**A. PURPOSE**

The overall purpose of the Audit Committee (the “Committee”) is to ensure that the Corporation’s management has designed and implemented an effective system of internal financial controls, to review and report on the integrity of the consolidated financial statements of the Corporation and to review the Corporation’s compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts.

**B. COMPOSITION, PROCEDURES AND ORGANIZATION**

1. The Committee shall consist of at least three members of the Board of Directors (the “Board”), all of whom shall be “independent directors”, as that term is defined in Multilateral Instrument 52-110, “Audit Committees”.
2. All of the members of the Committee shall be “financially literate” (i.e. able to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements).
3. At least one member of the Committee shall have accounting or related financial expertise (i.e. able to analyze and interpret a full set of financial statements, including the notes thereto, in accordance with generally accepted accounting principles).
4. The Board, at its organizational meeting held in conjunction with each annual general meeting of the shareholders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.
5. Unless the Board shall have appointed a chair of the Committee or in the event of the absence of the chair, the members of the Committee shall elect a chair from among their number.
6. The secretary of the Committee shall be designated from time to time from one of the members of the Committee or, failing that, shall be the Corporation’s Corporate Secretary, unless otherwise determined by the Committee.
7. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.
8. The Committee shall have access to such officers and employees of the Corporation and to the Corporation’s external auditors, and to such information respecting the Corporation, as it considers to be necessary or advisable in order to perform its duties and responsibilities.
9. Meetings of the Committee shall be conducted as follows:
  - (a) the Committee shall meet at least four times annually at such times and at such locations as may be requested by the Chair of the Committee. The external auditors or any member of the Committee may request a meeting of the Committee;
  - (b) the external auditors shall receive notice of and have the right to attend all meetings of the Committee;
  - (c) the Chair of the Committee shall be responsible for developing and setting the agenda for Committee meetings and determining the time and place of such meetings;
  - (d) the following management representatives shall be invited to attend all meetings, except executive sessions and private sessions with the external auditors:
    - (i) Chief Executive Officer; and
    - (ii) Chief Financial Officer.

- (e) other management representatives shall be invited to attend as necessary; and
  - (f) notice of the time and place of every meeting of the Committee shall be given in writing to each member of the Committee a reasonable time before the meeting.
10. The internal auditors and the external auditors shall have a direct line of communication to the Committee through its chair and may bypass management if deemed necessary. The Committee, through its Chair, may contact directly any employee in the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.
  11. The Committee shall have authority to engage independent counsel and other advisors as it determines necessary to carry out its duties, to set and pay the compensation for any advisors employed by the Audit Committee and to communicate directly with the internal and external auditors.

### **C. ROLES AND RESPONSIBILITIES**

1. The overall duties and responsibilities of the Committee shall be as follows:
  - (a) to assist the Board in the discharge of its responsibilities relating to the Corporation's accounting principles, reporting practices and internal controls and its approval of the Corporation's annual and quarterly consolidated financial statements;
  - (b) to establish and maintain a direct line of communication with the Corporation's internal and external auditors and assess their performance;
  - (c) to ensure that the management of the Corporation has designed, implemented and is maintaining an effective system of internal financial controls; and
  - (d) to report regularly to the Board on the fulfilment of its duties and responsibilities.
2. The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:
  - (a) to recommend to the Board a firm of external auditors to be engaged by the Corporation, and to verify the independence of such external auditors;
  - (b) to review and approve the fee, scope and timing of the audit and other related services rendered by the external auditors;
  - (c) review the audit plan of the external auditors prior to the commencement of the audit;
  - (d) to review with the external auditors, upon completion of their audit:
    - (i) contents of their report;
    - (ii) scope and quality of the audit work performed;
    - (iii) adequacy of the Corporation's financial and auditing personnel;
    - (iv) co-operation received from the Corporation's personnel during the audit;
    - (v) internal resources used;
    - (vi) significant transactions outside of the normal business of the Corporation;
    - (vii) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and
    - (viii) the non-audit services provided by the external auditors;
  - (e) to discuss with the external auditors the quality and not just the acceptability of the Corporation's accounting principles; and
  - (f) to implement structures and procedures to ensure that the Committee meets the external auditors on a regular basis in the absence of management.
3. The duties and responsibilities of the Committee as they relate to the Corporation's internal auditors are to:

- (a) periodically review the internal audit function with respect to the organization, staffing and effectiveness of the internal audit department;
  - (b) review and approve the internal audit plan; and
  - (c) review significant internal audit findings and recommendations, and management's response thereto.
4. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:
- (a) review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management;
  - (b) review compliance under the Corporation's Business Conduct Policy and to periodically review this policy and recommend to the Board changes which the Committee may deem appropriate;
  - (c) review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation; and
  - (d) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal audit staff or by the external auditors have been implemented.
5. The Committee is also charged with the responsibility to:
- (a) review the Corporation's quarterly statements of earnings, including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto;
  - (b) review and recommend to the Board for approval of the financial sections of:
    - (i) the annual report to shareholders;
    - (ii) the annual information form;
    - (iii) prospectuses; and
    - (iv) other public reports requiring approval by the Board,
 and report to the Board with respect thereto;
  - (c) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;
  - (d) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;
  - (e) review and report on the integrity of the Corporation's consolidated financial statements;
  - (f) review the minutes of any audit committee meeting of subsidiary companies;
  - (g) review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results of the Corporation and the manner in which such matters have been disclosed in the consolidated financial statements;
  - (h) review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of material facts;
  - (i) develop a calendar of activities to be undertaken by the Committee for each ensuing year and to submit the calendar in the appropriate format to the Board of Directors following each annual general meeting of shareholders; and
  - (j) establish procedures for:

- (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
- (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.



2014

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS  
AND  
MANAGEMENT INFORMATION CIRCULAR  
WITH RESPECT TO THE  
ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD ON  
MAY 9, 2014  
FOR  
LUNDIN MINING CORPORATION

March 31, 2014



## NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

**NOTICE** is hereby given that an annual and special meeting ("Meeting") of the shareholders of **LUNDIN MINING CORPORATION** ("Corporation") will be held at the St. Andrew's Club & Conference Centre, 150 King Street West, 27<sup>th</sup> Floor (King Street/University Avenue) Toronto, Ontario, on Friday, May 9, 2014 at the hour of 10:00 a.m. Toronto time, for the following purposes:

1. To receive the audited consolidated financial statements of the Corporation for the year ended December 31, 2013 and the report of the auditors thereon;
2. To elect the directors for the ensuing year; **(Resolution 1)**
3. To appoint PricewaterhouseCoopers LLP, Chartered Professional Accountants, as auditors of the Corporation for the ensuing year, and to authorize the directors to fix the remuneration to be paid to the auditors; **(Resolution 2)**
4. To consider and, if thought appropriate, pass an ordinary resolution to adopt the Share Unit Plan of the Corporation, to adopt a new Incentive Stock Option Plan of the Corporation and to ratify certain previously granted options under the new Incentive Stock Option Plan, as more fully described in the accompanying management information circular ("Circular"); **(Resolution 3)**
5. To transact such further and other business as may properly be brought before the Meeting or any adjournment or postponement thereof.

This Notice is accompanied by the Circular and form of proxy. The nature of the business to be transacted at the Meeting is described in further detail in the Circular.

All shareholders are entitled to attend and vote at the Meeting in person or by proxy. Registered shareholders who are unable to attend the Meeting are requested to complete, date, sign and deliver the enclosed form of proxy to Computershare Investor Services Inc. ("Computershare"), 100 University Avenue, 8th Floor, Toronto, Ontario, Canada M5J 2Y1, Attention: Proxy Department. If a shareholder does not deliver a proxy to Computershare by 10:00 a.m. (Toronto, Ontario, time) on Wednesday, May 7, 2014 (or not less than 48 hours, excluding Saturdays, Sundays and statutory holidays, before any adjournments or postponements of the Meeting at which the proxy is to be used), then the shareholder will not be entitled to vote at the Meeting by proxy. The above time limit for deposit of proxies may be waived or extended by the Chairman of the Meeting at his or her discretion without notice.

As provided in the *Canada Business Corporations Act*, the directors have fixed a record date of March 27, 2014. Accordingly, shareholders registered on the books of the Corporation at the close of business on March 27, 2014 are entitled to receive Notice of the Meeting and to vote at the Meeting or any adjournment or postponement thereof.

If you are a non-registered shareholder and receive these materials through your broker or other intermediary, please complete and return the voting instruction form or other authorization in accordance with the instructions provided to you by your broker or intermediary.

Dated at Toronto, Ontario this 31<sup>st</sup> day of March, 2014.

### BY ORDER OF THE BOARD OF DIRECTORS

*Paul K. Conibear*

Paul K. Conibear,  
President, Chief Executive Officer and Director

## GENERAL VOTING INFORMATION

### SOLICITATION OF PROXIES

This Management Information Circular (“Circular”) is furnished in connection with the solicitation of proxies being undertaken by the management of Lundin Mining Corporation (“Corporation” or “Lundin Mining”) for use at the annual and special meeting of the Corporation’s shareholders to be held on Friday, May 9, 2014 (“Meeting”) at the time and place and for the purposes set forth in the accompanying Notice of Annual and Special Meeting of Shareholders (“Notice”) or at any adjournment or postponement thereof. Management’s solicitation of proxies will primarily be by mail and may be supplemented by telephone or other means of communication to be made, without compensation other than their regular fees or salaries, by directors, officers and employees of the Corporation. The cost of solicitation by management will be borne by the Corporation.

It is anticipated that this Circular, together with the accompanying Notice and form of proxy will be mailed to shareholders of the Corporation on or about April 14, 2014.

Unless otherwise stated, the information contained in this Circular is as of March 31, 2014.

### CURRENCY

The Corporation’s reporting currency is United States Dollars (reference herein of US\$ or \$ is to United States Dollars, reference of C\$ is to Canadian Dollars and reference of £ is to British Pounds Sterling). To improve disclosure, the Corporation has used the average exchange rate for each year for all currency conversions throughout this Circular, unless indicated otherwise, which differs from prior year’s currency conversion practices. (2013: US\$0.971:C\$1.00; US\$1.5646:£1.00); (2012: US\$1.0008:C\$1.00; US\$1.5853:£1.00); and (2011: US\$1.0114:C\$1.00; US\$1.6036:£1.00).

### VOTING OF PROXIES

Common shares of the Corporation (“Common Shares”) represented by properly executed proxies in the accompanying form will be voted or withheld from voting on each respective matter in accordance with the instructions of the Registered Shareholder on any ballot that may be called for and, if the shareholder specifies a choice with respect to any matter to be acted upon at the Meeting, the shares represented by such proxy will be voted accordingly. If no choice is specified, the person designated in the accompanying form of proxy will vote FOR all matters proposed by management at the Meeting.

### APPOINTMENT OF PROXYHOLDER

The persons named as proxyholders in the enclosed form of proxy are directors and/or officers of the Corporation (“Management Proxyholders”). A registered shareholder (“Registered Shareholder”) has the right to appoint a person or company other than one of the Management Proxyholders to represent the Registered Shareholder at the Meeting by striking out the printed names and inserting that other person’s or company’s name in the blank space provided. A proxyholder need not be a shareholder. If a shareholder appoints one of the Management Proxyholders as a nominee and there is no direction by the Registered Shareholder, the Management Proxyholder shall vote the proxy FOR the election of the directors, FOR the appointment of the auditors, and FOR the adoption of the Share Unit Plan of the Corporation, a new Incentive Stock Option Plan and ratification of certain previously granted options.

The instrument appointing a proxyholder must be signed in writing by the Registered Shareholder, or such Registered Shareholder’s attorney authorized in writing. If the Registered Shareholder is a corporation, the instrument appointing a proxyholder must be in writing signed by an officer or attorney of the corporation duly authorized by resolution of the directors of such corporation, which resolution must accompany such instrument. An instrument of proxy will only be valid if it is duly completed, signed, dated and received at the office of the Corporation’s registrar and transfer agent, Computershare Investor Services Inc. (“Computershare”), Attention: Proxy Department, 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1 by 10:00 a.m. (Toronto, Ontario time) on Wednesday, May 7, 2014 (or not less than 48 hours, excluding Saturdays, Sundays and holidays before any adjournments or postponements of the Meeting at which the proxy is to be used), or it is deposited with the Secretary of the Corporation or the Chairman of the Meeting prior to the time of voting at the Meeting.

If you have any questions about the procedures to be followed to vote at the Meeting or about obtaining, completing and depositing the required form of proxy, you should contact Computershare by telephone (toll free) at 1-800-564-6253 or by e-mail at [service@computershare.com](mailto:service@computershare.com).

## **REVOCAION OF PROXY**

A Registered Shareholder who has returned a proxy may revoke it at any time before it has been exercised. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing, including a proxy bearing a later date, executed by the Registered Shareholder or by his attorney authorized in writing or, if the Registered Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized. The instrument revoking the proxy must be deposited at the registered office of the Corporation, at any time up to and including the last business day preceding the date of the Meeting, or any adjournment or postponement thereof, or with the Secretary of the Corporation or the Chairman of the Meeting prior to the time of voting at the Meeting. Only Registered Shareholders have the right to revoke a proxy. Beneficial Shareholders who wish to change their vote must arrange for their respective intermediaries to revoke the proxy on their behalf.

## **EXERCISE OF DISCRETION**

The enclosed proxy, when properly completed and delivered and not revoked, gives discretionary authority to the persons named therein with respect to any amendments or variations of matters identified in the Notice and with respect to other matters which may properly come before the Meeting. In the event that amendments or variations to matters identified in the Notice are properly brought before the Meeting or any further or other business is properly brought before the Meeting, it is the intention of the person designated in the accompanying form of proxy to vote in accordance with his or her best judgment on such matters. As of the date of this Circular, management of the Corporation knows of no such amendment, variation or other matter to come before the Meeting.

## **VOTING BY BENEFICIAL (NON-REGISTERED) SHAREHOLDERS**

The information in this section is important to many shareholders as a substantial number of shareholders do not hold their shares in their own name. This Circular and related Meeting materials are being sent to both registered and non-registered owners of the securities. If you are a "non-registered beneficial owner" and Lundin Mining or its agent has sent these materials directly to you it has done so as permitted under National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer*. The Corporation has used a non-objecting beneficial owner list to send the Meeting materials directly to the non-objecting beneficial owners whose names appear on that list. By choosing to send these materials to you directly, the Corporation (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

Shareholders who hold Common Shares through their brokers, intermediaries, trustees, or other nominees (such shareholders being collectively called "Beneficial Shareholders") should note that only proxies deposited by shareholders whose names appear on the share register of the Corporation may be recognized and acted upon at the Meeting. If Common Shares are shown on an account statement provided to a Beneficial Shareholder by a broker, then in almost all cases the name of such Beneficial Shareholder will not appear on the share register of the Corporation. Such shares will most likely be registered in the name of the broker or an agent of the broker. In Canada, the vast majority of such shares will be registered in the name of "CDS & Co.", the registration name of The Canadian Depository for Securities Limited, which acts as a nominee for many brokerage firms. Such shares can only be voted by brokers, agents, or nominees and can only be voted by them in accordance with instructions received from Beneficial Shareholders. As a result, Beneficial Shareholders should carefully review the voting and instructions provided by their broker, agent or nominee with this Circular and ensure that they direct the voting of their shares in accordance with those instructions.

Applicable regulatory policies require brokers and intermediaries to seek voting instructions from Beneficial Shareholders in advance of a shareholders' meeting. Each broker or intermediary has its own mailing procedures and provides its own return instructions to clients. The purpose of the form of proxy or voting instruction form provided to a Beneficial Shareholder by such shareholder's broker, agent or nominee is limited to instructing the registered holder on how to vote such shares on behalf of the Beneficial Shareholder. Most brokers in Canada now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. (formerly ADP Independent Investor Communication Corporation) ("Broadridge"). Broadridge typically prepares voting instruction forms, mails those forms to Beneficial Shareholders and asks those Beneficial Shareholders to return the forms to Broadridge or follow specific telephone or other voting procedures. Broadridge then tabulates the results of all instructions received by it and provides appropriate instructions respecting the voting of such shares at the Meeting. A Beneficial Shareholder receiving a voting instruction form from Broadridge cannot use that form to vote their shares at the Meeting. Instead, the voting instruction form must be returned to Broadridge or the alternate voting procedures must be completed well in advance of the Meeting in order to ensure that such shares are voted.

Beneficial Shareholders should follow the instruction on the forms that they receive and contact their intermediaries promptly if they need assistance.



## **RECORD DATE**

Shareholders registered as at March 27, 2014 (the "Record Date") are entitled to attend and vote at the Meeting. Shareholders who wish to be represented by proxy at the Meeting must, to entitle the person appointed by the proxy to attend and vote, deliver their proxies at the place and within the time set forth in the notes to the proxy.

## **INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON**

Except as otherwise set out herein, no director or executive officer of the Corporation, or any person who has held such a position since the beginning of the last completed financial year end of the Corporation, nor any nominee for election as a director of the Corporation, nor any associate or affiliate of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting other than the election of directors, the adoption of the Share Unit Plan, a new Incentive Stock Option Plan and ratification of certain previously granted options.

## **VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

The Corporation is authorized to issue an unlimited number of Common Shares and one special share, of which 585,181,841 Common Shares are issued and outstanding as of the Record Date. Each Common Share is entitled to one vote on all matters to be acted upon at the Meeting.

The following table sets forth those persons who, to the knowledge of the directors and executive officers of the Corporation, beneficially own, control or direct, directly or indirectly, Common Shares carrying more than 10% of the voting rights attached to all Common Shares:

<b>Name of Shareholder</b>	<b>Number of Common Shares</b>	<b>Percentage of Common Shares</b>
Lorito Holdings S.à.r.l. ("Lorito") <sup>(1)</sup> Luxembourg	33,950,000	5.8%
Zebra Holdings and Investments S.à.r.l. ("Zebra") <sup>(1)</sup> Luxembourg	38,964,854	6.7%

(1) Lorito and Zebra, who report their security holdings as joint actors, are private corporations owned by a trust whose settlor was the late Adolf H. Lundin.

## **BUSINESS OF THE MEETING**

### **FINANCIAL STATEMENTS**

The audited consolidated financial statements of the Corporation for the year ended December 31, 2013 including the report of the auditor will be tabled at this Meeting and will be received by the shareholders. These audited consolidated financial statements of the Corporation for the year ended December 31, 2013 and the report of the auditor thereon and the related management's discussion and analysis have been provided to shareholders who have validly requested such statements separately and are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **ELECTION OF DIRECTORS AND INFORMATION REGARDING PROPOSED DIRECTORS**

The directors of the Corporation for the ensuing year will be elected at this Meeting.

Directors are elected annually. The board of directors of the Corporation (the "Board") has accepted a recommendation of the Corporate Governance and Nominating Committee of the Corporation and has determined that the size of the Board should be eight (8) directors. The number of directors to be elected is eight (8). All eight (8) nominees are presently members of the Board and the dates on which they were first elected or appointed are indicated below.

Unless authority to vote is withheld, the shares represented by the proxies hereby solicited will be voted by the persons named therein **FOR** the election of each of the eight nominees as directors. Management does not contemplate that any nominee will be unable or unwilling to serve as a director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote **FOR** another nominee in their discretion, unless the shareholder has specified in the accompanying form of proxy that such shareholder's shares are to be withheld from voting on the election of directors.

## Majority Voting Policy

The Board has adopted a Majority Voting Policy in order to promote enhanced director accountability. The policy provides that each director should be elected by the vote of a majority of the Common Shares, represented in person or by proxy, at any meeting for the election of directors. The Chairman of the Board will ensure that the number of Common Shares voted “for” or “withheld” for each director nominee is recorded and promptly made public after the meeting. If any nominee for election as director receives, from the Common Shares voted at the meeting in person or by proxy, a greater number of votes “withheld” than votes “for” his or her election, the director will promptly tender his or her resignation to the Chairman of the Board following the meeting, to take effect upon acceptance by the Board. The Corporate Governance and Nominating Committee will expeditiously consider the director’s offer to resign and make a recommendation to the Board whether to accept that offer. Within 90 days of the meeting of shareholders, the Board will make a final decision concerning the acceptance of the director’s resignation and announce that decision by way of a news release. Any director who tenders his or her resignation will not participate in the deliberations of the Board or any of its committees pertaining to the resignation.

If any director fails to tender his or her resignation as contemplated in the policy, the Board will not re-nominate that director in the future. Subject to any corporate law restrictions, where the Board accepts the offer of resignation of a director and that director resigns, the Board may exercise its discretion with respect to the resulting vacancy and may, without limitation, leave the resultant vacancy unfilled until the next annual meeting of shareholders, fill the vacancy through the appointment of a new director whom the Board considers to merit the confidence of the shareholders, or call a special meeting of shareholders to elect a new nominee to fill the vacant position. The policy does not apply to a contested election of directors, that is, where the number of nominees exceeds the number of directors to be elected.

## Director Profiles

This section profiles each of the nominated directors, including principal occupation and experience, participation on the Corporation’s Board and Board committees and shareholdings in Lundin Mining. The Corporation has been advised that each of the nominated directors is willing to serve on the Board for 2014.

The nominated directors have confirmed this information as of the Record Date.

<b>LUKAS H. LUNDIN</b> Vaud, Switzerland Chairman Age: 56 Director since: September 9, 1994	Chairman and a director of the Corporation since September 1994; chairman, president and/or director of a number of publicly traded resource-based companies.	
	<b>Lundin Mining Board and Board committees</b> Board	<b>Lundin Mining Securities held</b> <b>Common Shares<sup>(1)</sup></b> 2,271,449
<b>PAUL K. CONIBEAR</b> British Columbia, Canada President & Chief Executive Officer Age: 56 Director since: June 30, 2011	President and Chief Executive Officer of the Corporation since June 30, 2011, Senior Vice President, Corporate Development of the Company from October 2009 to June 2011; Senior Vice President, Projects, of the Corporation from July 2007 to October 2009.	
	<b>Lundin Mining Board and Board committees</b> Board Health, Safety, Environment and Community Committee	<b>Lundin Mining Securities held</b> <b>Common Shares<sup>(1)</sup></b> 789,904
<b>DONALD K. CHARTER</b> Ontario, Canada Director Age: 57 Director since: October 31, 2006	Corporate director with experience in executive leadership positions in mining and financial services. Most recently he was the President and Chief Executive Officer of Corsa Coal Corp. from August 2010 to July 2013 and a corporate director since January 2006.	
	<b>Lundin Mining Board and Board committees</b> Board Audit Committee Human Resources/Compensation Committee (Chair)	<b>Lundin Mining Securities held</b> <b>Common Shares<sup>(1)</sup></b> 42,424
<b>JOHN H. CRAIG</b> Ontario, Canada Director Age: 66 Director since: June 11, 2003	Lawyer, partner of Cassels Brock & Blackwell LLP; director of a number of publicly traded companies.	
	<b>Lundin Mining Board and Board committees</b> Board Corporate Governance and Nominating Committee	<b>Lundin Mining Securities held</b> <b>Common Shares<sup>(1)</sup></b> 213,849

<b>BRIAN D. EDGAR</b> British Columbia, Canada Director	Chairman of Silver Bull Resources, Inc.; director of Rand Edgar Investment Corp. since October 1992; director of a number of publicly traded companies.
Age: 64	<b>Lundin Mining Board and Board committees</b>
Director since: September 9, 1994	Board Corporate Governance and Nominating Committee (Chair) Health, Safety, Environment and Community Committee
	<b>Lundin Mining Securities held</b>
	<b>Common Shares<sup>(1)</sup></b> 130,000
<b>PETER C. JONES</b> Alberta, Canada Director	Corporate directors and retired executive with over 40 years of experience in the mining industry, including work in Europe, Africa, North and South America, Australia and Asia. Mr. Jones served as Interim President and CEO of IAMGOLD Corporation, President and Chief Operating Officer of Inco Ltd., and President and Chief Executive Officer of Hudson Bay Mining & Smelting Co. Mr. Jones has been a director of public companies for over 20 years.
Age: 66	<b>Lundin Mining Board and Board committees</b>
Director since: September 20, 2013	Board Health, Safety, Environment and Community Committee (Chair) <sup>(3)</sup> Human Resources/Compensation Committee <sup>(2)</sup>
	<b>Lundin Mining Securities held</b>
	<b>Common Shares<sup>(1)</sup></b> 22,070
<b>DALE C. PENIUK</b> British Columbia, Canada Director	Chartered Accountant and corporate director; formerly an Assurance partner with KPMG LLP, Chartered Accountants; director of a number of publicly traded companies.
Age: 54	<b>Lundin Mining Board and Board committees</b>
Director since: October 31, 2006	Board Audit Committee (Chair) Human Resources/Compensation Committee <sup>(2)</sup> Corporate Governance and Nominating Committee
	<b>Lundin Mining Securities held</b>
	<b>Common Shares<sup>(1)</sup></b> 50,000
<b>WILLIAM A. RAND</b> British Columbia, Canada Lead Director	President and Director of Rand Edgar Investment Corp. since October 1992; director of a number of publicly traded companies.
Age: 71	<b>Lundin Mining Board and Board committees</b>
Director since: September 9, 1994	Board Audit Committee Human Resources/Compensation Committee
	<b>Lundin Mining Securities held</b>
	<b>Common Shares<sup>(1)</sup></b> 223,424

(1) The number of Common Shares beneficially owned, or controlled or directed, directly or indirectly.

(2) Mr. Jones replaced Mr. Peniuk as a member on December 4, 2013.

(3) Mr. Jones was appointed as a member on September 20, 2013 and subsequently appointed as the Chair on October 29, 2013.

### Advance Notice

On February 21, 2013, the Board approved certain amendments to the Corporation's By-Law No. 1 to add an advance notice requirement for nominations of directors by shareholders in certain circumstances, which was approved by the shareholders of the Corporation on May 10, 2013.

As at the date of this Circular, the Corporation has not received notice of any director nominations in connection with the Meeting. Accordingly at this time, the only persons eligible to be nominated for election to the Board are the above nominees.

### CORPORATE CEASE TRADE ORDERS OR BANKRUPTCIES

Except as noted below, no proposed director is, as of the date hereof, or has been, within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including the Corporation), that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (collectively, "order") that was issued while the proposed director was acting in the capacity as a director, chief executive officer or chief financial officer; or
- (b) was subject to an order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Messrs. Rand and Edgar were directors of New West Energy Services Inc. (NEW-TSX-V) when, on September 5, 2006, a cease trade order was issued against that company by the British Columbia Securities Commission for failure to file its financial statements within the prescribed time. The default was rectified and the order was rescinded on November 9, 2006.

No proposed director is, as of the date hereof, or has been within 10 years before the date hereof, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in

that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

#### **INDIVIDUAL BANKRUPTCIES**

No proposed director of the Corporation has, within the 10 years prior to the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

#### **PENALTIES OR SANCTIONS**

No proposed director of the Corporation has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for the proposed director.

#### **APPOINTMENT AND REMUNERATION OF AUDITORS**

The auditors for the Corporation will be appointed at this Meeting. The directors of the Corporation recommend the re-appointment of PricewaterhouseCoopers LLP ("PwC"), Chartered Professional Accountants, located in Toronto, Ontario, as auditors of the Corporation to hold office until the termination of the next annual meeting of the shareholders of the Corporation. PwC was first appointed as the auditors of the Corporation on October 19, 2006. It is also proposed that the remuneration to be paid to the auditors be determined by the directors of the Corporation.

The disclosure required by Form 52-110F1 of National Instrument 52-110, *Audit Committees*, including the text of the Audit Committee's charter and the fees paid to the Corporation's external auditor, can be found in the Corporation's Annual Information Form dated March 31, 2014 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **ADOPTION OF SHARE UNIT PLAN, NEW INCENTIVE STOCK OPTION PLAN AND RATIFICATION OF ADDITIONAL OPTIONS**

The Corporation's current equity-based compensation plan is the Incentive Stock Option Plan of the Corporation (the "ISOP"). The ISOP has the dual purpose of (i) attracting, incentivizing and retaining those key employees and consultants of the Corporation who are considered by the Board to be key to the growth and success of the Corporation; and (ii) to align the interests of key employees and consultants with those of the shareholders through longer term equity ownership in the Corporation. During fiscal 2013, the Human Resources/Compensation Committee (the "HRCC") undertook a review of the Corporation's equity-based compensation strategy and philosophy, in consultation with management and Hugessen Consulting Inc. ("Hugessen") who was retained by the HRCC to act as an independent compensation consultant.

As a result of the review by the HRCC, the Board adopted a new Share Unit Plan (the "SU Plan") and a new Incentive Stock Option Plan (the "New ISOP") in March 2014. The Board determined that it was desirable to broaden the range of incentive plans beyond just the New ISOP pursuant to which only options could be granted with the addition of the SU Plan pursuant to which various share unit awards could be used in order to attract, retain and motivate employees, officers and consultants of the Corporation and to remain competitive in the marketplace. In addition, in conjunction with expanding the equity plan, the Board determined it was appropriate to update the ISOP and accordingly decided to adopt the New ISOP that is in-line with current TSX policies and the stock option plans of the Corporation's peers and other TSX issuers. The Board determined that it is in the best interests of the Corporation and its shareholders that the Corporation update its equity-compensation program to bring it in-line with current market practices, and to create more flexibility in the types of incentive awards that may be made.

On February 25, 2014, the Board granted 3,475,200 options expiring February 24, 2019 at an exercise price of C\$5.18 per Common Share. One-third of these options vest on the first anniversary of the grant date, another third vest on the second anniversary of the grant date and the remaining third vest on the third anniversary of the grant date. At the time of grant, only 1,820,244 options remained available for issuance under the current ISOP, the Board approved the grant of the 1,819,700 options under the current ISOP and 1,655,500 options (the "Additional Options") to the following executives of the Corporation under the New ISOP subject to the Board approving the New ISOP, the approval of the TSX and shareholder approval at the Meeting:

Name and Position	# of Options	Exercise Price (C\$)	Expiry Date
Paul Conibear CEO	280,000	5.18	February 24, 2019
Marie Inkster CFO	240,000	5.18	February 24, 2019
Julie Lee Harrs VP, Corporate Development	180,000	5.18	February 24, 2019
Jinhee Magie Vice President, Finance	150,000	5.18	February 24, 2019
Paul McRae SVP, Projects	180,000	5.18	February 24, 2019
Neil O'Brien SVP, Exploration & New Business	150,000	5.18	February 24, 2019
Sue Boxall Vice President, Human Resources	150,000	5.18	February 24, 2019
Stephen Gatley VP, Technical Services	150,000	5.18	February 24, 2019
Mikael Schauman Vice President, Marketing	150,000	5.18	February 24, 2019
James Ingram Corporate Secretary	25,500	5.18	February 24, 2019
<b>TOTAL</b>	<b>1,655,500</b>		

The Additional Options cannot be exercised until the Corporation has obtained shareholder approval at the Meeting and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution (as defined below) at the Meeting. These options are included in the reporting of executive compensation.

Accordingly, at the Meeting or any adjournment or postponement thereof, shareholders will be asked to consider and, if thought advisable, to approve with or without amendment, a resolution in the form set out below (the "SU Plan/ISOP Resolution") approving the adoption of the SU Plan, the adoption of the New ISOP and the ratification of the Additional Options.

The current ISOP will continue to be in effect if the SU Plan/ISOP Resolution is not approved by shareholders and the Additional Options will be cancelled. Please see "Securities Authorized for Issuance under Equity Compensation Plan – The Corporation's Incentive Stock Option Plan" for details on the terms of the current ISOP.

#### The SU Plan

The following is a summary of the key terms of the SU Plan, which summary is qualified in its entirety by the full terms of the SU Plan attached hereto as Appendix B:

- The SU Plan provides that share unit awards (the "SUs") may be granted by the Board or the HRCC, or any other committee of directors authorized by the Board to administer the SU Plan.
- Upon receipt of the requisite shareholder approval of the SU Plan, 6,000,000 Common Shares will be reserved for issuance under the SU Plan, representing approximately 1.0% of the issued and outstanding Common Shares. Any Common Shares subject to an SU which has been cancelled or terminated in accordance with the terms of the SU Plan without settlement will again be available for issuance under the SU Plan.

- The grant of SUs under the SU Plan is subject to the number of the Common Shares: (i) issued to insiders of the Corporation, within any one (1) year period, and (ii) issuable to insiders of the Corporation, at any time, under the SU Plan, or when combined with all of the Corporation's other security based compensation arrangements, shall not exceed 10% of the Corporation's total issued and outstanding Common Shares, respectively.
- The SU Plan is for the benefit of employees of the Corporation or any affiliate, including any senior executive, vice president, and/or member of the management team of the Corporation or its affiliates.
- An SU is a unit credited by means of an entry on the books of the Corporation to a participant, representing the right to receive one Common Share (subject to adjustments) issued from treasury.
- The number and terms of SUs granted to participants will be determined by the Board or committee based on the market price of the Common Shares on the grant date and credited to the participant's account effective on the grant date. The market price shall be calculated as the closing market price on the TSX of the Common Shares on the date of the grant. The Board or committee may also impose vesting criteria on the SUs. The SUs will be settled by way of the issuance of Common Shares from treasury as soon as practicable following the entitlement date determined by the Board or committee in accordance with the terms of the SU Plan. However, participants who are residents of Canada or as otherwise may be designated in the grant letter (with the exception of US taxpayers) will be permitted to elect to defer issuance of all or any part of the Common Shares issuable to them provided proper notice is provided to the Board or committee pursuant to the terms of the SU Plan.
- All grants of SUs shall be evidenced by a confirmation share unit grant letter.
- The Board or committee will have the discretion to credit a participant with additional SUs in lieu of any cash dividends paid to shareholders of the Corporation, equal to the aggregate amount of any cash dividends that would have been paid to the participant if the SUs had been Common Shares, divided by the market value of the Common Shares on the date on which dividends were paid by the Corporation. For the avoidance of doubt, no cash payment will be made to a participant if cash dividends are paid to shareholders.
- In the event of a participant's resignation or termination with cause, the SUs will be forfeited and of no further force or effect at the date of termination, unless otherwise determined by the HRCC committee, provided for in the share unit grant letter or vested and are only subject to a deferred payment date, as further described under the SU Plan. In the event of the termination without cause, all unvested SUs that are not subject to performance vesting criteria will vest for participants who were continuously employed by the Corporation or any affiliate for at least two years including any notice period, if applicable, on the date of termination and the Common Shares represented by the SUs held shall be issued as soon as reasonably practical. In the event of the termination without cause, all unvested SUs with performance vesting criteria will remain subject to the normal vesting schedule for participants who were continuously employed by the Corporation or any affiliate for at least two years including any notice period, if applicable, on the date of termination and the Common Shares represented by the SUs held shall be issued as soon as reasonably practical unless otherwise determined by the HRCC committee or provided for in the share unit grant letter, as further described under the SU Plan. For participants who were not continuously employed by the Corporation for two years their SUs will be forfeited and of no further force or effect at the date of termination, except as may otherwise be stipulated in the participant's grant letter or as may otherwise be determined by the HRCC in its sole and absolute discretion. In the event of retirement, any unvested SUs will automatically vest and the Common Shares will be issued as soon as practicable. However, any unvested SUs held by a US taxpayer will automatically vest on the date such participant attains the age of 65 and the Common Shares will be issued forthwith but no later than March 15 of the following calendar year. In the event of death, all unvested SUs credited to the participant will vest on the date of the participant's death and the Common Shares represented by the SUs held shall be issued to the participant's estate as soon as reasonably practical. In the event of the total disability of a participant, all unvested SUs credited to the participant will vest on the date in which the participant is determined to be totally disabled and the Common Shares represented by the SUs held shall be issued as soon as reasonably practical. In the event of a change of control, all SUs outstanding will immediately vest on the date of such change of control. Notwithstanding, all of the termination provisions shall be subject to the terms of any employment/severance agreement between the participant and the Corporation.
- SUs are not transferable other than by will or the laws of dissent and distribution.
- The specific amendment provisions for the SU Plan provide the Board or committee with the power, subject to the requisite regulatory approval, to make the following amendments without shareholder approval (without limitation):
  - amendments of a housekeeping nature;
  - the addition or a change to any vesting provisions of an SU;
  - changes to the termination provisions of an SU or the SU Plan; and
  - amendments to reflect changes to applicable securities or tax laws.

However, any of the following amendments also require shareholder approval:

- materially increasing the benefits to a holder of SUs who is an insider to the material detriment of the Corporation and its shareholders;
- increasing the number of Common Shares or maximum percentage of Common Shares which may be issued pursuant to the SU Plan (other than by virtue of adjustments permitted under the SU Plan);
- permitting SUs to be transferred other than for normal estate settlement purposes;
- removing or exceeding the insider participation limits of the SU Plan;
- materially modifying the eligibility requirements for participation in the SU Plan; or
- modifying the amending provisions of the SU Plan.

### **The New ISOP**

In the event that shareholders approve the SU Plan/ISOP Resolution, the New ISOP will replace the existing ISOP. No further awards shall be granted under the ISOP. However, any outstanding awards granted under the existing ISOP shall remain outstanding and shall continue to be governed by the provisions of the existing ISOP.

The following is a summary of the key terms of the New ISOP, which summary is qualified in its entirety by the full terms of the New ISOP attached hereto as Appendix C:

- The aggregate number of Common Shares available at all times for issuance under the New ISOP will be 30,000,000, which would represent approximately 5.1% of the Corporation's current issued and outstanding Common Shares. Any option which has been cancelled or terminated prior to exercise in accordance with the terms of the New ISOP will again be available under the New ISOP. If the SU Plan/ISOP Resolution is approved there would be 1,655,500 options outstanding under the New ISOP as a result of the Additional Options, which represents approximately 0.3% of the Corporation's current issued and outstanding Common Shares. Taking into consideration the Additional Options, a total of 28,344,500 options would remain available for grant under the New ISOP, which represents approximately 4.8% of the Corporation's current issued and outstanding Common Shares. If the SU Plan/ISOP Resolution is not approved the Additional Options will be cancelled.
- The exercise price per Common Share under an option shall be determined by the Board but, in any event, shall not be lower than the market price of the Common Shares of the Corporation on the date of grant of the options.
- The term of all options awarded under the New ISOP is a maximum of five years.
- Options granted pursuant to the New ISOP shall vest and become exercisable by an optionee at such time or times as may be determined by the Board at the date of grant and as indicated in the option commitment.
- In the event that the expiry of an option falls within, or within two days of, a trading blackout period imposed by the Corporation, the expiry date of the option shall be automatically extended to the tenth business day following the end of the blackout period as permitted by applicable TSX policies.
- The termination provisions under the New ISOP are as follows: An optionee will have, in all cases subject to the original option expiry date (i) a 12 month period to exercise his/her options, which will automatically vest, in the event of retirement; (ii) 90 days to exercise his/her options, which will automatically vest for optionees who have been continuously employed by the Corporation or by a company providing management services to the Corporation for at least two years including any notice period, if applicable, in the event of termination without cause; (iii) 90 days to exercise his/her options that have vested, in the event of resignation; and (iv) immediate termination of the options in the event of termination with cause, except as may be set out in the optionee's option commitment or as otherwise determined by the Board in its sole discretion. In the event of the death or disability of an optionee, all options will vest and the optionee will have, subject to the original option expiry date, 12 months to exercise his/her options. Notwithstanding the foregoing, all of the termination provisions shall be subject to the terms of any employment/severance agreement between the optionee and the Corporation.
- In the event of a change of control, all unvested options shall automatically vest on the date of the change of control and options may be cancelled if such options are out of the money.
- The grant of options under the New ISOP is subject to the number of the Common Shares: (i) issued to insiders of the Corporation, within any one (1) year period, and (ii) issuable to insiders of the Corporation, at any time, under the New ISOP, or when combined with all of the Corporation's other security based compensation arrangements, not exceeding 10% of the Corporation's total issued and outstanding Common Shares, respectively.

- The aggregate number of options granted pursuant to the New ISOP to any one non-employee director, if ever applicable, within any one-year period shall not exceed a maximum value of C\$100,000 worth of options. The value of the options shall be determined using a generally accepted valuation model.
- The aggregate number of Common Shares reserved for issuance pursuant to the New ISOP to non-employee directors as a group, if ever applicable, shall not exceed 1% of the number of issued and outstanding Common Shares, as calculated without reference to the initial options granted under the New ISOP to a person who is not previously an insider of the Corporation upon such person becoming or agreeing to become a director of the Corporation, and without reference to options held by former directors of the Corporation.
- The Board may delegate, to the extent permitted by applicable law and by resolution of the Board, its powers under the New ISOP to the Human Resource & Compensation Committee of the Board, or such other committee as the Board may determine from time to time.
- The specific amendment provisions for the New ISOP provide the Board or committee with the power, subject to the requisite regulatory approval, to make the following amendments without shareholder approval (without limitation):
  - amendments of a housekeeping nature;
  - the addition or a change to any vesting provisions of an option;
  - changes to the termination provisions of an option or the New ISOP which do not entail an extension beyond the original expiry date;
  - the addition of a cashless exercise feature, payable in cash or securities, whether or not providing for a full deduction of the number of underlying Common Shares from the New ISOP reserves; and
  - amendments to reflect changes to applicable securities or tax laws.
 However, any of the following amendments shall also require shareholder approval:
  - reduce the exercise price of an option or cancel and reissue an option;
  - amend the term of an option to extend the term beyond its original expiry;
  - amend the limits imposed on non-employee Directors (other than by virtue of adjustments permitted under the New ISOP);
  - materially increase the benefits to the holder of the options who is an insider to the material detriment of the Corporation and its shareholders;
  - increase the number of Common Shares or maximum percentage of Common Shares which may be issued pursuant to the New ISOP (other than by virtue of adjustments permitted under the New ISOP);
  - permit options to be transferred other than for normal estate settlement purposes;
  - remove or exceed the insider participation limits of the New ISOP;
  - materially modify the eligibility requirements for participation in the New ISOP; or
  - modify the amending provisions of the New ISOP.

#### **TSX Approval**

The TSX has conditionally approved the SU Plan, the New ISOP and ratification of the Additional Options, subject to receipt from the Corporation of, among other things, evidence of shareholder approval. The Corporation does not anticipate granting any awards under the SU Plan prior to its 2015 executive compensation determinations.

#### **Resolution**

The SU Plan/ISOP Resolution must be approved by a majority of the votes cast by shareholders present in person or represented by proxy at the Meeting or any adjournment or postponement thereof. If approved by shareholders at the Meeting, the SU Plan and the New ISOP will become effective and will replace the current ISOP. If not approved, the current ISOP will continue in full force and effect and the Additional Options will be cancelled. All outstanding options granted prior to the effective date of the New ISOP (with the exception of the Additional Options) will continue to be governed by the current ISOP.

The Board recommends that shareholders vote **FOR** the SU Plan/ISOP Resolution. To be effective, the SU Plan/ISOP Resolution must be approved by not less than a majority of the votes cast by the holders of Common Shares present in person, or represented by proxy, at the Meeting. **The nominees named in the accompanying form of proxy will vote the shares represented thereby FOR such resolution, unless the shareholder has given contrary instructions in such form of proxy.**



The text of the SU Plan/ISOP Resolution to be submitted to shareholders at the Meeting is set forth below:

“BE IT RESOLVED THAT:

1. the adoption of the Corporation’s SU Plan, substantially in the form attached to this Circular as Appendix B, be and is hereby authorized and approved;
2. the adoption of the Corporation’s New ISOP, substantially in the form attached to this Circular as Appendix C, be and is hereby authorized and approved;
3. the grant of 1,655,500 options to the executives of the Corporation as described in the Circular be and are hereby ratified; and
4. any one director or officer of the Corporation be and is hereby authorized and directed to execute and deliver for and in name of and on behalf of the Corporation, whether under its corporate seal or not, all such certificates, instruments, agreements, documents and notices and to do all such other acts and things as in such person’s opinion as may be necessary or desirable for the purpose of giving effect to these resolutions.”

## STATEMENT OF EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

This section describes the Corporation's approach to executive compensation by outlining the processes and decisions supporting the determination of the amounts which the Corporation paid its executives who were, during or as at the end of the Corporation's financial year ended December 31, 2013, the Chief Executive Officer, the Chief Financial Officer and three other most highly compensated executives of the Corporation (the "NEOs"). The NEOs for the 2013 financial year were:

Name	Title
Paul Conibear	President and Chief Executive Officer ("CEO")
Marie Inkster	Senior Vice President and Chief Financial Officer ("CFO")
Paul McRae	Senior Vice President, Projects ("SVP, Projects")
Julie Lee Harrs	Senior Vice President, Corporate Development ("SVP, Corporate Development")
Stephen Gatley	Vice President, Technical Services ("VP, Technical Services")

### COMPENSATION GOVERNANCE

#### **Role of the Human Resources/Compensation Committee**

The HRCC assists the Board in monitoring the Corporation's guidelines and practices with respect to compensation and benefits, as well as monitoring the administration of the Corporation's equity-based compensation plans. The HRCC's responsibilities include, but are not limited to:

- recommending to the Board human resources and compensation policies and guidelines for application to the Corporation;
- ensuring that the Corporation has in place programs to attract and develop management of the highest calibre and a process to provide for appropriate succession planning;
- reviewing and approving corporate goals and objectives relevant to the compensation of the CEO and, in light of those goals and objectives, recommending to the Board the annual salary, bonus and other benefits, direct and indirect, of the CEO and to approve compensation for all other executive officers of the Corporation, after considering the recommendations of the CEO, all within the human resources and compensation policies and guidelines approved by the Board; and
- monitoring implementation and the administration of human resources and executive compensation policies approved by the Board.

#### **Composition of the Human Resources/Compensation Committee**

The Board has determined that the HRCC is to be comprised of at least three directors, each of whom must be independent as defined in National Instrument 58-101 - *Disclosure of Corporate Governance Practices*. In addition, keeping with good governance practice, the HRCC should consist of directors who are knowledgeable about issues related to human resources, talent management, compensation, governance and risk management.

The current members of the HRCC include Mr. Donald K. Charter (Chair), Mr. Peter C. Jones and Mr. William A. Rand, all of whom are independent and have the skills and experience required by the Board and the HRCC mandate to carry out the responsibilities of the HRCC. Mr. Peter C. Jones replaced Mr. Dale Peniuk as a member of the HRCC on December 4, 2013.

Below is a summary of the skills and experience of the HRCC members:

Mr. Charter is a corporate director with career experience in executive leadership positions in mining and financial services. Most recently he was the President and Chief Executive Officer of a publicly traded producing coal mining company from August 2010 to July 2013. Mr. Charter is a member or former member of the compensation committees of several Canadian publicly traded companies including IAMGOLD Corporation, Great Plains Exploration Inc., Hudbay Minerals Inc., Adriana Resources and Baffinland Iron Mines Corporation. He was also Chief Executive Officer of a large financial services company and, as such, was directly involved with the compensation matters for more than one thousand employees. As a member of these committees and his executive positions, Mr. Charter has developed the requisite experience in reviewing and approving compensation programs, policies and guidelines in the mining industry for the Chief Executive Officer level, other executive officers and senior management, to ensure that such compensation programs are relevant to the goals of the Corporation.

Mr. Jones is a corporate director and retired executive with over 40 years of experience in the mining industry, including work in Europe, Africa, North and South America, Australia and Asia. Mr. Jones served as Interim President and CEO of IAMGOLD Corporation, President and Chief Operating Officer of Inco Ltd., and President and Chief Executive Officer of Hudson Bay Mining & Smelting Co. Mr. Jones has been a director of public companies for over 20 years. Mr. Jones is the former chairman of the compensation committee of Century Aluminum Co. and IAMGOLD Corporation and a member of the compensation committee of Concordia Resources and Red Crescent Resources.

Mr. Rand has been a member for many years of the compensation committees of several Canadian and Swedish publicly traded companies including Denison Mines Corp., Lundin Petroleum AB and NGEx Resources Inc. As a member of these committees, Mr. Rand has the requisite experience in reviewing and approving compensation programs, policies and guidelines in the mining industry for the Chief Executive Officer level, other executive officers and senior management, to ensure that such compensation programs are relevant to the goals of the Corporation. He has read extensively on the subject of executive compensation and worked with human resource specialists to develop such programs, policies and guidelines.

### Objectives of Compensation Program

The fundamental objective of the Corporation is the long-term creation and protection of shareholder value and the Corporation's employee compensation system is designed to:

- Attract, retain, motivate and reward high calibre talent through competitive pay practices
- Ensure retention by setting total compensation targets at a level that is competitive with the markets in which the Corporation competes
- Link the compensation system directly to specific corporate, operational, functional and personal performance objectives of the Corporation while not encouraging excessive or inappropriate risk taking in order to maximize shareholder return, promote sustainable growth and constantly improve the performance of the Corporation's operations
- Motivate high performers to achieve exceptional levels of performance through rewards
- Encourage high performers to develop internal talent
- Provide mechanisms to facilitate share ownership by executives and senior employees to encourage them to act as shareholders and not as caretakers

Critical criteria for the Corporation in all compensation mechanisms:

- Simple to understand and communicate
- Linked to measurable benchmarks
- Motivating
- Affordable for all parties

### Peer Group

The composition of the 2013 peer group for benchmarking overall executive compensation is listed below. Peers were selected on the basis of being a mining company trading on the TSX with which the Corporation believes it competes for employees. The peers selected reflect that while the Corporation competes with other base metal companies for shareholders, capital and mineral properties, the Corporation also competes with the broader mining industry for qualified and experienced executives. The composition of the 2013 peer group did not change from 2012 other than removing Inmet Mining Corporation due to its acquisition by First Quantum Minerals Ltd. in early 2013.

<b>2013 Peer Group<sup>(1)</sup></b>	
AuRico Gold Inc.	IAMGOLD Corporation
First Quantum Minerals Ltd.	Pan American Silver Corp.
HudBay Minerals Inc.	Sherritt International Corporation

(1) The 2013 Total Shareholder Return ("TSR") objectives were measured against a specific peer group of companies which comprised Boliden AB, First Quantum Minerals Ltd., Hudbay Minerals Inc. and Nyrstar NV. This group of companies was used to provide an accurate and fair measure of the share price performance, as these entities have similar operational or metals characteristics and would attract a similar investor base.

The HRCC will evaluate and, if appropriate, update the composition of the peer group each year to ensure it remains relevant to the markets in which the Corporation competes.

## Elements of Compensation

The Corporation's compensation program has three primary elements: base salary, short-term incentive and long-term incentive. The combination of elements is designed to encourage executives to achieve strong short-term results while also being motivated to meet longer-term goals and objectives. The HRCC believes that the objective of the executive compensation practices should be to target a ratio of total direct compensation of an appropriate peer group. Total direct compensation is total base salary, target bonus and the estimated value of equity-linked compensation. The Corporation regularly reviews all elements of executive compensation to ensure that it continues to be aligned with the key strategic deliverables of the Corporation and industry practices.

Element of Compensation	Description	Objective
Base Salary	Base salary must be competitive with others in the industry generally, as well as within the regional markets in which the executive is located. Base salary levels take into account the executive's individual responsibilities, experience and performance.	To attract, retain and motivate a competent, strong and effective executive management group.
Short-Term Incentive	Annual cash incentive bonus is a portion of variable compensation that is designed to reward executives on an annual basis for achievement of corporate and business objectives as well as individual performance.	To attract, retain and motivate; pay for performance, and to align with the Corporation's business strategy. This is "at risk" compensation.
Long-Term Incentive	Equity compensation, in the form of stock options, is a portion of variable compensation that is designed to align executive and shareholder interests, focus executives on long-term value creation and support the retention of key executives in an increasingly competitive market. When granting long-term incentive plan stock options, the HRCC primarily considers the same performance criteria as used in determining short-term incentive plan awards which includes corporate and individual performance.	To attract, retain and motivate; to align with shareholder interests and to align with the Corporation's business strategy. This is "at risk" compensation both in terms of the amount granted and is linked to performance and the long-term value being dependent on share performance.

The HRCC has not established a strict application policy regarding the mix of base salary, short-term and long-term incentives to be paid or awarded to the NEOs and other senior executives. This allows the HRCC to be flexible in tailoring the compensation mix for each executive to the particular circumstances in effect at the time. However, the HRCC believes that a greater percentage of compensation for the NEOs and other senior executives should increasingly come from the variable, performance-based plans, and the mix of compensation should be structured to balance the need to drive results based on the particular NEO's position as well as to support the long-term growth of the Corporation overall.

The Corporation's compensation programs are reasonable, fair to both executives and shareholders, and competitive with compensation made available by the Corporation's peers and other mining companies.

### **2013 TOTAL DIRECT COMPENSATION**

The following provides a detailed discussion of the decisions made in order to determine each NEO's total direct compensation for 2013, which comprises base salary and short and long-term incentives.

### **Summary of 2013 Performance**

In addition to the specific corporate performance metric of KPIs (all discussed later), the HRCC always looks at the overall performance of the Corporation to ensure that the compensation outcomes are reflective of the year the Corporation had overall. In this regard the Corporation achieved strong overall production and financial results, despite a low metal price environment. Total sales for the year were US\$727.8 million, with net earnings of US\$136.7 million (or US\$0.23/share) and cash flow from operations of US\$153.7 million.

The Neves-Corvo mine ("Neves-Corvo") exceeded the high end of its original production guidance for copper and zinc and generated approximately 1,500 tonnes of unplanned lead in concentrate from its zinc circuit. The Zinkgruvan mine ("Zinkgruvan") struggled with paste fill and local ground control issues early in the year but managed to complete the year just shy of its 2013 production targets. The Aguablanca mine ("Aguablanca") took advantage of its first full year of production since 2009, achieving significantly higher nickel and copper volumes than was projected. 2013 was also a year of significant corporate activity, with a number of strategic options investigated and the successful acquisition of Eagle Mine LLC (the "Eagle Project") and a 24% share in the Kokkola cobalt refinery located in Finland and the related sales and marketing business ("Freeport Cobalt").

Since the acquisition on July 17, 2013, all Eagle Project activities were re-initiated and the project is tracking to ship first saleable concentrates of copper and nickel by the end of 2014. As of December 31, 2013, all senior operating positions had been filled, critical spare parts had been purchased, major operating contracts had been awarded and most of the major equipment has been delivered. The capital cost of the project from the date of acquisition is estimated at US\$400 million and is on track to be completed within budget.

At Aguablanca, in addition to the efforts undertaken by management to stabilize the south wall and secure the existing open pit ore reserve, significant analysis and evaluation were completed to support and identify a beneficial underground expansion. This new phase of production is expected to commence shortly after the end of open pit mining in 2014 and continue until 2018.

The 2013 near-mine exploration program was primarily directed towards Neves-Corvo which included a total of 45,000 metres of surface drilling. Drilling focused on delineating additional copper resources in the Monte Branco area, located approximately 1.2 kilometres to the south of the Semblana copper deposit, as well as investigating higher potential areas between Semblana and Monte Branco, and between the Zambujal ore-body to the northwest and Monte Branco. The Corporation also undertook select greenfield exploration programs and new business development activities in South America and Eastern Europe.

The Tenke Fungurume (“Tenke”) asset continued to perform well and benefited from completion of the Phase 2 expansion. Although Tenke experienced external power interruptions in the second half of the year, it achieved record copper production, with a 33% improvement over the prior year. Local management continues to work with its power provider and Democratic Republic of Congo authorities to establish more consistent and reliable power supply.

Financially, the Corporation completed amendments to its credit agreement, providing a new term loan of US\$250 million and an extension on its existing US\$350 million facility. This arrangement provides very flexible, cost effective funding to ensure financial support of the Eagle Project.

### **Base Salary**

The HRCC reviewed base salaries by reviewing industry trends, competitive market data, internal equality among executive positions and individual performance measured against the achievement of business and operating goals. For 2014, salaries were increased approximately 2% for the CEO and an average of 3.5% for all other NEOs. The table below summarizes each NEO’s base salary and increases for 2014.

<b>NEO</b>	<b>2013 Base Salary (US\$)<sup>(1)</sup></b>	<b>Increase to Base Salary</b>	<b>2014 Base Salary (US\$)<sup>(1)</sup></b>
Paul Conibear CEO	750,098	2%	765,099
Marie Inkster CFO	396,051	2%	403,973
Paul McRae SVP, Projects	505,217	2%	515,321
Julie Lee Harrs SVP, Corporate Development	350,046	7%	374,549
Stephen Gatley VP, Technical Services	402,885	3%	414,971

<sup>(1)</sup> NEOs were paid in C\$, except Messrs. McRae and Gatley who were paid in £. See heading “Currency” above for the exchange rates.

### Short-Term Incentive Plan

The Corporation's Short-Term Incentive Plan ("STIP") provides a performance related "at risk" annual cash payment based on a targeted level of incentive for each position and the results of the executive's Key Performance Indicators ("KPIs" or "personal objectives"). The amount of any potential STIP awards is set out as a percent of base salary and is subject to an overall cap. The STIP award is the outcome of a holistic process that links business planning with an evaluation of executive's KPIs together with corporate performance on a relative basis. The STIP is intended to link pay to annual performance commitments that will contribute to enhanced shareholder value as well as comparative share performance.

At the beginning of each year key strategic deliverables/corporate objectives are designed by the CEO and senior management in consultation with the Board to enhance overall corporate performance consistent with the strategic plan and budget of the Corporation as approved by the Board. Each executive and other members of management have specific KPIs, which are a subset of the Corporation's key strategic deliverables.

The proportion of short-term incentive linked to corporate objectives/KPIs increases with the seniority of the individual.

Target levels of performance are established as guidelines and are not applied as an absolute formula. The HRCC believes that fixed formulas may lead to an unwanted STIP award that does not accurately reflect actual performance when viewed holistically; as a result, the experiences of the Board should be the ultimate determinant of final, overall compensation within the context of those pre-determined guidelines.

With respect to the corporate performance benchmarks of relative TSR and operational budget the Corporation met or exceeded the targeted goals to achieve the target weighting for each individual. With respect to the individuals' KPI performance, each individual exceeded the benchmarks set out. In view of the overall performance for the year discussed above together with the STIP guidelines, each NEO achieved a weighting above the target. The below table sets out each NEO's 2013 target STIP with the respective corporate and personal weightings; 2013 actual STIP paid; and 2013 actual STIP paid as a percentage of 2013 base salary:

NEO	2013 Target STIP as a Percentage of Base Salary	Target STIP Corporate Weighting	Target STIP Personal Weighting	2013 STIP Paid (US\$) <sup>(1)</sup>	2013 STIP Paid as an approximate Percentage of Base Salary
Paul Conibear CEO	120%	50%	50%	990,129	132%
Marie Inkster CFO	80%	50%	50%	380,214	96%
Paul McRae SVP, Projects	50%	35%	65%	315,768	63%
Julie Lee Harris SVP, Corporate Development	65%	35%	65%	273,035	78%
Stephen Gatley VP, Technical Services	55%	35%	65%	232,672	58%

(1) All the NEOs were paid in C\$, except Messrs. McRae and Gatley who were paid in £. See heading "Currency" above for the exchange rates.

### Short-Term Incentive Plan – Corporate Performance

The 2013 corporate objectives included operational improvement, health and safety performance, process standardization and improvement, financial management, investor relations, increases in resources and reserves, and business growth and development initiatives. These, along with the key budgetary deliverables, were designed to enhance overall performance, improve financial strength and grow the business of the Corporation. The table below outlines the 2013 financial and safety targets, TSR targets and results. The 2013 TSR objectives were measured against a specific peer group of companies which comprised Boliden AB, First Quantum Minerals Ltd., Hudbay Minerals Inc. and Nyrstar NV. This group of companies was used to provide an accurate and fair measure of the share price performance, as these entities have similar operational or metals characteristics and would attract a similar investor base.

**Financial and TSR Targets:**

	Threshold	On Target	Stretch	Weighting
<b>Stock Price (Performance vs 2013 Peer Group)</b> (November VWAP)	-15%	Equal to Simple Average of Peer Group	+20%	40%
<b>Operating Cash Flow</b> (factored for actual metal prices vs budget price deck)	-10%	Per Budget	+20%	40%

**Safety Targets:**

	Threshold	On Target	Stretch	Weighting
Fatalities	0	0	0	10%
Total Recordable Incident Frequency	2.2	1.8	< 1.2	10%

The Corporation's performance for 2013 was on or above Target.

**Short-Term Incentive – Personal Objectives / KPIs**

KPIs/personal objectives are evaluated by the CEO and discussed with the HRCC in terms of the level of accomplishment of the KPIs approved by the HRCC. Below is a summary of the NEOs 2013 KPI achievements.

**Paul Conibear  
CEO**

Mr. Conibear focused the business on growth as well as continued stable operating performance, optimization and improvement in all parts of the organization. The result of the focus on growth was the successful acquisition of the Eagle Project, the investment alongside Freeport-McMoRan Copper & Gold Inc. ("Freeport") in Freeport Cobalt and the significant extension of the life of mine at Aguablanca with an underground project. Copper and nickel production exceeded the high end of the Corporation's production guidance, while zinc and lead met the overall targets. Higher throughput at Neves-Corvo resulted in better than expected copper production, while nickel and copper production at Aguablanca was assisted by better than expected throughput, grades and recoveries.

Mr. Conibear continues to take significant steps to progress strategic expansion into new geographical regions while continuing to optimize the Corporation's existing assets through projects at Neves-Corvo, and continuous improvement at Zinkgruvan. The Corporation strongly outperformed most of its peer group.

Mr. Conibear continued a very successful investor relations program and has continued to favourably position the Corporation in the marketplace with analysts and investors.

**Marie Inkster  
CFO**

Ms. Inkster completed a variety of goals established in the areas of finance, treasury, tax, risk management, information technology and corporate development. Notably, Ms. Inkster completed a major financing package for the acquisition of the Eagle Project, significantly improving the Corporation's financing flexibility. The resulting US\$600 million debt facility package that was achieved enables the Corporation to move forward with a very competitive, low interest rate, flexible, loan facility which came with minimal arranging fees, supported by a quality banking syndicate. Ms. Inkster has also been instrumental in reviewing and improving the Corporation's approach to risk management and has, with her team, supported corporate development activities, developed and executed on integration plans for the Eagle Project.

**Paul McRae  
SVP, Projects**

Since joining the Corporation, Mr. McRae has had a significant positive impact on the overall project delivery capability of the Corporation, hiring experienced project managers and initiating improvements to project management execution. Mr. McRae has had a leading role in championing health and safety throughout the Corporation, at the same time as leading the project component of due diligence on the Eagle Project and establishing a refined execution plan to bring the operation on stream on time and on budget. From the time of announcement of the asset acquisition, Mr. McRae has been the Corporation's executive responsible for the successful delivery of the Eagle Project investment, with this mandate effective up to successful commencement of production. The very efficient transition of ownership transfer from Rio Tinto plc, rapid remobilization of construction activities, high local stakeholder support continuing post asset transfer and to date on time/on schedule execution of the project are notable achievements led by Mr. McRae as the project advances.

**Julie Lee Harrs**  
**SVP, Corporate Development**

Ms. Lee Harrs has led the corporate development team in identifying and evaluating various strategic initiatives. This has culminated in the acquisition, with Freeport, of Freeport Cobalt and the acquisition of the Eagle Project, as well as leading competitive bid processes for other potential acquisitions. In addition, she has provided acquisition support for the growth projects identified by the exploration team. Ms. Lee Harrs manages the Corporation's relationship with Freeport in connection with the companies' shared interests in Tenke and Freeport Cobalt. As well, since July 1, 2012, Ms. Lee Harrs has executive responsibility for the Corporation's Galmoy mine in Ireland, including oversight responsibility for the completion of mining activities which occurred in October 2012 and various activities relating to the ongoing closure plan which is progressing according to plan.

**Stephen Gatley**  
**VP, Technical Services**

Mr. Gatley had a key role in providing technical input for the due diligence and acquisition processes for both corporate development and exploration/new business development. He led technical due diligence and served as a key member of the integration team for the Eagle Project. Mr. Gatley also led the coordination of various National Instrument 43-101 technical reports for Neves-Corvo and Zinkgruvan and latterly for the Eagle Project. Mr. Gatley became responsible for environmental matters in 2013 and successfully integrated the function into technical services, recruiting additional talent as required. He led the completion and publication of the Corporation's annual Sustainability Report along with other environmental reports throughout the year.

**Long-Term Incentive Plan**

The Corporation provides long-term incentives currently through grants of stock options made pursuant to the ISOP (this plan as approved by shareholders only permits the issue of options, the HRCC is seeking shareholder approval to approve the SU Plan which will allow the use of share unit type incentives as well). Stock options are awarded on assessment of corporate and personal performance in a similar manner as the STIP. The Corporation believes its long-term incentive plan ("LTIP") awards provide executives an opportunity to build ownership in the business and align their interests with those of shareholders. The recipients of these awards achieve an increase in value only to the extent the Corporation's shareholders benefit from the increase in the Corporation's stock price. Stock option grants vest over three years from the date of grant and have a five-year term.

When granting LTIP stock options, in addition to the performance criteria discussed, the HRCC considers past stock option grants and the total compensation amounts of the Corporation's selected annual peer group to ensure that the amount of incentive and retention provided by the plan is competitive in the market in which the Corporation competes for talent.

In prior years, LTIP awards were granted in December of each year. Consistent with the use of performance based criteria for both the STIP and LTIP, for 2013, the HRCC has changed the grant date to after the release of the Corporation's annual financial statements such that both forms of incentive awards are considered together.

The following stock options were granted in 2014 with respect to 2013 compensation to each NEO. These stock options will vest in one-thirds on the first, second and third anniversary of the date of grant and will expire in five years.

NEO	Number of Stock Options Awarded	% of 2013 Base Salary Awarded <sup>(2)</sup>	Value of Stock Options Awarded (US\$) <sup>(2)</sup>	% of Total Options Granted to All Employees in the Financial Year <sup>(1)</sup>
Paul Conibear CEO	300,000 <sup>(3)</sup>	74%	558,000	6.5%
Marie Inkster CFO	280,200 <sup>(4)</sup>	132%	521,172	6.0%
Paul McRae SVP, Projects	210,000 <sup>(5)</sup>	77%	390,600	4.5%
Julie Lee Harrs SVP, Corporate Development	210,000 <sup>(5)</sup>	112%	390,600	4.5%
Stephen Gatley VP, Technical Services	180,000 <sup>(6)</sup>	83%	334,800	3.9%

(1) A total of 4,645,200 stock options were granted with respect to the 2013 financial year, including the 3,475,200 stock options that were granted in February 2014 relating to 2013 compensation.



- (2) The value of the options awarded was determined based on the Black-Scholes fair value of the Common Shares on the grant date of C\$1.92 (US\$1.86).
- (3) 280,000 of these options are part of the Additional Options and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. See "Business of Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options".
- (4) 240,000 of these options are part of the Additional Options and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. See "Business of Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options".
- (5) 180,000 of these options are part of the Additional Options and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. See "Business of Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options".
- (6) 150,000 of these options are part of the Additional Options and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. See "Business of Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options".

### ***Phantom Share Appreciation Rights***

Mr. Conibear's employment agreement contemplates the use of phantom share appreciation rights ("PSAR"). Effective May 1, 2013, Mr. Conibear received an increase in his PSAR from 250,000 to 500,000 shares for the 12 months ending April 30, 2014. Under the grant, Mr. Conibear will receive cash equal to the increase, if any, in the value of the Corporation's stock during the 12-month period following the PSAR grant date. In accordance with Mr. Conibear's employment agreement, he is entitled to receive an annual grant of 250,000 PSARs with a 12-month term.

### **Hedging**

The Corporation has a policy prohibiting any NEO or director from purchasing financial instruments designed to hedge against a decrease in the market value of equity securities granted as compensation or held directly or indirectly by the NEO or the director.

### **THE CORPORATION'S INCENTIVE STOCK OPTION PLAN**

The ISOP is currently the only shareholder approved equity-based compensation arrangement pursuant to which securities may be issued from treasury of the Corporation. As outlined above, shareholders will be asked at the Meeting to consider the adoption of the SU Plan, the adoption of the New ISOP and the ratification of the Additional Options. The use of share unit incentive grants in addition to options increases the flexibility of the HRCC to ensure that the compensation policies of the Corporation remain competitive and in line with industry practice. Assuming shareholders approve the New ISOP, all outstanding options granted prior to the effective date of the New ISOP (with the exception of the Additional Options) will continue to be governed by the current ISOP. For further details, see "Business of the Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options" and "Executive Compensation - Compensation Discussion and Analysis".

The following summary relates to the key terms of the ISOP as it currently exists.

- The Board, or a committee appointed for such purposes, may, from time to time, grant to directors, officers, eligible employees of or consultants to, the Corporation or its subsidiaries, or to employees of management companies providing services to the Corporation (collectively, the "Eligible Personnel"), options to acquire Common Shares in such numbers, for such terms and at such exercise prices as may be determined by the Board or such committee.
- The purpose of the ISOP is to advance the interests of the Corporation by providing Eligible Personnel with a financial incentive for the continued improvement of the Corporation's performance and encouragement to stay with the Corporation. The Corporation's current policy is to not grant directors of the Corporation stock options.
- The Board has the authority under the ISOP to establish the option price at the time each share option is granted but, in any event, it shall not be lower than the market price of the Common Shares on the date of grant of the options. The market price shall be calculated as the closing market price on the TSX of the Common Shares on the date of the grant, or, if the date of grant is not a trading day, the closing price of the Common Shares on the last trading day prior to the date of grant.
- The Board has the authority to set the periods within which options may be exercised and the number of options which may be exercised in any such period. This shall be determined by the Board at the time of granting the options provided; however, all options must be exercisable during a period not extending beyond ten years from the date of the option grant unless otherwise permitted by the TSX.

- The Board has the authority to determine the vesting terms of the options at the date of the option grant and as indicated in any option commitment related thereto. Notwithstanding the foregoing, options granted to consultants providing investor relations services shall vest in stages over a 12-month period with a maximum of one-quarter of the options vesting in any 3 month period.
- The aggregate number of Common Shares reserved for issuance for all purposes under the ISOP and all other share-based compensation arrangements is 21,000,000. In addition, the ISOP contains the following restrictions on the issuance of options:
  - The aggregate number of Common Shares reserved for issuance pursuant to the ISOP or any other share based compensation arrangement (pre-existing or otherwise) to any one participant shall not exceed 5% of the Common Shares outstanding from time to time, to any consultant within any one-year period shall not exceed 2% of the Common Shares outstanding at the time of the grant, to any employee conducting investor relations activities within any one-year period shall not exceed 2% of the Common Shares outstanding at the time of the grant, and to insiders shall not exceed 10% of the Common Shares outstanding at any time unless the Corporation obtains disinterested shareholder approval to do so.
  - The aggregate number of Common Shares issued and options granted pursuant to the ISOP or any other share based compensation arrangement (pre-existing or otherwise) to insiders within any one-year period shall not exceed 10% of the Common Shares outstanding unless the Corporation has obtained disinterested shareholder approval to do so, and to any one insider and such insider's associates within any one-year period shall not exceed 5% of the Common Shares outstanding from time to time unless the Corporation has obtained disinterested shareholder approval to do so.
- Any Common Shares subject to a share option which for any reason is cancelled or terminated without having been exercised will again be available for grant under the ISOP.
- Options are not transferable other than by will or the laws of descent and distribution. Typically, if an optionee ceases to be an Eligible Person for any reason whatsoever other than death, each option held by such optionee will cease to be exercisable 60 days following the termination date (being the date on which such optionee ceases to be an Eligible Personnel). If an optionee dies, the legal representative of the optionee may exercise the optionee's options within 12 months after the date of the optionee's death but only up to and including the original option expiry date.
- The Board may from time to time, subject to applicable law and to the prior approval, if required, of the TSX or any other regulatory body having authority over the Corporation or the ISOP or, if required by the rules and policies of the TSX, the shareholders of the Corporation, suspend, terminate or discontinue the ISOP at any time, or amend or revise the terms of the ISOP or of any option granted under the ISOP and the option commitment relating thereto, provided that no such amendment, revision, suspension, termination or discontinuance shall in any manner adversely affect any option previously granted to an optionee under the ISOP without the consent of that optionee.
- The Corporation provides no financial assistance to facilitate the purchase of Common Shares by Eligible Personnel who hold options granted under the ISOP.

As of date of this Circular, there were 11,247,366 stock options outstanding under the ISOP, representing approximately 1.9% of the Corporation's current issued and outstanding Common Shares. As a result of past issuances and exercises under the ISOP there is currently only availability to grant 544 options under the ISOP unless current outstanding options are cancelled, terminated or forfeited. As a result of the lack of room under the current ISOP, on February 25, 2014, the Board granted the Additional Options to certain executives of the Corporation subject to the Board approving the New ISOP, the approval of the TSX and shareholder approval at the Meeting. The Board has subsequently approved the New ISOP and the TSX has conditionally approved the Additional Options. The Additional Options cannot be exercised until the Corporation has obtained shareholder approval at the Meeting and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. For further information with respect to the New ISOP, Additional Options and SU Plan please see "Business of the Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options".

#### **OPPORTUNITIES FOR 2015 COMPENSATION**

In 2014, Mercer (Canada) Limited ("Mercer") was retained to review the peer group of the Corporation and to perform an executive benchmarking review for the senior executives, including base salary, short-term incentives, long-term incentives, total cash compensation, total direct compensation and compensation mix. The HRCC also independently engaged Hugessen to confirm the findings. The 2015 executive compensation program anticipates expanding the Corporation's current LTIP to include SUs, if the SU Plan/ISOP Resolution is approved by the shareholders at this Meeting.

## PERFORMANCE GRAPH

The following graph compares the yearly percentage change in the cumulative total shareholder return on the TSX for C\$100 invested in Common Shares on December 31, 2008 against the cumulative total shareholder return of the S&P/TSX Composite Index for the five most recently completed financial years of the Corporation.



	31-Dec-2008	31-Dec-2009	31-Dec-2010	31-Dec-2011	31-Dec-2012	31-Dec-2013
Lundin Mining Corporation Stock Closing Price at Year End (C\$)	1.19	4.30	7.26	3.87	5.12	4.60
Corporation Total Return – Base 2008 (C\$)	100	361	610	325	430	387
S&P/TSX Composite Index Index Closing Price at Year End (C\$)	8,987.70	11,746.11	13,443.22	11,955.09	12,433.53	13,621.55
Total Return Index – Base 2008 (C\$)	100	131	150	133	138	152

The Corporation is included in the S&P/TSX Composite and the graph and chart above shows the relative share performance of the Corporation to this index. As discussed above, the current compensation policy relates performance compensation of executives to specific benchmarks which include specific operational objectives and individual objectives as well as relative share price performance compared to the described specific peer group. Accordingly, there is no direct link between the index shown and executive compensation as determined by the HRCC. However, as an observation, it should be noted that in 2008, the NEO total compensation as reported was US\$9,381,147 and in 2013 it was US\$7,383,756, as shown in this Circular. Total NEO compensation has declined while the share price performance is up significantly over the same period of time. During this period there have been three (3) Chief Executive Officers of the Corporation. Of significant note is that the total amount of compensation which is “at risk” and performance related for the current CEO is significant while for the previous CEO it was negligible. This is reflective of the overall trend and development of executive compensation for the Corporation over this period of time.

## SUMMARY COMPENSATION TABLE<sup>(1)</sup>

The following table sets out the total compensation actually paid to the NEOs in the most recently completed financial year as well as the two previous financial years, to the extent the NEO was employed with the Corporation.

Name and principal position	Year	Salary (US\$)	Share-based awards (US\$) <sup>(2)</sup>	Option-based awards (US\$) <sup>(3)</sup>	Non-equity incentive plan compensation (US\$)		Pension Value (US\$)	All other compensation (US\$)	Total compensation (US\$)
					Annual incentive plans (US\$) <sup>(4)</sup>	Long-term incentive plans			
Paul Conibear <sup>(7)</sup> CEO	2013	750,098	323,329	558,000	990,129	-	-	62,274 <sup>(5)</sup>	2,683,830
	2012	750,600	-	500,400	900,720	-	-	32,940 <sup>(6)</sup>	2,184,660
	2011	918,056	581,555	-	505,700	-	-	31,952 <sup>(6)</sup>	2,037,263
Marie Inkster CFO	2013	396,051	-	521,172	380,214	-	-	30,767 <sup>(5)</sup>	1,328,204
	2012	396,317	-	450,360	296,247	-	-	31,711 <sup>(6)</sup>	1,174,635
	2011	364,104	-	649,319	202,280	-	-	31,439 <sup>(6)</sup>	1,247,142
Paul McRae SVP, Projects	2013	505,217	-	390,600	315,768	-	-	104,714 <sup>(5)</sup>	1,316,299
	2012	496,992	-	958,661 <sup>(8)</sup>	248,496	-	-	112,255 <sup>(6)</sup>	1,816,404
Julie Lee Harris <sup>(9)</sup> SVP, Corporate Development	2013	350,046	-	390,600	273,035	-	-	26,867 <sup>(5)</sup>	1,040,548
	2012	350,280	-	300,240	192,654	-	-	27,692 <sup>(6)</sup>	870,866
	2011	53,777	-	556,270	-	-	-	1,556 <sup>(6)</sup>	611,762
Stephen Gatley <sup>(10)</sup> VP, Technical Services	2013	402,885	-	334,800	232,672	-	-	44,518 <sup>(5)</sup>	1,014,875
	2012	326,751	-	476,781 <sup>(11)</sup>	166,854	-	-	37,185 <sup>(6)</sup>	1,007,571
	2011	247,756	-	324,659	74,327	-	-	28,133 <sup>(6)</sup>	674,875

<sup>(1)</sup> All the NEOs were paid in C\$, except Messrs. McRae and Gatley who were paid in £. See heading "Currency" above for the exchange rates.

<sup>(2)</sup> This amount represents the fair value of the 500,000 PSARs, on the date of grant calculated using the Black Scholes model according to IFRS2 Share-based payment of IFRS since it is used consistently by comparable companies. The key assumptions and estimates used for the calculation of the grant date fair value under this model include the risk-free interest rate, expected stock price volatility, expected life and expected dividend yield. Fair values were calculated in C\$ and translated into US\$. Any actual value will depend on the value of the Common Shares on April 30, 2014 (the "Maturity Date"). On the Maturity Date, Mr. Conibear will receive cash equal to the increase, if any, in the value of the Common Shares from the date of grant to the Maturity Date. The value of the award will be equal to the positive difference between the closing price of the Common Shares on the TSX on the Maturity Date minus the closing price on the award date. If Mr. Conibear resigns, or his employment is terminated for just cause before the payout of any grant, the grant will lapse immediately. If his employment is terminated by the Corporation without just cause before the payout of any grant, the grant will be valued and paid out as of the employment termination date.

<sup>(3)</sup> The value of the 2013 stock options that were granted in February 2014 was determined based on the Black-Scholes fair value of the Common Shares on the grant date of C\$1.92 (US\$1.86). Note that certain of these options are part of the Additional Options and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. See "Business of the Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options". The fair value of stock option awards on the grant date were calculated using the Black Scholes model according to IFRS2 Share-based payment of IFRS since it is used consistently by comparable companies. Below are the key assumptions and estimates:

	Volatility (%)	Risk-Free Rate (%)	Exercise Price (C\$ / US\$)
2014*	49.3%	1.33%	C\$5.18 / US\$5.03
2012	54.6%	1.27%	C\$4.96 / US\$4.82
2011	62.2%	1.12%	C\$3.92 / US\$3.81

\*The 2014 stock option grants are included in 2013 compensation.

<sup>(4)</sup> Represents incentive awards in respect of the corresponding year's performance but are paid the following year.

<sup>(5)</sup> Amounts in this column typically consist of, but are not limited to, benefits such as retirement savings benefits, supplemental life and other additional benefits and parking allowances. As an expat, Mr. McRae also received expat benefits, education and taxable benefits for travel-related expenses and an amount representing 6% of his base salary in cash due to his inability to participate in the contributory retirement savings scheme offered in the United Kingdom. Mr. Conibear received the cash value for his 2011 PSARs that matured in 2013.

<sup>(6)</sup> These amounts typically consist of, but are not limited to, benefits such as retirement savings benefits. As an expat, Mr. McRae also received education and housing allowances in 2012 and received an amount representing 6% of his base salary in cash due to his inability to participate in the contributory retirement savings scheme offered in the United Kingdom.

<sup>(7)</sup> Paul Conibear was Senior Vice President, Corporate Development, from October 2009 to June 2011. On June 30, 2011, Mr. Conibear was appointed to the position of President and Chief Executive Officer on an interim basis and was permanently appointed on October 31, 2011.

<sup>(8)</sup> A stock option grant of was made to Mr. McRae in late 2011 related to his new employment with the Corporation starting on January 1, 2012 and has been included in the 2012 total.

<sup>(9)</sup> Ms. Lee Harris joined the Corporation on November 6, 2011.

<sup>(10)</sup> Mr. Gatley was promoted to the position of General Manager, Technical Services in August 2007 and on June 30, 2012 was appointed Vice President, Technical Services.

<sup>(11)</sup> A stock option grant of 60,000 options was made to Mr. Gatley on May 28, 2012 relating to his appointment to Vice President, Technical Services and an annual stock option grant of 180,000 options was made to Mr. Gatley on December 10, 2012.

## INCENTIVE PLAN AWARDS

### OUTSTANDING SHARE-BASED AWARDS AND OPTION-BASED AWARDS

The following table sets forth for each NEO all awards outstanding at the end of the most recently completed financial year. The following also includes awards granted in 2014 in respect of 2013 performance as disclosed in the Summary Compensation Table above.

NEO	Option-based Awards					Share-based Awards	
	Grant date	Number of securities underlying unexercised options (#)	Option exercise price (US\$) <sup>(2)</sup>	Option expiration date	Value of unexercised in-the-money options (US\$) <sup>(1)(2)</sup>	Number of shares or units of shares that have not vested (#)	Market payout value of share-based awards that have not vested (US\$) <sup>(1)</sup>
Paul Conibear CEO	Dec 10/12	250,000	4.71	Dec 9/17	-	-	-
	May 1/13	-	-	-	-	500,000 <sup>(12)</sup>	300,000 <sup>(12)</sup>
	Feb 25/14	300,000 <sup>(3)</sup>	4.87	Feb 24/19	-	-	-
Marie Inkster CFO	Dec 12/11	300,000	3.66	Dec 11/16	198,000 <sup>(7)</sup>	-	-
	Dec 10/12	225,000	4.71	Dec 9/17	-	-	-
	Feb 25/14	280,200 <sup>(4)</sup>	4.87	Feb 24/19	-	-	-
Paul McRae SVP, Projects	Oct 31/11	300,000	3.68	Jan 2/17	192,000 <sup>(8)</sup>	-	-
	Dec 10/12	150,000	4.71	Dec 9/17	-	-	-
	Feb 25/14	210,000 <sup>(5)</sup>	4.87	Feb 24/19	-	-	-
Julie Lee Harrs SVP, Corporate Development	Nov 7/11	250,000	3.75	Nov 6/16	142,500 <sup>(9)</sup>	-	-
	Dec 10/12	150,000	4.71	Dec 9/17	-	-	-
	Feb 25/14	210,000 <sup>(5)</sup>	4.87	Feb 24/19	-	-	-
Stephen Gatley VP, Technical Services	Dec 12/11	150,000	3.66	Dec 11/16	99,000 <sup>(10)</sup>	-	-
	May 28/12	60,000	3.80	May 27/17	31,200 <sup>(11)</sup>	-	-
	Dec 10/12	180,000	4.71	Dec 9/17	-	-	-
	Feb 25/14	180,000 <sup>(6)</sup>	4.87	Feb 25/19	-	-	-

(1) The closing exchange rate on December 31, 2013 of US\$0.9402:C\$1.00 was used in this table.

(2) Based on the closing price of the Common Shares on the TSX on December 31, 2013 of C\$4.60 (US\$4.32) per Common Share, less the exercise price of the in-the-money stock options. These Options have not been, and may never be, exercised and the actual gain, if any, on exercise will depend on the value of the Common Shares on the date of exercise.

(3) 280,000 of these options are part of the Additional Options and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. See "Business of the Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options".

(4) 240,000 of these options are part of the Additional Options and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. See "Business of the Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options".

(5) 180,000 of these options are part of the Additional Options and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. See "Business of the Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options".

(6) 150,000 of these options are part of the Additional Options and will be cancelled if shareholders do not approve the SU Plan/ISOP Resolution at the Meeting. See "Business of the Meeting – Adoption of Share Unit Plan, New Incentive Stock Option Plan and Ratification of Additional Options".

(7) This value represents 200,000 vested options and 100,000 unvested options. 100,000 options vest on December 12, 2014.

(8) This value represents 200,000 vested options and 100,000 unvested options. 100,000 options vest on October 31, 2014.

(9) This value represents 166,666 vested options and 83,334 unvested options. 83,334 vest on November 7, 2014.

(10) This value represents 100,000 vested options and 50,000 unvested options. 50,000 options vest on December 12, 2014.

(11) This value represents 20,000 vested options and 40,000 unvested options. 20,000 options vest on May 28, 2014 and the remaining 20,000 vest on May 28, 2015.

(12) Phantom Share Appreciation Rights. Based on the closing price of the Common Shares on the TSX on December 31, 2013 of C\$4.60 (US\$4.32) per Common Share, less the grant price of the PSARS on the grant date of C\$3.96 (US\$3.72). PSARS are not eligible to be exercised until the maturity date of April 30, 2014. Any actual value will depend on the value of the Common Shares on the maturity date.

## INCENTIVE PLAN AWARDS – VALUE VESTED OR EARNED IN 2013

The following table provides information regarding the value on vesting of incentive plan awards for the financial year ended December 31, 2013, plus a summary of cash awards made under the STIP for 2013 performance.

### Incentive Plan Awards Vested or Earned in 2013

NEO	Option-based awards – value vested during the year (US\$) <sup>(1)</sup>	Non-equity incentive plan compensation – value earned during year (US\$) <sup>(2)</sup>
Paul Conibear CEO	Nil <sup>(3)</sup>	990,129
Marie Inkster CFO	20,000 <sup>(4)(5)</sup>	380,214
Paul McRae SVP, Projects	78,000 <sup>(6)(7)</sup>	315,768
Julie Lee Harrs SVP, Corporate Development	Nil <sup>(8)(9)</sup>	273,035
Stephen Gatley VP, Technical Services	17,400 <sup>(10)(11)(12)</sup>	232,672

(1) Represents the aggregate dollar value that would have been realized if the options had been exercised on the vesting date, based on the difference between the closing price of the Common Shares of Corporation as traded on the TSX on the vesting date and the exercise price of the options.

(2) This column represents only the cash STIP payments referred to earlier in the report.

(3) 83,333 options which have an exercise price of C\$5.01 (US\$4.86) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$4.14 (US\$4.02).

(4) 75,000 options which have an exercise price of C\$5.01 (US\$4.86) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$4.14 (US\$4.02).

(5) 100,000 options which have an exercise price of C\$3.89 (US\$3.78) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$4.10 (US\$3.98).

(6) 50,000 options which have an exercise price of C\$5.01 (US\$4.86) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$4.14 (US\$4.02).

(7) 100,000 options which have an exercise price of C\$3.91 (US\$3.78) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$4.70 (US\$4.56).

(8) 83,333 options which have an exercise price of C\$3.99 (US\$3.87) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$3.99 (US\$3.86).

(9) 50,000 options which have an exercise price of C\$5.01 (US\$4.86) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$4.14 (US\$4.02).

(10) 50,000 options which have an exercise price of C\$3.89 (US\$3.78) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$4.10 (US\$3.98).

(11) 60,000 options which have an exercise price of C\$5.01 (US\$4.86) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$4.14 (US\$4.02).

(12) 20,000 options which have an exercise price of C\$4.04 (US\$3.92) vested during 2013. The TSX closing price of the Common Shares on the vesting date was C\$4.42 (US\$4.29).

## PENSION PLAN BENEFITS

The Corporation does not have any defined benefit or actuarial plans for the NEOs.

## COMPENSATION RISK MANAGEMENT

As part of its annual review, the HRCC evaluated potential risks related to the Corporation's compensation policies and practices. The Corporation's annual corporate and personal objectives which form the basis of the compensation plan evaluations are carefully considered by the HRCC with a view of establishing a realistic and balanced set of objectives together with a range of achievement level factors that both encourage initiative and discourage under performance in areas important to the Corporation and do not encourage excessive risk-taking by senior management.

Below are some of the risk mitigating features of the Corporation’s executive compensation programs:

- consistent program design among all executive officers
- a mix of performance measures are used in the short-term, and granting of long-term incentive awards provides a balanced performance focus
- capped payout opportunity within the short-term incentive plan of 1.5x the target STI% which is subject to Board discretion
- awards are granted annually
- stock options vest over three years and have a five year term

The HRCC determined that there are no risks arising from the Corporation’s compensation policies and practices that are likely to have a material adverse effect on the Corporation.

#### **MANAGEMENT’S ROLE IN COMPENSATION DECISION MAKING**

The CEO and Vice President, Human Resources provide information to the HRCC as required on compensation risk management and also provide annual recommendations to the HRCC on base salary adjustments, short-term and long-term incentives for the executives and other members of management, excluding the CEO. The HRCC ultimately recommends to the Board any base salary adjustments, short-term and long-term incentive awards for the executives, including the CEO, based on the results of the key strategic deliverables, the results of each executive’s KPIs and in context of total direct compensation. As part of final determination of the total direct compensation, the HRCC also refers to compensation to the executives among the selected peer group.

The CEO is not a member of the HRCC. He provides input on the performance of senior executives and managers. Discussions affecting the CEO’s remuneration package, either directly or indirectly, are held in camera without management present.

#### **COMPENSATION CONSULTANTS**

During 2013, the Corporation, with the assistance of Mercer, undertook a further review of long-term incentive vehicles to ensure that the Corporation remains competitive in rewarding executives and senior management. Mercer provided general information and benchmarking information on long-term incentive plans and provided general information on other forms of long-term incentive and employee share purchase programs. Based on this review, the HRCC concluded, to remain competitive, more flexibility in the range of long-term incentive awards should be considered. The HRCC believes the Corporation requires more ways to provide competitive compensation. The HRCC considered a number of alternatives and has recommended adoption of the SU Plan, adoption of the New ISOP and ratification of certain previously granted options. The SU Plan is designed to diversify the nature of long-term compensation provided to executives and to provide a retention incentive. If the SU Plan/ISOP Resolution is approved by shareholders at this Meeting, the Corporation anticipates incorporating SUs as part of its long-term incentive plan commencing in 2015.

In January 2014, the Corporation engaged Mercer to perform further benchmarking and other executive compensation reviews to aid in determining the structure of a new equity compensation plan. (See the heading “Opportunities for 2015 Compensation” below for further details).

<b>Advisor</b>	<b>Type of Work</b>	<b>2013 Fees (C\$)</b>	<b>2012 Fees (C\$)</b>
Mercer	Executive Compensation-Related Fees	91,051	133,000 <sup>(1)</sup>
	All Other Fees	-	-
Hugessen	Executive Compensation-Related Fees	20,405	7,200
	All Other Fees	-	-

(1) Full review of corporate performance measurement and short-term and long-term incentive systems with benchmarking and mine STI review, 2012 average exchange rates were used.

## **TERMINATION AND CHANGE OF CONTROL BENEFITS**

### **INTRODUCTION**

Each of the Corporation's NEOs as of December 31, 2013 is a party to an indefinite term employment agreement with the Corporation that sets forth certain instances where payments and other obligations arise on the termination of their employment or in the situation of a change of control of the Corporation.

### **TERMINATION WITHOUT CAUSE**

The employment agreements for each of the NEOs contain specific terms and conditions describing the Corporation's obligations if any of these NEOs had their employment terminated without cause. If those agreements are terminated by the Corporation without cause, or if the agreement is terminated by certain of these executive officers for good reason then payment of salary and, in some cases, short-term incentives, long-term incentives and benefits will be due for the appropriate notice period as provided in their respective contracts.

Following the termination of Mr. Conibear's employment by the Corporation without cause, the Corporation will be required to pay this NEO on termination 24 months' base salary, plus two times the average of the bonus received in the previous two years. Mr. Conibear will also be entitled to be paid the long-term incentive for the year in which the termination occurs with the PSAR valuation determined on the termination date as the increase, if any, of the value of those shares on the termination date compared to the pricing date. The NEO shall also continue to participate in the Corporation's health and medical benefits for 24 months following the termination date.

Following the termination of Ms. Inkster's employment by the Corporation without cause, the Corporation will be required to pay this NEO at termination 12 months' base salary. In the case of a termination of her employment in the event of redundancy, the Corporation will also provide 12 months' bonus calculated as the average over the last two performance years and 12 months' benefits.

Following the termination of Mr. McRae's employment by the Corporation without cause, Mr. McRae will receive an amount equal to the Salary that would have been payable to him had his employment with the Corporation continued for a period of 12 months after the termination date in full satisfaction of any notice periods, severance or other payments to which he may be entitled to under statute or otherwise in respect of the termination of his employment with the Corporation. "Salary" is defined as base salary, plus pro-rated bonus averaged over the last two performance years, and pro-rated benefits.

Following the termination of Ms. Lee Harrs' employment by the Corporation without cause, Ms. Lee Harrs will receive an amount equal to the Salary that would have been payable to her had her employment with the Corporation continued for a period of 12 months after the termination date in full satisfaction of any notice periods, severance or other payments to which she may be entitled to under statute or otherwise in respect of the termination of her employment with the Corporation. "Salary" is defined as base salary, plus pro-rated bonus averaged over the last two performance years, and pro-rated benefits.

Following the termination of Mr. Gatley's employment by the Corporation without cause, Mr. Gatley is entitled to receive two weeks' notice or payment in lieu of notice plus one week for each additional year of employment to a maximum of 12 weeks' (the "Notice Period Payment"). Currently, Mr. Gatley will receive an amount equal to 12 weeks Salary that would have been payable to him had his employment with the Corporation continued for a period of 12 weeks after the termination date in full satisfaction of any notice periods, severance or other payments to which he may be entitled to under statute or otherwise in respect of the termination of his employment with the Corporation. "Salary" is defined as base salary. Furthermore, subject to certain provisions of Mr. Gatley's employment agreement, the Corporation, at its sole discretion, can provide written notice to Mr. Gatley requiring him not to perform any further services ("Garden Leave"). In the event that the Corporation required Mr. Gatley to be on Garden Leave, Mr. Gatley will receive up to six months' Salary, inclusive of the Notice Period Payment. The amount up to six months' Salary is determined at the sole discretion of the Corporation.

For certain of the NEOs, the Corporation may elect to terminate their employment for disability in which case additional payments may be required.

Other than as set forth above, the Corporation has no compensatory plan, contract or arrangement where a NEO is entitled to receive compensation in the event of resignation, retirement or other termination of the NEO's employment with the Corporation.



The following table provides details regarding the estimated incremental payments from the Corporation to the NEOs assuming termination of employment without cause on December 31, 2013.

NEO	Base Salary (US\$)	STIP (US\$)	Value of Benefits (US\$)	Equity (US\$) <sup>(1)</sup>	Total (US\$)
Paul Conibear CEO	1,500,195	1,890,858	82,705	300,000 <sup>(2)</sup>	<b>3,773,758</b>
Marie Inkster CFO	396,051	338,232	37,840	132,000	<b>904,123</b>
Paul McRae SVP, Projects	505,217	282,131	63,217	128,000	<b>978,565</b>
Julie Lee Harrs SVP, Corporate Development	350,046	232,846	29,085	95,000	<b>706,977</b>
Stephen Gatley VP, Technical Services	92,973	-	-	76,400	<b>169,373</b>

(1) Values represent the gain on all vested options, assuming a TSX closing price on December 31, 2013 of C\$4.60 (US\$4.32). Based on the closing exchange rate of US\$0.9402:C\$1.00 on December 31, 2013.

(2) Value includes 500,000 Phantom Share Appreciation Rights.

## CHANGE OF CONTROL

In the majority of the employment agreements of the NEOs and in the case of change of control of the Corporation, certain of the NEOs have a commitment that they may not terminate their employment until the expiry of a 6 month period following the change of control, except in the case of a reduction in the NEO's compensation (other than any year-over-year change in their awards under incentive compensation plans) or a material change in the NEO's place of employment. During the period 6 to 12 months following a change of control, the NEO may terminate his or her employment with the Corporation, in which case the termination payments below would apply.

Within 12 months of a change of control of the Corporation, if Mr. Conibear is terminated without cause or if a triggering event occurs, such as a significant diminution of this NEO's duties or responsibilities, and the NEO elects to terminate his employment, this NEO will be entitled to receive the termination provisions of his employment agreement for termination without cause.

After the expiration of the 6-month period following a change of control of the Corporation, Ms. Inkster may terminate her employment with the Corporation and will be entitled to a termination payment of 12 months' base salary. If this election is not made within 12 months of the date of the change of control then this right will lapse.

After the expiration of the 6-month period following a change of control of the Corporation, Ms. Lee Harrs may be eligible to terminate her employment with the Corporation and be entitled to a termination payment of 12 months' Salary. "Salary" is defined as base salary, plus pro-rated bonus averaged over the last two performance years, and pro-rated benefits. If this election is not made within 12 months of the date of the change of control then this right will lapse.

If at any time Mr. Gatley's employment is terminated by reason of any reconstruction, amalgamation or sale of the Corporation and Mr. Gatley is not offered employment with terms that are no less favourable to any material extent than the terms of his current employment agreement, Mr. Gatley is entitled to receive payment in lieu of an extended notice period of 24 months' Salary, which are inclusive of any other payments including notice that may be payable under his employment agreement. "Salary" is defined as base salary, pension contributions and other benefits in kind.

The following table provides details regarding the estimated incremental payments from the Corporation to the NEOs assuming a change of control of the Corporation on December 31, 2013.

<b>NEO</b>	<b>Severance: Base Salary (US\$)</b>	<b>Severance: STIP (US\$)</b>	<b>Severance: Value of Benefits (US\$)</b>	<b>Equity (US\$)<sup>(1)</sup></b>	<b>Total (US\$)</b>
Paul Conibear CEO	1,500,195	1,890,858	82,705	300,000 <sup>(2)</sup>	<b>3,773,758</b>
Marie Inkster CFO	396,051	-	2,564	198,000	<b>596,615</b>
Paul McRae SVP, Projects	-	-	-	192,000	<b>192,000</b>
Julie Lee Harrs SVP, Corporate Development	350,046	232,846	29,085	142,500	<b>754,477</b>
Stephen Gatley VP, Technical Services	805,769	-	55,493	130,200	<b>991,462</b>

(1) In accordance with the ISOP, all options vest and become exercisable following a change of control. Values represent the gain on all vested and unvested options, assuming a TSX closing price on December 31, 2013 of C\$4.60 (US\$4.32). Based on the closing exchange rate of US\$0.9402:C\$1.00 on December 31, 2013.

(2) Value includes 500,000 Phantom Share Appreciation Rights.

## DIRECTOR COMPENSATION

### DIRECTOR COMPENSATION TABLE

The following table provides information regarding compensation paid to the Corporation's non-executive directors during the financial year ended December 31, 2013:

Name	Fees earned (US\$)	Share-based awards (US\$)	Option-based awards (US\$)	Non-equity incentive plan compensation (US\$)	Pension value (US\$)	All other Compensation (US\$)	Total (US\$)
Lukas H. Lundin	194,200	-	-	-	-	-	194,200
Colin K. Benner <sup>(1)</sup>	48,550	-	-	-	-	-	48,550
Donald K. Charter	121,375	-	-	-	-	-	121,375
John H. Craig	92,245	-	-	-	-	-	92,245
Brian D. Edgar	101,955	-	-	-	-	-	101,955
Peter C. Jones <sup>(2)</sup>	27,094	-	-	-	-	-	27,094
Dale C. Peniuk <sup>(3)</sup>	125,527	-	-	-	-	-	125,527
William A. Rand	135,940	-	-	-	-	-	135,940

(1) Mr. Benner ceased to be a director and Chair of the Health, Safety, Environment and Community Committee effective July 1, 2013.

(2) Mr. Jones was appointed as a director effective September 20, 2013 and he was appointed as a member of the Health, Safety, Environment and Community Committee. On October 29, 2013, he was appointed Chair of the Health, Safety, Environment and Community Committee and on December 4, 2013, he was appointed as a member of the HRCC.

(3) Mr. Peniuk ceased to be a member of the HRCC effective December 4, 2013.

The CEO, Mr. Conibear, who also acts as a director of the Corporation, does not receive any compensation for services as a director.

For the year ended December 31, 2013, the Chairman of the Board received annual remuneration in the amount of C\$200,000. Each non-executive director received annual base remuneration of C\$90,000. The Chair of the Audit Committee received annual remuneration of C\$25,000 and each committee member received annual remuneration of C\$15,000. The Chair of the HRCC received annual remuneration of C\$20,000 and each committee member received annual remuneration of C\$10,000. The Chair of each of the other Board committees received annual remuneration of C\$10,000 and each committee member received annual remuneration of C\$5,000. The lead director received annual remuneration of C\$25,000. All of these amounts were paid in monthly installments.

During 2013, the HRCC performed internal benchmarking for director compensation. The benchmarking concluded that the directors' fees were below the median of the 2013 peer group and therefore adjustments were recommended and approved by the Board to align the Corporation's director compensation with its peers. Effective January 1, 2014, the Chairman of the Board's annual remuneration was increased from C\$200,000 to C\$235,000 and each non-executive directors' annual base remuneration was increased from C\$90,000 to C\$120,000. All other director-related fees, as noted above, remain unchanged for 2014.

Non-executive directors do not receive any stock options or short-term incentives.

Namdo Management Services Ltd. ("Namdo"), a private corporation owned by Mr. Lukas H. Lundin, Chairman and a director of the Corporation, was paid or accrued the amount of approximately C\$264,000 for services rendered during the fiscal year ended December 31, 2013, plus reimbursement of out-of-pocket expenses at cost. Namdo has approximately 10 employees and provides administrative and corporate development services to a number of public companies. Mr. Lundin received compensation from Namdo for the months of January and February 2013; however, there is no basis for allocating the amounts paid by Namdo to Mr. Lundin as he did not receive such compensation primarily in respect of his personal services to the Corporation. Since March 1, 2013, Mr. Lundin has not been and will not be in the future compensated by Namdo.

During the most recently completed financial year, an amount of approximately C\$1.4 million was paid or accrued to the law firm of Cassels Brock & Blackwell LLP, of which Mr. John H. Craig, a director of the Corporation, is a partner, for legal services rendered to the Corporation.

No other director was compensated either directly or indirectly by the Corporation and its subsidiaries during the most recently completed financial year for services as consultants or experts.

## DIRECTOR OUTSTANDING SHARE-BASED AWARDS AND OPTION-BASED AWARDS

No share-based or option-based awards were outstanding for directors at December 31, 2013.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the directors or executive officers of the Corporation, proposed nominees for directors, or associates or affiliates of said persons, have been indebted to the Corporation at any time since the beginning of the last completed financial year of the Corporation.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLAN

The Corporation's ISOP, as described above, provides for the grant of non-transferable stock options to permit the purchase of the Common Shares by the participants of the ISOP.

### Equity Compensation Plan Information as of December 31, 2013:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options (C\$)	Number of securities remaining available for future issuance under the plan
Equity Compensation Plans approved by security holders	9,880,778	\$4.38	2,243,110
Equity Compensation Plans not approved by security holders	-	-	-
<b>Total</b>	<b>9,880,778</b>	<b>\$4.38</b>	<b>2,243,110</b>

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During 2013, the Corporation maintained liability insurance for its directors and officers acting in their respective capacities in an aggregate amount of C\$65,000,000 against liabilities incurred by such persons as directors and officers of the Corporation and its subsidiaries, except where the liability relates to such person's failure to act honestly and in good faith with a view to the best interests of the Corporation. The annual premium paid in 2013 by the Corporation for this insurance in respect of the directors and officers as a group was US\$223,688. No premium for this insurance was paid by the individual directors and officers. The insurance contract underlying this insurance does not expose the Corporation to any liability in addition to the payment of the required premium.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

### INTRODUCTION

This statement of corporate governance practices is made with reference to National Instrument 58-101, *Disclosure of Corporate Governance Practices* and to National Policy 58-201, *Corporate Governance Guidelines* ("Governance Guidelines") which are initiatives of the Canadian Securities Administrators. In accordance with the Governance Guidelines, the Corporation has chosen to disclose its system of corporate governance in this Circular. The following text sets forth the steps taken by the Corporation in order to comply with the Governance Guidelines and its system of corporate governance currently in force.

### BOARD OF DIRECTORS

The Board has considered the relationship and status of each director. As of the date hereof, the Board currently consists of 8 directors, a majority of whom are independent.

The independent directors are Donald K. Charter, Brian D. Edgar, Peter C. Jones, Dale C. Peniuk and William A. Rand. Each of these directors do not have any material business relationships with the Corporation and are therefore considered independent under the Governance Guidelines and otherwise independent under National Instrument 52-110 - *Audit Committees* ("NI 52-110") for the purposes of sitting on the Corporation's Audit Committee. John H. Craig is also considered independent. While Mr. Craig's law firm provides legal services for the Corporation, the amount of the fees charged by Mr. Craig's law firm for such legal services are considered insignificant relative to the overall fee income of his law practice. Mr. Craig is, however, not eligible to be a member of the Audit Committee because

he is a partner of a law firm that provides legal services to the Corporation and is therefore deemed not to be independent pursuant to NI 52-110 for the purposes of the Audit Committee.

The non-independent directors of the Board are Paul K. Conibear and Lukas H. Lundin. Mr. Conibear is not independent because of his current role as President and Chief Executive Officer of the Corporation. Mr. Lundin, Chairman of the Board, is not considered independent due to his direct involvement with management of the Corporation.

The Board regularly sets aside a portion of each Board meeting to meet in camera without management and non-independent directors present. In addition, the mandates of the Board and the Corporate Governance and Nominating Committee require that procedures be implemented at such times as are desirable or necessary to enable the Board to function independently of management and to facilitate open and candid discussion among its independent directors.

The Board has appointed William A. Rand, an independent director, as lead director to act as effective leader of the Board, to ensure that the Board's agenda will enable it to successfully carry out its duties and to provide leadership for the Board's independent directors. As lead director, Mr. Rand, among other things, presides at meetings of the Board and of the Corporation's shareholders, ensures that the Board is alert to its obligations and responsibilities and that it fully discharges its duties, communicates with the Board to keep the Board up to date on all major developments, and acts as a liaison between the Board and management of the Corporation.

### Directors' Attendance Record at Board and Board Committee Meetings

Below is the attendance record of each director for all Board and Board committee meetings held during the period from January 1, 2013 to December 31, 2013:

Directors	Board		Audit		Human Resources/ Compensation		Corporate Governance and Nominating		Health, Safety, Environment and Community	
	# of meetings attended	Total # of meetings <sup>(1)</sup>	# of meetings attended	Total # of meetings <sup>(1)</sup>	# of meetings attended	Total # of meetings <sup>(1)</sup>	# of meetings attended	Total # of meetings <sup>(1)</sup>	# of meetings attended	Total # of meetings <sup>(1)</sup>
Colin K. Benner <sup>(2)</sup>	3	6	-	-	-	-	-	-	1	2
Donald K. Charter	9	9	5	5	8	8	-	-	-	-
Paul K. Conibear	9	9							4	4
John H. Craig	9	9	-	-	-	-	4	4	-	-
Brian D. Edgar	9	9	-	-	-	-	4	4	4	4
Peter C. Jones <sup>(3)</sup>	2	2	-	-	Nil	Nil	-	-	1	1
Lukas H. Lundin	8	9	-	-	-	-	-	-	-	-
Dale C. Peniuk <sup>(4)</sup>	7	7	5	5	8	8	4	4	-	-
William A. Rand	9	9	5	5	8	8	-	-	-	-

<sup>(1)</sup> Represents number of meetings the Director was eligible to attend.

<sup>(2)</sup> Mr. Benner ceased to be a director and Chair of the Health, Safety, Environment and Community Committee effective July 1, 2013. Mr. Benner was absent from three Board meetings as a result of poor health.

<sup>(3)</sup> Mr. Jones was appointed as a director effective September 20, 2013 and he was appointed as a member of the Health, Safety, Environment and Community Committee. On October 29, 2013, he was appointed Chair of the Health, Safety, Environment and Community Committee and on December 4, 2013, he was appointed as a member of the HRCC.

<sup>(4)</sup> Mr. Peniuk ceased to be a member of the HRCC effective December 4, 2013.

## Directors' Other Board Memberships

Several of the directors of the Corporation serve as directors of other reporting issuers. Currently, the following directors serve on the boards of directors of other publicly traded companies as listed below:

Director	Public Company Board Membership
Donald K. Charter	Adriana Resources Inc. (TSX-V), Dundee Real Estate Investment Trust (TSX), IAMGOLD Corporation (TSX)
Paul K. Conibear	Lucara Diamond Corp. (TSX), NGEx Resources Inc. (TSX)
John H. Craig	Africa Oil Corp. (TSX-V), BlackPearl Resources Inc. (TSX), Consolidated HCI Holdings Corp. (TSX), Corsa Coal Corp. (TSX-V), Denison Mines Corp. (TSX/NYSE MKT)
Brian D. Edgar	BlackPearl Resources Inc. (TSX), Denison Mines Corp. (TSX-NYSE MKT), Lucara Diamond Corp. (TSX), ShaMaran Petroleum Ltd. (TSX-V), Silver Bull Resources, Inc. (TSX/NYSE MKT)
Peter C. Jones	Century Aluminum Co. (NASDAQ), Royal Nickel Corporation (TSX)
Lukas H. Lundin	Denison Mines Corp. (TSX/NYSE MKT), Lucara Diamond Corp. (TSX), Fortress Minerals Corp. (TSX-V); Lundin Petroleum AB (TSX/OMX-Nordic), NGEx Resources Inc. (TSX)
Dale C. Peniuk	Argonaut Gold Inc. (TSX), Capstone Mining Corp. (TSX)
William A. Rand	Denison Mines Corp. (TSX/NYSE MKT); Lundin Petroleum AB (TSX/OMX-Nordic), New West Energy Services Inc. (TSX-V), NGEx Resources Inc. (TSX)

### Legend:

TSX	Toronto Stock Exchange
TSX-V	TSX Venture Exchange
NYSE	New York Stock Exchange
NYSE MKT	NYSE MKT LLC (previously, American Stock Exchange)
OMX-Nordic	OMX Nordic Stock Exchange (previously, the Stockholm Stock Exchange)

## **BOARD MANDATE**

The Board has adopted a mandate which acknowledges its responsibility for the overall stewardship of the conduct of the business of the Corporation and the activities of management. Management is responsible for the day-to-day conduct of the business of the Corporation. The Board's fundamental objectives are to enhance and preserve long-term shareholder value, to ensure the Corporation meets its obligations on an ongoing basis and that the Corporation operates in a reliable and safe manner. In performing its functions, the Board considers the legitimate interests that its other stakeholders, such as employees, customers and communities, may have in the Corporation. In overseeing the conduct of the business, the Board, through the CEO, sets the standards of conduct for the Corporation.

The Board operates by delegating certain of its authorities to management and by reserving certain powers to itself. The Board retains the responsibility for managing its own affairs including selecting its Chairman and Lead Director, nominating candidates for election to the Board and constituting committees of the Board. Subject to the Articles and By-Laws of the Corporation and the *Canada Business Corporations Act*, the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

Under its mandate, the Board is required to oversee the Corporation's communications policy. The Board has put structures in place to ensure effective communication between the Corporation, its shareholders and the public. The Corporation has established a Disclosure and Confidentiality Policy. The Board monitors the policies and procedures that are in place to provide for effective communication by the Corporation with its shareholders and with the public generally, including effective means to enable shareholders to communicate with senior management and the Board. The Board also monitors the policies and procedures that are in place to ensure a strong, cohesive, sustained and positive image of the Corporation with shareholders, governments and the public generally. Significant shareholder concerns are brought to the attention of management or the Board. Shareholders are informed of corporate developments by the issuance of timely press releases which are concurrently posted to the Corporation's website and are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The full text of the Board's mandate is attached hereto as Appendix A.

## **POSITION DESCRIPTIONS**

The Board has adopted a written position description for each of the Chairman, Vice Chairman, Lead Director, the Chair of each Board committee, and the President and CEO.

### **Chairman, Vice Chairman and Lead Director**

The Chairman of the Board is currently Mr. Lundin and the lead director is currently Mr. Rand. The Board has established a written position description for the Chairman, Vice Chairman and the Lead Director of the Board who are responsible for, among other things, presiding at meetings of the Board and shareholders, providing leadership to the Board, managing the Board, acting as liaison between the Board and management, and representing the Corporation to external groups including shareholders, local communities and governments.

### **Chair of the Audit Committee**

The Chair of the Audit Committee is currently Mr. Peniuk. The Board has established a written position description for the Chair of the Audit Committee, who is responsible for, among other things, acting as liaison between the Audit Committee, the Board and management, chairing all meetings of the Audit Committee, ensuring that meetings of the Audit Committee are held as required, coordinating the attendance of the Corporation's external auditors at meetings of the Audit Committee, and reporting regularly to the Board on all matters within the authority of the Audit Committee and in particular, the recommendations of the Audit Committee in respect of the Corporation's quarterly and annual financial statements.

### **Chair of the Corporate Governance and Nominating Committee**

The Chair of the Corporate Governance and Nominating committee is currently Mr. Edgar. The Board has established a written position description for the Chair of the Corporate Governance and Nominating Committee, who is responsible for, among other things, acting as liaison between the Corporate Governance and Nominating Committee and the Board, chairing all meetings of the Corporate Governance and Nominating Committee, proposing nominees for the Board and each committee of the Board, ensuring that the meetings of the Corporate Governance and Nominating Committee are held as required, monitoring the preparation of the statement of corporate governance to be given to the shareholders of the Corporation each year, and reporting regularly to the Board on matters within the authority of the Corporate Governance and Nominating Committee.

### **Chair of the Health, Safety, Environment and Community Committee**

The Chair of the Health, Safety, Environment and Community Committee is currently Mr. Jones. The Board has established a written position description for the Chair of the Health, Safety, Environment and Community Committee, who is responsible for, among other things, acting as liaison between the Health, Safety, Environment and Community Committee, the Board and management, chairing all meetings of the Health, Safety, Environment and Community Committee, ensuring that the meetings of the Health, Safety, Environment and Community Committee are held as required, and reporting regularly to the Board on matters within the authority of the Health, Safety, Environment and Community Committee.

### **Chair of the Human Resources/Compensation Committee**

The Chair of the HRCC is currently Mr. Charter. The Board has established a written position description for the Chair of the HRCC, who is responsible for, among other things, acting as liaison between the HRCC, the Board and the CEO, chairing all meetings of the HRCC, ensuring that the meetings of the HRCC are held as required, overseeing the process whereby annual salary, bonus and other benefits of the Corporation's executive officers are reviewed assessed and revised in accordance with the recommendations of the CEO, reviewing the directors' compensation and reporting regularly to the Board on matters within the authority of the HRCC.

### **President and Chief Executive Officer**

The President and Chief Executive Officer is currently Mr. Conibear. The Board has established a written position description for the President and Chief Executive Officer, who is responsible for, among other things, the day to day management of the business and the affairs of the Corporation. The President and Chief Executive Officer is also responsible for assisting the Chairman of the Board, the Lead Director and the chairs of the Board committees to develop agendas for the Board and Board committee meetings to enable these entities to carry out their responsibilities, reporting to the Board in an accurate, timely and clear manner on all aspects of the business that are relevant so that the directors may carry out their responsibilities, making recommendations to the Board on those matters on which the Board is required to make decisions, ensuring that the financial statements and other financial information contained in

regulatory filings and other public disclosure fairly present the financial condition of the Corporation, ensuring the integrity of the financial and other internal control and management information systems and risk management systems, the promoting of ethical conduct within the Corporation and its subsidiaries, recruiting of senior management as may be directed by the Board, senior management development and succession, acting as the principal interface between the Board and senior management, promoting a work environment that is conducive to attracting, retaining and motivating a diverse group of high-quality employees, promoting continuous improvement in the timeliness, quality, value and results of the work of the employees of the corporation, and speaking for the Corporation in its communications to its shareholders and the public.

### **ORIENTATION AND EDUCATION**

The Corporation provides new directors with an orientation package upon joining the Corporation that includes financial and technical information relevant to the Corporation's operations, and periodically arranges for project site visits to familiarize members of the Board with the Corporation's operations and to ensure that their knowledge and understanding of the Corporation's business remains current. During 2013, the Board conducted a tour of Neves-Corvo in Portugal and the Eagle Project in Michigan, USA, during which time the directors viewed both the underground and above ground facilities and were able to meet with on-site personnel to further acquaint themselves with these key mining assets.

Board members are encouraged to communicate with management and others, to keep themselves current with industry trends and development, and to attend related industry seminars. Board members have full access to the Corporation's records and receive a Monthly Report discussing the operations, health and safety matters, sales of product, projects and investments, financial summary, exploration, human resources, and new business and corporate development. The Corporation's legal counsel also provides directors and senior officers with summary updates of any developments relating to the duties and responsibilities of directors and officers and to any other corporate governance matters. In addition, the Board will provide any further continuing education opportunities for all directors, where required, so that individual directors may maintain or enhance their skills and abilities as directors.

It must be noted that the Corporation through its legal counsel has commenced a series of seminars and webcasts on topics of relevance to the directors. Recent topics included an in-depth review of the insider trading rules as it pertains to directors and other insiders and a discussion concerning timely disclosure. Webcasts were attended widely by both directors and executives of the Corporation.

### **ETHICAL BUSINESS CONDUCT**

The Board has adopted a formal written Code of Conduct and Ethical Values Policy ("Code of Conduct") for its directors, officers and employees of Lundin Mining and its subsidiaries.

Individuals governed by the Code of Conduct are required to disclose in writing all business, commercial or financial interests or activities which might reasonably be regarded as creating an actual or potential conflict with their duties. Individuals must avoid all situations in which their personal interests conflict or may conflict with their duties to the Corporation or with the economic interest of the Corporation. All business transactions with individuals, corporations or other entities that could potentially, directly or indirectly, be considered to be a related party, must be approved by the Board regardless of the amount involved.

Directors, officers and employees are encouraged to report violations of the Code of Conduct on a confidential and, if preferred, anonymous basis to senior management, the Board or the Audit Committee Chair, in accordance with the complaints procedure set out in the Code of Conduct. If the Audit Committee becomes involved with the matter, the Audit Committee may request special treatment for any complaint, including the involvement of the Corporation's external auditors, legal counsel or other advisors. All complaints are required to be documented in writing by the person(s) designated to investigate the complaint, who shall report forthwith to the Chair of the Audit Committee. On an annual basis, or otherwise upon request from the Board, the Code of Conduct requires the Chair of the Audit Committee to prepare a written report to the Board summarizing all complaints received during the previous year, all outstanding unresolved complaints, how such complaints are being handled, the results of any investigations and any corrective actions taken.

The Code of Conduct is available on the Corporation's website and has been filed and is accessible through SEDAR on the Corporation's profile at [www.sedar.com](http://www.sedar.com).

The Audit Committee has also established a Fraud Reporting and Investigation (Whistleblower) Policy to encourage employees, officers and directors to raise concerns regarding questionable accounting, internal controls, auditing or other fraudulent matters, on a confidential basis free from discrimination, retaliation or harassment.



## **NOMINATION OF DIRECTORS**

The Board has established a Corporate Governance and Nominating Committee composed of independent directors which is responsible for the recommendation of director nominees that will best serve the Corporation based upon the competencies and skills necessary for the Board as a whole to possess, the competencies and skills necessary for each individual director to possess, and whether the proposed nominee to the Board will be able to devote sufficient time and resources to the Corporation. To encourage an objective nomination process, the independent directors conduct a discussion of the nominees among themselves. The Corporate Governance and Nominating Committee will also review, on a regular basis, the size of the Board and will consider the number of directors required to carry out the Board's duties effectively.

The Corporation recognizes that improving diversity on the Board and among its senior executives presents the Corporation with an opportunity to develop a competitive advantage by ensuring that the Corporation appeals to potential employees from the broadest possible talent pool. To that end, while the focus always has been, and will continue to be, to recruit and appoint the most qualified individuals, the Corporation proposes to make a greater effort to locate qualified women as candidates for nomination to the Board. Women are well represented in senior executive positions within the Corporation and its subsidiary corporations.

The Board adopted a majority voting policy as part of its commitment to best practices for corporate governance. The policy is described above under "Election of Directors and Information Regarding Proposed Directors".

## **COMPENSATION OF DIRECTORS AND OFFICERS**

The extent and level of directors' and officers' compensation is determined by the Board after considering the recommendations of the HRCC which is composed entirely of independent directors. The HRCC has been mandated to review the adequacy and form of the compensation of directors and officers to ensure that such compensation realistically reflects the responsibilities and risks involved in being an effective director or officer in the Corporation and the mining industry. In making recommendations to the Board in respect of compensation to directors, this committee considers the time commitment, risks and responsibilities involved in being a director with the Corporation as well as market data pertinent to the compensation paid to directors of peer group companies.

Please review the section in this Circular titled "Statement of Executive Compensation" for further information concerning director compensation.

## **BOARD COMMITTEES**

To assist the Board in its responsibilities, the Board has established four standing committees including the Audit Committee, the Corporate Governance and Nominating Committee, the Health, Safety, Environment and Community Committee and the HRCC. Each committee has a written mandate and reviews its mandate annually.

### **AUDIT COMMITTEE**

The Audit Committee ("AC") is comprised of three directors. The current members of the AC are Dale C. Peniuk (Chair), Donald K. Charter and William A. Rand, all of whom are independent and financially literate for the purposes of NI 52-110.

The AC oversees the accounting and financial reporting processes of the Corporation and its subsidiaries and all audits and external reviews of the financial statements of the Corporation, on behalf of the Board, and has general responsibility for oversight of internal controls, and accounting and auditing activities of the Corporation and its subsidiaries. All auditing services and non-audit services to be provided to the Corporation by the Corporation's auditors are pre-approved by the AC. The AC reviews, on a regular basis, any reports prepared by the Corporation's external auditors relating to the Corporation's accounting policies and procedures, as well as internal control procedures and systems. The AC is also responsible for reviewing all financial information, including annual and quarterly financial statements, prepared for securities commissions and similar regulatory bodies prior to filing or delivery of the same. The AC also oversees the annual audit process, the quarterly review engagements, the Corporation's internal accounting controls, the Corporation's Fraud Reporting and Investigation (Whistleblower) Policy, any complaints and concerns regarding accounting, internal control or audit matters, and the resolution of issues identified by the Corporation's external auditors. The AC recommends to the Board annually the firm of independent auditors to be nominated for appointment by the shareholders at the shareholders annual meeting.

The Board appoints the members of the AC for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the shareholders of the Corporation. The Board may at any time remove or replace any member of the AC and may fill any vacancy in the AC.

The AC meets a minimum of 4 times a year. The AC has access to such officers and employees of the Corporation and to such information respecting the Corporation and may engage independent counsel and advisors at the expense of the Corporation, all as it considers to be necessary or advisable in order to perform its duties and responsibilities.

Additional information relating to the Audit Committee, including a copy of the Audit Committee's mandate, is provided in the Corporation's Annual Information Form for the year ended December 31, 2013, a copy of which is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

#### **HUMAN RESOURCES/COMPENSATION COMMITTEE**

The HRCC consists of three directors, all of whom are independent within the meaning of the Governance Guidelines. The current members of the HRCC are Donald K. Charter (Chair), Peter C. Jones and William A. Rand. Mr. Peter C. Jones replaced Mr. Dale Peniuk as a member of the HRCC on December 4, 2013.

The principal purpose of the HRCC is to implement and oversee human resources and compensation policies approved by the Board of the Corporation. The duties and responsibilities of the HRCC include recommending to the Board the annual salary, bonus and other benefits, direct and indirect, for the CEO, after considering the recommendations of the CEO approving the compensation for the Corporation's other executive officers, approving other human resources and compensation policies and guidelines, ensuring management compensation is competitive to enable the Corporation to continue to attract individuals of the highest calibre, and recommending the adequacy and form of director compensation to the Board.

The Board appoints the members of the HRCC for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the shareholders of the Corporation. The Board may at any time remove or replace any member of the HRCC and may fill any vacancy in the HRCC.

The HRCC meets regularly each year on such dates and at such locations as the Chair of the HRCC determines. The HRCC has access to such officers and employees of the Corporation and to such information respecting the Corporation and may engage independent counsel or advisors at the expense of the Corporation, all as it considers to be necessary or advisable in order to perform its duties and responsibilities.

#### **CORPORATE GOVERNANCE AND NOMINATING COMMITTEE**

The Corporate Governance and Nominating Committee ("CGNC") consists of three directors, all of whom are independent within the meaning of the Governance Guidelines. The current members of the CGNC are Brian D. Edgar (Chair), John H. Craig and Dale C. Peniuk.

The principal purpose of the CGNC is to provide a focus on corporate governance that will enhance the Corporation's performance, and to ensure, on behalf of the Board and shareholders that the Corporation's corporate governance system is effective in the discharge of its obligations to the Corporation's stakeholders. The duties and responsibilities of the CGNC include the development and monitoring of the Corporation's overall approach to corporate governance issues and, subject to approval by the Board, implementation and administration of a system of corporate governance which reflects superior standards of corporate governance practices, recommendation to the Board a slate of nominees for election as directors of the Corporation at the Annual Meeting of Shareholders, reporting annually to the Corporation's shareholders, through the Corporation's annual management information circular or annual reports to shareholders, on the Corporation's system of corporate governance and the operation of its system of governance, analyzing and reporting annually to the Board the relationship of each director to the Corporation as to whether such director is an independent director or not an independent director, and advising the Board or any of the committees of the Board of any corporate governance issues which the CGNC determines ought to be considered by the Board or any such committee.

The Board appoints the members of the CGNC for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the shareholders of the Corporation. The Board may at any time remove or replace any member of the CGNC and may fill any vacancy in the CGNC.

The CGNC meets regularly each year on such dates and at such locations as the Chair of the CGNC determines. The CGNC has access to such officers and employees of the Corporation and to such information respecting the Corporation and may engage independent counsel and advisors at the expense of the Corporation, all as it considers to be necessary or advisable in order to perform its duties and responsibilities.

## **HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY COMMITTEE**

The Health, Safety, Environment and Community Committee (“HSEC”) consists of three directors. The current members of the HSEC are Peter C. Jones (Chair), Paul K. Conibear and Brian D. Edgar. Mr. Peter C. Jones became a member of the HSEC on September 20, 2013 and Chair on October 29, 2013.

The principal purpose of the HSEC is to assist the Board in its oversight of health, safety, environment and community risks, compliance with applicable legal and regulatory requirements associated with health, safety, environmental and community matters, performance in relation to health, safety, environmental and community matters, the performance and leadership of the health, safety, environment and community function in the Corporation, and external annual reporting in relation to health, safety, environmental and community matters.

The Board appoints the members of the HSEC for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the shareholders of the Corporation. The Board may at any time remove or replace any member of the HSEC and may fill any vacancy in the HSEC.

The HSEC meets a minimum of 4 times a year. The HSEC has access to such officers and employees of the Corporation and to such information respecting the Corporation and may engage independent counsel and advisors at the expense of the Corporation, all as it considers to be necessary or advisable in order to perform its duties and responsibilities.

## **ASSESSMENTS OF THE BOARD**

In accordance with the Board’s mandate, the Board, through the CGNC, undertakes formal Board evaluations of itself, its committees and also of each individual director’s effectiveness and contribution on an annual basis.

The CGNC prepares and delivers an annual Board Effectiveness Assessment questionnaire to each member of the Board. The questionnaire is divided into four parts dealing with: (i) Board Responsibility; (ii) Board Operations; (iii) Board Effectiveness; and (iv) Individual Assessments. Each director must complete the entire questionnaire including the ranking of each director and also complete a personal assessment. The CGNC reviews and considers the responses received and makes a final report, with recommendations, if any, to the Board. This process occurs prior to the consideration by the CGNC of nominations for director elections at the Corporation’s annual meeting of shareholders each year.

## **MANAGEMENT CONTRACTS**

Management functions of the Corporation and its subsidiaries are performed by directors and executive officers of the Corporation and not, to any substantial degree, by any other person with whom the Corporation has contracted.

## **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

To the best of the Corporation’s knowledge, no informed person of the Corporation, proposed directors or any associate or affiliate of any of them, has or has had any material interest, direct or indirect, in any transaction or in any proposed transaction since the commencement of the Corporation’s most recently completed financial year which has materially affected or will materially affect the Corporation or any of its subsidiaries.

## **OTHER BUSINESS**

Management of the Corporation knows of no other matters which will be brought before the Meeting, other than those referred to in the Notice of Meeting. Should any other matters properly be brought before the Meeting, the Common Shares represented by the proxies solicited hereby will be voted on those matters in accordance with the best judgment of the persons voting such proxies.

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on the SEDAR website under the Corporation's profile at [www.sedar.com](http://www.sedar.com). Financial information related to the Corporation is contained in the Corporation's financial statements and related management's discussion and analysis. Copies of the Corporation's consolidated audited financial statements, related management's discussion and analysis and Annual Information Form prepared for its fiscal year ended December 31, 2013 may be obtained free of charge by writing to the Corporate Secretary of the Corporation at Suite 1500, 150 King Street West, P.O. Box 38, Toronto, Ontario, Canada, M5H 1J9 or may be accessed on the Corporation's website at [www.lundinmining.com](http://www.lundinmining.com) or under the Corporation's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **CERTIFICATE OF APPROVAL**

The contents and the distribution of this Circular have been approved by the Board.

DATED at Toronto, Ontario this 31<sup>st</sup> day of March, 2014.

### **BY ORDER OF THE BOARD OF DIRECTORS**

*Paul K. Conibear*

Paul K. Conibear,  
President, Chief Executive Officer and Director

**APPENDIX A**  
**LUNDIN MINING CORPORATION MANDATE OF THE BOARD OF DIRECTORS**

**A. INTRODUCTION**

The Board of Directors (the “Board”) has the responsibility for the overall stewardship of the conduct of the business of the Corporation and the activities of management. Management is responsible for the day-to-day conduct of the business. The Board’s fundamental objectives are to enhance and preserve long-term shareholder value, and to ensure the Corporation meets its obligations on an ongoing basis and that the Corporation operates in a reliable and safe manner. In performing its functions, the Board should also consider the legitimate interests that its other stakeholders, such as employees, customers and communities, may have in the Corporation. In overseeing the conduct of the business, the Board, through the Chief Executive Officer, shall set the standards of conduct for the Corporation.

**B. PROCEDURES AND ORGANIZATION**

The Board operates by delegating certain of its authorities to management and by reserving certain powers to itself. The Board retains the responsibility for managing its own affairs including selecting its Chair and Lead Director, nominating candidates for election to the Board and constituting committees of the Board. Subject to the Articles and By-Laws of the Corporation and the Canada Business Corporations Act (the “Act”), the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

**C. DUTIES AND RESPONSIBILITIES**

The Board’s principal duties and responsibilities fall into a number of categories which are outlined below.

**1. Legal Requirements**

- (a) The Board has the responsibility to ensure that legal requirements have been met and documents and records have been properly prepared, approved and maintained;
- (b) The Board has the statutory responsibility to:
  - (i) manage or, to the extent it is entitled to delegate such power, to supervise the management of the business and affairs of the Corporation by the senior officers of the Corporation;
  - (ii) act honestly and in good faith with a view to the best interests of the Corporation;
  - (iii) exercise the care, diligence and skill that reasonable, prudent people would exercise in comparable circumstances; and
  - (iv) act in accordance with its obligations contained in the Act and the regulations thereto, the Corporation’s Articles and By-laws, securities legislation of each province and territory of Canada, and other relevant legislation and regulations.

**2. Independence**

The Board has the responsibility to ensure that appropriate structures and procedures are in place to permit the Board to function independently of management, including endeavouring to have a majority of independent directors as well as an independent Chair or an independent Lead Director, as the term “independent” is defined in National Instrument 58-101 “Disclosure of Corporate Governance Practices”.

**3. Strategy Determination**

The Board has the responsibility to ensure that there are long-term goals and a strategic planning process in place for the Corporation and to participate with management directly or through its committees in developing and approving the mission of the business of the Corporation and the strategic plan by which it proposes to achieve its goals, which strategic plan takes into account, among other things, the opportunities and risks of the Corporation’s business.

#### 4. **Managing Risk**

The Board has the responsibility to identify and understand the principal risks of the business in which the Corporation is engaged, to achieve a proper balance between risks incurred and the potential return to shareholders, and to ensure that there are systems in place which effectively monitor and manage those risks with a view to the long-term viability of the Corporation.

#### 5. **Division of Responsibilities**

The Board has the responsibility to:

- (a) appoint and delegate responsibilities to committees where appropriate to do so; and
- (b) develop position descriptions for:
  - (i) the Board;
  - (ii) the Chairman, Vice-Chairman and Lead Director of the Board;
  - (iii) the Chair of each Board Committee;
  - (iv) the President and Chief Executive Officer;
  - (v) the Chief Financial Officer; and
  - (vi) the Chief Operating Officer;
- (c) ensure that the directors of the Corporation's subsidiaries are qualified and appropriate in keeping with the Corporation's guidelines and that they are provided with copies of the Corporation's policies for implementation by the subsidiaries.

To assist it in exercising its responsibilities, the Board hereby establishes four standing committees of the Board: the Audit Committee, the Corporate Governance and Nominating Committee, the Health, Safety, Environment and Community Committee and the Human Resources/Compensation Committee. The Board may also establish other standing committees from time to time.

Each committee shall have a written mandate that clearly establishes its purpose, responsibilities, members, structure and functions. Each mandate shall be reviewed by the Board regularly. The Board is responsible for appointing committee members.

#### 6. **Appointment, Training and Monitoring Senior Management**

The Board has the responsibility:

- (a) to appoint the Chief Executive Officer, to monitor and assess the Chief Executive Officer's performance, to satisfy itself as to the integrity of the Chief Executive Officer, and to provide advice and counsel in the execution of the Chief Executive Officer's duties;
- (b) to develop or approve the corporate goals or objectives that the Chief Executive Officer is responsible for;
- (c) to approve the appointment of all senior corporate officers, acting upon the advice of the Chief Executive Officer and to satisfy itself as to the integrity of such corporate officers;
- (d) to ensure that adequate provision has been made to train, develop and compensate management and to ensure that all new directors receive a comprehensive orientation, fully understand the role of the Board and its committees, the nature and operation of the Corporation's business and the contribution that individual directors are required to make;
- (e) to create a culture of integrity throughout the Corporation;
- (f) to ensure that management is aware of the Board's expectations of management;
- (g) to provide for succession of management; and
- (h) to set out expectations and responsibilities of directors including attendance at meetings and review of meeting materials.

**7. Policies, Procedures and Compliance**

The Board has the responsibility:

- (a) to ensure that the Corporation operates at all times within applicable laws, regulations and ethical standards; and
- (b) to approve and monitor compliance with significant policies and procedures by which the Corporation is operated.

**8. Reporting and Communication**

The Board has the responsibility:

- (a) to ensure the Corporation has in place policies and programs to enable the Corporation to communicate effectively with its shareholders, other stakeholders and the public generally;
- (b) to ensure that the financial performance of the Corporation is adequately reported to shareholders, other security holders and regulators on a timely and regular basis;
- (c) to ensure the timely reporting of developments that have a significant and material impact on the value of the Corporation;
- (d) to report annually to shareholders on its stewardship of the affairs of the Corporation for the preceding year;
- (e) to develop appropriate measures for receiving shareholder feedback; and
- (f) to develop the Corporation's approach to corporate governance and to develop a set of corporate governance principles and guidelines.

**9. Monitoring and Acting**

The Board has the responsibility:

- (a) to monitor the Corporation's progress towards its goals and objectives and to revise and alter its direction through management in response to changing circumstances;
- (b) to take action when performance falls short of its goals and objectives or when other special circumstances warrant;
- (c) to ensure that the Corporation has implemented adequate control and information systems which ensure the effective discharge of its responsibilities; and
- (d) to make regular assessments of itself, its committees and each individual director's effectiveness and contribution.

**APPENDIX B  
LUNDIN MINING CORPORATION –SHARE UNIT PLAN**

**ARTICLE I  
INTRODUCTION**

**1.1 Purpose of Plan**

This Plan provides for the granting of Share Unit Awards and payment in respect thereof through the issuance of one Share from treasury of the Company per Share Unit (subject to adjustments), subject to obtaining the approval of the Stock Exchange and the Required Shareholder Approval, for services rendered, for the purpose of advancing the interests of the Participants through payment of compensation related to appreciation of the Shares.

**1.2 Definitions**

- (a) **“Act”** means the *Canada Business Corporations Act*, or its successor, as amended, from time to time.
- (b) **“Affiliate”** means any Company that is an affiliate of the Company as defined in National Instrument 45-106 – *Prospectus and Registration Exemptions*, as may be amended from time to time.
- (c) **“Associate”** with any person or company, is as defined in the *Securities Act (Ontario)*, as may be amended from time to time.
- (d) **“Board”** means the Board of Directors of the Company.
- (e) **“Change of Control”** means the occurrence of any one or more of the following events:
  - (i) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving the Company or any of its Affiliates and another corporation or other entity, as a result of which the holders of Shares immediately prior to the completion of the transaction hold less than 50% of the outstanding shares of the successor corporation immediately after completion of the transaction;
  - (ii) the sale, lease, exchange or other disposition, in a single transaction or a series of related transactions, of all or substantially all of the assets, rights or properties of the Company and its Subsidiaries on a consolidated basis to any other person or entity, other than transactions among the Company and its Subsidiaries;
  - (iii) a resolution is adopted to wind-up, dissolve or liquidate the Company;
  - (iv) any person, entity or group of persons or entities acting jointly or in concert (the **“Acquiror”**) acquires, or acquires control (including, without limitation, the power to vote or direct the voting) of, voting securities of the Company which, when added to the voting securities owned of record or beneficially by the Acquiror or which the Acquiror has the right to vote or in respect of which the Acquiror has the right to direct the voting, would entitle the Acquiror and/or Associates and/or affiliates of the Acquiror to cast or direct the casting of 30% or more of the votes attached to all of the Company's outstanding voting securities which may be cast to elect directors of the Company or the successor corporation (regardless of whether a meeting has been called to elect directors);
  - (v) as a result of or in connection with: (A) a contested election of directors; or (B) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving the Company or any of its Affiliates and another corporation or other entity (a **“Transaction”**), fewer than 50% of the directors of the Company are persons who were directors of the Company immediately prior to such Transaction; or
  - (vi) the Board adopts a resolution to the effect that a Change of Control as defined herein has occurred or is imminent.

For the purposes of the foregoing definition of Change of Control, **“voting securities”** means Shares and any other shares entitled to vote for the election of directors and shall include any security, whether or not issued by the Company, which are not shares entitled to vote for the election of directors but are convertible into or



exchangeable for shares which are entitled to vote for the election of directors, including any options or rights to purchase such shares or securities.

- (f) **“Committee”** means the Board or the Human Resource & Compensation Committee or, if the Board so determines in accordance with Section 2.2 of the Plan, any other committee of directors of the Company authorized to administer the Plan from time to time.
- (g) **“Company”** means Lundin Mining Corporation and includes any successor corporation thereof.
- (h) **“Deferred Payment Date”** for a Participant means the date after the Entitlement Date which is the earlier of (i) the date to which the Participant has elected to defer receipt of Shares in accordance with Section 2.5 of this Plan; and (ii) the date of the Participant’s Retirement, Resignation, Termination with Cause or Termination Without Cause or a Change of Control of the Company.
- (i) **“Entitlement Date”** means the date that a Share Unit is eligible for payment, as determined by the Committee in its sole discretion in accordance with the Plan and as outlined in the Share Unit grant letter issued to the Participant.
- (j) **“Grant Date”** means the effective date that a Share Unit is awarded to a Participant under this Plan, as evidenced by the Share Unit grant letter.
- (k) **“Insider”** has the meaning ascribed to such term in the TSX Company Manual.
- (l) **“Market Price”** as at any date in respect of the Shares shall be the closing price of the Shares on the TSX or, if the Shares are not listed on the TSX, on the principal stock exchange on which such Shares are traded, on the trading day that the Share Unit is awarded. In the event that the Shares are not then listed and posted for trading on a stock exchange, the Market Price shall be the fair market value of such Shares as determined by the Committee in its sole discretion.
- (m) **“Participant”** means any full time employee of the Company or any Affiliate, including any senior executive, vice president, and/or member of the management team of the Company or its Affiliates to whom Share Units are granted hereunder unless otherwise determined by the Committee.
- (n) **“Plan”** means this Share Unit Plan, as may be amended from time to time.
- (o) **“Qualifying Participant”** means a Participant (i) who is a resident of Canada for the purposes of the *Income Tax Act* (Canada) or (ii) who is designated as a Qualifying Participant in the Participant’s Share Unit grant letter, provided that the Participant is not a U.S. Taxpayer.
- (p) **“Required Shareholder Approval”** means the approval of this Plan by the shareholders of the Company, in accordance with the requirements of the TSX.
- (q) **“Resignation”** means the cessation of employment (as an officer or employee) of the Participant with the Company or an Affiliate as a result of resignation, other than as a result of Retirement.
- (r) **“Retirement”** means the Participant ceasing to be an employee or officer of the Company or an Affiliate in accordance with the retirement policies of the Company or any subsidiary, if any, or such other time as the Company may agree with the Participant.
- (s) **“Share Unit”** means a unit credited by means of an entry on the books of the Company to a Participant, representing the right to receive one Share (subject to adjustments) issued from treasury.
- (t) **“Share Unit Award”** means an award of Share Units under this Plan to a Participant.
- (u) **“Shares”** means the common shares in the capital of the Company.
- (v) **“Stock Exchange”** means, as the context requires, the TSX, or any other stock exchange on which the Shares are listed for trading at the relevant time.

- (w) “**Termination With Cause**” means the termination of employment (as an officer or employee) of the Participant with cause by the Company or an Affiliate (and does not include Resignation or Retirement).
  - (x) “**Termination Without Cause**” means the termination of employment (as an officer or employee) of the Participant without cause by the Company or an Affiliate (and does not include Resignation or Retirement) and, in the case of an officer, includes the removal of or failure to reappoint the Participant as an officer of the Company or an Affiliate.
  - (y) “**TSX**” means the Toronto Stock Exchange.
  - (z) “**U.S. Taxpayer**” means a Participant who is a U.S. citizen, U.S. permanent resident or U.S. tax resident or a Participant for whom a benefit under this Plan would otherwise be subject to U.S. taxation under the U.S. Internal Revenue Code of 1986, as amended, and the rulings and regulations in effect thereunder.
- 1.3 The headings of all articles, sections and paragraphs in this Plan are inserted for convenience of reference only and shall not affect the construction or interpretation of this Plan.
- 1.4 Whenever the singular or masculine are used in this Plan, the same shall be construed as being the plural or feminine or neuter or vice versa where the context so requires.
- 1.5 The words "herein", "hereby", "hereunder", "hereof" and similar expressions mean or refer to this Plan as a whole and not to any particular article, section, paragraph or other part hereof.
- 1.6 Unless otherwise specifically provided, all references to dollar amounts in this Plan are references to lawful money of Canada.

## **ARTICLE II ADMINISTRATION OF THE PLAN**

### **2.1 Administration**

This Plan shall be administered by the Committee and the Committee shall have full authority to administer this Plan, including the authority to interpret and construe any provision of this Plan and to adopt, amend and rescind such rules and regulations for administering this Plan as the Committee may deem necessary in order to comply with the requirements of this Plan. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and conclusive and shall be binding on the Participants and the Company. No member of the Committee shall be personally liable for any action taken or determination or interpretation made in good faith in connection with this Plan and all members of the Committee shall, in addition to their rights as directors of the Company, be fully protected, indemnified and held harmless by the Company with respect to any such action taken or determination or interpretation made in good faith. The appropriate officers of the Company are hereby authorized and empowered to do all things and execute and deliver all instruments, undertakings and applications and writings as they, in their absolute discretion, consider necessary for the implementation of this Plan and of the rules and regulations established for administering this Plan. All costs incurred in connection with this Plan shall be for the account of the Company.

Notwithstanding anything to the contrary in the Plan, the provisions of Schedule “A” shall apply to Share Unit Awards to a Participant who is a U.S. Taxpayer.

### **2.2 Delegation to Committee**

All of the powers exercisable hereunder by the Board may, to the extent permitted by applicable law and as determined by resolution of the Board, be exercised by a committee of the Board, including the Committee.

### **2.3 Register**

The Company shall maintain a register in which it shall record the name and address of each Participant and the number of Share Units (and their corresponding key conditions and Entitlement Date) awarded to each Participant.

### **2.4 Participant Determination**

The Committee shall from time to time determine the Participants who may participate in this Plan. The Committee shall from time to time, and subject to any applicable blackout period, determine the Participants to whom Share Units shall be granted and the

number, provisions and restrictions with respect to such grant, all such determinations to be made in accordance with the terms and conditions of this Plan.

#### 2.5 **Deferred Payment Date**

A Qualifying Participant may elect to defer to receive all or any part of their Shares following the Entitlement Date until a Deferred Payment Date.

Qualifying Participants who elect to set a Deferred Payment Date must give the Company written notice of the Deferred Payment Date not later than sixty (60) days prior to the Entitlement Date. For certainty, Qualifying Participants shall not be permitted to give any such notice after the day which is sixty (60) days prior to the Entitlement Date and a notice once given may not be changed or revoked.

In the event of the Retirement, Resignation, Termination with Cause or Termination Without Cause of the Qualifying Participant or a Change of Control following the Entitlement Date and prior to the Deferred Payment Date, the Qualifying Participant shall be entitled to receive and the Company shall issue forthwith the applicable Shares in satisfaction of the Share Units then held by the Qualifying Participant that have vested.

### **ARTICLE III SHARE UNIT AWARDS**

#### 3.1 **General**

This Plan is hereby established for employees of the Company, including senior executives, vice presidents, and other members of the management team of the Company and its Affiliates, as determined by the Committee.

#### 3.2 **Share Unit Awards**

A Share Unit Award and any applicable vesting conditions may be made to a particular Participant as determined in the sole and absolute discretion of the Committee. The number of Share Units awarded will be determined based on the Market Price and will be credited to the Participant's account, effective as of the Grant Date. The Share Units will be settled by way of the issuance of Shares from treasury as soon as practicable following the Entitlement Date or, if applicable, the Deferred Payment Date, unless otherwise provided under this Plan.

For the avoidance of doubt, a Participant will have no right or entitlement whatsoever to receive any Shares until the Entitlement Date or, if applicable, the Deferred Payment Date.

#### 3.3 **Dividends**

In the event a cash dividend is paid to shareholders of the Company on the Shares while a Share Unit is outstanding no payment in cash shall be made to each Participant in respect of Share Units; however, the Committee may, in its sole discretion, elect to credit each Participant with additional Share Units reflective of the cash dividends to such Participant. In such case, the number of additional Share Units will be equal to the aggregate amount of dividends that would have been paid to the Participant if the Share Units in the Participant's account on the record date had been Shares divided by the Market Price of a Share on the date on which dividends were paid by the Company. If the foregoing shall result in a fractional Share Unit, the fraction shall be disregarded.

The additional Share Units will vest and be settled on the Participant's Entitlement Date or, if applicable, the Deferred Payment Date of the particular Share Unit Award to which the additional Share Units relate.

#### 3.4 **Change of Control**

In the event of a Change of Control, all unvested Share Units outstanding shall automatically immediately vest on the date of such Change of Control. Upon a Change of Control, Participants shall not be treated any more favourably than shareholders of the Company with respect to the consideration and the Participants would be entitled to receive for their Shares.

### 3.5 **Death or Disability of Participant**

In the event of:

- (a) the death of a Participant, any unvested Share Units held by such Participant will automatically vest on the date of death of such Participant and the Shares underlying all Share Units held by such Participant will be issued to the Participant's estate as soon as reasonably practical thereafter; or
- (b) the disability of a Participant (as may be determined in accordance with the policies, if any, or general practices of the Company or any subsidiary), any unvested Share Units held by such Participant will automatically vest on the date on which the Participant is determined to be totally disabled and the Shares underlying the Share Units held will be issued to the Participant as soon as reasonably practical thereafter.

### 3.6 **Retirement**

In the event of Retirement of a Participant, any unvested Share Units held by such Participant will automatically vest on the date of Retirement and the Shares underlying such Share Units will be issued to the Participant as soon as reasonably practical thereafter.

### 3.7 **Termination Without Cause**

- (a) In the event of Termination Without Cause of a Participant that has been continuously employed by the Company or any Affiliate for at least two (2) years prior to the date of such Termination Without Cause inclusive of any notice period, if applicable, any unvested Share Units held by such Participant, that are not subject to Section 3.7(b) as a result of not being subject to performance vesting criteria, will automatically vest on the date of Termination Without Cause and the Shares underlying such Share Units will be issued to the Participant as soon as reasonably practical thereafter.
- (b) In the event of Termination Without Cause of a Participant that has been continuously employed by the Company or any Affiliate for at least two (2) years prior to the date of such Termination Without Cause inclusive of any notice period, if applicable, any unvested Share Units with performance vesting criteria held by such Participant will vest in accordance with their normal vesting schedule unless otherwise stipulated in the Participant's Share Unit grant letter.
- (c) In the event of Termination Without Cause of a Participant that has been continuously employed by the Company or any Affiliate for less than two (2) years prior to the date of such Termination Without Cause inclusive of any notice period, if applicable, all of the Participant's Share Units shall become void and the Participant shall have no entitlement and will forfeit any rights to any issuance of Shares under this Plan unless otherwise stipulated in the Participant's Share Unit grant letter.

### 3.8 **Termination With Cause or Resignation**

In the event of Termination With Cause or the Resignation of a Participant, all of the Participant's Share Units shall become void and the Participant shall have no entitlement and will forfeit any rights to any issuance of Shares under this Plan, except as may otherwise be stipulated in the Participant's Share Unit grant letter or as may otherwise be determined by the Committee in its sole and absolute discretion. Share Units that have vested but that are subject to a Participant's election to set a Deferred Payment Date shall be issued forthwith following the Termination with Cause or the Resignation of the Participant.

### 3.9 **Share Unit Grant Letter**

Each grant of a Share Unit under this Plan shall be evidenced by a confirmation Share Unit grant letter issued to the Participant by the Company. Such Share Unit grant letter shall be subject to all applicable terms and conditions of this Plan and may include any other terms and conditions which are not inconsistent with this Plan and which the Committee deems appropriate for inclusion in a Share Unit grant letter. The provisions of the various Share Unit grant letters issued under this Plan need not be identical.

### 3.10 **Subject to Employment/Severance Agreements**

Sections 3.4, 3.5, 3.6, 3.7 and 3.8 shall be subject to any employment/severance agreement between the Participant and the Company or its Affiliates.

### 3.11 **Maximum Number of Shares**

The maximum number of Shares made available for issuance from treasury under this Plan, subject to adjustments pursuant to section 4.8, shall not exceed 6,000,000 Shares. Any Shares subject to a Share Unit which has been cancelled or terminated in accordance with the terms of the Plan without settlement will again be available under the Plan. The grant of Share Units under the Plan is subject to the number of the Shares: (i) issued to Insiders of the Company, within any one (1) year period, and (ii) issuable to Insiders of the Company, at any time, under the Plan, or when combined with all of the Company's other security based compensation arrangements, shall not exceed 10% of the Company's total issued and outstanding Shares, respectively. For the purposes of this Plan, "security-based compensation arrangement" shall have the meaning set out in the TSX Company Manual. For greater certainty, the number of Shares outstanding shall mean the number of Shares outstanding on a non-diluted basis on the date immediately prior to the proposed Grant Date.

A Share Unit Award granted to a Participant for services rendered will entitle the Participant, subject to the Participant's satisfaction of any conditions, vesting periods, restrictions or limitations imposed pursuant to this Plan or as set out in the Share Unit grant letter, to receive payment following the Participant's Entitlement Date or, if applicable, the Deferred Payment Date through the issuance of Shares from treasury.

Subject to and following the receipt of the approval of the Stock Exchange and the Required Shareholder Approval, the Company shall have the power to satisfy any Share Unit obligation of the Company (including those granted prior to and conditional on such approvals) by the issuance of Shares from treasury at a rate of one Share for each Share Unit, subject to adjustment. For greater certainty, if the Required Shareholder Approval is not obtained, such conditional grants will be void and no Shares may be issued from treasury in respect of such Share Units.

## **ARTICLE IV GENERAL**

### 4.1 **Effectiveness**

This Plan shall become effective upon Board approval, subject to the provisions of section 4.2 hereof. This Plan shall remain in effect until it is terminated by the Committee or the Board.

### 4.2 **Discontinuance of Plan**

The Committee or the Board, as the case may be, may discontinue this Plan at any time in its sole discretion, and without shareholder approval, provided that such discontinuance may not, without the consent of the Participant, in any manner adversely affect the Participant's rights under any Share Unit granted under this Plan. In the event this Plan is discontinued by the Committee or the Board the balance of outstanding Share Units shall be maintained until the earlier of the Entitlement Date for, or the termination, resignation, retirement, death or disability of, each Participant as provided for under this Plan.

### 4.3 **Non-Transferability**

Except pursuant to a will or by the laws of descent and distribution, no Share Unit and no other right or interest of a Participant is assignable or transferable.

### 4.4 **Income Taxes**

The Company or its Affiliates may take such steps as are considered necessary or appropriate for the withholding of any taxes or other source deduction which the Company or its Affiliate is required by any law or regulation of any governmental authority whatsoever to withhold in connection with the issuance of Shares pursuant to this Plan, including a sale on behalf of a Participant of a sufficient number of Shares to fund such withholding obligation.

### 4.5 **Amendments to the Plan**

The Committee may from time to time in its sole discretion, and without shareholder approval, amend, modify and change the provisions of this Plan and any Share Unit grant letter, in connection with (without limitation):

- (i) amendments of a housekeeping nature;
- (ii) the addition or a change to any vesting provisions of a Share Unit;
- (iii) changes to the termination provisions of a Share Unit or the Plan; and
- (iv) amendments to reflect changes to applicable securities or tax laws.

However, other than as set out above, any amendment, modification or change to the provisions of this Plan which would:

- (a) materially increase the benefits to the holder of the Share Units who is an Insider to the material detriment of the Company and its shareholders;
- (b) increase the number of Shares or maximum percentage of Shares which may be issued pursuant to this Plan (other than by virtue of adjustments pursuant to section 4.9 of this Plan);
- (c) permit Share Units to be transferred other than for normal estate settlement purposes;
- (d) remove or exceed the Insider participation limits;
- (e) materially modify the eligibility requirements for participation in this Plan; or
- (f) modify the amending provisions of the Plan set forth in this section 4.5,

shall only be effective on such amendment, modification or change being approved by the shareholders of the Company. In addition, any such amendment, modification or change of any provision of this Plan shall be subject to the approval, if required, by any Stock Exchange having jurisdiction over the securities of the Company.

#### 4.6 **Participant Rights**

No holder of any Share Units shall have any rights as a shareholder of the Company. Except as otherwise specified herein, no holder of any Share Units shall be entitled to receive, and no adjustment is required to be made for, any dividends, distributions or any other rights declared for shareholders of the Company.

#### 4.7 **No Right to Continued Employment or Service**

Nothing in this Plan shall confer on any Participant the right to continue as an employee or officer of the Company or any Affiliate, as the case may be, or interfere with the right of the Company or Affiliate, as applicable, to remove such officer and/or employee.

#### 4.8 **Adjustments**

In the event there is any change in the Shares, whether by reason of a stock dividend, consolidation, subdivision, reclassification or otherwise, an appropriate adjustment shall be made to outstanding Share Units by the Committee, in its sole discretion, to reflect such changes. If the foregoing adjustment shall result in a fractional Share, the fraction shall be disregarded. All such adjustments shall be conclusive, final and binding for all purposes of this Plan.

#### 4.9 **Effect of Take-Over Bid**

If a bona fide offer (the "**Offer**") for Shares is made to shareholders generally (or to a class of shareholders that would include the Participant), which Offer, if accepted in whole or in part, would result in the offeror (the "**Offeror**") exercising control over the Company within the meaning of the Securities Act (Ontario), then the Company shall, as soon as practicable following receipt of the Offer, notify each Participant of the full particulars of the Offer. The Board will have the sole discretion to amend, abridge or otherwise eliminate any vesting schedule related to each Participant's Share Units so that notwithstanding the other terms of this Plan, the underlying Shares may be conditionally issued to each Participant holding Share Units so (and only so) as to permit the Participant to tender the Shares received in connection with the Share Units pursuant to the Offer. If:

- (a) the Offer is not complied with within the time specified therein;
- (b) the Participant does not tender the Shares underlying the Share Units pursuant to the Offer; or
- (c) all of the Shares tendered by the Participant pursuant to the Offer are not taken up and paid for by the Offeror,

then at the discretion of the Committee or the Board, the Share Units shall be deemed not to have been settled and the Shares or, in the case of clause (c) above, the Shares that are not taken up and paid for, shall be deemed not to have been issued and will be reinstated as authorized but unissued Shares and the terms of the Share Units as set forth in this Plan and the applicable Share Unit grant letter shall again apply to the Share Units.

4.10 **Unfunded Status of Plan**

This Plan shall be unfunded.

4.11 **Compliance with Laws**

If any provision of this Plan or any Share Unit contravenes any law or any order, policy, by-law or regulation of any regulatory body having jurisdiction, then such provision shall be deemed to be amended to the extent necessary to bring such provision into compliance therewith.

4.12 **Governing Law**

This Plan shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

4.13 **Effective Dates and Amendments**

Approved by the Board on March 26, 2014.

Approved by the Shareholders on May 9, 2014.

**SCHEDULE "A"**

**LUNDIN MINING CORPORATION –SHARE UNIT PLAN**

Notwithstanding anything to the contrary in the Plan, the provisions of this Schedule "A" shall apply to the Share Unit Awards made to a Participant during the period that he or she is a U.S. Taxpayer.

**1. Retirement**

Notwithstanding section 3.6 of the Plan, any unvested Share Units held by a Participant that is a U.S. Taxpayer will automatically vest on the date such Participant attains the age of 65 and the Shares underlying such Share Units will be issued to the Participant forthwith and in any event no later than March 15 of the following calendar year.

**2. Inability to Elect a Deferred Payment Date**

For greater certainty, a Participant who is a U.S. Taxpayer will not be entitled to elect a Deferred Payment Date.



**APPENDIX C**  
**LUNDIN MINING CORPORATION –INCENTIVE STOCK OPTION PLAN**

**ARTICLE I**  
**INTRODUCTION**

**1.1 Purpose of Plan**

The purpose of the Plan is to secure for the Company and its shareholders the benefits of incentive inherent in the share ownership by the Directors, key Employees and Consultants of the Company and its subsidiaries who, in the judgment of the Board, will be largely responsible for its future growth and success. It is generally recognized that a stock option plan of the nature provided for herein aids in retaining and encouraging Employees and Directors of exceptional ability because of the opportunity offered them to acquire a proprietary interest in the Company.

**1.2 Definitions**

- (a) **“Affiliate”** means any corporation that is an affiliate of the Company as defined in National Instrument 45-106 – *Prospectus and Registration Exemptions*, as may be amended from time to time.
- (b) **“Associate”** of any person or company, is as defined in the Securities Act, as may be amended from time to time.
- (c) **“Board”** means the board of directors of the Company, or any committee of the board of directors to which the duties of the board of directors hereunder are delegated.
- (d) **“Change of Control”** means the occurrence of any one or more of the following events:
  - (i) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving the Company or any of its Affiliates and another corporation or other entity, as a result of which the holders of Shares immediately prior to the completion of the transaction hold less than 50% of the outstanding shares of the successor corporation immediately after completion of the transaction;
  - (ii) the sale, lease, exchange or other disposition, in a single transaction or a series of related transactions, of all or substantially all of the assets, rights or properties of the Company and its subsidiaries on a consolidated basis to any other person or entity, other than transactions among the Company and its subsidiaries;
  - (iii) a resolution is adopted to wind-up, dissolve or liquidate the Company;
  - (iv) any person, entity or group of persons or entities acting jointly or in concert (the **“Acquiror”**) acquires, or acquires control (including, without limitation, the power to vote or direct the voting) of, voting securities of the Company which, when added to the voting securities owned of record or beneficially by the Acquiror or which the Acquiror has the right to vote or in respect of which the Acquiror has the right to direct the voting, would entitle the Acquiror and/or Associates and/or Affiliates of the Acquiror to cast or direct the casting of 30% or more of the votes attached to all of the Company’s outstanding voting securities which may be cast to elect directors of the Company or the successor corporation (regardless of whether a meeting has been called to elect directors);
  - (v) as a result of or in connection with: (A) a contested election of directors of the Company; or (B) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving the Company or any of its Affiliates and another corporation or other entity (a **“Transaction”**), fewer than 50% of the Directors are persons who were directors of the Company immediately prior to such Transaction; or
  - (vi) the Board adopts a resolution to the effect that a Change of Control as defined herein has occurred or is imminent.

For the purposes of the foregoing definition of Change of Control, **“voting securities”** means Shares and any other shares entitled to vote for the election of directors of the Company and shall include any security, whether or not issued by the Company, which are not shares entitled to vote for the election of directors but are convertible into or exchangeable for shares which are entitled to vote for the election of directors, including any options or rights to purchase such shares or securities.

- (e) **“Company”** means Lundin Mining Corporation and includes any successor corporation thereof.
- (f) **“Consultant”** means, in relation to the Company, an individual or a consultant company, other than an Employee, Director or Officer of the Company, that:
- (i) is engaged to provide on a continuous bona fide basis, consulting, technical, management or other services to the Company or to an Affiliate of the Company, other than services provided in relation to a distribution, for a period of at least 12 months;
  - (ii) provides the services under a written contract between the Company or the Affiliate and the individual or the consultant company;
  - (iii) in the reasonable opinion of the Company, spends or will spend a significant amount of time and attention on the affairs and business of the Company or an Affiliate of the Company; and
  - (iv) has a relationship with the Company or an Affiliate of the Company that enables the individual to be knowledgeable about the business and affairs of the Company.
- (g) **“Consultant Company”** means for an individual Consultant, a company or partnership of which the individual is an employee, shareholder or partner.
- (h) **“Director”** means a director of the Company or any of its subsidiaries.
- (i) **“Disinterested Shareholder Approval”** means approval by a majority of the votes cast by all the Company’s shareholders at a duly constituted shareholders’ meeting, excluding votes attached to shares of the Company beneficially owned by Insiders of the Company to whom Options may be granted under the Plan and their Associates.
- (j) **“Eligible Person”** means an Employee, Director or Officer of the Company or any of its subsidiaries or Affiliates, Consultant, and a Management Company Employee, and, except in relation to a Consultant Company, includes a company that is wholly-owned by such persons.
- (k) **“Employee”** means an individual who is a bona fide employee of the Company or of any subsidiary of the Company and includes a bona fide permanent part-time employee of the Company or any subsidiary of the Company.
- (l) **“Exchange”** means, as the context requires, the TSX, or any other stock exchange on which the Shares are listed for trading at the relevant time.
- (m) **“Insider”** has the meaning ascribed to such term in the TSX Company Manual.
- (n) **“Management Company Employee”** means an individual who is a bona fide employee of a company providing management services to the Company, which are required for the ongoing successful operation of the business enterprise of the Company.
- (o) **“Market Price”** as at any date in respect of the Shares shall be the closing price of the Shares on the TSX, or if the Shares are not then listed on the TSX, on the principal stock exchange on which such Shares are traded, on the trading day of the Option grant. In the event that the Shares are not then listed and posted for trading on a stock exchange, the Market Price shall be the fair market value of such Shares as determined by the Board in its sole discretion.
- (p) **“non-employee director”** means a director who is not also an officer of the Company.
- (q) **“Officer”** means a senior officer of the Company or any of its subsidiaries.
- (r) **“Option”** shall mean an option granted under the terms of the Plan.
- (s) **“Option Commitment”** means the commitment of grant of an Option delivered by the Company hereunder to an Optionee and substantially in the form of Exhibit A hereto.

- (t) **"Optionee"** shall mean a Participant to whom an Option has been granted under the terms of the Plan.
- (u) **"Participant"** means, in respect of the Plan, an Eligible Person who elects to participate in the Plan.
- (v) **"Plan"** means the Incentive Stock Option Plan, as may be amended from time to time.
- (w) **"Resignation"** means the cessation of employment (as an Officer or Employee) of the Participant with the Company or an Affiliate as a result of resignation, other than as a result of Retirement.
- (x) **"Retirement"** means the Participant ceasing to be an Employee or Officer of the Company or an Affiliate in accordance with the retirement policies of the Company or any subsidiary, if any, or such other time as the Company may agree with the Participant.
- (y) **"Securities Act"** means the *Securities Act*, R.S.O. 1990, Chapter S.5.
- (z) **"Shares"** mean the common shares in the capital of the Company.
- (aa) **"Termination With Cause"** means the termination of employment (as an Officer or Employee) of the Participant with cause by the Company or an Affiliate (and does not include Resignation or Retirement).
- (bb) **"Termination Without Cause"** means the termination of employment (as an Officer or Employee) of the Participant without cause by the Company or an Affiliate (and does not include Resignation or Retirement) and, in the case of an Officer, includes the removal of or failure to reappoint the Participant as an Officer of the Company or an Affiliate.
- (cc) **"TSX"** means the Toronto Stock Exchange.

## ARTICLE II STOCK OPTION PLAN

### 2.1 Participation

Options to purchase Shares may be granted hereunder to Eligible Persons.

### 2.2 Determination of Option Recipients

The Board shall make all necessary or desirable determinations regarding the granting of Options to Eligible Persons and may take into consideration the present and potential contributions of a particular Eligible Person to the success of the Company and any other factors which it may deem proper and relevant.

### 2.3 Exercise Price

The exercise price per Share under an Option shall be determined by the Board but, in any event, shall not be lower than the Market Price of the Shares of the Company on the date of grant of the Options.

### 2.4 Grant of Options

The Board may at any time authorize the granting of Options to such Eligible Persons as it may select for the number of Shares that it shall designate, subject to the provisions of the Plan. A Director of the Company to whom an Option may be granted shall not participate in the decision of the Board to grant such Option. The date of each grant of Options shall be determined by the Board when the grant is authorized.

### 2.5 Option Commitment

Each Option granted to an Optionee shall be evidenced by an Option Commitment detailing the terms of the Option and upon delivery of the Option Commitment to the Optionee by the Company, the Optionee shall have the right to purchase the Shares underlying the Option at the exercise price set out therein, subject to any provisions as to the vesting of the Option.

### 2.6 Term of Options

The period within which Options may be exercised and the number of Options which may be exercised in any such period shall be determined by the Board at the time of granting the Options provided, however, that all Options must be exercisable during a period not extending beyond five (5) years from the date of the Option grant. Notwithstanding the foregoing, in the event that the expiry

of an Option period falls within, or within two (2) days of, a trading blackout period imposed by the Company (the “**Blackout Period**”), the expiry date of such Option shall be automatically extended to the 10th business day following the end of the Blackout Period.

## **2.7 Exercise of Options**

Subject to the provisions of the Plan, an Option may be exercised from time to time by delivery to the Company of a written notice of exercise specifying the number of Shares with respect to which the Option is being exercised and accompanied by payment in full of the exercise price of the Shares to be purchased. Certificates for such Shares shall be issued and delivered to the Optionee within a reasonable time following the receipt of such notice and payment.

## **2.8 Vesting**

Options granted pursuant to the Plan shall vest and become exercisable by an Optionee at such time or times as may be determined by the Board at the date of the Option grant and as indicated in the Option Commitment related thereto.

## **2.9 Lapsed Options**

If Options are surrendered, terminated or expire without being exercised, in whole or in part, new Options may be granted covering the Shares not purchased under such lapsed Options..

## **2.10 Change of Control**

In the event of a Change of Control, all unvested Options outstanding shall automatically immediately vest on the date of such Change of Control. Upon a Change of Control, Participants shall not be treated any more favourably than shareholders of the Company with respect to the consideration that the Participants would be entitled to receive for the Shares issued upon exercise of their Options. Options may be cancelled if such Options are out of the money.

## **2.11 Death or Disability of Optionee**

In the event of:

- (a) the death of a Participant, any unvested Options held by such Participant will automatically vest and become exercisable on the date of death of such Participant and all Options shall be exercisable for a period of 12 months after the date of death, subject to the expiration of such Options occurring prior to the end of such 12-month period; or
- (b) the disability of a Participant (as may be determined in accordance with the policies, if any, or general practices of the Company or any subsidiary), any unvested Options held by such Participant will automatically vest and become exercisable on the date on which the Participant is determined to be totally disabled and all Options shall be exercisable for a period of 12 months after the date the Participant is determined to be totally disabled, subject to the expiration of such Options occurring prior to the end of such 12-month period.

## **2.12 Retirement**

In the event of Retirement of a Participant, any unvested Options held by such Participant will automatically vest and become exercisable on the date of Retirement and all Options shall be exercisable for a period of 12 months after the date of Retirement, subject to the expiration of such Options occurring prior to the end of such 12-month period.

## **2.13 Termination Without Cause**

In the event of Termination Without Cause of a Participant that has been continuously employed by the Company, a subsidiary or Affiliate, or retained as a Consultant to the Company or a Management Company Employee, for at least two (2) years prior to the date of such Termination Without Cause inclusive of any notice period, if applicable, any unvested Options held by such Participant will automatically vest on the date of Termination Without Cause, and shall be exercisable for a period of 90 days after the date of Termination Without Cause, subject to the expiration of such Options occurring prior to the end of such 90-day period. In the event of Termination Without Cause of a Participant that has been continuously employed by the Company, a subsidiary or Affiliate, or retained as a Consultant to the Company or a Management Company Employee, for less than two (2) years prior to the date of such Termination Without Cause inclusive of any notice period, if applicable, any vested Options held by such Participant shall be exercisable for a period of 90 days after the date of Termination Without Cause, but any unvested Options held by the Participant

shall become void and the Participant shall have no entitlement and will forfeit any rights to any issuance of Shares under this Plan in connection with such unvested Options, except as may otherwise be stipulated in the Participant's Option Commitment.

#### 2.14 **Resignation**

In the event of Resignation of a Participant, all of the Participant's Options that have vested shall be exercisable for a period of 90 days after the date of Resignation, subject to the expiration of such Options occurring prior to the end of such 90-day period, and any unvested Options held by such Participant shall become void on the date of Resignation.

#### 2.15 **Termination With Cause**

In the event of Termination With Cause of a Participant, all of the Participant's Options shall become void and the Participant shall have no entitlement and will forfeit any rights to any issuance of Shares under Options awarded under this Plan, except as may otherwise be stipulated in the Participant's Option Commitment, employment agreement or as may otherwise be determined by the Board in its sole and absolute discretion.

#### 2.16 **Subject to Employment/Severance Agreements**

Sections 2.10, 2.11, 2.12, 2.13 and 2.14 shall be subject to any employment/severance agreement between the Participant and the Company or its Affiliates.

#### 2.17 **Effect of Take-Over Bid**

If a bona fide offer (the "Offer") for Shares is made to shareholders generally (or to a class of shareholders that would include the Participant), which Offer, if accepted in whole or in part, would result in the offeror (the "Offeror") exercising control over the Company within the meaning of the Securities Act, then the Company shall, as soon as practicable following receipt of the Offer, notify each Participant of the full particulars of the Offer. The Board will have the sole discretion to amend, abridge or otherwise eliminate any vesting schedule related to each Participant's Options so that notwithstanding the other terms of this Plan, such Option may be conditionally exercised in whole or in part by the Optionee and the underlying Shares may be conditionally issued to each such Participant so (and only so) as to permit the Participant to tender the Shares received in connection with the exercise of the Options pursuant to the Offer. If:

- (a) the Offer is not complied with within the time specified therein;
- (b) the Participant does not tender the Shares underlying the Options pursuant to the Offer; or
- (c) all of the Shares tendered by the Participant pursuant to the Offer are not taken up and paid for by the Offeror,

then at the discretion of the Board, the Options shall be deemed not to have been exercised and the Shares or, in the case of clause (c) above, the Shares that are not taken up and paid for, shall be deemed not to have been issued and will be reinstated as authorized but unissued Shares and the Options shall be reinstated and the terms of the Options as set forth in this Plan and the applicable Option Commitment shall again apply to the Options. If any Shares are returned to the Company under this Section, the Company shall refund the exercise price to the Optionee for such Shares without interest or deduction.

#### 2.18 **Adjustment in Shares Subject to the Plan**

In the event there is any change in the Shares, whether by reason of a stock dividend, consolidation, subdivision, reclassification or otherwise, an appropriate adjustment shall be made by the Board, in its sole discretion, to the exercise price of any outstanding Options as well as the number of Shares which may be issued upon exercise of the Options to reflect such changes. If the foregoing adjustment shall result in a fractional Share, the fraction shall be disregarded. All such adjustments shall be conclusive, final and binding for all purposes of this Plan.

### **ARTICLE III GENERAL**

#### 3.1 **Maximum Number of Shares**

- (a) The maximum number of Shares made available for issuance from treasury under this Plan, subject to adjustments pursuant to Section 2.18, is 30,000,000 Shares (including Shares underlying outstanding Options). Any Option which has been cancelled or terminated prior to exercise in accordance with the terms of the Plan will again be available under the Plan.

- (b) The grant of Options under the Plan is subject to the number of the Shares: (i) issued to insiders of the Company, within any one (1) year period, and (ii) issuable to Insiders of the Company, at any time, under the Plan, or when combined with all of the Company's other security based compensation arrangements, shall not exceed 10% of the Company's total issued and outstanding Shares, respectively. For the purposes of this Plan, "security-based compensation arrangement" shall have the meaning set out in the TSX Company Manual. For greater certainty, the number of Shares outstanding shall mean the number of Shares outstanding on a non-diluted basis on the date immediately prior to the proposed date of grant of the Options.
- (c) The aggregate number of Options granted pursuant to this Plan to any one non-employee Director, if ever applicable, within any one-year period shall not exceed a maximum value of Cdn\$100,000 worth of Options. The value of the Options shall be determined using a generally accepted valuation model.
- (d) The aggregate number of Shares reserved for issuance pursuant to this Plan to non-employee Directors as a group, if ever applicable, shall not exceed 1% of the number of issued and outstanding Shares of the Company, as calculated without reference to the initial options granted under the Plan to a person who is not previously an insider of the Company upon such person becoming or agreeing to become a director of the Company, and without reference to options held by former directors of the Company.

For the purposes of this Section 3.1, the number of Shares then outstanding shall mean the number of Shares outstanding on a non-diluted basis on the date immediately prior to the proposed grant date of the applicable Options.

### 3.2 **Transferability**

Options are not assignable or transferable other than by will or by the applicable laws of descent. During the lifetime of an Optionee, all Options may only be exercised by the Optionee.

### 3.3 **Employment**

Nothing contained in the Plan shall confer upon any Optionee any right with respect to employment or continuance of employment with the Company or any subsidiary, or interfere in any way with the right of the Company or any subsidiary, to terminate the Optionee's employment at any time. Participation in the Plan by an Optionee is voluntary.

### 3.4 **No Shareholder Rights**

An Optionee shall not have any rights as a shareholder of the Company with respect to any of the Shares covered by an Option until the Optionee exercises such Option in accordance with the terms of the Plan and the issuance of the Shares by the Company.

### 3.5 **Record Keeping**

The Company shall maintain a register in which shall be recorded the name and address of each Optionee, the number of Options granted to an Optionee, the details thereof and the number of Options outstanding.

### 3.6 **Necessary Approvals**

The Plan shall be effective only upon the approval of both the Board and the shareholders of the Company by ordinary resolution. The obligation of the Company to sell and deliver Shares in accordance with the Plan is subject to the approval of any governmental authority having jurisdiction or the Exchange which may be required in connection with the authorization, issuance or sale of such Shares by the Company. If any Shares cannot be issued to any Optionee for any reason including, without limitation, the failure to obtain such approval, then the obligation of the Company to issue such Shares shall terminate and any exercise price paid by an Optionee to the Company shall be returned to the Optionee without interest or deduction.

### 3.7 **Delegation to Committee**

All of the powers exercisable hereunder by the Board may, to the extent permitted by applicable law and by resolution of the Board, be exercised by the Human Resource & Compensation Committee of the Board, or such other committee as the Board may determine from time to time. The directors of such committee shall not be employees of the Company so long as they are on such committee.

### 3.8 **Administration of the Plan**

The Board is authorized to interpret the Plan from time to time and to adopt, amend and rescind rules and regulations for carrying out the Plan. The interpretation and construction of any provision of the Plan by the Board shall be final and conclusive.

Administration of the Plan shall be the responsibility of the appropriate Officers of the Company and all costs in respect thereof shall be paid by the Company.

### 3.9 **Income Taxes**

The Company or its Affiliates may take such steps as are considered necessary or appropriate for the withholding of any taxes or other source deduction which the Company or its Affiliate is required by any law or regulation of any governmental authority whatsoever to withhold in connection with this Plan, including a sale on behalf of a Participant, of a sufficient number of Shares to fund such withholding obligation.

### 3.10 **Amendments to the Plan**

The Board may from time to time in its sole discretion, and without shareholder approval, amend, modify and change the provisions of this Plan and any Option Commitment, in connection with (without limitation):

- (a) amendments of a housekeeping nature;
- (b) the addition or a change to any vesting provisions of a Option;
- (c) changes to the termination provisions of an Option or the Plan which do not entail an extension beyond the original expiry date;
- (d) the addition of a cashless exercise feature, payable in cash or securities, whether or not providing for a full deduction of the number of underlying Shares from the Plan reserves; and
- (e) amendments to reflect changes to applicable securities or tax laws.

However, other than as set out above, any amendment, modification or change to the provisions of this Plan which would:

- (a) reduce the exercise price of an Option, cancel and reissue an Option or cancel an Option in order to issue an alternative entitlement;
- (b) amend the term of an Option to extend the term beyond its original expiry;
- (c) amend the limits imposed on non-employee Directors in Sections 3.1(c) and 3.1(d) (other than by virtue of adjustments pursuant to section 2.18 of this Plan);
- (d) materially increase the benefits to the holder of the Options who is an Insider to the material detriment of the Company and its shareholders;
- (e) increase the number of Shares or maximum percentage of Shares which may be issued pursuant to this Plan (other than by virtue of adjustments pursuant to Section 2.18 of this Plan);
- (f) permit Options to be transferred other than for normal estate settlement purposes;
- (g) remove or exceed the Insider participation limits;
- (h) materially modify the eligibility requirements for participation in this Plan; or
- (i) modify the amending provisions of the Plan set forth in this Section 3.10,

shall only be effective on such amendment, modification or change being approved by the shareholders of the Company. In addition, any such amendment, modification or change of any provision of this Plan shall be subject to the approval, if required, by the Exchange having jurisdiction over the securities of the Company.

### 3.11 **No Representation or Warranty**

The Company makes no representation or warranty as to the future market value of any Shares issued in accordance with the provisions of the Plan.

3.12 **Interpretation**

The Plan will be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

3.13 **Compliance with Applicable Law**

If any provision of the Plan or any agreement entered into pursuant to the Plan contravenes any law or any order, policy, by-law or regulation of any regulatory body or stock exchange having authority over the Company or the Plan then such provision shall be deemed to be amended to the extent required to bring such provision into compliance therewith.

3.14 **Effective Dates and Amendments**

Approved by the Board on March 26, 2014.

Approved by the Shareholders on May 9, 2014.



**EXHIBIT A**  
**LUNDIN MINING CORPORATION**  
**INCENTIVE STOCK OPTION PLAN**  
**STOCK OPTION COMMITMENT**

Notice is hereby given that effective the \_\_\_\_ day of \_\_\_\_\_ (the "Effective Date"), Lundin Mining Corporation (the "Company") has granted to \_\_\_\_\_, an Option to acquire \_\_\_\_\_ Common Shares ("Shares") exercisable up to 5:00 p.m. Vancouver Time on the \_\_\_\_\_ day of \_\_\_\_\_ (the "Expiry Date") at an exercise price of Cdn. \$\_\_\_\_\_ per share.

The shares may be acquired as follows:

- 

The grant of the Option evidenced hereby is made subject to the terms and conditions of the Company's Incentive Stock Option Plan, the terms and conditions of which are hereby incorporated herein.

To exercise your Option, deliver a written notice specifying the number of Shares you wish to acquire, together with cash or a certified cheque payable to the Company for the aggregate exercise price, to the Company. A certificate for the Shares so acquired will be issued by the transfer agent as soon as practicable thereafter.

**LUNDIN MINING CORPORATION**

\_\_\_\_\_  
Authorized Signatory

## Other Supplementary Information

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

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

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

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

Lukas H. Lundin, *Chairman*  
Paul K. Conibear, *President and Chief Executive Officer*  
Marie Inkster, *Senior Vice President and Chief Financial Officer*  
Julie A. Lee HARRS, *Senior Vice President, Corporate Development*  
Paul M. McRae, *Senior Vice President, Projects*  
Neil P. M. O'Brien, *Senior Vice President, Exploration and New Business Development*  
Stephen T. GATLEY, *Vice President, Technical Services*  
Susan J. Boxall, *Vice President, Human Resources*  
Jinhee Magie, *Vice President, Finance*  
J. Mikael Schauman, *Vice President, Marketing*  
James A. Ingram, *Corporate Secretary*

### 2. **Financial Information**

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

### 3. **Other information**

Address (Corporate head office):

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

Address (UK office):

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

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

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

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