

# **lundin mining**

## **2015 Annual Filings**

**December 31, 2015**

# lundin mining

## Management's Discussion and Analysis For the year ended December 31, 2015

---

This management's discussion and analysis ("MD&A") has been prepared as of February 18, 2016 and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015. 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, CLP is to Chilean pesos, SEK is to Swedish krona and € refers to the Euro.

### **About Lundin Mining**

Lundin Mining Corporation ("Lundin", "Lundin Mining" or the "Company") is a diversified Canadian base metals mining company with operations in Chile, the USA, Portugal, and Sweden, primarily producing copper, nickel and zinc. In addition, Lundin Mining holds a 24% equity stake in the world-class Tenke Fungurume ("Tenke") copper/cobalt mine in the Democratic Republic of Congo ("DRC") and in the Freeport Cobalt Oy business ("Freeport Cobalt"), 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 applicable Canadian securities legislation. This report includes, but is not limited to, forward looking statements with respect to the Company's estimated annual metal production, cash costs, exploration expenditures, capital expenditures and dividends, 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 estimated operating and cash costs, foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; including 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, and commodity price fluctuations; the inability to successfully integrate the Candelaria operations or realize its anticipated benefits; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the Company's Annual Information Form. In addition, forward-looking information is based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed price of copper, nickel, zinc and other metals; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment where the Company operates will continue to support the development and operation of mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.*

## Table of Contents

Highlights .....	1
Financial Position and Financing.....	3
Outlook .....	4
Selected Quarterly and Annual Financial Information .....	6
Sales Overview.....	7
Annual Financial Results .....	10
Fourth Quarter Financial Results .....	13
Mining Operations.....	15
Production Overview .....	15
Cash Cost Overview .....	16
Capital Expenditures.....	16
Candelaria.....	17
Eagle Mine .....	19
Neves-Corvo Mine .....	20
Zinkgruvan Mine.....	21
Aguablanca Mine.....	23
Tenke Fungurume.....	25
Exploration.....	27
Metal Prices, LME Inventories and Smelter Treatment and Refining Charges.....	28
Liquidity and Financial Condition.....	29
Related Party Transactions .....	31
Changes in Accounting Policies.....	32
Critical Accounting Estimates and Assumptions.....	32
Managing Risks .....	36
Outstanding Share Data.....	45
Non-GAAP Performance Measures .....	46
Management’s Report on Internal Controls.....	48
Other Supplementary Information.....	49

## Highlights

### Operational Performance

For 2015, all of the Company's operations met or performed better than guidance on production, but financial results were negatively impacted by a lower metal price environment. Aggregate capital spending was well below guidance as a result of proactive spending restraint measures adopted in stages to react to declining metal markets.

**Candelaria (80%):** The Candelaria operations produced, on a 100% basis, 181,040 tonnes of copper, approximately 1,874,000 ounces of silver, and 102,500 ounces of gold in concentrate, with copper and gold production exceeding expectations as a result of higher throughput. Copper cash costs<sup>1</sup> of \$1.25/lb for the year were lower than full year guidance of \$1.35/lb.

**Eagle (100%):** Eagle's operational results were excellent, with both nickel (27,167 tonnes) and copper (24,331 tonnes) production exceeding guidance. Nickel cash costs of \$2.02/lb for the year were in-line with guidance of \$2.00/lb.

**Neves-Corvo (100%):** Neves-Corvo produced 55,831 tonnes of copper and 61,921 tonnes of zinc for the year ended December 31, 2015. Copper production exceeded the prior year by 9% due to higher average copper head grades and recoveries. Zinc production fell short of the prior year comparable period resulting from lower mill throughput and lower zinc recoveries. Significant improvements were achieved in stabilizing the existing zinc plant resulting in improved recoveries in the fourth quarter. Copper cash costs of \$1.63/lb for the year were in-line with our latest full-year guidance (\$1.60/lb) and were lower than the prior year of \$1.85/lb.

**Zinkgruvan (100%):** Zinc production of 83,451 tonnes at Zinkgruvan was a new record, exceeding prior year production due primarily to record tonnages of ore mined and milled. Lead production of 34,120 tonnes exceeded both expectations and 2014 production. Cash costs for zinc of \$0.37/lb were lower than guidance (\$0.40/lb) and in-line with the prior year (\$0.37/lb).

**Aguablanca (100%):** Aguablanca met production expectations for the year, though current year production of 7,213 tonnes of nickel and 6,221 tonnes of copper were lower than the prior year due to cessation of open pit mining in the first quarter and the suspension of underground mining operations in the third quarter of 2015. Cash costs of \$2.72/lb of nickel for 2015 were slightly higher than full year guidance (\$2.60/lb) due to the lower by-product credits.

**Tenke (24%):** Tenke operations continue to perform well. Lundin's attributable share of annual production included 48,951 tonnes of copper cathode and 3,843 tonnes of cobalt in hydroxide. The Company's attributable share of sales included 50,826 tonnes of copper at an average realized price of \$2.42/lb and 3,809 tonnes of cobalt at an average realized price of \$8.21/lb. Tenke operating cash costs for the year ended December 31, 2015 were \$1.21/lb of copper sold, higher than the latest guidance due to lower cobalt by-product credits. Cash distributions received by Lundin Mining in the year from Tenke were \$24.6 million, slightly higher than expectations. An additional \$8.3 million was received from the Freeport Cobalt operations, for total Tenke related distributions to the Company of \$32.9 million for the year.

<sup>1</sup> Cash cost per pound is a non-GAAP measure – see page 46 of this MD&A for discussion of non-GAAP measures.

## Production Summary:

Total 2015 production, compared to the latest guidance and prior years, was as follows:

Years ended December 31, (contained tonnes)		2015 Actual	2015 Guidance <sup>a</sup>	2014 Actual	2013 Actual	2012 Actual
Copper	Candelaria (80%)	144,832	138,000 - 141,000	22,872	nil	nil
	Eagle	24,331	23,000 - 24,000	3,905	nil	nil
	Neves-Corvo	55,831	54,000 - 56,000	51,369	56,544	58,559
	Zinkgruvan	2,044	2,000	3,464	3,460	3,059
	Aguablanca	6,221	6,100	7,390	6,242	2,260
	Tenke (24%) <sup>b</sup>	48,951	50,600	48,636	50,346	38,105
	Total attributable	282,210	273,700 - 279,700	137,636	116,592	101,983
Nickel	Eagle	27,167	26,000 - 27,000	4,300	nil	nil
	Aguablanca	7,213	7,100	8,631	7,574	2,398
	Total	34,380	33,100 - 34,100	12,931	7,574	2,398
Zinc	Neves-Corvo	61,921	59,000 - 62,000	67,378	53,382	30,006
	Zinkgruvan	83,451	82,000 - 85,000	77,713	71,366	83,209
	Galmoy (in ore)	nil	nil	nil	nil	8,989
	Total	145,372	141,000 - 147,000	145,091	124,748	122,204

a - Revised guidance as disclosed in the Company's MD&A for the three and nine months ended September 30, 2015.

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, 2015 were \$712.1 million, an increase of \$407.8 million in comparison to the \$304.3 million reported in 2014. The increase was primarily due to the inclusion of a full year of operating results from Candelaria (\$383.4 million) and Eagle (\$100.1 million) and favourable foreign exchange rates in the € and SEK (\$74.8 million), partially offset by lower realized metal prices and price adjustments (\$173.9 million) from our European operations.
- Sales for the year ended December 31, 2015 were \$1,701.9 million, an increase of \$750.6 million in comparison to the \$951.3 million reported in 2014. The increase was mainly due to the inclusion of a full year of operating results from Candelaria (\$692.9 million) and Eagle (\$236.7 million), partially offset by lower realized metal prices and price adjustments from our European operations. Average London Metal Exchange ("LME") metal prices for copper, nickel and zinc were lower (20%, 30%, and 11%, respectively) in comparison to 2014.
- Operating costs (excluding depreciation) for the year ended December 31, 2015 were \$962.7 million, an increase of \$343.0 million in comparison to the \$619.7 million reported in 2014. The increase was largely due to the inclusion of a full year of operating results from Candelaria and Eagle of \$309.5 million and \$136.6 million, respectively, partially offset by favourable foreign exchange rates.
- Depreciation, depletion and amortization expense for the year ended December 31, 2015 was \$555.0 million, an increase of \$346.3 million in comparison to the \$208.7 million reported in 2014. The increase was attributable to the inclusion of a full year of operating results from Candelaria and Eagle of \$238.2 million and \$122.3 million, respectively.
- Cash flow from operations for the year ended December 31, 2015 was \$713.9 million, an increase of \$526.5 million in comparison to the \$187.4 million reported in 2014. The increase was attributable to:
  - a full year of operating earnings from Candelaria, net of deferred revenue recognized (\$336.5 million), and Eagle (\$100.1 million); and

<sup>1</sup> Operating earnings is a non-GAAP measure – see page 46 of this MD&A for discussion of non-GAAP measures.

- changes in non-cash working capital and long-term inventory (\$226.6 million); partly offset by
  - lower operating earnings at our European operations (\$74.8 million); and
  - higher net income taxes paid (\$49.3 million).
- Net loss for the year ended December 31, 2015 was \$281.8 million, a decrease of \$405.2 million in comparison to net earnings of \$123.4 million reported in 2014. Net losses were primarily a result of asset impairments connected to lower metal prices, as cost and production performance at mine operations met or exceeded expectations. Before the impact of impairments (net of tax), net loss for the current year was \$3.8 million, compared with net earnings of \$155.6 million for the year ended December 31, 2014. Net loss, before asset impairments, was impacted by:
    - net loss at Neves-Corvo and lower net income at Zinkgruvan largely due to lower metal prices (\$55.4 million); and
    - net loss at Eagle generated from a full year of operation in a poor economic environment (\$32.1 million) and write-down of deferred tax assets (\$22.9 million); and
    - lower operating earnings from Aguablanca (\$22.0 million), partially due to the suspension of underground mining operations in the third quarter; and
    - full year of interest expense associated with the senior secured notes (\$62.8 million); and
    - lower income from investment in Tenke (\$63.4 million); partly offset by
    - a full year of operations at Candelaria (\$106.9 million).

### Corporate Highlights

- On June 2, 2015, the Company announced that exploration drilling near the Eagle Mine had intersected a new zone of high-grade massive and semi-massive nickel-copper sulphide mineralization.
- On July 23, 2015, the Company announced approval of its Environmental Impact Assessment (“EIA”) for *Candelaria 2030*, an initiative which includes a number of enhancements to support current and future operations, primarily the construction of the Los Diques tailings storage facility which represents an important step in extending the life of mine of the Candelaria operation.
- On July 29, 2015, the Company announced the completion of an updated mine plan and annual sustaining capital cost estimate for Candelaria. The new plan is expected to result in an improved production and operating cost profile over the next four year period.
- On January 28, 2016, the Company advised local authorities and employees of its intention to permanently close the Aguablanca mine. The closure was originally scheduled for early 2018. The decision to close the Aguablanca mine was due to the significant and sustained decrease in nickel and copper prices.

### Financial Position and Financing

- Net debt<sup>1</sup> position at December 31, 2015 was \$441.3 million compared to \$829.2 million at December 31, 2014.
- The \$387.9 million decrease in net debt during the year was attributable to operating cash flows of \$713.9 million and distributions from Tenke and Freeport Cobalt of \$32.9 million, partially offset by investments in mineral properties, plant and equipment of \$277.7 million and interest paid on the senior secured notes of \$77.5 million.
- The Company has a revolving credit facility available for borrowing up to \$350 million. As at December 31, 2015, the Company had no amount drawn on the credit facility. A letter of credit in the amount of \$19.4 million (SEK 162 million) is outstanding.
- Net debt as of February 18, 2016 was approximately \$458 million.

<sup>1</sup> Net debt is a non-GAAP measure – see page 46 of this MD&A for discussion of non-GAAP measures.

## Outlook

### Market Conditions

The Company is advancing production optimizations, cost savings and cost deferrals that are expected to protect cash flows and profits in 2016 and which are reflected in the guidance outlined below. To the extent that base metals markets improve, spending restraint plans will be re-assessed as certain expenditures and deferrals would be reconsidered in a moderately stronger metal price environment.

### 2016 Production and Cost Guidance

- With the exception of Tenke, production and costs guidance remains unchanged from that provided on January 21, 2016 (see news release entitled "Lundin Mining Announces 2015 Production Results and Provides Operating and Capital Guidance").
- Guidance on Tenke's copper production and cash costs have been updated to reflect the most recent guidance from Freeport-McMoRan Inc. ("Freeport").

(contained tonnes)		Tonnes	Cash Costs <sup>a</sup>
<b>Copper</b>	Candelaria (80%)	118,000 - 123,000	\$1.55/lb
	Eagle	20,000 - 23,000	
	Neves-Corvo	50,000 - 55,000	\$1.65/lb
	Zinkgruvan	3,500 - 4,000	
	Tenke (24%) <sup>b</sup>	<b>54,000</b>	<b>\$1.32/lb</b>
Total attributable		<b>245,500 - 259,000</b>	
<b>Nickel</b>	Eagle	21,000 - 24,000	\$2.25/lb
<b>Zinc</b>	Neves-Corvo	65,000 - 70,000	
	Zinkgruvan	80,000 - 85,000	\$0.45/lb
Total		145,000 - 155,000	

a. Cash costs remain dependent upon exchange rates (forecast at €/USD:1.10, USD/SEK:8.50, USD/CLP:700) and metal prices (forecast at Cu: \$2.05/lb, Ni: \$4.15/lb, Zn: \$0.70/lb, Pb: \$0.70/lb, Au: \$1,100/oz, Ag: \$15.00/oz).

b. Freeport has provided 2016 sales and cash costs guidance. Tenke's 2016 production is assumed to approximate sales guidance. Tenke's 2016 cash costs assume a cobalt price of \$10.00/lb.

### Commentary on 2016 Production Guidance by Mine

- **Candelaria:** Attributable share of Candelaria production is expected to decline modestly from 2015 production levels, which benefited from better rock fragmentation and softer ore. Gold and silver production are expected to remain as significant by-product credits.
- **Eagle:** Consistent with original plans, year over year production levels of nickel and copper are expected to gradually decline as the highest grade ore is mined early in the mine plan.
- **Neves-Corvo:** Copper production is expected to be maintained above 50,000 tonnes per annum with a significant zinc by-product credit. The zinc expansion project has not been reflected in this outlook. Lead by-products are expected to increase as Lombador zinc ore is mined.
- **Zinkgruvan:** Planned expansion activities were initiated in 2015, but are not expected to impact production until the end of 2017.
- **Tenke:** Freeport expects 2016 copper cathode sales of 224,500 tonnes, an approximate 10% increase over 2015 production. Cobalt sales are expected to remain relatively unchanged at 15,900 tonnes.

## 2016 Capital Expenditure Guidance

Capital expenditures are expected to be \$220 million (excluding Tenke), lower than the \$278 million of capital expenditures in 2015, as part of on-going efforts to defer or reduce non-essential spending as long as base metal prices remain low.

- **Sustaining Capital:**
  - Americas: \$130 million (\$182 million in 2015), consisting of approximately \$120 million for Candelaria, of which approximately \$35 million is for capitalized stripping activities in the open pit, \$70 million for construction of the expanded tailings storage facility project, and \$15 million for replacement and rebuild of equipment and infrastructure, and \$10 million for Eagle which is predominantly for underground development.
  - Europe: \$82 million (\$86 million in 2015). Neves-Corvo's \$55 million capital spending program includes approximately \$20 million for underground development, \$12 million for commencement of a water treatment plant, \$10 million for replacement and rebuild of equipment and the balance for miscellaneous other sustaining capital investment and small projects. Zinkgruvan is expected to spend approximately \$15 million for underground development and \$12 million on expanded tailings storage and miscellaneous other sustaining capital investment and small projects.
  
- **New Investment:** \$8 million (\$10 million in 2015) for a processing plant expansion at Zinkgruvan.

Capital expenditure guidance does not include capitalized interest.

## Exploration Investment

The Company's exploration expenditures (not including Tenke) are expected to be in the range of \$40 million in 2016 (2015 - \$52 million). The majority of the planned activity is expected to be directed towards near mine targets at Candelaria and Eagle.

## Tenke

The Company estimates its share of sustaining capital funding for 2016 at \$25 million (\$67 million in 2015). All of Tenke's capital expenditures and exploration programs are expected to be self-funded by cash flow from operations.

At current metal prices, the Company believes it is reasonable to expect Lundin Mining's attributable cash distributions to range between \$30 to \$40 million in 2016, taking into account self-funding of capital and other expenditures such as exploration. Final decisions on capital investments and the amounts and timing of any cash distributions for 2016 are ultimately made by Freeport, the mine's operator.



## Selected Quarterly and Annual Financial Information<sup>1</sup>

(\$ millions, except share and per share amounts)	Year ended December 31,		
	2015	2014	2013
<b>Sales</b>	<b>1,701.9</b>	951.3	727.8
Operating costs	(962.7)	(619.7)	(461.2)
General and administrative expenses	(27.1)	(27.3)	(23.5)
<b>Operating earnings</b>	<b>712.1</b>	304.3	243.1
Depreciation, depletion and amortization	(555.0)	(208.7)	(148.1)
General exploration and business development	(59.5)	(74.7)	(43.7)
Income from equity investment in associates	24.6	89.8	94.0
Finance income and costs, net	(89.2)	(28.1)	(12.8)
Other income and expenses, net	4.8	19.1	(1.5)
Asset impairment	(293.3)	(47.1)	-
<b>(Loss) / earnings before income taxes</b>	<b>(255.5)</b>	54.6	131.0
Income tax (expense) / recovery	(26.3)	68.8	5.7
<b>Net (loss) / earnings</b>	<b>(281.8)</b>	123.4	136.7
<b>Attributable to:</b> Lundin Mining shareholders	<b>(294.1)</b>	112.6	136.7
Non-controlling interests	12.3	10.8	-
<b>Net (loss) / earnings</b>	<b>(281.8)</b>	123.4	136.7
<b>Cash flow from operations</b>	<b>713.9</b>	187.4	154.3
<b>Capital expenditures (including capitalized interest)</b>	<b>277.7</b>	421.6	240.6
<b>Total assets</b>	<b>6,780.0</b>	7,326.7	4,432.0
<b>Long-term debt &amp; finance leases</b>	<b>978.0</b>	980.9	225.4
<b>Net debt</b>	<b>441.3</b>	829.2	119.3
<b>Shareholders' equity</b>	<b>4,247.6</b>	4,638.7	3,669.6
<b>Key Financial Data:</b>			
Basic and diluted (loss) / earnings per share attributable to shareholders (EPS)	(0.41)	0.19	0.23
Operating cash flow per share <sup>2</sup>	0.72	0.38	0.31
Dividends	-	-	-
<b>Shares outstanding:</b>			
Basic weighted average	719,089,063	600,442,231	584,276,739
Diluted weighted average	719,089,063	602,357,872	584,938,925
End of period	719,628,357	718,168,173	584,643,063

(\$ millions, except per share data)	Q4-15	Q3-15	Q2-15	Q1-15	Q4-14	Q3-14	Q2-14	Q1-14
<b>Sales</b>	316.0	353.2	501.3	531.5	443.0	166.6	191.8	149.9
<b>Operating earnings</b>	101.0	94.1	243.0	274.0	144.1	42.9	74.2	43.1
<b>Net (loss) / earnings</b>	(383.5)	(35.3)	53.7	83.3	36.6	33.7	39.7	13.3
Attributable to shareholders	(377.7)	(34.6)	46.4	71.8	25.8	33.7	39.7	13.3
<b>EPS - Basic and Diluted</b>	(0.52)	(0.05)	0.06	0.10	0.04	0.06	0.07	0.02
<b>Cash flow from operations</b>	107.1	120.2	262.7	224.0	68.4	57.5	33.8	27.6
<b>Capital expenditures (incl. capitalized interest)</b>	62.0	73.0	78.8	63.9	101.2	128.7	99.3	92.4
<b>Net debt</b>	441.3	453.8	497.2	649.2	829.2	214.7	174.4	155.0

1. Except where otherwise noted, financial data has been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

2. Operating cash flow per share is a non-GAAP measure – see page 46 of this MD&A for discussion of non-GAAP measures.

3. The sum of quarterly amounts may differ from year-to-date results due to rounding.

## Sales Overview

### Sales Volumes by Payable Metal

	2015					2014				
	YTD	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
<b>Copper (tonnes)</b>										
Candelaria (100%) <sup>1</sup>	176,133	38,619	42,345	44,588	50,581	34,636	34,636	-	-	-
Eagle	22,661	6,075	5,689	5,797	5,100	2,114	2,114	-	-	-
Neves-Corvo	54,104	12,675	11,662	14,631	15,136	48,007	14,527	12,136	11,009	10,335
Zinkgruvan	2,065	12	461	906	686	3,427	966	714	881	866
Aguablanca	2,319	186	559	790	784	2,634	689	683	626	636
	<b>257,282</b>	<b>57,567</b>	<b>60,716</b>	<b>66,712</b>	<b>72,287</b>	<b>90,818</b>	<b>52,932</b>	<b>13,533</b>	<b>12,516</b>	<b>11,837</b>
<b>Nickel (tonnes)</b>										
Eagle	23,069	5,756	6,063	5,815	5,435	2,356	2,356	-	-	-
Aguablanca	4,399	324	978	1,415	1,682	5,233	1,462	1,187	1,342	1,242
	<b>27,468</b>	<b>6,080</b>	<b>7,041</b>	<b>7,230</b>	<b>7,117</b>	<b>7,589</b>	<b>3,818</b>	<b>1,187</b>	<b>1,342</b>	<b>1,242</b>
<b>Zinc (tonnes)</b>										
Neves-Corvo	51,279	10,737	12,638	13,744	14,160	54,849	15,629	12,967	15,978	10,275
Zinkgruvan	70,550	20,931	17,243	17,711	14,665	65,802	16,429	17,915	15,109	16,349
Galmoy	-	-	-	-	-	189	-	-	-	189
	<b>121,829</b>	<b>31,668</b>	<b>29,881</b>	<b>31,455</b>	<b>28,825</b>	<b>120,840</b>	<b>32,058</b>	<b>30,882</b>	<b>31,087</b>	<b>26,813</b>
<b>Gold (000 oz)</b>										
Candelaria (100%) <sup>1</sup>	95	20	23	25	27	19	19	-	-	-
	<b>95</b>	<b>20</b>	<b>23</b>	<b>25</b>	<b>27</b>	<b>19</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Lead (tonnes)</b>										
Neves-Corvo	2,767	387	174	1,134	1,072	3,182	279	873	1,081	949
Zinkgruvan	32,093	10,475	8,991	4,999	7,628	30,486	7,541	5,014	11,260	6,671
Galmoy	-	-	-	-	-	99	-	-	-	99
	<b>34,860</b>	<b>10,862</b>	<b>9,165</b>	<b>6,133</b>	<b>8,700</b>	<b>33,767</b>	<b>7,820</b>	<b>5,887</b>	<b>12,341</b>	<b>7,719</b>
<b>Silver (000 oz)</b>										
Candelaria (100%) <sup>1</sup>	1,574	316	349	390	519	350	350	-	-	-
Eagle	93	56	18	8	11	6	6	-	-	-
Neves-Corvo	663	143	118	197	205	707	149	183	209	166
Zinkgruvan	1,936	597	553	378	408	1,798	475	347	612	364
	<b>4,266</b>	<b>1,112</b>	<b>1,038</b>	<b>973</b>	<b>1,143</b>	<b>2,861</b>	<b>980</b>	<b>530</b>	<b>821</b>	<b>530</b>

1. Sales results are for the period of Lundin Mining's ownership, commencing November 3, 2014.

## Sales Analysis

(\$ thousands)	Year ended December 31,					Change \$
	2015		2014			
	\$	%	\$	%		
<b>by Mine</b>						
Candelaria	908,129	53	215,192	23		692,937
Eagle	284,015	17	47,280	5		236,735
Neves-Corvo	292,107	17	373,148	39		(81,041)
Zinkgruvan	155,130	9	194,009	20		(38,879)
Aguablanca	62,566	4	120,421	13		(57,855)
Galmoy	-	-	1,264	-		(1,264)
	<b>1,701,947</b>		<b>951,314</b>			<b>750,633</b>
<b>by Metal</b>						
Copper	1,127,084	66	518,205	54		608,879
Nickel	205,078	12	124,608	13		80,470
Zinc	150,892	9	192,525	20		(41,633)
Gold	106,498	6	22,061	2		84,437
Lead	49,258	3	59,696	6		(10,438)
Silver	37,623	2	19,787	2		17,836
Other	25,514	2	14,432	3		11,082
	<b>1,701,947</b>		<b>951,314</b>			<b>750,633</b>

Sales for the year ended December 31, 2015 were \$1,701.9 million, an increase of \$750.6 million in comparison to the \$951.3 million reported in 2014. The increase was mainly due to the incremental sales from Candelaria (\$692.9 million) and Eagle (\$236.7 million), primarily as a result of a full year of operation in 2015, partially offset by lower realized metal prices and price adjustments (\$173.9 million) from our European operations.

Sales of gold and silver for the year ended December 31, 2015 include the partial recognition of an upfront purchase price on the sale of precious metals streams for Candelaria, Neves-Corvo, and Zinkgruvan as well as the cash proceeds which amount to \$400/oz for gold and between \$4.00/oz and \$4.27/oz for silver.

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 can range from one to six months after shipment.

### Provisionally valued sales for the year ended December 31, 2015

Metal	Tonnes Payable	Valued at \$ per lb	Valued at \$ per tonne
Copper	70,302	2.14	4,709
Nickel	5,779	3.99	8,802
Zinc	16,704	0.73	1,601

## Full Year Reconciliation of Realized Prices

(\$ thousands)	Year ended December 31, 2015				Year ended December 31, 2014			
	Copper	Nickel	Zinc	Total	Copper	Nickel	Zinc	Total
Current period sales <sup>1</sup>	1,342,658	295,022	227,774	1,865,454	596,191	128,543	264,898	989,632
Prior period price adjustments	(57,952)	(5,163)	(2,090)	(65,205)	(24,334)	(218)	(1,062)	(25,614)
	1,284,706	289,859	225,684	1,800,249	571,857	128,325	263,836	964,018
Other metal sales				234,327				126,339
Less: TC/RC				(332,629)				(139,043)
<b>Total Sales</b>				<b>1,701,947</b>				<b>951,314</b>
<b>Payable Metal (tonnes)</b>	<b>257,282</b>	<b>27,468</b>	<b>121,829</b>		<b>90,818</b>	<b>7,589</b>	<b>120,840</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 2.37	\$ 4.87	\$ 0.85		\$ 2.98	\$ 7.68	\$ 0.99	
Prior period adjustments (\$/lb)	(0.11)	(0.08)	(0.01)		(0.12)	(0.01)	-	
<b>Realized prices (\$/lb)</b>	<b>\$ 2.26</b>	<b>\$ 4.79</b>	<b>\$ 0.84</b>		<b>\$ 2.86</b>	<b>\$ 7.67</b>	<b>\$ 0.99</b>	

1. Includes provisional price adjustments on current period sales.

## Annual Financial Results

### Operating Costs

Operating costs (excluding depreciation) for the year ended December 31, 2015 were \$962.7 million, an increase of \$343.0 million in comparison to the \$619.7 million reported in 2014. The increase was largely due to the inclusion of a full year of operating results from Candelaria and Eagle of \$309.5 million and \$136.6 million, respectively, partially offset by favourable foreign exchange rates in the € and SEK (\$74.8 million).

### Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expense for the year ended December 31, 2015 was \$555.0, an increase of \$346.3 million in comparison to the \$208.7 million reported in 2014. The increase was attributable to the inclusion of a full year of operating results from Candelaria and Eagle of \$238.2 million and \$122.3 million, respectively. \$125.4 million of Candelaria's depreciation relates to the amortization of deferred stripping costs that were previously capitalized. The corresponding deferred stripping asset balance at December 31, 2015 was approximately \$365 million.

Depreciation by operation (\$ thousands)	Year ended December 31,		
	2015	2014	Change
Candelaria	287,452	49,244	238,208
Eagle	146,598	24,250	122,348
Neves-Corvo	83,630	96,551	(12,921)
Zinkgruvan	23,532	29,521	(5,989)
Aguablanca	13,431	8,409	5,022
Other	378	728	(350)
	555,021	208,703	346,318

### General Exploration and Business Development

General exploration and business development costs decreased from \$74.7 million in 2014 to \$59.5 million for the year ended December 31, 2015. The decrease is largely attributable to lower corporate development costs in the current year, partly offset by general exploration activities at Candelaria. Costs in 2014 included \$25.7 million in Candelaria transactions costs and \$13.4 million for project development costs consisting primarily of indirect project costs for Eagle.

### 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 \$24.6 million were recognized for the year ended December 31, 2015 (2014 - \$88.0 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, 2015, net finance costs increased \$61.1 million from the prior year. The increase was primarily attributable to a full year of interest expense (\$62.8 million) related to the Company's senior secured notes.

### Other Income and Expense

Net other income for the year ended December 31, 2015 was \$4.8 million compared to \$19.1 million for the year ended December 31, 2014. The largest factor in the decrease in other income was a payment of \$7.0 million made

by Candelaria in the year to the Municipality of Tierra Amarilla, Chile, as the initial payment pursuant to terms in the Settlement and Community Development Agreements for funding sustainable social programs.

Foreign exchange gains and losses recorded in Other Income and Expense relate to working capital denominated in foreign currencies that was held by the Company's subsidiaries. Period end exchange rates having a meaningful impact on such subsidiaries at December 31, 2015 were \$1.00:CLP710 (December 31, 2014 - \$1.00:CLP607), \$1.09:€1.00 (December 31, 2014 - \$1.21:€1.00) and \$1.00:SEK8.35 (December 31, 2014 - \$1.00:SEK7.81).

### Goodwill and Asset Impairment

Estimated recoverable value of our operating assets are subject to a number of assumptions including forecast metal prices, treatment and refining charges, mineral reserve and resource quantities, operating costs, capital expenditures, reclamation and other closure costs, discount rates and foreign exchange rates. Most notably, the decline in forecast metal prices has had a significant impact on the estimated recoverable amount of our operating assets and exploration properties, resulting in impairments in the current year, as noted below:

- Candelaria – impairment losses on goodwill (\$98.1 million) and mineral properties (\$48.2 million) as a result of the decrease in the Company's short-term metal price forecast primarily for the years 2016-2018.
- Eagle - impairment loss of \$62.9 million on mineral properties. The Eagle mine has a relatively short mine life and as such lower near-term nickel pricing had a significant impact on the recoverable amount of the asset.
- Neves-Corvo – impairment loss of \$42.6 million on goodwill, primarily as a result of short-term metal prices forecast, partially offset by positive foreign exchange assumptions.
- Aguablanca – as a result of significant nickel and copper price declines and expectations of continued financial losses, the Board of Directors approved management's plans to close the mine. Accordingly, a \$34.9 million impairment of mineral properties and \$2.7 million write down of plant and equipment, including assets under construction, have been recorded.
- Exploration properties - the Company recognized an exploration property impairment of \$3.9 million related to the valuation of exploration concessions.

Impairment by operation	Year ended December 31,			
	2015		Impairment, net of tax	2014
(\$ thousands)	Impairment	Tax Impact		Impairment, net of tax
Candelaria	146,274	(15,290)	130,984	-
Eagle	62,928	-	62,928	-
Neves-Corvo	42,624	-	42,624	32,239
Aguablanca	37,598	-	37,598	-
Exploration properties	3,861	-	3,861	-
	293,285	(15,290)	277,995	32,239

## Income Taxes

### Income taxes by mine

Income tax expense (recovery) (\$ thousands)	Year ended December 31,		
	2015	2014	Change
Candelaria	(590)	2,376	(2,966)
Eagle	22,921	(20,132)	43,053
Neves-Corvo	(14,112)	(34,173)	20,061
Zinkgruvan	5,949	(7,143)	13,092
Aguablanca	12,372	10,265	2,107
Other	(294)	(19,929)	19,635
	<b>26,246</b>	<b>(68,736)</b>	<b>94,982</b>

### Income taxes by classification

Income tax expense (recovery) (\$ thousands)	Year ended December 31,		
	2015	2014	Change
Current income tax	68,769	5,300	63,469
Deferred income tax	(42,523)	(74,036)	31,513
	<b>26,246</b>	<b>(68,736)</b>	<b>94,982</b>

Income tax expense for the year ended December 31, 2015 was \$26.2 million compared to a \$68.7 million recovery recorded in the prior year.

The increase in net income tax expense at Eagle is the result of a deferred tax expense of \$22.9 million arising from the write-down of a deferred tax asset relating to taxable losses recorded in prior periods. Due to the significant decrease in forecasted metal prices, it has been determined that it is no longer probable that sufficient taxable profit will be available in the future to utilize the accumulated tax losses.

Neves-Corvo's decrease in tax recovery is the result of an impairment related to its Portuguese exploration concessions in 2014 (tax impact of \$14.8 million) and lower future tax rates in 2014 (\$6.7 million).

The increase of \$13.1 million in net income tax expense at Zinkgruvan is largely due to the utilization of losses in 2014 of related companies.

The decrease in other net income tax recovery is the result of a 2014 reversal of a previously unrecognized deferred tax asset of \$22.2 million in Canada, partially offset by a \$5.2 million payable recorded for withholding tax on accrued intercompany interest income.

## Fourth Quarter Financial Results

### Sales

Sales for the quarter ended December 31, 2015 were \$316.0 million, a decrease of \$127.0 million in comparison to the fourth quarter of the prior year (\$443.0 million). The decrease was mainly due to lower realized metal prices and price adjustments (\$175.4 million), partly offset by higher sales volumes (\$63.5 million) largely attributable to an extra month of sales results included in the current quarter from both Candelaria and Eagle. Lundin's interest in Candelaria and Eagle's first concentrate sales both commenced in November of 2014.

### Fourth Quarter Reconciliation of Realized Prices

(\$ thousands)	Three months ended December 31, 2015				Three months ended December 31, 2014			
	Copper	Nickel	Zinc	Total	Copper	Nickel	Zinc	Total
Current period sales <sup>1</sup>	271,301	53,416	50,446	375,163	334,673	58,930	70,954	464,557
Prior period price adjustments	(26,571)	(7,110)	(348)	(34,029)	(15,536)	(1,083)	(357)	(16,976)
	244,730	46,306	50,098	341,134	319,137	57,847	70,597	447,581
Other metal sales				54,890				51,207
Less: TC/RC				(80,035)				(55,757)
<b>Total Sales</b>				<b>315,989</b>				<b>443,031</b>
<b>Payable Metal (tonnes)</b>	<b>57,567</b>	<b>6,080</b>	<b>31,668</b>		<b>52,932</b>	<b>3,818</b>	<b>32,058</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 2.14	\$ 3.99	\$ 0.72		\$ 2.87	\$ 7.00	\$ 1.00	
Prior period adjustments (\$/lb)	(0.21)	(0.54)	-		(0.14)	(0.13)	-	
<b>Realized prices (\$/lb)</b>	<b>\$ 1.93</b>	<b>\$ 3.45</b>	<b>\$ 0.72</b>		<b>\$ 2.73</b>	<b>\$ 6.87</b>	<b>\$ 1.00</b>	

1. Includes provisional price adjustments on current period sales.

### Operating Earnings

Operating earnings for the quarter ended December 31, 2015 were \$101.0 million, a decrease of \$43.1 million in comparison to the fourth quarter of the prior year (\$144.1 million). The decrease was again primarily due to lower realized metal prices and price adjustments (\$175.4 million), partly offset by higher sales volumes (\$41.7 million) largely attributable to an extra month of operating results included in the current year from both Candelaria and Eagle, lower per unit operating costs (\$66.5 million), and favourable foreign exchange rates (\$30.2 million).

### Net Earnings

Net loss for the quarter ended December 31, 2015 was \$383.5 million compared to net earnings of \$36.6 million in the fourth quarter of the prior year. Before the after-tax impact of impairment, the net loss for the current quarter was \$105.6 million, compared with the net earnings of \$68.9 million in the prior year. Net loss, before the impact of after-tax impairment, was impacted by:

- higher net income tax expense (\$87.0 million), due primarily to the write-down of Eagle's deferred tax asset in the current quarter of \$35.4 million and the reversal of previously unrecognized Corporate deferred tax assets in the fourth quarter of 2014; and
- lower operating earnings, primarily the result of lower realized metal prices and price adjustments (\$43.1 million); and
- higher depreciation, depletion and amortization expense (\$24.3 million) largely associated with an additional month of operations at Eagle and the inclusion of an additional month of results from Candelaria; and
- lower income from investment in Tenke (\$20.4 million).



**Cash Flow from Operations**

Cash flow from operations for the quarter ended December 31, 2015 was \$107.1 million, an increase of \$38.5 million in comparison to the fourth quarter of the prior year (\$68.6 million). The increase was primarily due to changes in non-cash working capital and long-term inventory (\$65.4 million) and Candelaria transaction fees of \$20.6 million paid in the fourth quarter of 2014, partially offset by lower operating earnings (\$43.1 million) primarily due to lower metal prices.

## Mining Operations

### Production Overview

	2015					2014				
	YTD	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
<b>Copper (tonnes)</b>										
Candelaria (80%) <sup>1</sup>	144,832	31,875	36,156	37,321	39,480	22,872	22,872	-	-	-
Eagle	24,331	5,996	6,514	5,403	6,418	3,905	3,606	299	-	-
Neves-Corvo	55,831	11,078	13,917	15,348	15,488	51,369	14,220	10,904	13,480	12,765
Zinkgruvan	2,044	5	475	974	590	3,464	1,034	544	903	983
Aguablanca	6,221	466	1,658	1,975	2,122	7,390	2,020	1,919	1,799	1,652
Tenke (24%)	48,951	11,998	11,761	12,544	12,648	48,636	11,622	12,694	12,449	11,871
	<b>282,210</b>	<b>61,418</b>	<b>70,481</b>	<b>73,565</b>	<b>76,746</b>	<b>137,636</b>	<b>55,374</b>	<b>26,360</b>	<b>28,631</b>	<b>27,271</b>
<b>Nickel (tonnes)</b>										
Eagle	27,167	7,074	6,438	6,349	7,306	4,300	4,093	207	-	-
Aguablanca	7,213	514	1,708	2,245	2,746	8,631	2,481	1,958	2,212	1,980
	<b>34,380</b>	<b>7,588</b>	<b>8,146</b>	<b>8,594</b>	<b>10,052</b>	<b>12,931</b>	<b>6,574</b>	<b>2,165</b>	<b>2,212</b>	<b>1,980</b>
<b>Zinc (tonnes)</b>										
Neves-Corvo	61,921	14,196	14,363	16,022	17,340	67,378	17,333	17,908	17,909	14,228
Zinkgruvan	83,451	25,339	18,458	21,237	18,417	77,713	19,131	20,050	19,293	19,239
	<b>145,372</b>	<b>39,535</b>	<b>32,821</b>	<b>37,259</b>	<b>35,757</b>	<b>145,091</b>	<b>36,464</b>	<b>37,958</b>	<b>37,202</b>	<b>33,467</b>
<b>Gold (000 oz)</b>										
Candelaria (80%) <sup>1</sup>	82	18	20	22	22	13	13	-	-	-
	<b>82</b>	<b>18</b>	<b>20</b>	<b>22</b>	<b>22</b>	<b>13</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Lead (tonnes)</b>										
Neves-Corvo	3,077	311	366	1,080	1,320	3,192	467	866	1,054	805
Zinkgruvan	34,120	10,733	8,609	7,379	7,399	32,363	7,503	6,531	9,196	9,133
	<b>37,197</b>	<b>11,044</b>	<b>8,975</b>	<b>8,459</b>	<b>8,719</b>	<b>35,555</b>	<b>7,970</b>	<b>7,397</b>	<b>10,250</b>	<b>9,938</b>
<b>Silver (000 oz)</b>										
Candelaria (80%) <sup>1</sup>	1,499	315	347	371	466	254	254	-	-	-
Eagle	210	63	60	46	41	22	22	-	-	-
Neves-Corvo	1,329	269	310	359	391	1,388	322	322	406	338
Zinkgruvan	2,542	729	627	622	564	2,433	602	550	632	649
	<b>5,580</b>	<b>1,376</b>	<b>1,344</b>	<b>1,398</b>	<b>1,462</b>	<b>4,097</b>	<b>1,200</b>	<b>872</b>	<b>1,038</b>	<b>987</b>

1. Production results are for the period of Lundin Mining's ownership, commencing November 3, 2014.

## Cash Cost Overview

Cash cost/lb (US dollars)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
<b>Candelaria</b> <sup>1</sup>				
Gross cost	1.32	1.70	1.44	1.70
By-product <sup>2</sup>	(0.18)	(0.21)	(0.19)	(0.21)
<b>Net Cost - cost/lb Cu</b>	<b>1.14</b>	<b>1.49</b>	<b>1.25</b>	<b>1.49</b>
<b>Eagle</b>				
Gross cost	4.20	5.50	4.45	5.50
By-product <sup>2</sup>	(2.14)	(2.71)	(2.43)	(2.71)
<b>Net Cost - cost/lb Ni</b>	<b>2.06</b>	<b>2.79</b>	<b>2.02</b>	<b>2.79</b>
<b>Neves-Corvo</b>				
Gross cost	2.34	2.52	2.18	2.72
By-product <sup>2</sup>	(0.38)	(0.77)	(0.55)	(0.87)
<b>Net Cost - cost/lb Cu</b>	<b>1.96</b>	<b>1.75</b>	<b>1.63</b>	<b>1.85</b>
<b>Zinkgruvan</b>				
Gross cost	0.64	0.92	0.76	0.95
By-product <sup>2</sup>	(0.37)	(0.55)	(0.39)	(0.58)
<b>Net Cost - cost/lb Zn</b>	<b>0.27</b>	<b>0.37</b>	<b>0.37</b>	<b>0.37</b>
<b>Aguablanca</b> <sup>3</sup>				
Gross cost	11.53	6.00	4.65	6.90
By-product <sup>2</sup>	(2.43)	(2.26)	(1.93)	(2.52)
<b>Net Cost - cost/lb Ni</b>	<b>9.10</b>	<b>3.74</b>	<b>2.72</b>	<b>4.38</b>

1. Cash cost results are for the period of Lundin Mining's ownership, commencing November 3, 2014.

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

3. Cash cost results in the current year are for the one month and ten month periods ended October 31, 2015, on completion of milling of stockpiled ore and suspension of operations.

## Capital Expenditures (including capitalized interest)

(\$ thousands)	Year ended December 31,							
	2015				2014			
	Sustaining	Expansionary	Capitalized Interest	Total	Sustaining	Expansionary	Capitalized Interest	Total
<b>by Mine</b>								
Candelaria	165,250	-	2,413	167,663	18,320	-	-	18,320
Eagle	14,540	7,258	-	21,798	5,727	272,224	7,573	285,524
Neves-Corvo	43,484	-	-	43,484	52,574	21,629	-	74,203
Zinkgruvan	25,459	2,267	-	27,726	28,063	-	-	28,063
Aguablanca	16,845	-	-	16,845	985	13,894	-	14,879
Other	226	-	-	226	568	-	-	568
	265,804	9,525	2,413	277,742	106,237	307,747	7,573	421,557

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

## Candelaria

*Compañía Contractual Minera Candelaria ("CCMC") and Compañía Contractual Minera Ojos del Salado ("CCMO"), collectively "Candelaria", are located near Copiapó in the Atacama Province, Region III of Chile. The Company holds an indirect 80 percent ownership interest in Candelaria with the remaining 20 percent interest indirectly held by Sumitomo Metal Mining Co., Ltd and Sumitomo Corporation. CCMC consists of an open pit mine and an underground mine, Candelaria Norte, providing copper ore to an on-site processing plant. CCMO consists of two underground mines, Santos and Alcaparrosa, and the Pedro Aguirre Cerde (PAC) processing plant. The Santos mine provides copper ore to the PAC plant, while ore from the Alcaparrosa mine is treated at the CCMC plant. The CCMC plant has a processing capacity of 24.5 mtpa, and the PAC plant has a capacity of 1.3 mtpa, both producing copper in concentrate. The primary metal is copper, with gold and silver as by-product metals.*

## Operating Statistics

(100% Basis) <sup>1</sup>	2015					2014				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined (000s tonnes)	<b>33,922</b>	8,012	8,240	9,022	8,648	4,855	4,855	n/a	n/a	n/a
Ore milled (000s tonnes)	<b>30,133</b>	7,943	7,933	7,327	6,930	4,347	4,347	n/a	n/a	n/a
Grade										
Copper (%)	<b>0.64</b>	0.53	0.61	0.68	0.78	0.72	0.72	n/a	n/a	n/a
Recovery										
Copper (%)	<b>92.7</b>	92.2	92.4	94.0	92.6	91.8	91.8	n/a	n/a	n/a
Production (contained metal)										
Copper (tonnes)	<b>181,040</b>	39,844	45,195	46,651	49,350	28,590	28,590	n/a	n/a	n/a
Gold (000 oz)	<b>102</b>	22	25	27	28	16	16	n/a	n/a	n/a
Silver (000 oz)	<b>1,874</b>	394	433	464	583	318	318	n/a	n/a	n/a
Sales (\$000s)	<b>908,129</b>	167,451	191,964	256,524	292,190	215,192	215,192	n/a	n/a	n/a
Operating earnings (\$000s)	<b>451,240</b>	79,475	66,737	141,338	163,690	67,801	67,801	n/a	n/a	n/a
Cash cost (\$ per pound) <sup>2</sup>	<b>1.25</b>	1.14	1.44	1.21	1.20	1.49	1.49	n/a	n/a	n/a

1. Operating results are for the period of Lundin Mining's ownership, commencing November 3, 2014.

2. Includes the impact of the streaming agreement but excludes any allocation of upfront cash received under the streaming agreement.

## Operating Earnings

Sales for the year ended December 31, 2015 were \$908.1 million with \$774.5 million from copper, and \$105.5 million, \$24.0 million and \$4.1 million coming from gold, silver and magnetite, respectively, compared to sales of \$215.2 million for 2014.

Operating earnings of \$451.2 million for the year ended December 31, 2015 were \$383.4 million higher than 2014. The increase was attributable to a full year of operations included in the Company's current year results, compared to two months of operations included in the Company's prior year results.

## Production

Copper production for the year ended December 31, 2015 was 181,040 tonnes compared to 28,590 tonnes produced under Lundin's ownership in the last two months of 2014.

## Cash Costs

Copper cash costs for the year ended December 31, 2015 were \$1.25/lb, lower than cash costs of \$1.49/lb in the prior year due primarily to reductions in operational costs from aggressive cost reduction plans including contractor costs, operational efficiencies and increased productivity (\$0.16/lb), in addition to favourable foreign exchange rates (\$0.13/lb).

Cash costs for the year were lower than full year guidance of \$1.35/lb due to cost reduction plans, operational efficiencies, increased productivity, lower diesel prices and favourable foreign exchange rates.

Approximately 65,000 oz of gold and 1,157,000 oz of silver were subject to terms of a streaming agreement in which \$400/oz and \$4.00/oz were received for gold and silver, respectively.

### **Projects**

The Los Diques tailings facility progressed on budget and on schedule. Early construction activities commenced during the year and included relocation of power lines, miscellaneous earth works and construction of temporary facilities. The processing plant that will produce engineered materials for provincial road relocation and main dam construction was shipped in December with arrival expected in the first quarter of 2016. Numerous sectorial (construction) permits for early works were approved allowing advancement on many fronts, with the most recent being provincial road relocation which is on the critical path. Discussions with authorities regarding permit applications submitted for the main tailings dam embankments are progressing, with these key approvals expected in the second half of 2016. Total project costs between 2016 and 2018 are currently estimated to be \$325 million with \$70 million expected to be spent in 2016.

## Eagle Mine

The Eagle Mine 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 mill has a processing capacity of 0.7 mtpa, producing nickel and copper in concentrates. The primary metal is nickel, with copper, cobalt, gold, and platinum-group metals as by-product metals.

### Operating Statistics

	2015					2014				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined (000s tonnes)	740	190	191	175	184	198	126	72	nil	nil
Ore milled (000s tonnes)	746	183	193	184	186	174	138	36	nil	nil
Grade										
Nickel (%)	4.3	4.3	3.9	4.2	4.7	3.2	3.6	1.3	nil	nil
Copper (%)	3.4	3.4	3.5	3.1	3.6	2.4	2.8	1.0	nil	nil
Recovery										
Nickel (%)	84.2	83.8	85.0	84.4	83.5	78.5	81.8	43.7	nil	nil
Copper (%)	97.0	97.9	97.3	96.4	96.4	93.9	94.9	83.2	nil	nil
Production (contained metal)										
Nickel (tonnes)	27,167	7,074	6,438	6,349	7,306	4,300	4,093	207	nil	nil
Copper (tonnes)	24,331	5,996	6,514	5,403	6,418	3,905	3,606	299	nil	nil
Sales (\$000s)	284,015	50,611	59,981	85,032	88,391	47,280	47,280	nil	nil	nil
Operating earnings / (loss) (\$000s)	128,595	13,676	18,489	40,297	56,133	28,484	28,597	(32)	(43)	(38)
Cash cost (\$ per pound)	2.02	2.06	2.38	2.15	1.45	2.79	2.79	nil	nil	nil

### Operating Earnings

Sales for the year ended December 31, 2015 were \$284.0 million; \$160.5 million from nickel, \$106.4 million from copper, and \$17.1 million from other metals compared to sales of \$47.3 million for 2014.

Operating earnings for the year ended December 31, 2015 of \$128.6 million were \$100.1 million higher than 2014. The increase was due to a full year of operations at Eagle in the current year, compared to only a partial year of operations in the prior year as the start of commercial production began in November 2014.

### Production

Nickel production for the year ended December 31, 2015 was 27,167 tonnes compared to 4,300 tonnes in the prior year, while copper production was 24,331 tonnes compared to 3,905 tonnes in the prior year. The increase in both metals was again due to a full year of operations at Eagle in the current year. Production for both metals also exceeded full year guidance primarily due to higher recoveries, with the mill performing above expectations.

### Cash Costs

Nickel cash costs for the year ended December 31, 2015 of \$2.02/lb were lower than the \$2.79/lb reported in the prior year. The decrease in cash costs is due to efficiencies realized in 2015 as the operations ramped up to their designed capacity.

Cash costs for the year were in-line with full year guidance of \$2.00/lb. Lower freight charges and targeted cost savings in response to nickel market conditions were offset by lower realized prices on by-product credits and higher treatment costs associated with the customer mix.

## Neves-Corvo Mine

Neves-Corvo consists of an underground mine and an on-site processing facility, located 100 km north of Faro, Portugal, in the western part of the Iberian Pyrite Belt. The copper plant has a processing capacity of 2.5 mtpa, producing copper in concentrate, and the zinc plant has a capacity of 1.2 mtpa with the ability to process zinc or copper ore, producing zinc or copper in concentrate. The primary metal is copper, with zinc, lead and silver as by-product metals.

### Operating Statistics

	Total	2015				2014				
		Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined, copper (000 tonnes)	<b>2,501</b>	583	614	673	631	2,540	647	619	636	638
Ore mined, zinc (000 tonnes)	<b>1,000</b>	241	255	254	250	1,119	282	268	298	271
Ore milled, copper (000 tonnes)	<b>2,542</b>	584	619	699	640	2,503	604	623	631	645
Ore milled, zinc (000 tonnes)	<b>1,014</b>	240	257	258	259	1,102	266	269	296	271
Grade										
Copper (%)	<b>2.7</b>	2.4	2.8	2.7	2.9	2.5	3.0	2.3	2.5	2.3
Zinc (%)	<b>8.0</b>	7.5	8.1	7.9	8.5	8.0	8.4	8.8	7.6	7.0
Recovery										
Copper (%)	<b>80.6</b>	79.6	79.1	81.1	82.4	80.2	78.7	77.6	81.6	81.9
Zinc (%)	<b>71.8</b>	75.6	63.3	73.6	74.9	74.0	75.0	73.1	74.6	72.7
Production (contained metal)										
Copper (tonnes)	<b>55,831</b>	11,078	13,917	15,348	15,488	51,369	14,220	10,904	13,480	12,765
Zinc (tonnes)	<b>61,921</b>	14,196	14,363	16,022	17,340	67,378	17,333	17,908	17,909	14,228
Lead (tonnes)	<b>3,077</b>	311	366	1,080	1,320	3,192	467	866	1,054	805
Silver (000 oz)	<b>1,329</b>	270	310	359	390	1,388	321	322	407	338
Sales (\$000s)	<b>292,107</b>	55,543	56,268	93,673	86,623	373,148	104,640	94,875	97,361	76,272
Operating earnings / (loss) (\$000s)	<b>71,316</b>	(439)	6,991	34,051	30,713	109,394	25,853	24,527	39,035	19,979
Cash cost (€ per pound)	<b>1.47</b>	1.80	1.64	1.29	1.24	1.40	1.41	1.48	1.19	1.53
Cash cost (\$ per pound)	<b>1.63</b>	1.96	1.83	1.43	1.39	1.85	1.75	1.96	1.62	2.10

### Operating Earnings

Operating earnings of \$71.3 million for the year ended December 31, 2015 were \$38.1 million lower than 2014. The decrease is mainly attributable to lower metal prices and price adjustments (\$100.9 million), partially offset by favourable foreign exchange rates (\$42.0 million) and higher net sales volumes (\$15.3 million).

### Production

Copper production for the year ended December 31, 2015 was higher than in 2014 by 4,462 tonnes (or 9%). The increase can largely be attributed to average higher copper head grades and recoveries.

Zinc production for the year ended December 31, 2015 was lower than the comparable period in 2014 by 5,457 tonnes (or 8%). The decrease is largely attributable to lower mill throughput and lower zinc recoveries. While lower zinc recoveries had a significant impact on production earlier in the year, substantial improvements have been made over the last several months in zinc plant performance.

### Cash Costs

Copper cash costs of \$1.63/lb for the year ended December 31, 2015 were in-line with our latest guidance and lower than 2014 cash costs of \$1.85/lb. The decrease from the prior period was a result of favourable foreign exchange rates (\$0.38/lb) and lower operating costs (\$0.22/lb), partially offset by lower by-product credits (\$0.31/lb).

### Projects

The Feasibility Study examining an expansion of the zinc operations at Neves-Corvo is complete, however an investment decision on zinc expansion continues to be deferred pending improved metal markets.

## Zinkgruvan Mine

The Zinkgruvan mine consists of an underground mine and on-site processing facilities, located approximately 250 km south-west of Stockholm, Sweden. The zinc plant has a processing capacity of 1.1 mtpa, producing zinc and lead in concentrate, and the copper plant has a capacity of 0.3 mtpa with the ability to process copper or zinc-lead ore, producing copper, or zinc and lead in concentrate. The primary metal is zinc, with lead, silver, and copper as by-product metals.

### Operating Statistics

	Total	2015				2014				
		Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined, zinc (000 tonnes)	<b>1,126</b>	313	257	289	267	1,063	265	279	262	257
Ore mined, copper (000 tonnes)	<b>137</b>	nil	40	52	45	167	42	36	55	34
Ore milled, zinc (000 tonnes)	<b>1,096</b>	307	260	267	262	1,054	270	264	272	248
Ore milled, copper (000 tonnes)	<b>139</b>	nil	52	43	44	167	43	42	47	35
Grade										
Zinc (%)	<b>8.3</b>	9.0	7.7	8.6	7.6	8.2	7.7	8.4	8.0	8.6
Lead (%)	<b>3.8</b>	4.2	4.0	3.4	3.4	3.7	3.4	3.1	4.1	4.4
Copper (%)	<b>1.7</b>	nil	1.1	2.4	1.5	2.3	2.6	1.5	2.2	2.9
Recovery										
Zinc (%)	<b>92.1</b>	91.5	91.5	92.8	92.6	90.4	92.7	90.6	88.6	89.9
Lead (%)	<b>82.9</b>	83.0	83.7	82.4	82.6	82.5	82.1	80.0	83.3	84.0
Copper (%)	<b>88.1</b>	nil	80.1	91.9	89.0	90.7	92.6	85.7	88.2	94.2
Production (contained metal)										
Zinc (tonnes)	<b>83,451</b>	25,339	18,458	21,237	18,417	77,713	19,131	20,050	19,293	19,239
Lead (tonnes)	<b>34,120</b>	10,733	8,609	7,379	7,399	32,363	7,503	6,531	9,196	9,133
Copper (tonnes)	<b>2,044</b>	5	475	974	590	3,464	1,034	544	903	983
Silver (000 oz)	<b>2,542</b>	729	627	622	564	2,433	603	550	631	649
Sales (\$000s)	<b>155,130</b>	40,082	35,883	41,301	37,864	194,009	47,554	48,233	55,144	43,078
Operating earnings (\$000s)	<b>74,870</b>	21,697	13,425	23,144	16,604	89,591	22,892	22,861	27,299	16,539
Cash cost (SEK per pound)	<b>3.16</b>	2.29	3.44	3.65	3.49	2.55	2.71	3.33	1.10	2.89
Cash cost (\$ per pound)	<b>0.37</b>	0.27	0.41	0.43	0.42	0.37	0.37	0.48	0.17	0.45

### Operating Earnings

Operating earnings for the year of \$74.9 million were \$14.7 million lower than the \$89.6 million reported in 2014. Lower metal prices and price adjustments (\$37.4 million) were partially offset by favourable foreign exchange rates (\$19.7 million).

### Production

Zinc and lead production reached record levels in the quarter, and full year zinc production was a new record high. Both the annual total mine ore production and plant throughput reached record highs. Zinc production of 83,451 tonnes and lead production of 34,120 tonnes for the full year were 7% and 5% higher, respectively, than 2014 levels.

Copper production for the year met full year guidance expectations, but was lower than 2014 copper production as the copper plant shifted its focus to processing zinc ore.

### Cash Costs

Zinc cash costs of \$0.37/lb for the year were in-line with prior year cash costs of \$0.37/lb, but lower than full year guidance of \$0.40/lb. Cash costs were lower than guidance largely as a result of favourable foreign exchange rates.



**Projects**

Due to the sustained improvements in mine production, a study was undertaken, with positive results, to evaluate the feasibility and economics of increasing overall mill capacity by approximately 10%. This is a low cost brownfield plant improvement project focused primarily on increased grinding capacity and improved plant availability. The project has been suspended pending an improvement in the zinc metal markets. Major equipment items and key elements of engineering have already been secured as part of a \$16 million investment and the project is scheduled to commence in the second half of 2016 in anticipation of an improving zinc price environment.

## Aguablanca Mine

The Aguablanca mine consists of an underground mine and an on-site processing facility, located in the province of Badajoz, 80 km by road from Seville, Spain, and 140 km from a major seaport at Huelva. The plant has a processing capacity of 1.9 mtpa, producing nickel-copper bulk concentrate. The primary metal is nickel, with copper, cobalt, gold, and platinum-group metals as by-product metals. Underground mining operations were suspended in the third quarter of 2015 and on January 28, 2016, the Company advised local authorities and employees of its intention to permanently close the Aguablanca mine.

### Operating Statistics

	Total	2015				2014				
		Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined (000s tonnes)	<b>616</b>	nil	51	187	378	1,755	600	606	365	184
Ore milled (000s tonnes)	<b>1,292</b>	100	376	392	424	1,660	432	384	426	418
Grade										
Nickel (%)	<b>0.68</b>	0.65	0.58	0.70	0.77	0.63	0.69	0.62	0.63	0.58
Copper (%)	<b>0.52</b>	0.50	0.48	0.54	0.54	0.47	0.50	0.53	0.45	0.42
Recovery										
Nickel (%)	<b>81.1</b>	77.0	78.4	82.0	83.7	82.5	83.3	82.0	82.5	82.0
Copper (%)	<b>93.1</b>	90.6	93.0	93.4	93.4	93.9	93.4	94.0	94.0	94.2
Production (contained metal)										
Nickel (tonnes)	<b>7,213</b>	514	1,708	2,245	2,746	8,631	2,481	1,958	2,212	1,980
Copper (tonnes)	<b>6,221</b>	466	1,658	1,975	2,122	7,390	2,020	1,919	1,799	1,652
Sales (\$000s)	<b>62,566</b>	2,302	9,055	24,749	26,460	120,421	28,365	23,509	39,258	29,289
Operating earnings / (loss) (\$000s)	<b>16,062</b>	(5,863)	(4,477)	11,389	15,013	38,072	7,681	2,264	15,117	13,010
Cash cost (€ per pound) <sup>1</sup>	<b>2.44</b>	8.10	4.71	1.55	0.81	3.32	2.99	4.48	3.70	2.18
Cash cost (\$ per pound) <sup>1</sup>	<b>2.72</b>	9.10	5.23	1.72	0.91	4.38	3.74	5.89	5.05	2.98

1. Nickel cash costs per pound for the fourth quarter and full year of 2015 are for the period ended October 31, 2015, as mining and milling operations ceased.

### Operating Earnings

Operating earnings for the year were \$16.1 million compared to \$38.1 million in 2014. The decrease is a result of lower metal prices and price adjustments and the suspension of underground mining operations in the third quarter of 2015.

### Production

Nickel and copper production of 7,213 tonnes and 6,221 tonnes, respectively, exceeded guidance for the year ended December 31, 2015 but were approximately 16% lower than the comparable period in 2014. The combination of a transition from open pit to underground mining, and the suspension of operations contributed to the decrease in production from prior year.

In late July 2015, the Company was formally notified that Spanish environmental authorities would require a full environmental evaluation of the transition from open pit to underground mining. The Company responded by promptly submitting EIA documentation, however the authorities required the suspension of underground production activities pending the receipt of the mining method change approval. The process plant completed milling of stockpiled ore in October 2015.

In January 2016, the Company advised local authorities and employees that, in light of the current market prices for nickel and copper and expectations of continued financial losses, the mine would be permanently closed. The Company is working with authorities to move the operation into active closure activities and begin site remediation immediately following receipt of necessary approvals.

**Cash Costs**

Nickel cash costs of \$2.72/lb for the ten months ended October 31, 2015 were lower than the full year results from 2014 primarily due milling of low cost surface stockpiles for three months, lower maintenance costs and favourable foreign exchange rates in 2015. Nickel cash costs were slightly higher than the latest guidance of \$2.60/lb due to lower by-product credits as a result of lower metal prices.

## Tenke Fungurume

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. Tenke Fungurume consists of an open-pit mine and on-site processing facilities located in the southeast region of the Democratic Republic of Congo. The processing facilities have a capacity of 5.6 mtpa of ore. Tenke has an annual nominal production capacity of 195 ktpa of copper cathode and 15 ktpa of cobalt in hydroxide. In addition, the Tenke electrowinning tankhouse has excess annual processing capacity of copper cathode, which is taken into consideration on studies for future expansion. The primary metal is copper, with cobalt as a by-product metal.

### Operating Statistics

100% Basis	Total	2015				2014				
		Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Ore mined (000 tonnes)	<b>12,657</b>	2,926	3,426	3,163	3,142	13,073	2,531	3,106	3,485	3,951
Ore milled (000 tonnes)	<b>5,440</b>	1,458	1,285	1,392	1,305	5,372	1,262	1,424	1,380	1,306
Grade										
Copper (%)	<b>4.0</b>	3.6	4.0	4.0	4.4	4.1	4.0	4.1	4.1	4.1
Recovery										
Copper (%)	<b>94.0</b>	94.0	94.0	93.9	94.0	92.6	91.8	91.3	92.7	94.7
Production (contained metal)										
Copper (tonnes)	<b>203,964</b>	49,990	49,005	52,268	52,701	202,648	48,421	52,893	51,870	49,464
Cobalt (tonnes)	<b>16,014</b>	4,571	3,973	4,148	3,322	13,334	3,401	3,545	3,418	2,970
Income from equity investment (\$000s) <sup>1</sup>	<b>24,617</b>	(2,212)	6,550	10,538	9,741	88,016	18,237	25,939	24,853	18,987
Attributable share of operating cash flows (\$000s)	<b>63,486</b>	8,780	9,296	4,279	41,131	158,483	44,625	48,373	37,802	27,683
Cash cost (\$ per pound) <sup>2</sup>	<b>1.21</b>	1.35	1.15	1.07	1.26	1.15	1.37	1.10	1.18	0.89

<sup>1</sup> 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 \$24.6 million in the current year was \$63.4 million lower than the prior year due largely to lower realized metal prices. The average price realized for copper sales during the year was \$2.42/lb, compared to \$3.06/lb in 2014. The average realized price for cobalt sold during the year was \$8.21/lb (2014: \$9.66/lb).

### Production

Tenke produced 203,964 tonnes of copper for the year ended December 31, 2015, higher than the prior year production of 202,648 tonnes due to higher mill throughput and recoveries. Cobalt production for the year was 16,014 tonnes, 20% higher than the prior year of 13,334 tonnes due to higher cobalt ore grades.

The expanded milling facilities at Tenke exceeded original design capacity with throughput averaging 14,900 metric tonnes of ore per day ("mtpd") for the year ended December 31, 2015. Mining rate during the year was 146,722 mtpd.

Construction of the second new acid plant neared substantial completion towards year end. The acid plant is scheduled to be fully commissioned in the first half of 2016.

Freeport is expecting annual sales volumes to be approximately 224,500 tonnes of copper and 15,900 tonnes of cobalt in 2016.

**Cash Costs**

Cash costs for copper, net of cobalt by-product credits, were \$1.21/lb for the year. This is an increase from the prior year of \$1.15/lb due to lower cobalt by-product credits. Freeport projects 2016 cash costs to approximate \$1.32/lb of copper, based on current sales volume and cost estimates and assuming an average cobalt price of \$10.00/lb.

**Tenke Cash Flow**

Lundin's attributable share of operating cash flow at Tenke for the year was \$63.5 million, lower than the \$158.5 million recognized in 2014, with the decrease largely attributable to lower metal prices.

Lundin Mining's share of 2015 capital investment for Tenke was \$67.1 million, which was fully funded by cash flow from Tenke operations. The Company's estimated share of 2016 capital investment, which is also expected to be self-funded by cash flow from Tenke operations, is expected to be \$25 million.

The Company received cash distributions of \$24.6 million for the year ended December 31, 2015, slightly higher than the Company's most recent guidance. In addition, the Company received cash distributions from the Freeport Cobalt business of \$8.3 million, for total distributions from Tenke related assets of \$32.9 million for the year.

## **Exploration**

### **Candelaria Mine, Chile (Copper, Gold)**

A significant exploration drill campaign was designed to rapidly expand Mineral Reserves and Resources. A total of 111,006 metres were drilled during 2015. Fifteen drill rigs were actively drilling within the three underground mines and around the mine to determine the potential extension of known ore bodies.

### **Candelaria District Exploration (Copper, Gold)**

A district property-wide exploration program is underway, designed to expand the Candelaria Mineral Reserves and Resources. All existing exploration information is being compiled into a comprehensive 3D model to allow for evaluation and prioritization of exploration efforts.

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

Two drill rigs continued to drill on the Eagle East mineralized zone. One rig drilled close spaced delineation holes while the second rig probed for extensions of mineralization on step out holes. 4,365 metres were drilled in the fourth quarter of 2015, for a total of 12,832 metres drilled during the year. Four additional drill rigs were mobilized in December to further delineate the Eagle East zone.

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

Underground exploration drilling for 2015 was focused on expanding the Mineral Reserves and Resources in the Lombador, Neves-Corvo and Zambujal ore bodies. A total of 46,523 metres were drilled in 2015 under an accelerated drill program using seven underground drill rigs. The information will be used to better define the copper and zinc zones, transfer some Inferred Resources into Indicated Resources, and to further investigate copper and zinc potential.

### **Zinkgruvan Mine, Sweden (Zinc, Copper)**

Underground exploration drilling focused on the Dalby area. During 2015, a total of 9,518 metres of exploration drilling was completed. The Dalby area was included for the first time in the June 30, 2015 Mineral Reserves and Resources estimate update. A new, near-mine exploration permit was obtained.

### **Peru (Copper)**

Work in Peru focused on drilling the Elida Project, a porphyry copper prospect located close to the coast in central Peru. First-pass drilling at Elida, which began in the fourth quarter of 2014, continued into 2015 with 7,797 metres drilled to date. Drilling results have outlined part of a large porphyry system characterized by abundant sulphides and veining, containing variable but extensive copper, molybdenum and silver mineralization.

### **Eastern Europe (Copper, Gold)**

The drill program that commenced in February was completed at an optioned porphyry copper property located in Central Turkey with a total of 4,133 metres drilled in ten holes. Project evaluation work is continuing on new copper and zinc-lead opportunities in favourable parts of Eastern Europe.

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

The average metal prices for copper, nickel, and zinc were all considerably lower in 2015 compared to the average prices for 2014 (20%, 30% and 11%, respectively). Slower industrial production worldwide, particularly in China, combined with concerns over the financial health of the Chinese economy and a stronger US dollar have reduced demand for non-ferrous metals and caused their prices to plummet in 2015.

(Average LME Price)		Three months ended December 31,			Twelve months ended December 31,		
		2015	2014	Change	2015	2014	Change
Copper	US\$/pound	<b>2.22</b>	3.00	-26%	<b>2.49</b>	3.11	-20%
	US\$/tonne	<b>4,892</b>	6,624		<b>5,495</b>	6,862	
Nickel	US\$/pound	<b>4.28</b>	7.17	-40%	<b>5.36</b>	7.65	-30%
	US\$/tonne	<b>9,437</b>	15,799		<b>11,807</b>	16,867	
Zinc	US\$/pound	<b>0.73</b>	1.01	-28%	<b>0.87</b>	0.98	-11%
	US\$/tonne	<b>1,613</b>	2,235		<b>1,928</b>	2,164	

The LME inventory for copper and nickel increased during 2015 and ended the year 33% and 7% higher, respectively, than the closing levels of 2014. The LME inventory for zinc decreased during 2015 and ended the year 33% lower than the closing levels of 2014.

During the first half of 2015, the treatment charges (“TC”) and refining charges (“RC”) in the spot market for copper concentrates between mining companies and commodity trading companies slowly decreased from a spot TC in January of \$91 per dmt of concentrate and a spot RC of \$0.091 per lb of payable copper to a TC of \$68 per dmt of concentrate and a spot RC of \$0.068 per lb of payable copper by June. During this period, traders were competing for “clean” copper concentrates (low precious metal and impurity content) for blending or packaging with more complex qualities which led to a decrease in TC & RC for these premium qualities. During the second half of the year there was less spot demand from China with many Chinese smelters having scheduled maintenance in August and September followed by Chinese smelters reducing spot purchases as they positioned themselves for annual contract negotiations. The average spot TC and RC during the third quarter of 2015 was \$80 per dmt and \$0.08 per lb, respectively, increasing to an average of \$92 per dmt and \$0.092 per lb, respectively, in the fourth quarter. The terms for annual contracts for 2016 were reached in January 2016 at a TC of \$97.35 per dmt with a RC of \$0.09735 per payable lb of copper.

The Company’s nickel concentrate production from Eagle is sold under long-term contracts at terms in-line with market conditions.

The spot TC for zinc concentrates during the first three quarters of 2015 traded in a range of \$200-\$210 per dmt, flat. During the fourth quarter of 2015, the spot TC started to decline reaching \$175 per dmt, flat, in December. The closure of the Century mine in Australia and the Lisheen mine in Ireland created concerns about zinc concentrate availability in 2016. Subsequent announcements by Glencore of a reduction of zinc metal contained in zinc concentrate production of 500,000 metric tonnes for 2016 added to the expected shortfall which, in turn, put downward pressure on the prevailing TC. The annual negotiations for TC under long term contracts between miners and smelters for 2016 have commenced but with very little progress to date. The Company expects that there will be a settlement for the 2016 annual TC in March, at the earliest and that rates will be improved in favour of miners compared to 2015.

## Liquidity and Financial Condition

### Cash Reserves

Cash and cash equivalents increased by \$381.7 million to \$556.5 million as at December 31, 2015, from \$174.8 million at December 31, 2014. Cash inflows for the year ended December 31, 2015 included operating cash flows of \$713.9 million and receipt of distributions from Tenke (\$24.6 million) and Freeport Cobalt (\$8.3 million). Use of cash was primarily directed towards investments in mineral properties, plant and equipment of \$277.7 million and interest paid on the senior secured notes of \$77.5 million.

### Working Capital

Working capital of \$707.2 million as at December 31, 2015 increased from the \$510.5 million reported for December 31, 2014. The increase from the prior period is largely a reflection of a higher cash balance, partly offset by lower trade receivables as at December 31, 2015.

### Long-Term Debt

As at December 31, 2015, the Company had \$550 million of 7.5% senior secured notes (due 2020) and \$445 million of 7.875% senior secured notes (due 2022) outstanding.

In addition, the Company has an undrawn \$350 million revolving credit facility, expiring in October 2017. A letter of credit has been issued in the amount of SEK 162 million (\$19.4 million).

Subject to various risks and uncertainties (*see Managing Risks section, page 36*), the Company believes it will generate sufficient cash flow and has adequate cash and debt facilities to finance on-going operations, contractual obligations and planned capital and exploration investment programs.

### Contractual Obligations and Commitments

The Company has the following contractual obligations and capital commitments as at December 31, 2015:

US\$ thousands	Payments due by period				Total
	<1 years	1-3 years	4-5 years	> 5 years	
Long-term debt	544	544	550,000	445,000	996,088
Finance leases	558	662	269	281	1,770
Reclamation and closure provisions <sup>1</sup>	14,425	34,675	43,561	164,320	256,981
Capital commitments	29,344	490	-	-	29,834
Operating leases and other	14,895	9,215	6,226	2,648	32,984
	59,766	45,586	600,056	612,249	1,317,657

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

A further \$16.6 million has been committed to the municipality of Tierra Amarilla, Chile to support regional environmental reclamations initiatives, community infrastructure and social programs.

### Shareholders' Equity

Shareholders' equity was \$4,247.6 million at December 31, 2015, compared to \$4,638.7 million at December 31, 2014. The decrease in shareholders' equity is primarily due to current year's net loss of \$281.8 million and foreign currency translation adjustments of \$109.6 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, the Chilean peso and the US dollar.



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

<b>Metal</b>	<b>Tonnes Payable</b>	<b>Provisional price on December 31, 2015 (\$US/tonne)</b>	<b>Change</b>	<b>Effect on operating earnings (\$millions)</b>
Copper	70,302	4,709	+/-10%	+/- \$33.1
Nickel	5,779	8,802	+/-10%	+/- \$5.1
Zinc	16,704	1,601	+/-10%	+/- \$2.7

The following table presents the Company's sensitivity to certain currencies and the impact of exchange rates, against the US dollar, on operating earnings:

<b>Currency</b>	<b>Change</b>	<b>For the twelve months ended December 31, 2015 (\$millions)</b>
Chilean peso	+/-10%	+/- \$35.4
Euro	+/-10%	+/- \$25.8
Swedish krona	+/-10%	+/- \$8.2

## Financial Instruments

Summary of financial instruments:

	<b>Fair value at December 31, 2015 (\$ thousands)</b>	<b>Basis of measurement</b>	<b>Associated risks</b>
Trade and other receivables	50,987	Carrying value	Credit/Market/Exchange
Trade receivables	141,207	FVTPL	Credit/Market/Exchange
Marketable securities and restricted funds	57,155	FVTPL	Market/Liquidity
Currency options	4,639	FVTPL	Market/Liquidity
Marketable securities	867	AFS	Market/Liquidity
Trade and other payables	190,533	Carrying value	Exchange
Long-term debt and finance leases	937,865	Amortized cost	Interest
Other long-term liabilities	13,815	Amortized cost	Interest

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

FVTPL (securities) – The fair value of investments in shares is determined based on quoted market price.

FVTPL (currency options) - The fair value of the currency options are determined using a valuation model that incorporates such factors as the quoted market price, strike price, the volatility of CLP:USD foreign exchange rates and the expiry date of the options.

Available for sale ("AFS") – The fair value of marketable securities is determined based on quoted market price.

Amortized cost – The fair value of long-term debt is determined using quoted market prices. The fair value of the finance leases and other long-term liabilities approximates its carrying value as the interest rates are comparable to current market rates.

In the fourth quarter of 2015, the Company purchased currency options to hedge its CLP exposure. These call options expire between January 2016 and December 2018 having a strike price between 650 to 700 CLP:USD.

For the year ended December 31, 2015, the Company recognized negative pricing adjustments of \$65.2 million in sales (2014: \$25.6 million), a revaluation loss of \$1.2 million on FVTPL securities (2014: revaluation loss and realized loss totalling \$6.4 million on FVTPL securities), and a revaluation loss of \$2.1 million on FVTPL currency options (2014: nil). In addition, a foreign exchange gain of \$18.5 million (2014: \$20.3 million) was realized in the year on working capital denominated in foreign currencies that was held in the Company's various 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, 2015, the Company received \$24.6 million of cash distributions from Tenke.

### 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 \$8.3 million of cash distributions from Freeport Cobalt during the year ended December 31, 2015.

### 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:

		<b>2015</b>		2014
Wages and salaries	\$	<b>6,234</b>	\$	6,765
Pension benefits		<b>120</b>		133
Share-based compensation		<b>2,250</b>		2,713
	<b>\$</b>	<b>8,604</b>	<b>\$</b>	<b>9,611</b>

For 2015, the Company paid \$0.1 million (2014 - \$0.2 million) for services provided by a company owned by the Chairman of the Company. The Company also paid \$0.9 million (2014 - \$0.7 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.

## Changes in Accounting Policies

### New Accounting Pronouncements

IFRS 15, *Revenue from Contracts with Customers*, provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, cost of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. This standard is effective for annual periods beginning on or after January 1, 2018. The Company is still assessing the impact of this standard.

The final version of IFRS 9, *Financial Instruments*, was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit and loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, but is available for early adoption. In addition, the own credit changes can be early adopted in insolation without otherwise changing the accounting for financial instruments. The Company is still assessing the impact of this standard.

On January 13, 2016, the IASB published a new standard, IFRS 16, *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual reporting periods on or after January 1, 2019. Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers*, has also been adopted. The Company is yet to assess the full impact of IFRS 16 and has not yet determined when it will adopt the standard.

### 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 differ materially 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 Eagle 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 this site that have a useful life in excess of the revised life of the related mine. The Neves-Corvo mine, the Zinkgruvan mine and Candelaria have longer mine lives and would be less affected by a change in the reserve estimate.

**Valuation of long-term inventory** - The Company carries its long-term inventory at lower of production cost and net realizable value ("NRV"). If carrying value exceeds, net realizable amount, a write-down is required. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

The Company reviews the NRV periodically. In particular, for the NRV of the long-term inventory the Company makes significant estimates related to future production and sales volumes, metal prices, foreign exchange rates, reserve and resource quantities, future operating and capital costs. These estimates are subject to various risks and uncertainties and may have an effect on the NRV estimate and the carrying value of the long-term inventory.

**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 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 in the Company's consolidated financial statements 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 and share units to certain employees under its incentive stock option plan. The fair value of stock options and share units 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 17 of the Company's consolidated financial statements.

## Critical Accounting Judgments

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.

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.

## Managing Risks

### Risks and Uncertainties

The following section discusses various significant risks to which the Company is exposed. These risks are listed under three main categories: *Strategic/External Risks* related to the external environment in which the Company operates and/or the Company's business strategies; *Financial Risks* related to economic, market, and financial counterparty conditions, among other; and *Operational Risks* including all people, process and system aspects of operations management.

### STRATEGIC/EXTERNAL RISKS

#### Country Risk

The Company has a significant investment in mining operations located in the DRC. The carrying value of this investment may be adversely affected by political instability and legal and economic uncertainty. The risks by which the Company's interest in the DRC and in other developing nations 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.

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 require mandatory government participation or 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 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.

#### External Stakeholder Relations

The Company places great importance on establishing and maintaining positive relationships with our stakeholders, including the communities in which the Company operates, local indigenous groups, regulators and other stakeholders. There is an increasing level of public concern relating to the perceived effect of mining activities on certain environmental and social aspects such as water consumption and water quality, noise and vibration, dust, mine closure, and employment and economic development opportunities. Opposition to mining activities by communities or indigenous groups may ultimately impact permitting, operations, and the Company's reputation. Publicity adverse to the Company's operations, partners, or extractive industries generally, could have an adverse effect on the Company and may impact our social license to operate. 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.

### **Regulatory Environment**

The Company has operations in Chile, the U.S., Portugal, and Sweden and exploration and inactive mine properties in various countries. Accordingly, these operations are subject to various political, economic and social uncertainties, and local laws and 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's mining and exploration activities require a number of licenses, permits and approvals from various governmental authorities. The Company is presently complying in all material respects with necessary licenses and permits under applicable laws and regulations to conduct our current operations. However, such licenses and permits are subject to change in various circumstances, and certain permits and approvals are required to be renewed from time to time, and new permits may need to be obtained in the future.

The Company was successful in 2015 in obtaining environmental approval for additional tailings storage capacity at Candelaria in Chile and Zinkgruvan in Sweden. In both cases there are additional permitting requirements and there is no assurance that all of these requirements can be satisfied in a timely manner. The granting, renewal and continued effectiveness of these permits and approvals are, in most cases, subject to some level of discretion by the applicable regulatory authority. Certain governmental approval and permitting processes are subject to public comment and can be appealed by project opponents, which may result in significant delays or in approvals being withheld or withdrawn. There can be no assurance that the Company will be able to obtain or maintain all necessary licenses and permits as are required to explore and develop its properties, commence construction or operate mining facilities. Any of these factors could have a material adverse effect on the Company's results of operations and financial position.

The failure of the Company to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed or causing the withdrawal of mining licenses, and the imposition of corrective measures requiring material capital expenditure or remedial action. The Company may be required to compensate third parties for loss or damage and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

### **Business Arrangements**

The Company has investments in business arrangements involving partners such as Candelaria, Tenke Fungurume and Freeport Cobalt. There may be risks associated with our partners in these arrangements which include, but are not limited to: disagreement on how to develop, operate or finance projects; differences between partners in economic or business goals; lack of compliance with agreements; insolvency of a partner; limits placed on our power to control decision-making and possible limitations in our ability to sell our interest in a particular project.

### **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, legal, regulatory, operational and financial risks, many of which are inherent in our existing operations. The Company's assessment and valuation of an acquisition target may be based on estimates or assumptions that ultimately prove to be incorrect. 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. Integration efforts may cause an interruption of, or a slowdown in, the activities of the Company's business. The Company may not succeed in identifying suitable acquisition candidates, completing effective due diligence activities, negotiating acceptable terms, and integrating the acquired operations into the Company.



## **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.

## **Mine Development Risks**

The Company's ability to maintain, or increase, its annual production of copper, nickel, zinc and other metals is 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. 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. Development projects are also subject to 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. The actual operating results of development projects may differ materially from those anticipated, and uncertainties related to operations are even greater in the case of development projects. There can be no assurance that 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.

## **Resource Allocation**

Exploration, acquisition, development and operation activities require significant investment of resources and capital. The Company allocates such resources and capital to support business objectives, and the availability of required resources and capital is subject to market conditions and the Company's financial position. There can be no assurance that the Company will not be forced to curtail investments in the growth of the company and this may impact the Company's future profitability. Further, the Company may not have sufficient personnel with required expertise to successfully deliver on all business objectives, and this may also impact the Company's results.

## **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. Claims to-date have not resulted in material adverse consequences however the Company cannot accurately predict the outcome of any litigation. If the Company cannot resolve disputes

favourably, the Company's activities, financial condition, results of operations, future prospects and share price may be materially adversely affected.

### **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. Certain risks may not currently be insurable or may become uninsurable, or required insurance will not be sufficient or available at economically acceptable premiums. The Company may decide not to insure against certain risks as the potential loss associated with risk events is deemed acceptable or as the costs of insurance are deemed excessive for the protection provided. The Company does not maintain insurance against political risks.

## **FINANCIAL RISKS**

### **Commodity Prices**

Commodity prices, primarily copper, nickel, and zinc 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 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 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. A sustained and material impact on the Company's liquidity may also impact the Company's ability to comply with financial covenants under its credit facilities. The Company does not currently hedge metal prices. Any hedging activity requires approval of the Company's Board of Directors. The Company will not hold or issue derivative instruments for speculation or trading purposes.

### **Asset Valuation**

The Company annually undertakes a detailed review of the Life-of-Mine ("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 these operating and development properties may be affected by a number of factors including, but not limited to, metal prices, foreign exchange rates, capital cost estimates, mining, processing and other operating costs, 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 a material impairment, writing down the carrying value of certain of its operating and/or development properties. Refer to the "Significant Accounting Policies" section in the notes to the Company's consolidated financial statements for a discussion on how the Company determines if an impairment is necessary.

## **Liquidity and Financing**

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

The Company may incur substantial debt from time to time to finance working capital, capital expenditures, investments or acquisitions or for other purposes. If the Company does so, the risks related to the Company's indebtedness could intensify, including: (i) increased difficulty in satisfying existing debt obligations; (ii) limitations on the ability to obtain additional financing, or imposed requirements to make non-strategic divestitures; (iii) imposed restrictions on the Company's cash flows, for debt repayment; (iv) increased vulnerability to general adverse economic and industry conditions; (v) interest rate risk exposure as borrowings may be at variable rates of interest; (vi) decreased flexibility in planning for and reacting to changes in the industry in which it competes; (vii) reduced competitiveness versus less leveraged competitors; and (viii) increased cost of borrowing.

In addition, the credit facilities and other agreements contain restrictive covenants that limit the Company's ability to engage in activities that may be in the Company's long-term best interest. The Company's failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all the Company's debt. The Company's ability to make scheduled payments on or refinance its debt obligations, depends on the Company's financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to various external and other risks as outlined elsewhere in this "Risks and Uncertainties" section.

## **Foreign Currencies**

The Company's revenue from operations is received in US dollars while a significant portion of its operating expenses are incurred in CLP, Euro, SEK, and other currencies. Accordingly, foreign currency fluctuations may adversely affect the Company's financial position and operating results. The Company regularly reviews its exposure to currency price volatility as part of its financial risk management efforts. Hedging activities approved by the Company's Board of Directors are undertaken, from time to time, to mitigate the potential impact of currency price volatility.

## **Interest Rates**

The Company holds various financial assets, the value of which may be impacted by changes in interest rates. Interest rates may also affect the Company's credit arrangements over time. The Company does not currently hedge interest rate exposure. Any hedging activity requires approval of the Company's Board of Directors. The Company will not hold or issue derivative instruments for speculation or trading purposes.

## **Equity Markets**

The Company's share price may be significantly affected by factors unrelated to the Company's performance. Macro-economic, geo-political, and industry-related events, among others, may affect investor sentiment and, in turn, 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.

## **Taxation**

The Company's operations are subject to local tax regimes. Whilst the Company strives to run its business in as tax-efficient a manner as possible, local tax regimes may be complex and subject to changes. Future adverse effects on the Company's financial performance due to changes in tax regulations cannot therefore be excluded. Any change in taxation law or review and assessment thereof 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 constrained or subject to withholding taxes. The Company has no control over changes in tax regulations and withholding tax rates.

## **Counterparties**

The Company is subject to credit risk associated with 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.

The Company's access to funds under its credit facilities or other debt arrangements is dependent on the ability of the financial institutions that are counterparties 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 may be 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.

## **OPERATIONAL RISKS**

### **Health and Safety**

Exploration and mining activities represent inherent safety hazards, and maintaining the health and safety of our employees and contractors is of paramount importance to the Company. Health and safety risk assessments are carried out regularly throughout the lifecycle of our activities, and robust policies, procedures and controls are in place. Notwithstanding continued efforts to adhere to the Company's "zero harm" policy, safety incidents may still occur. Significant potential risks include, but are not limited to, surface or underground fires, rock falls underground, blasting accidents, vehicle accidents, contact with power sources, and exposure to infectious disease. Any incident resulting in significant and/or multiple injury(ies) or fatality(ies) has the potential to negatively impact the Company's ability to meet its objectives.

### **Environment**

All phases of mining and exploration operations are subject to extensive environmental regulation. These regulations mandate, among other things, the preparation of environmental assessments before commencing certain operations, the maintenance of air and water quality standards, and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. The transportation of the Company's concentrates may also be impacted by proposed environmental amendments to international maritime laws that may impose restrictions on products shipped by vessel. Some laws and regulations may impose strict as well as joint and several liability for environmental contamination, which could subject the Company to liability for the conduct of others or for its own actions that were in compliance with all applicable laws at the time such actions were taken. Environmental legislation is evolving in a manner that will result in stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent

environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Any future changes in environmental regulation could adversely affect the Company's ability to conduct its operations. Moreover, public interest in environmental protection has increased over the years and environmental organizations have opposed, with some degree of success, certain mining operations.

In addition, environmental conditions may exist on properties in which the Company holds, or will hold, an interest that are unknown and/or have been caused by previous or existing owners or operators of such properties, but the remediation of which may be the Company's responsibility. The Company may also acquire properties with environmental risks, and indemnification proceeds, if any, may not be adequate to pay all the fines, penalties and costs (such as clean-up and restoration costs) incurred related to such properties. Some of the Company's properties may also have been used for mining and related operations for many years before they were acquired and were acquired as is or with assumed environmental liabilities from previous owners or operators. The Company has been required to address contamination at its properties in the past and may need to address contamination at its properties in the future, either for existing environmental conditions or for leaks or discharges that may arise from ongoing operations or other contingencies. Contamination from hazardous substances, either at the Company's properties or other locations for which the Company may be responsible, may subject it to liability for the investigation or remediation of contamination, as well as for claims seeking to recover for related property damage, personal injury or damage to natural resources. The occurrence of any of these adverse events could have a material adverse effect on the Company's future growth, results of operations, cash flows and financial position.

### **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. Extreme weather damage, sabotage or government or other interference in the maintenance or provision of such infrastructure could adversely affect the activities and profitability of the Company.

### **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.

### **Staffing**

Attracting, motivating, and retaining highly skilled employees is essential to the success of the Company. There can be no assurance, however, that the Company will successfully retain current key personnel or attract additional qualified personnel to manage the Company's current or future needs.

**Labour 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.

**Price and Availability of Energy and Key Operating Supplies/Services**

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.

Key operating supplies such as explosives, reagents, tires and spare parts are necessary for the ongoing operations of our mines and mills. If these supplies become unavailable or their costs increase significantly, the profitability of the Company's operations would be negatively impacted.

Concentrate treatment and transportation costs are also a significant component of costs. Transportation costs have been volatile in recent years due to a number of factors including changes in fuel prices, changes in the global economy, and availability of ocean vessels or rail cars to ship concentrate. Treatment and refining costs have also been volatile in recent years. Increases in treatment costs, rates, or lack of available ocean vessels or rail cars may have a significant adverse impact on results of operations, cash flows and financial position.

**Exploration Risk**

Exploration of mineral properties involves significant 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 recoverability; 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.

**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 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.

## **Natural Phenomena**

Certain Company operations are located in regions considered to be at high risk of severe natural phenomena such as earthquakes, windstorms, and severe precipitation. Whilst such risk exposures cannot be controlled, the Company regularly reviews its emergency response and crisis management plans. Infrastructure at high-risk locations has been constructed to meet construction standards designed for regions of high seismicity. Chilean operations, in particular, have been the subject of numerous studies to assess the robustness of various mine structures, including the tailings management facility and waste rock dumps. There is no assurance that a significant natural event may not result in catastrophic losses impacting the Company's personnel and assets.

Further, severe drought conditions impacting the regions in which the Company operates may impact its access to adequate water, may result in conflict with local communities, or may materially increase operating costs.

## **Fraud and Corruption**

As a matter of company policy, the Company prohibits illegal payments of any kind, directly or indirectly. Even the appearance of impropriety in dealing with public officials or other stakeholders is unacceptable. Any participation, whether directly or indirectly, in any bribes, kickbacks, indirect contributions or similar payments is expressly forbidden. Further, employees are required to avoid all situations in which their personal interests conflict or might conflict with their duties to the Company or with the economic interest of the Company. Notwithstanding, there is no assurance that the Company, its customers, suppliers or employees will not be the subject of allegations by third parties of fraud and corruption. Such allegations may result in material reputational damage to the Company, may impact its standing with stakeholders and ultimately impact the Company's share price.

## **Security**

A number of the Company's operations are located within reasonable proximity of communities, and each operation maintains security controls to prevent illegal ingress onto its property. There is no assurance, however, that unauthorized access onto an exploration or mining concession will not occur. Such illegal ingress may result in injury to personnel or third parties and/or damage to property.

The Company and its operations rely heavily on various operating and financial systems and data. Policies and procedures are maintained to ensure the security of its information technology systems, and data and system security controls are regularly tested and audited. There can be no assurance, however, that loss or corruption of proprietary data or process disruption, whether inadvertent or otherwise, will not occur.

## **Mine Closure**

Closure activities typically include ground stabilization, infrastructure demolition and removal, topsoil replacement, regrading and revegetation. Mine closure may have significant impacts on local communities and site remediation activities may not be supported by local stakeholders. To mitigate this risk the Company develops and regularly updates Mine Closure Plans (MCPs) for all operations over the life of the mine, giving consideration to where post-mining land use may benefit local communities. In addition to immediate closure activities, closed mining operations may require long-term surveillance and monitoring.

MCPs are developed in accordance with the Company's corporate standards and to comply with local regulatory requirements. Funds have been accrued in the Company's financial statements to provide for future mine closure obligations. Future remediation costs for inactive mines are estimated at the end of each financial reporting period, including ongoing care, maintenance and monitoring costs. Actual costs realized in satisfaction of mine closure obligations may vary materially from management's estimates.

Recently, the Company implemented approved MCPs at its Galmoy (Ireland) mine and at a legacy site (Vuelas del Río) in Honduras. Both sites are now in the aftercare monitoring phase. In addition, the Company retains responsibility for closure at the Storliden site in northern Sweden and has partial responsibility for a legacy processing and tailing site at Ammeberg near the Zinkgruvan operation, where mining and processing operations

date from 1857. The area has been rehabilitated and is currently used as a golf course and marina facility. A human and environmental risk assessment was submitted to the Swedish authorities in 2013 following the identification of locally elevated zinc concentrations near the old mill site. It is anticipated that a final remediation target will be set by the local authority in the near future. From time to time, regulatory approval for amendments to MCPs and associated permits may be sought, and these could have a significant impact on mine closure costs.

As at December 31, 2015, the Company had \$43.2 million in cash 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 approved MCPs. Changes in environmental laws, regulations and standards can create uncertainty with regards to future reclamation costs and affect the funding requirements. There can be no assurance that the reclamation funds set aside will be sufficient to meet the needs of actual reclamation work in the future.

### **Title**

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. Title insurance is generally not available for mineral properties.

### **Outstanding Share Data**

As at February 18, 2016, the Company has 719,628,357 common shares issued and outstanding, and 14,128,120 stock options and 983,000 share units outstanding under the Company's incentive plans.



## Non-GAAP Performance Measures

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

### Net Cash/Debt

Net cash/debt is a performance measure used by the Company to assess its financial position. Net cash/debt is defined as cash and cash equivalents, less long-term debt and finance leases, excluding deferred financing fees and can be reconciled as follows:

(\$thousands)	December 31, 2015	December 31, 2014
Current portion of long-term debt and finance leases	(1,102)	(1,932)
Long-term debt and finance leases	(978,014)	(980,888)
	(979,116)	(982,820)
Deferred financing fees (netted in above)	(18,743)	(21,165)
	(997,859)	(1,003,985)
Cash and cash equivalents	556,511	174,792
<b>Net debt</b>	<b>(441,348)</b>	<b>(829,193)</b>

### 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 administrative expenses.

### Operating Cash Flow per Share

Operating cash flow per share is a performance measure used by the Company to assess its ability to generate cash from its operations, while also taking into consideration changes in the number of outstanding shares of the Company. Operating cash flow per share is defined as cash provided by operating activities, less changes in non-cash working capital items, divided by the basic weighted average number of shares outstanding.

Operating cash flow per share can be reconciled to the Company's cash provided by operating activities as follows:

(\$000s except share and per share amounts)	Year ended December 31,	
	2015	2014
Cash provided by operating activities	713,937	187,366
Deduct: Changes in non-cash working capital items	(194,982)	37,873
Operating cash flow before changes in non-cash working capital items	518,955	225,239
Weighted average common shares outstanding	719,089,063	600,442,231
<b>Operating cash flow per share</b>	<b>0.72</b>	<b>0.38</b>

## Cash Cost per Pound

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

- **Cash cost per pound, gross** - Total cash costs directly attributable to mining operations, excluding capital expenditures for deferred stripping, are divided by the sales volume of the primary metal to arrive at gross cash cost per pound. As this measure is not impacted by fluctuations in sales of by-product metals, it is generally more consistent across periods.
- **Cash cost per pound, net of by-products** – Credits for by-products sales are deducted from total cash costs directly attributable to mining operations. By-product revenue is adjusted for the terms of streaming agreements, but excludes any deferred revenue from the allocation of upfront cash received. The net cash costs are divided by the sales volume of the primary metal to arrive at net cash cost per pound. The inclusion of by-product credits provides a broader economic measurement, incorporating the benefit of other metals extracted in the production of the primary metal.

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

Operation	Three months ended December 31, 2015				Three months ended December 31, 2014			
	Tonnes Sold	Pounds (000s)	Cash Costs \$/lb	Operating Costs (\$000s)	Tonnes Sold	Pounds (000s)	Cash Costs \$/lb	Operating Costs (\$000s)
Candelaria (Cu) - 100%	38,619	85,140	1.14	97,060	34,636	76,359	1.49	113,775
Eagle (Ni)	5,756	12,690	2.06	26,141	2,356	5,194	2.79	14,491
Neves-Corvo (Cu)	12,675	27,944	1.96	54,770	14,527	32,027	1.75	56,047
Zinkgruvan (Zn)	20,931	46,145	0.27	12,459	16,429	36,220	0.37	13,401
Aguablanca (Ni)	324	714	9.10	6,497	1,462	3,223	3.74	12,054
				196,927				209,768
Add: By-product credits				71,406				81,784
Treatment costs				(65,091)				(40,417)
Non-cash inventory				896				24,762
Royalties and other				4,072				15,040
<b>Total Operating Costs</b>				<b>208,210</b>				<b>290,937</b>

  

Operation	Twelve months ended December 31, 2015				Twelve months ended December 31, 2014			
	Tonnes Sold	Pounds (000s)	Cash Costs \$/lb	Operating Costs (\$000s)	Tonnes Sold	Pounds (000s)	Cash Costs \$/lb	Operating Costs (\$000s)
Candelaria (Cu) - 100%	176,133	388,307	1.25	485,384	34,636	76,359	1.49	113,775
Eagle (Ni)	23,069	50,858	2.02	102,733	2,356	5,194	2.79	14,491
Neves-Corvo (Cu)	54,104	119,279	1.63	194,425	48,007	105,837	1.85	195,798
Zinkgruvan (Zn)	70,550	155,536	0.37	57,548	65,802	145,069	0.37	53,676
Aguablanca (Ni)	4,399	9,698	2.72	26,379	5,233	11,537	4.38	50,532
				866,469				428,272
Add: By-product credits				342,786				236,062
Treatment costs				(269,094)				(89,225)
Non-cash inventory				3,701				25,003
Royalties and other				18,832				19,629
<b>Total Operating Costs</b>				<b>962,694</b>				<b>619,741</b>

## **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, 2015.

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

The Company's internal control over financial reporting ("ICFR") 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 Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') 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, 2015.

### ***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, 2015 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).

Consolidated Financial Statements of

# **Lundin Mining Corporation**

December 31, 2015

## **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 the Chartered Professional Accountants of Canada, and include some amounts that are based on management's estimates and judgment.

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

*(Signed) Paul K. Conibear*

President and Chief Executive Officer

Toronto, Ontario, Canada  
February 18, 2016

*(Signed) Marie Inkster*

Senior Vice President and Chief Financial Officer



February 18, 2016

## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of Lundin Mining Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and 2014 and the consolidated statements of (loss) earnings, statements of comprehensive loss, statements of changes in equity, and statements of 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.

---

*PricewaterhouseCoopers LLP  
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2  
T: +1 416 863 1133, F: +1 416 365 8215*



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lundin Mining Corporation and its subsidiaries as at December 31, 2015 and 2014 and its financial performance and their 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,  
2015December 31,  
2014**ASSETS**

## Current

Cash and cash equivalents (Note 3)	\$	556,511	\$	174,792
Trade and other receivables (Note 4)		192,194		404,967
Income taxes receivable		54,795		49,241
Inventories (Note 5)		144,746		162,074
Other current assets (Note 6)		5,101		-

---

**953,347**


---

## Non-Current

Restricted funds (Note 7)		53,818		57,007
Long-term inventory (Note 5)		194,065		154,725
Other non-current assets (Note 8)		13,341		18,226
Mineral properties, plant and equipment (Note 9)		3,354,711		3,927,291
Investment in associates (Note 10)		2,050,823		2,059,199
Deferred tax assets (Note 11)		55,022		57,671
Goodwill (Note 12)		104,921		261,482

---

**5,826,701**


---



---

**\$ 6,780,048**


---

**LIABILITIES**

## Current

Trade and other payables (Note 13)	\$	231,960	\$	274,213
Income taxes payable		14,201		6,380
Current portion of long-term debt and finance leases (Note 14)		1,102		1,932
Current portion of deferred revenue (Note 15)		58,666		65,098
Current portion of reclamation and other closure provisions (Note 16)		14,425		8,995

---

**320,354**


---

## Non-Current

Long-term debt and finance leases (Note 14)		978,014		980,888
Deferred revenue (Note 15)		549,830		602,244
Reclamation and other closure provisions (Note 16)		242,556		254,461
Other long-term liabilities		13,815		10,001
Provision for pension obligations (Note 20)		15,332		17,030
Deferred tax liabilities (Note 11)		412,536		466,759

---

**2,212,083**


---



---

**2,532,437**


---

**SHAREHOLDERS' EQUITY**

Share capital		4,107,469		4,099,038
Contributed surplus		49,112		45,021
Accumulated other comprehensive loss		(308,819)		(199,023)
(Deficit) Retained earnings		(33,975)		260,109
Equity attributable to Lundin Mining Corporation shareholders		3,813,787		4,205,145
Non-controlling interests (Note 18)		433,824		433,529

---

**4,247,611**


---



---

**\$ 6,780,048**


---

Commitments and contingencies (Note 24)

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

**APPROVED BY THE BOARD OF DIRECTORS**

(Signed) Lukas H. Lundin

**Director**

(Signed) Dale C. Peniuk

**Director**



## LUNDIN MINING CORPORATION

### CONSOLIDATED STATEMENT OF (LOSS) EARNINGS

For the years ended December 31, 2015 and 2014

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

	2015	2014
Sales	\$ 1,701,947	\$ 951,314
Operating costs (Note 19)	(962,694)	(619,741)
Depreciation, depletion and amortization (Note 9)	(555,021)	(208,703)
General and administrative expenses	(27,167)	(27,238)
General exploration and business development (Note 21)	(59,500)	(74,685)
Income from equity investment in associates (Note 10)	24,563	89,796
Finance costs (Note 22)	(89,240)	(28,108)
Other income (Note 23)	23,591	29,859
Other expenses (Note 23)	(18,737)	(10,785)
Goodwill and asset impairment (Note 12)	(293,285)	(47,064)
(Loss) earnings before income taxes	(255,543)	54,645
Current tax expense (Note 11)	(68,769)	(5,300)
Deferred tax recovery (Note 11)	42,523	74,036
Net (loss) earnings	\$ (281,789)	\$ 123,381
<b>Net (loss) earnings attributable to:</b>		
Lundin Mining Corporation shareholders	\$ (294,084)	\$ 112,606
Non-controlling interests (Note 18)	12,295	10,775
Net (loss) earnings	\$ (281,789)	\$ 123,381
Basic and diluted (loss) earnings per share attributable to Lundin Mining Corporation shareholders	\$ (0.41)	\$ 0.19
Weighted average number of shares outstanding (Note 17)		
Basic	719,089,063	600,442,231
Diluted	719,089,063	602,357,872

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

**LUNDIN MINING CORPORATION**

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the years ended December 31, 2015 and 2014

(in thousands of US dollars)

	2015	2014
Net (loss) earnings	\$ (281,789)	\$ 123,381
<b>Other comprehensive loss, net of taxes</b>		
Items that may be reclassified to net earnings:		
Unrealized loss on marketable securities	-	(91)
Effects of foreign currency translation	(109,576)	(170,643)
Items that will not be reclassified to net earnings:		
Remeasurements for post-employment benefit plans	(220)	(669)
<b>Other comprehensive loss</b>	<b>(109,796)</b>	<b>(171,403)</b>
<b>Comprehensive loss</b>	<b>\$ (391,585)</b>	<b>\$ (48,022)</b>
<b>Comprehensive loss attributable to:</b>		
Lundin Mining Corporation shareholders	\$ (403,880)	\$ (58,797)
Non-controlling interests	12,295	10,775
<b>Comprehensive loss</b>	<b>\$ (391,585)</b>	<b>\$ (48,022)</b>

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

## LUNDIN MINING CORPORATION

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2015 and 2014

(in thousands of US dollars, except for shares)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	(Deficit) Retained earnings	Non- controlling interests	Total
Balance, December 31, 2014	718,168,173	\$ 4,099,038	\$ 45,021	\$ (199,023)	\$ 260,109	\$ 433,529	\$ 4,638,674
Distributions	-	-	-	-	-	(12,000)	(12,000)
Exercise of share-based awards	1,460,184	7,799	(3,003)	-	-	-	4,796
Share-based compensation	-	-	7,094	-	-	-	7,094
Deferred tax adjustment	-	632	-	-	-	-	632
Net loss	-	-	-	-	(294,084)	12,295	(281,789)
Other comprehensive loss	-	-	-	(109,796)	-	-	(109,796)
Total comprehensive (loss) income	-	-	-	(109,796)	(294,084)	12,295	(391,585)
<b>Balance, December 31, 2015</b>	<b>719,628,357</b>	<b>\$ 4,107,469</b>	<b>\$ 49,112</b>	<b>\$ (308,819)</b>	<b>\$ (33,975)</b>	<b>\$ 433,824</b>	<b>\$ 4,247,611</b>
Balance, December 31, 2013	584,643,063	\$ 3,509,343	\$ 40,379	\$ (27,620)	\$ 147,503	\$ -	\$ 3,669,605
Non-controlling interest arising on business combination	-	-	-	-	-	437,754	437,754
Distributions	-	-	-	-	-	(15,000)	(15,000)
Exercise of share-based awards	1,368,110	7,490	(2,457)	-	-	-	5,033
Share-based compensation	-	-	7,099	-	-	-	7,099
Share issuance (Note 17)	132,157,000	582,205	-	-	-	-	582,205
Net earnings	-	-	-	-	112,606	10,775	123,381
Other comprehensive loss	-	-	-	(171,403)	-	-	(171,403)
Total comprehensive (loss) income	-	-	-	(171,403)	112,606	10,775	(48,022)
Balance, December 31, 2014	718,168,173	\$ 4,099,038	\$ 45,021	\$ (199,023)	\$ 260,109	\$ 433,529	\$ 4,638,674

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, 2015 and 2014

(in thousands of US dollars)

	2015	2014
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net (loss) earnings	\$ (281,789)	\$ 123,381
Items not involving cash and other adjustments		
Depreciation, depletion and amortization	555,021	208,703
Share-based compensation	7,022	7,168
Income from equity investment in associates	(24,563)	(89,796)
Unrealized foreign exchange gain	(4,288)	(7,465)
Deferred tax recovery	(42,523)	(74,036)
Recognition of deferred revenue (Note 15)	(63,034)	(16,885)
Reclamation and closure provisions	4,658	15,581
Finance income and costs	86,425	28,108
Asset impairment	293,285	47,064
Other	7,714	68
Reclamation payments	(5,278)	(8,202)
Pension payments	(651)	(1,659)
Changes in long-term inventory	(13,044)	(6,791)
Changes in non-cash working capital items (Note 31)	194,982	(37,873)
	<b>713,937</b>	<b>187,366</b>
<b>Investing activities</b>		
Investment in mineral properties, plant and equipment	(277,742)	(421,557)
Distributions from associates (Note 10)	32,939	94,443
Restricted funds movement, net	(1,266)	3,164
Currency options purchase	(6,970)	-
Acquisition of Candelaria, net of cash acquired (Note 28)	-	(1,747,373)
Proceeds from sale of marketable securities, net	-	4,302
Other	8,535	1,252
	<b>(244,504)</b>	<b>(2,065,769)</b>
<b>Financing activities</b>		
Interest paid, net	(77,539)	(1,511)
Distributions to non-controlling interests	(12,000)	(15,000)
Proceeds from common shares issued, stock option exercise	4,796	5,033
Long-term debt repayments (Note 14)	(6,081)	(362,696)
Proceeds received from stream agreement, net (Note 15)	7,500	632,064
Proceeds from common shares issued, acquisition financing (Note 17)	-	579,293
Proceeds from senior secured notes, net (Note 14)	-	978,302
Proceeds from other long-term debt, net (Note 14)	-	132,481
Other	2,915	-
	<b>(80,409)</b>	<b>1,947,966</b>
Effect of foreign exchange on cash balances	(7,305)	(11,411)
Increase in cash and cash equivalents during the year	<b>381,719</b>	<b>58,152</b>
Cash and cash equivalents, beginning of year	<b>174,792</b>	<b>116,640</b>
Cash and cash equivalents, end of year	<b>\$ 556,511</b>	<b>\$ 174,792</b>

Supplemental cash flow information (Note 31)

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, 2015 and 2014

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

---

## 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 Eagle nickel/copper mine located in the United States ("US"), 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 80% of the Candelaria and Ojos del Salado copper/gold mining complex located in Chile ("Candelaria"), 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 \$ or USD is to US dollars, C\$ is to Canadian dollars, SEK is to Swedish Krona, € refers to the Euro and CLP refers to the Chilean peso.

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 18, 2016.

### (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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

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

For non wholly-owned, controlled subsidiaries, the net assets attributable to outside equity shareholders are presented as “non-controlling interests” in the equity section of the consolidated balance sheet. Net earnings for the period that is attributable to non-controlling interests are calculated based on the ownership of the minority shareholders in the subsidiary. The Company’s non-controlling interests are related to the 20% ownership stake of Candelaria held by Sumitomo Metal Mining Co., Ltd and Sumitomo Corporation (“non-controlling interests”).

### (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.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

(d) Cash and cash equivalents

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

(e) Reclamation funds

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

(f) Inventories

Ore 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 ("NRV").

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 which 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, 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. Development costs

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

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 capitalized as mineral property when it is probable that additional economic benefit will be derived from future operations.

Incidental pre-production expenditures net of proceeds from sales generated, if any, are recognized in the consolidated statement of earnings. 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. For production plant and equipment, depreciation is recorded on a units of production basis. Depreciation on all other plant and equipment 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	8 - 20
Plant and machinery	3 - 20
Equipment	3 - 8

### (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

At each reporting period, the Company assesses 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 ("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.



## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

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

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

A CGU to which goodwill has been allocated is tested for impairment at least annually or when events or circumstances indicate that an assessment for impairment is required. For goodwill arising on an acquisition in a financial year, the CGU to which the 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.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless closely related to the host contract. All derivative instruments, including certain embedded derivatives that are separated from their host contracts, are recorded on the consolidated balance sheets at fair value and mark-to-market adjustments on these instruments are included in the consolidated 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 risks 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 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 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 finance costs. 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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the 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 and share units in exchange for the provision of services to certain employees. The share options and share units 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 awards, with a corresponding credit to contributed surplus. When the share options or share units 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 adjusts the total expense to be recognized over the vesting period.

(s) Current and deferred 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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

charged or credited directly to equity, in which case the deferred tax is reflected in equity.

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

(t) Earnings per share

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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

### *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 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 pronouncements**

IFRS 15, *Revenue from Contracts with Customers*, provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, cost of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. This standard is effective for annual periods beginning on or after January 1, 2018. The Company is still assessing the impact of this standard.

The final version of IFRS 9, *Financial Instruments*, was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit and loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, but is available for early adoption. In addition, changes in respect of own credit risk can be early adopted in isolation without otherwise changing the accounting for financial instruments. The Company is still assessing the impact of this standard.

On January 13, 2016, the IASB published a new standard, IFRS 16, *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual reporting periods on or after January 1, 2019. Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers*, has also been adopted. The Company is yet to assess the full impact of IFRS 16 and has not yet determined when it will adopt the standard.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

### (iv) 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 differ materially 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, 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 Eagle 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, the Zinkgruvan mine and Candelaria have longer mine lives and would be less affected by a change in the reserve estimate.

**Valuation of long-term inventory** - The Company carries its long-term inventory at lower of production cost and NRV. If carrying value exceeds net realizable amount, a write-down is required. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

The Company reviews NRV periodically. In particular, for the NRV of long-term inventory the Company makes significant estimates related to future production and sales volumes, metal prices, foreign exchange rates, reserve and resource quantities, future operating and capital costs. These estimates are subject to various risks and uncertainties and may have an effect on the NRV estimate and the carrying value of the long-term inventory.

**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 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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

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 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.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

**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 and share units to certain employees under its incentive stock option plan. The fair value of stock options and share units 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 17.

### (v) 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.

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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	December 31, 2015	December 31, 2014
Cash	\$ 438,142	\$ 114,751
Short-term deposits	118,369	60,041
	\$ 556,511	\$ 174,792

## 4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	December 31, 2015	December 31, 2014
Trade receivables	\$ 141,094	\$ 360,909
Value added tax	21,321	17,522
Other receivables	12,593	11,085
Prepaid expenses	17,186	15,451
	\$ 192,194	\$ 404,967



## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

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 29.

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

The carrying amounts of trade and other receivables are denominated as follows: CLP 18.6 billion, \$145.9 million, €13.5 million, SEK 27.6 million and C\$0.7 million as at December 31, 2015 (2014 – CLP 8.4 billion, \$364.0 million, €14.7 million, SEK 33.4 million and C\$3.7 million).

### 5. INVENTORIES

Inventories are comprised of the following:

	December 31, 2015	December 31, 2014
Ore stockpiles	\$ 26,446	\$ 22,261
Concentrate stockpiles	29,197	40,656
Materials and supplies	89,103	99,157
	\$ 144,746	\$ 162,074

The cost of inventories expensed and included in total operating costs for the year was \$1,415.2 million (2014 - \$780.8 million) (Note 19).

Long-term inventory is comprised of ore stockpiles of \$194.1 million as at December 31, 2015 (2014 - \$154.7 million).

Due primarily to declining metal prices, inventory balances were written down by \$4.7 million to NRV as at December 31, 2015 (2014 - \$nil). The write down was recorded in operating costs (Note 19).

### 6. OTHER CURRENT ASSETS

Other current assets are comprised of the following:

	December 31, 2015	December 31, 2014
Current portion of currency options	\$ 112	\$ -
Precious metals held (a)	4,989	-
	\$ 5,101	\$ -

#### a) Precious Metals Held

The Company holds gold and silver in registered accounts in connection with the administration of delivery obligations under the stream agreement with Franco-Nevada (Barbados) Corporation ("Franco-Nevada").

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 7. RESTRICTED FUNDS

Restricted funds are comprised of the following:

	December 31, 2015	December 31, 2014
Reclamation funds	\$ 43,164	\$ 48,465
Restricted cash	10,654	8,542
	\$ 53,818	\$ 57,007

### 8. OTHER NON-CURRENT ASSETS

Other non-current assets comprise the following:

	December 31, 2015	December 31, 2014
Long-term portion of currency options (a)	\$ 2,832	\$ -
Marketable securities (b)	4,204	6,181
Other assets (c)	6,305	12,045
	\$ 13,341	\$ 18,226

#### a) Currency options

The Company purchased CLP call options against the USD. The first expiry begins on January 31, 2016 and monthly thereafter until December 2018. The options have strike prices ranging from 650 to 700 CLP:USD. The currency options are revalued each period and the revaluation is included in finance income and costs (Note 22).

#### b) Marketable securities

Marketable securities include investments in companies holding exploration projects considered to have development potential. Revaluation and loss on disposal of marketable securities are recorded in finance income and costs (Note 22).

#### c) Other

Included in other assets are employee related receivables of \$1.0 million (2014 - \$5.2 million).

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 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, 2013	\$ 1,779,004	\$ 758,467	\$ 63,230	\$ 474,815	\$ 3,075,516
Candelaria Acquisition	1,217,348	904,909	-	37,571	2,159,828
Additions	82,840	1,333	-	320,753	404,926
Impairment (Note 12)	-	-	(47,064)	-	(47,064)
Disposals and transfers	248,719	466,549	(501)	(725,422)	(10,655)
Effects of foreign exchange	(240,763)	(99,756)	(6,978)	(8,624)	(356,121)
As at December 31, 2014	3,087,148	2,031,502	8,687	99,093	5,226,430
Additions	129,645	3,809	-	136,311	269,765
Impairment (Note 12)	(145,959)	(662)	(3,861)	(2,047)	(152,529)
Disposals and transfers	38,880	81,263	-	(147,223)	(27,080)
Effects of foreign exchange	(148,994)	(68,774)	(679)	(3,188)	(221,635)
<b>As at December 31, 2015</b>	<b>\$ 2,960,720</b>	<b>\$ 2,047,138</b>	<b>\$ 4,147</b>	<b>\$ 82,946</b>	<b>\$ 5,094,951</b>

Accumulated depreciation, depletion and amortization	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2013	\$ 961,356	\$ 329,292	\$ -	\$ -	\$ 1,290,648
Depreciation	127,345	81,358	-	-	208,703
Disposals and transfers	(1,421)	(7,346)	-	-	(8,767)
Effects of foreign exchange	(141,967)	(49,478)	-	-	(191,445)
As at December 31, 2014	945,313	353,826	-	-	1,299,139
Depreciation	346,080	235,367	-	-	581,447
Disposals and transfers	-	(20,556)	-	-	(20,556)
Effects of foreign exchange	(86,254)	(33,536)	-	-	(119,790)
<b>As at December 31, 2015</b>	<b>\$ 1,205,139</b>	<b>\$ 535,101</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,740,240</b>

Net book value	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2014	\$ 2,141,835	\$ 1,677,676	\$ 8,687	\$ 99,093	\$ 3,927,291
<b>As at December 31, 2015</b>	<b>\$ 1,755,581</b>	<b>\$ 1,512,037</b>	<b>\$ 4,147</b>	<b>\$ 82,946</b>	<b>\$ 3,354,711</b>

During 2015, the Company capitalized \$90.4 million (2014 - \$13.6 million) of deferred stripping costs to mineral properties. Included in the mineral properties balance as at December 31, 2015 is \$196.7 million (2014 - \$394.5 million) which is non-depreciable.

In addition, the Company capitalized \$2.4 million of borrowing costs related to construction of the Candelaria Los Diques tailings facility project (2014 - \$7.6 million for the Eagle project).

The net carrying amount of equipment under finance leases is \$1.7 million (2014 - \$2.2 million).

The Company recognized an impairment loss on mineral properties, plant and equipment, exploration properties and assets under construction. (Note 12).

During 2014, the Company completed the Candelaria Acquisition (Note 28), thus acquiring \$2.2 billion of mineral

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

properties, plant and equipment.

The Eagle project entered commercial production effective November 2014, at which time capitalization of interest was ceased and depreciation commenced. Commercial production was defined as the ability to maintain average production metric of 75% of designed throughput, 75% nickel recovery, and 11% - 16% nickel grade in concentrate for a period of 30 days. As a result of commercial production, \$650.0 million of assets under construction were reclassified into mineral properties and plant and equipment.

Depreciation, depletion and amortization is comprised of:

		2015		2014
Operating costs	\$	554,662	\$	208,334
General and administrative expenses		359		369
<b>Depreciation, depletion and amortization</b>	<b>\$</b>	<b>555,021</b>	<b>\$</b>	<b>208,703</b>

### 10. INVESTMENT IN ASSOCIATES

		Tenke Fungurume		Freeport Cobalt		Total
As at December 31, 2013	\$	1,959,012	\$	104,834	\$	2,063,846
Distributions		(85,828)		(8,615)		(94,443)
Share of equity income		88,016		1,780		89,796
As at December 31, 2014		1,961,200		97,999		2,059,199
Distributions		(24,570)		(8,369)		(32,939)
Share of equity income (loss)		24,617		(54)		24,563
<b>As at December 31, 2015</b>	<b>\$</b>	<b>1,961,247</b>	<b>\$</b>	<b>89,576</b>	<b>\$</b>	<b>2,050,823</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 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.

The Company received cash distributions of \$24.6 million in 2015 (2014 - \$85.8 million).

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

The following table is a summary of the consolidated financial information of TFH on a 100% basis taking into account adjustments made by the Company for equity accounting reflecting fair value adjustments and differences in accounting policy.

	December 31, 2015	December 31, 2014
Total current assets	\$ 718,317	\$ 838,382
Total non-current assets	\$ 6,848,828	\$ 6,788,923
Total current liabilities	\$ 115,280	\$ 198,038
Total non-current liabilities	\$ 493,977	\$ 497,475
Total net assets	\$ 6,957,888	\$ 6,931,792
Non-controlling interests	\$ (306,378)	\$ (288,089)
Total net assets attributable to TFH	\$ 6,651,510	\$ 6,643,703

	2015	2014
Total sales	\$ 1,409,694	\$ 1,586,753
Net earnings	\$ 89,707	\$ 291,650

### Reconciliation of summarized financial information

	2015	2014
Net assets attributable to TFH, beginning	\$ 6,643,703	\$ 6,537,053
Distributions received	(81,900)	(185,000)
Net earnings	89,707	291,650
Net assets attributable to TFH, ending	6,651,510	6,643,703
Ownership interest	30%	30%
Share of net assets	1,995,453	1,993,111
Other adjustments	(34,206)	(31,911)
Investment in TFH	\$ 1,961,247	\$ 1,961,200

### b) Investment in Freeport Cobalt

The Company has a 24% ownership interest in Freeport Cobalt, 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 Company received cash distributions of \$8.4 million in 2015 (2014 - \$8.6 million).

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 11. CURRENT AND DEFERRED INCOME TAXES

	2015	2014
Current tax expense:		
Current tax on net earnings	\$ 59,068	\$ 17,748
Adjustments in respect of prior years	9,701	(12,448)
	<b>68,769</b>	5,300
Deferred tax recovery		
Origination and reversal of temporary differences	(118,092)	(50,888)
Change in tax rates	9,495	(9,594)
Utilization of previously unrecognized tax losses and temporary differences	(16,923)	(13,554)
Tax losses and temporary differences for which no deferred income tax asset was recognized	60,076	-
Write-down of deferred tax asset previously recorded	22,921	-
	<b>(42,523)</b>	(74,036)
Total tax expense (recovery)	\$ 26,246	\$ (68,736)

Current tax expense of \$59.1 million reflects tax on net taxable earnings of \$193.5 million offset by tax credits of \$5.4 million in Portugal. Included in the adjustments in respect of prior years in 2015 are Spanish tax assessments totaling \$8.2 million relating to the fiscal years 2007, 2009 and 2010.

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

	2015	2014
(Loss) earnings before income tax	\$ (255,543)	\$ 54,645
Combined basic federal and provincial rates	26.5%	26.5%
Income taxes based on Canadian statutory income tax rates	\$ (67,718)	\$ 14,481
Effect of different tax rates in foreign jurisdictions	(14,835)	(15,322)
Tax calculated at domestic tax rates applicable to earnings in the respective countries	(82,553)	(841)
Tax effects of:		
Non-deductible and non-taxable items	45,384	(20,564)
Change in tax rates	9,495	(9,594)
Adjustments in respect of prior years	(9,439)	(17,181)
Impact of difference between current and future tax rates	(5,015)	-
Tax losses and temporary differences for which no deferred income tax asset was recognized	60,076	-
Write-down of deferred tax asset previously recorded	22,921	-
Utilization of previously unrecognized tax losses and temporary differences	(16,923)	(9,301)
Tax recovery associated with government grants and other tax credits	(7,173)	(9,861)
Additional tax on non-deductible items	3,361	-
Withholding tax on accrued interest receivable	5,236	-
Other	876	(1,394)
Total tax expense (recovery)	\$ 26,246	\$ (68,736)

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

The weighted average applicable tax rate for 2015 was 32.3% (2014: -1.5%). The increase in the tax rate is caused by an increase in the ratio of losses attributable to Chile and the US to consolidated net losses. Inclusive of mining royalty tax, Chile's statutory rate for 2015 was 26.5% while its future tax rate ranges from 28% to 32%. The tax rate in the US is 35%. Other than its equity accounted interest in Tenke Fungurume which is in a zero tax rate jurisdiction, the Company's subsidiaries are in tax jurisdictions that have tax rates ranging from 22% to 35%.

The current rate for mining royalty tax for Candelaria is 4%. As of 2018, Candelaria will be subject to a higher mining royalty tax rate of approximately 5-6% which will be based on its operating margins. This resulted in an additional charge of \$9.5 million in deferred mining royalty tax.

In 2014, Portugal and Spain both substantively enacted lower tax rates, resulting in a \$9.6 million in deferred tax recovery from the re-measurement of deferred tax balances.

Included in the non-deductible items is a goodwill impairment charge of \$98.1 million related to Candelaria mine and \$42.6 million related to Neves-Corvo.

### Deferred tax assets (liabilities), net

	December 31, 2015	December 31, 2014
Deferred tax liabilities:		
Deferred tax liabilities to be settled after more than 12 months	\$ (342,045)	\$ (394,064)
Deferred tax liabilities to be settled within 12 months	(15,469)	(15,024)
Deferred tax liabilities, net	\$ (357,514)	\$ (409,088)

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, 2014	(Expensed)/ recovered	Credited to equity	Effects of foreign exchange	As at December 31, 2015
<b>Deferred tax assets:</b>					
Loss carryforwards	\$ 135,880	\$ (87,700)	\$ -	\$ (36)	\$ 48,144
Reclamation and other closure provisions	59,297	(10,931)	-	(1,500)	46,866
Pension obligations	3,605	(870)	-	(159)	2,576
Future tax credits	3,957	4,613	-	(496)	8,074
Long-term inventory	15,863	(1,503)	-	-	14,360
Share issuance and financing costs	2,912	1,341	632	-	4,885
Fair value gains	5,920	(2,301)	-	-	3,619
Other	3,953	1,618	-	(819)	4,752
<b>Deferred tax liabilities:</b>					
Mineral properties, plant & equipment	(606,825)	135,509	-	10,670	(460,646)
Provisions	(11,014)	49	-	476	(10,489)
Mining royalty taxes	(22,636)	4,799	-	-	(17,837)
Other	-	(2,102)	-	284	(1,818)
	\$ (409,088)	\$ 42,522	\$ 632	\$ 8,420	\$ (357,514)

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

	As at December 31, 2013	(Expensed)/ recovered	Credited To Equity	Acquisition of Candelaria	Effects of foreign exchange	As at December 31, 2014
<b>Deferred tax assets:</b>						
Loss carryforwards	\$ 38,203	\$ 97,913	\$ -	\$ -	(236)	\$ 135,880
Reclamation and other closure provisions	28,495	15,286	-	17,901	(2,385)	59,297
Pension obligations	2,779	1,133	-	157	(464)	3,605
Future tax credits	11,144	(6,364)	-	-	(823)	3,957
Long-term inventory	-	1,643	-	14,220	-	15,863
Share issuance costs	-	-	2,912	-	-	2,912
Fair value gains	-	3,643	-	2,277	-	5,920
Other	2,516	622	-	193	622	3,953
<b>Deferred tax liabilities:</b>						
Mineral properties, plant & equipment	(179,559)	(45,890)	-	(398,002)	16,626	(606,825)
Reserves	(19,105)	5,928	-	-	2,163	(11,014)
Mining royalty taxes	-	(483)	-	(22,153)	-	(22,636)
Other	-	605	-	-	(605)	-
	\$ (115,527)	\$ 74,036	\$ 2,912	\$ (385,407)	\$ 14,898	\$ (409,088)

Deferred tax assets are recognized for tax loss carry-forwards and other temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. Due to the business combination in 2014 and expected continued taxable earnings in Canada, the Company recognized \$16.9 million in deferred tax assets in Canada that were unrecognized in prior periods.

However, due to decreases in forecasted metal prices the Company determined it is no longer probable that sufficient taxable profit will be available to allow the benefit of the deferred tax assets of Eagle Mine and Aguablanca to be utilized. As such, net deferred tax assets of \$70.5 million and \$8.5 million for Eagle Mine and Aguablanca, respectively, were not recognized. In Portugal, investment tax credits of \$2.0 million expiring in 2016 also were not recognized as it is not probable that sufficient taxable profit will be available to utilize these tax credits.

The Company did not recognize deductible temporary differences of \$81.7 million (2014 - \$67.2 million) in respect of mineral properties, plant and equipment, marketable securities and other assets.

The Company did not recognize deferred tax assets of \$132.8 million (2014 - \$41.2 million) in respect of losses amounting to \$405.4 million (2014 - \$159.0 million) that can be carried forward against future taxable income.

Year of expiry	Canada	US	Spain	Ireland	Total
2023 and thereafter	\$ 27,085	\$ 310,230	\$ 5,927	\$ 62,166	\$ 405,408

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

The aggregate amount of temporary differences related to investments in subsidiaries and associates for which deferred tax liabilities have not been recognized is \$434.6 million as at December 31, 2015 (2014 - \$401.6 million).



## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 12. GOODWILL AND ASSETS IMPAIRMENT

#### a) Goodwill

The Company recognized goodwill resulting from the acquisition of the Neves-Corvo, Candelaria and Ojos mines.

Goodwill is allocated to the following CGUs:

	Candelaria mine <sup>1</sup>	Ojos mine <sup>1</sup>	Neves-Corvo mine	Total
Balance at December 31, 2013	\$ -	\$ -	\$ 173,383	\$ 173,383
Candelaria Acquisition	98,132	10,713	-	108,845
Effects of foreign exchange	-	-	(20,746)	(20,746)
Balance at December 31, 2014	98,132	10,713	152,637	261,482
Impairment loss	(98,132)	-	(42,624)	(140,756)
Effects of foreign exchange	-	-	(15,805)	(15,805)
<b>Balance at December 31, 2015</b>	<b>\$ -</b>	<b>\$ 10,713</b>	<b>\$ 94,208</b>	<b>\$ 104,921</b>

<sup>1</sup> Candelaria mine and Ojos mine are included in the Candelaria segment.

The Company performs an impairment assessment annually, or more frequently if there are impairment indicators, for the carrying amount of its CGUs 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 2015. The valuation of recoverable amount is most sensitive to changes in metal prices, exchange rates and discount rates.

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

In performing the CGU impairment test for Candelaria, Ojos and Neves-Corvo mines, the Company used a FVLTD valuation model. Inputs utilized in this model were based on level 3 fair value measurements (see Note 27), which were not based on observable market data. The reserves and resources ("R&R") were based on the Company's last published statement dated June 30, 2015. Incorporated in the FVLTD were fair value estimates developed by the Company for resources not captured in the cash flow model. These estimates are benchmarked using third-party market information.

#### Candelaria mine

The Company concluded that the recoverable amount (FVLTD) of the Candelaria CGU was lower than its carrying value. Accordingly, the Company recognized a total impairment loss of \$146.2 million. This impairment loss was first applied to goodwill which resulted in the recognition of \$98.1 million goodwill impairment. The remaining impairment of \$48.1 million (\$26.3 million, net of taxes and non-controlling interests) was allocated fully to the mineral property carrying amount of the mine. The recoverable amount after the impairment, based on FVLTD (level 3 measurement) was \$1,369.2 million.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

Sensitivities were performed for the Candelaria cash flow model. A change of 5% in metal prices, 5% in foreign exchange and 1% in discount rate would result in recoverable amount value changes of approximately \$250 million, \$115 million and \$105 million, respectively.

The impairment was recognized as a result of the decrease in the Company's short-term metal price forecast primarily for the years 2016-2018.

### Ojos mine

The Company determined that the recoverable amount of the Ojos CGU was higher than its carrying value, and therefore, no impairment was recognized. The Company used a FVLTD model (level 3 measurement).

The recoverable amount of Ojos was negatively impacted by the decline in short-term metal price forecasts, however this was more than offset by significant R&R increases as a result of successful underground exploration programs.

Sensitivity analysis was performed on the cash flow model for Ojos. Reviewing changes in key inputs such as changes to metal prices (+/-5%), foreign exchange rate (+/-5%) and discount rate (+/-1%) did not have any impact on the result of the Company's goodwill impairment assessment.

### Key assumptions for Candelaria mine and Ojos mine

	2015	2014
Copper price \$/lb	2.30 – 3.00	3.00
Gold price \$/oz	1,130 – 1,300	1,275
Silver price per \$/oz	15.50 – 20.50	20.00
After-tax discount rate - Candelaria	9.25%	9.25%
After-tax discount rate - Ojos	8.5%	8.5%
CLP/\$ exchange rate	585 - 700	585
Life of mine - Candelaria	17 years	17 years
Life of mine - Ojos	6 years	6 years

### Neves-Corvo mine

For the Neves-Corvo mine CGU impairment review, the Company used a FVLTD model (level 3 measurement). The recoverable amount of the CGU was determined to be lower than the carrying value and as a result a goodwill impairment of \$42.6 million was recognized. The impairment was recognized due to the decline in the short-term metal price forecast. The recoverable amount after the impairment, based on FVLTD, was \$714.4 million.

The Company prepared a sensitivity analysis on certain key assumptions of the cash flow model. A change of 5% in metal prices, 5% in foreign exchange and a 1% change in discount rate would result in recoverable amount value changes of approximately \$134 million, \$113 million and \$45 million, respectively.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### Key assumptions for Neves-Corvo mine

	2015	2014
Copper price \$/lb	2.30 – 3.00	3.00
Zinc price \$/lb	0.70 – 1.15	1.05 – 1.15
After-tax discount rate	9.0%	9.0%
€/€ exchange rate	1.10 - 1.15	1.25
Life of mine	14 years	15 years

### b) Asset impairment

At every reporting period, the Company assesses 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.

During the fourth quarter of 2015, there were significant metal price decreases, particularly for nickel and copper, which the Company identified as an impairment indicator.

#### Eagle mine

For the Eagle mine CGU impairment review, the Company used a FVLTD model (level 3 measurement). As the recoverable amount determined for the CGU was lower than the carrying value, an impairment loss of \$63.0 million was recognized and allocated to mineral properties. The recoverable amount after the impairment, based on FVLTD, was \$509.9 million. The Eagle mine has a relatively short mine life, as such short-term nickel and copper pricing had a significant impact on the recoverable amount.

Sensitivity analysis was performed on factors which have the most significant impact were performed for the cash flow model. A 5% change in the metal prices and 1% change in discount rate would impact the recoverable amount by approximately \$56 million and \$12 million, respectively.

### Key assumptions for Eagle mine

	2015
Nickel price \$/lb	4.25 – 8.00
Copper price \$/lb	2.30 – 3.00
After-tax discount rate	9.0%
Life of mine	7 years

### Aguablanca

Impairment indicators were identified for the Aguablanca mine as a result of significant short and medium-term decreases in nickel and copper price forecasts and relatively short life of mine. As at December 31, 2015, the mineral properties, plant and equipment were written down to their recoverable amount based on a VIU model (level 2 measurement, see Note 27). The total impairment loss was \$37.6 million.

As at December 31, 2015, operations were suspended pending environmental approvals. In January 2016, with continued low metal prices and anticipated future losses, the Company announced the mine would not restart operations (Note 32).

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### Exploration properties

The Company recognized impairment losses related to the valuation of its exploration concessions in Ireland during 2015. In 2014 impairment losses were related to Portuguese regional exploration concessions.

### Investment in Tenke Fungurume

For the investment in Tenke Fungurume impairment review, the Company used a FVLTD model (level 3 measurement). The recoverable amount of the CGU was determined to be higher than the carrying value, as such no impairment was recognized.

The Company prepared a sensitivity analysis on the key assumptions used for the cash flow model. A 5% change in the metal price and 1% change in discount rate would impact the recoverable amount by approximately \$173 million and \$243 million, respectively.

### Key assumptions for Tenke Fungurume

	2015
Copper price \$/lb	2.30 – 3.00
Cobalt price \$/lb	12.50
After-tax discount rate	10%
Life of mine	45 years

### c) Goodwill and asset impairment

The following table summarizes the impairment losses recognized for the years ended December 31, 2015 and 2014.

	2015	2014
Goodwill		
Candelaria	\$ 98,132	\$ -
Neves-Corvo	42,624	-
Goodwill impairment	140,756	-
Mineral properties		
Eagle	62,928	-
Candelaria	48,142	-
Aguablanca	34,889	-
Construction in progress		
Aguablanca	2,047	-
Plant and equipment		
Aguablanca	662	-
Exploration properties	3,861	47,064
Mineral properties, plant and equipment impairment	152,529	47,064
Goodwill and asset impairment	\$ 293,285	\$ 47,064

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 13. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

	December 31, 2015	December 31, 2014
Trade payables	\$ 122,195	\$ 137,352
Unbilled goods and services	62,100	81,511
Payroll obligations	41,427	46,763
Royalty payable	6,238	8,587
	<b>\$ 231,960</b>	<b>\$ 274,213</b>

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

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

	December 31, 2015	December 31, 2014
Senior secured notes (a)	\$ 976,257	\$ 978,835
Finance lease obligations (b)	1,771	2,171
Rio Narcea debt (c)	1,088	1,814
	<b>979,116</b>	<b>982,820</b>
Less: current portion	1,102	1,932
	<b>\$ 978,014</b>	<b>\$ 980,888</b>

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

As at December 31, 2013	\$ 228,776
Issuance of senior secured notes, net	978,302
Additions	132,481
Repayments (d)	(362,696)
Deferred financing fees	7,715
Revaluations	48
Effects of foreign exchange	(1,806)
As at December 31, 2014	982,820
Additions	1,139
Repayments	(6,380)
Deferred financing fees	2,422
Revaluations	(26)
Effects of foreign exchange	(859)
<b>As at December 31, 2015</b>	<b>\$ 979,116</b>

- a) In connection with the Candelaria Acquisition, on October 27, 2014, the Company completed the issuance of \$1,000 million senior secured notes in two tranches, \$550 million of 7.5% Senior Secured Notes due 2020 (the "2020 Notes") and \$450 million of 7.875% Senior Secured Notes due 2022 (the "2022 Notes" and, together with the 2020 Notes, the "Notes"). The 2020 Notes accrue interest at a rate of 7.5% per annum and will mature on November 1, 2020. The 2022 Notes accrue interest at a rate of 7.875% per annum, and will mature on November 1, 2022.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

The Notes are guaranteed on a senior secured basis by certain of the Company's subsidiaries that are guarantors under the existing credit facility and certain of the Company's subsidiaries that became guarantors under the streaming purchase agreement ("streaming subsidiaries"). The Notes and the guarantees are secured on a first priority basis by a pledge of the shares of certain streaming subsidiaries and on a second priority basis by a pledge of the shares of certain of the Company's subsidiaries that are also pledged to secure the Company's existing credit facility.

- b) Finance lease obligations relate to leases on mining equipment which have remaining lease terms of one to six years and interest rates of approximately 8% over the term of the leases.
- c) 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 -0.3% (2014 – 0.6%) and is repayable annually until 2017.
- d) On November 3, 2014, the Company repaid its existing \$250 million term loan with the proceeds from the Notes. The Company also amended its \$350 million revolving credit facility which remained in place under pre-existing terms. 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 facility. The credit facility matures in October 2017. As at December 31, 2015, the Company had no amount drawn on the credit facility, and a letter of credit in the amount of \$19.4 million (SEK 162 million).
- e) 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 2014. The new €30 million program bears interest at EURIBOR plus 1%. The program matures in December 2017. As at December 31, 2015, no amounts were drawn.

The schedule of principal repayment obligations are as follows:

	Debt	Finance leases	Total
2016	\$ 544	\$ 558	\$ 1,102
2017	544	328	872
2018	-	334	334
2019	-	133	133
2020	550,000	136	550,136
2021 and thereafter	445,000	282	445,282
<b>Total</b>	<b>\$ 996,088</b>	<b>\$ 1,771</b>	<b>\$ 997,859</b>

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 15. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

As at December 31, 2013	\$	61,012
Stream agreement, net (a)		632,064
Recognition of revenue		(16,885)
Effects of foreign exchange		(8,849)
As at December 31, 2014		667,342
Stream agreement proceeds (a)		7,500
Recognition of revenue		(63,034)
Effects of foreign exchange		(3,312)
		608,496
Less: current portion		58,666
<b>As at December 31, 2015</b>	<b>\$</b>	<b>549,830</b>

#### a) Candelaria

As part of the Candelaria Acquisition, the Company entered into a stream agreement with Franco-Nevada, whereby the Company has agreed to sell 68% of all the gold and silver contained in production from Candelaria until 720,000 oz of gold and 12 million oz of silver have been delivered. Thereafter, Franco-Nevada will be entitled to receive 40% of gold and silver production from Candelaria. The Company received an up-front payment of \$648 million. Including the impact of certain acquisition date adjustments, an amount equal to \$632.1 million has been recorded as deferred revenue and is being recognized as gold and silver are delivered to Franco-Nevada under the contract.

For each ounce of gold and silver delivered, Franco-Nevada makes payments equal to the lesser of the prevailing market prices and \$400/oz of gold and \$4.00/oz of silver. After three years from the Candelaria Acquisition, the on-going payments for gold and silver will be subject to a 1% annual inflationary adjustment.

Pursuant to the stream agreement with Franco-Nevada, the Company received an additional \$7.5 million payment during 2015 due to an increase in reserves following resolution of post-closing items.

#### b) Neves-Corvo mine

The Company has an agreement to deliver all of the silver contained in concentrate produced from its Neves-Corvo mine to Silver Wheaton Corp ("Silver Wheaton"). The Company received an up-front payment which was deferred and is being recognized in sales as silver is delivered under the contract. The Company receives the lesser of a fixed payment (subject to annual adjustments) and the market price per ounce of silver. During 2015, the Company received approximately \$4.12 per ounce of silver. The agreement extends to the earlier of September 2057 and the end of mine life of the Neves-Corvo mine.

#### c) Zinkgruvan mine

The Company has an agreement with Silver Wheaton to deliver silver contained in concentrate from the Zinkgruvan mine. The Company received an up-front payment which was deferred and is being recognized in sales as silver is delivered under the contract and receives the lesser of a fixed payment (subject to annual adjustments) and the market price per ounce of silver. During 2015, the Company received approximately \$4.25 per ounce of silver.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 16. 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, 2013	\$ 130,480	\$ 21,190	\$ 151,670
Acquisition of Candelaria	63,850	36,261	100,111
Accretion	2,354	-	2,354
Accruals for services	-	7,151	7,151
Changes in estimates	26,943	-	26,943
Payments	(7,484)	(718)	(8,202)
Effects of foreign exchange	(13,931)	(2,640)	(16,571)
Balance, December 31, 2014	202,212	61,244	263,456
Accretion	3,912	-	3,912
Accruals for services	-	1,581	1,581
Changes in estimates	8,185	-	8,185
Payments	(5,278)	-	(5,278)
Effects of foreign exchange	(9,717)	(5,158)	(14,875)
Balance, December 31, 2015	199,314	57,667	256,981
Less: current portion	6,488	7,937	14,425
	\$ 192,826	\$ 49,730	\$ 242,556

The reclamation and other closure provisions for Candelaria as at December 31, 2015 were \$95.8 million (2014 – \$102.4 million). The Company expects the payments to be settled between 2016 and 2026.

At December 31, 2015, the reclamation and other closure provision for the Neves-Corvo mine was \$72.7 million (2014 - \$79.9 million). The Company expects the payments for site restoration costs at Neves-Corvo to be incurred between 2016 and 2028.

The reclamation provision at the Zinkgruvan mine at December 31, 2014 was \$16.1 million (2014 - \$13.3 million). This provision is based on future reclamation costs being settled between 2021 and 2051. The Company has posted letters of credit related to its site restoration provision (Note 24d).

The reclamation and other closure provisions, including severance, for the Aguablanca mine at December 31, 2015 totaled \$33.4 million (2014 - \$25.7 million). The closure provision increased \$11.2 million due to a change in estimate resulting from a revised closure study and the acceleration of mine closure to 2016. The majority of payments are expected to be settled between 2016 and 2020.

The reclamation and other closure provisions for the Eagle mine as at December 31, 2015 were \$36.0 million (2014 - \$38.0 million). The Company expects the majority of payments to be settled between 2022 and 2024.

### 17. 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, 2015, there were 719,628,357 fully paid voting common shares issued (2014 - 718,168,173).



## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

In connection with the Candelaria Acquisition, on October 23, 2014, the Company completed a bought-deal financing. In total, 132,157,000 subscription receipts, each representing one common share, were issued at a price of C\$5.10 per subscription receipt for gross proceeds of \$601.5 million (C\$674 million). The proceeds from the sale of the subscription receipts were placed in escrow pending closing of the Candelaria Acquisition, a condition for release. On November 3, 2014, the proceeds and subscription receipts were released from escrow. On November 20, 2014, the subscription receipts were converted to common shares. In 2014, the Company incurred \$22.2 million (\$19.3 million, net of tax) in fees related to the above issuance.

### (b) Restricted share units

On May 9, 2014, the Company adopted a new Share Unit Plan (the "SU Plan"). The SU Plan provides for share unit awards (the "SUs") to be granted by the Board of Directors to certain employees of the Company. The maximum number of SUs that are issuable under the SU Plan is 6,000,000. An SU is a unit representing the right to receive one common share (subject to adjustments) issued from treasury.

The number of SUs awarded will be determined based on the market price on the date of grant, as approved by the Board of Directors. The market price shall be calculated at the closing market price on the Toronto Stock Exchange of the common shares on the date of the grant. The vesting requirements are established from time to time by the Board of Directors.

The Company uses the fair value method of accounting for the recording of SU grants to employees and officers. Under this method, the Company recorded share-based compensation expense of \$1.0 million for 2015 (2014 - \$nil) with a corresponding credit to contributed surplus.

During 2015, the Company granted 1.0 million SUs to employees and officers that expire in 2018. The SUs vest over three years from the grant date. The fair value of the SU's are based on the market value of the shares on the date of the grant and an estimated forfeiture rate of 13%. The weighted average fair value per SU granted during 2015 was \$5.32. As at December 31, 2015, there was \$2.5 million of unamortized stock-based compensation expense related to SUs.

During 2015, 22,300 common shares (2014 - nil) were issued as a result of SUs being exercised.

### (c) Stock options

During 2014, the Company adopted a new Incentive Stock Option Plan (the "2014 Option Plan") which replaced the Company's former stock option plan (the "Former Option Plan"). No further awards shall be granted under the Former Option Plan. However, any outstanding awards granted under the Former Option Plan shall remain outstanding and shall continue to be governed by the provisions of the Former Option Plan. The 2014 Option Plan provides for stock option awards (the "options") to be granted by the Board of Directors to certain employees of the Company. The term of any options granted under the 2014 Option Plan may not exceed five years from the date of grant. The maximum number of options that are issuable under the 2014 Option Plan is 30,000,000. The vesting requirements are established from time to time by the Board of Directors.

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 \$6.0 million for 2015 (2014 - \$7.7 million) with a corresponding credit to contributed surplus.

During 2015, the Company granted 4.2 million incentive stock options to employees and officers that expire in 2020. The options vest over three years from the grant date. 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 0.5% to 1.3% (2014 - 1.3% to 1.6%), no dividend yield, expected life of 3.7 years (2014 - 4.2 years) with an expected price volatility of 40% to 63% (2014 - 46% to 55%). Volatility is determined using daily volatility over the expected life of the options. A forfeiture rate of

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

approximately 13% is applied (2014 - 13%). The weighted average fair value per option granted during 2015 was \$1.82 (2014 - \$1.99). As at December 31, 2015, there was \$3.0 million of unamortized stock compensation expense (2014 - \$3.8 million) related to options.

During 2015, 1,437,884 common shares (2014 - 1,368,110) were issued as a result of options being exercised.

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

	Number of SUs	Number of options	Weighted average exercise price (C\$)
Outstanding, January 1, 2014	-	9,789,666	\$ 4.38
Granted	-	3,742,200	5.15
Forfeited	-	(319,884)	4.45
Exercised	-	(1,276,998)	4.00
Outstanding, December 31, 2014	-	11,934,984	4.66
Granted	1,009,400	4,246,770	5.37
Forfeited	(4,100)	(640,150)	5.03
Expired	-	(14,000)	3.89
Exercised	(22,300)	(1,437,884)	4.08
<b>Outstanding, December 31, 2015</b>	<b>983,000</b>	<b>14,089,720</b>	<b>\$ 4.92</b>

The following table summarizes options outstanding as at December 31, 2015, 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\$)
\$3.51 to \$4.10	3,031,000	1.4	\$ 3.93	2,680,000	1.2	\$ 3.92
\$4.11 to \$4.70	554,000	2.3	4.50	396,000	1.9	4.49
\$4.71 to \$5.30	6,521,350	2.5	5.09	4,262,149	2.2	5.04
\$5.31 to \$5.90	3,934,170	4.4	5.43	72,000	4.0	5.35
\$5.91 to \$6.50	49,200	4.3	6.30	-	-	-
	<b>14,089,720</b>	<b>2.8</b>	<b>\$ 4.92</b>	<b>7,410,149</b>	<b>1.8</b>	<b>\$ 4.61</b>

### (d) Diluted weighted average number of shares

The basic weighted average number of common shares outstanding for the year ended December 31, 2015 was 719,089,063 (2014 - 600,442,231).

Stock options and restricted share units were not included in the computation of diluted loss per common share for the year ended December 31, 2015 as their inclusion would be anti-dilutive. The total incremental shares added to the basic weighted average number of common shares to arrive at the fully diluted number of shares for the year ended December 31, 2014 is 1,915,641 shares which relate to exercisable "in-the-money" outstanding stock options and outstanding share units.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 18. NON-CONTROLLING INTERESTS

The Company owns 80% of Compañía Contractual Minera Candelaria S.A. and Compañía Contractual Minera Ojos del Salado S.A.'s copper mining operations and supporting infrastructure in Chile. The remaining 20% ownership stake is held by Sumitomo Metal Mining Co., Ltd and Sumitomo Corporation. The continuity of non-controlling interests balance is disclosed in the consolidated statements of changes in equity.

Summarized financial information for Candelaria and Ojos on a 100% basis is as follows:

#### Summarized Balance Sheets

	Candelaria mine		Ojos mine	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Total current assets	\$ 480,335	\$ 390,656	\$ 69,364	\$ 92,635
Total non-current assets	\$ 1,908,201	\$ 2,131,351	\$ 219,715	\$ 268,769
Total current liabilities	\$ 95,871	\$ 116,298	\$ 30,455	\$ 58,428
Total non-current liabilities	\$ 372,494	\$ 400,378	\$ 68,552	\$ 79,901

#### Summarized Statements of Earnings and Comprehensive (Loss) Income

For the years ended December 31	2015	2014	2015	2014
Total sales	\$ 856,703	\$ 199,639	\$ 156,229	\$ 65,056
Net (loss) earnings / Comprehensive (loss) income	\$ (9,473)	\$ (42,951)	\$ (23,005)	\$ 117,308
Dividends paid to non-controlling interests	\$ 10,000	\$ 15,000	\$ 2,000	\$ -

The above information is presented before inter-company eliminations.

### 19. OPERATING COSTS

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

	2015	2014
Direct mine and mill costs	\$ 860,512	\$ 572,101
Transportation	87,408	38,274
Royalties	14,774	9,366
	962,694	619,741
Depreciation, depletion and amortization (Note 9)	554,662	208,334
<b>Total operating costs</b>	<b>\$ 1,517,356</b>	<b>\$ 828,075</b>

Operating costs consists of direct mine and mill costs (which include personnel, energy, maintenance and repair costs), transportation fees, royalty expenses and depreciation related to sales.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 20. EMPLOYEE BENEFITS

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

	2015	2014
Operating costs		
Wages and benefits	\$ 221,929	\$ 119,107
Pension benefits	1,387	1,659
Share-based compensation	2,708	2,733
	<b>226,024</b>	123,499
General and administrative expenses		
Wages and benefits	12,651	12,265
Pension benefits	613	510
Share-based compensation	4,079	4,717
	<b>17,343</b>	17,492
General exploration and business development		
Wages and benefits	9,563	7,773
Pension benefits	44	49
Share-based compensation	235	220
	<b>9,842</b>	8,042
<b>Total employee benefits</b>	<b>\$ 253,209</b>	<b>\$ 149,033</b>

#### Provision for pension obligations

The Company has calculated its liability relating to the defined benefit plan at the Zinkgruvan mine using the accrued benefit pro-rated on services method.

Actuarial assumptions, based on the most recent actuarial valuation dated December 31, 2014, used to determine benefit obligations as at December 31, 2015 and 2014 were as follows:

	2015	2014
Discount rate	2.3%	2.6%
Rate of salary increase	2.5%	2.5%

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

Information about Zinkgruvan's pension obligations is as follows:

	2015	2014
Accrued benefit obligation		
Balance, beginning of the year	\$ 12,789	\$ 15,587
Current service costs	134	164
Interest costs	273	537
Actuarial losses	220	768
Benefits paid	(1,426)	(1,699)
Effects of foreign exchange	(830)	(2,568)
Balance, end of the year	11,160	12,789
Other pension accruals	4,172	4,241
<b>Total provision for pension obligations</b>	<b>\$ 15,332</b>	<b>\$ 17,030</b>

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

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

	<b>2015</b>	<b>2014</b>
Current service costs	\$ 134	\$ 164
Interest costs	273	537
Payroll taxes	309	532
Pension expense	\$ 716	\$ 1,233

A 1% change in the discount rate assumption would have an insignificant impact on the pension obligation or the pension expense for 2015.

Below is a summary of future payments to be made under the defined benefit plan as at December 31, 2015:

2016	\$	1,361
2017		1,232
2018		1,032
2019		970
2020		1,061
2021 and thereafter		7,140
	\$	12,796

### Defined contribution plans

The Company recorded a pension expense in operating costs in the amount of \$1.4 million (2014 - \$1.7 million) and in general and administrative expenses in the amount of \$0.6 million (2014 - \$0.5 million) relating to defined contribution plans.

## 21. GENERAL EXPLORATION AND BUSINESS DEVELOPMENT

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

	<b>2015</b>	<b>2014</b>
General exploration	\$ 51,575	\$ 35,522
Corporate development	9	25,790
Project development	7,916	13,373
	\$ 59,500	\$ 74,685

In 2015, project development expenses include zinc expansion feasibility study costs related to Neves-Corvo.

In 2014, the Company recorded \$25.7 million in corporate development expenses related to the Candelaria Acquisition (Note 28). Project development expenses consist primarily of indirect costs for the Eagle Project.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 22. FINANCE COSTS

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

	2015	2014
Interest income	\$ 564	\$ 1,857
Interest expense and bank fees	(83,664)	(23,035)
Accretion expense on reclamation provisions	(3,912)	(2,237)
Revaluation losses on marketable securities	(1,210)	(1,438)
Unrealized loss on revaluation of currency options	(2,067)	-
Loss on disposal of marketable securities	-	(4,925)
Other	1,049	1,670
<b>Total finance costs</b>	<b>\$ (89,240)</b>	<b>\$ (28,108)</b>

Interest expense of \$76.7 million related to the Company's \$1.0 billion senior secured notes was recorded in interest expense and bank fees (Note 14a).

During 2014, deferred financing fees of \$3.2 million related to the Company's \$250 million term loan were recorded in interest expense and bank fees upon repayment of the loan (Note 14d).

### 23. OTHER INCOME AND EXPENSES

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

	2015	2014
Foreign exchange gain	\$ 18,509	\$ 20,335
Other income	5,082	9,524
Other expenses	(18,737)	(10,785)
<b>Total other income, net</b>	<b>\$ 4,854</b>	<b>\$ 19,074</b>

  

Other income	\$ 23,591	\$ 29,859
Other expenses	(18,737)	(10,785)
<b>Total other income, net</b>	<b>\$ 4,854</b>	<b>\$ 19,074</b>

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

Other expenses includes a payment of \$7.0 million made during the year by Candelaria to the Municipality of Tierra Amarilla, Chile, as the initial payment pursuant to terms in the Settlement and Community Development Agreements for funding sustainable social programs.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

### 24. COMMITMENTS AND CONTINGENCIES

- a) 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 2015 in the amount of \$2.1 million (2014 - \$5.8 million) were included in operating costs.
- b) Eagle mine has obligations under state and private royalty agreements ranging from 1.0% to 7.0%. In addition, the operation is subject to a severance tax of 2.75% of net sales owed to the state of Michigan. Combined, for 2015, \$19.7 million (2014 - \$2.3 million) was recorded in operating costs under these agreements.
- c) Royalty payments relating to the Candelaria mine are 4% of mining income. Royalty costs for 2015 of \$4.1 million (2014 - \$2.6 million) have been reported as a tax expense in Candelaria. Commencing in 2018, a sliding scale royalty of between 5% - 14% will be imposed.
- d) A bank has issued a bank guarantee to the Swedish authorities in the amount of \$19.4 million (SEK 162.0 million) relating to the future reclamation costs at the Zinkgruvan mine. The Company has agreed to indemnify the bank for this guarantee.
- e) Under an 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 19.8 million ounces has been delivered since the inception of the contract in 2004.
- f) The Company has transportation agreements with minimum tonnage requirements. The committed minimum amounts are \$13.3 million for 2016.
- g) As at December 31, 2015, a contingent liability of \$8.1 million was included in other long-term liability relating to Candelaria Acquisition (see Note 28). Under the purchase agreement with FCX, contingent consideration of up to \$200 million is payable and calculated as 5% of net copper revenue in any annual period over the next four years if the realized average copper price exceeds \$4.00 per pound.
- h) In 2015, pursuant to the terms of the signed Settlement and Community Development Agreements with the municipality of Tierra Amarilla, Chile, Candelaria mine has committed to a multi-year community investment program totaling \$23.6 million to support flood reconstruction, regional environmental reclamation activities, community infrastructure and social programs. During 2015, a payment of \$7.0 million was made pursuant to these agreements.
- i) The Company is a party to certain contracts relating to operating leases and service and supply agreements. Future minimum payments under these agreement as at December 31, 2015 are as follows:

2016	\$	14,895
2017		5,114
2018		4,101
2019		3,348
2020		2,878
2021 and thereafter		2,648
<b>Total commitments</b>	<b>\$</b>	<b>32,984</b>

## **LUNDIN MINING CORPORATION**

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

- j) The Company has capital commitments of \$29.8 million, on various initiatives, of which \$29.3 million is to be paid during 2016.

### **25. SEGMENTED INFORMATION**

The Company is engaged in mining, exploration and development of mineral properties, primarily in Chile, USA, Portugal, Sweden, Spain 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.



## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### For the year ended December 31, 2015

	Candelaria	Eagle	Neves-Corvo	Zinkgruvan	Aguablanca	Tenke Fungurume	Other	Total
	Chile	USA	Portugal	Sweden	Spain	DRC		
Sales	\$ 908,129	\$ 284,015	\$ 292,107	\$ 155,130	\$ 62,566	\$ -	\$ -	\$ 1,701,947
Operating costs	(456,889)	(155,420)	(220,791)	(80,260)	(46,504)	-	(2,830)	(962,694)
General and administrative expenses	-	-	-	-	-	-	(27,167)	(27,167)
Operating earnings (loss) <sup>1</sup>	451,240	128,595	71,316	74,870	16,062	-	(29,997)	712,086
Depreciation, depletion and amortization	(287,452)	(146,598)	(83,630)	(23,532)	(13,431)	-	(378)	(555,021)
General exploration and business development	(26,335)	(10,149)	(7,686)	(1,126)	-	-	(14,204)	(59,500)
Income from equity investments in associates	-	-	-	-	-	24,617	(54)	24,563
Finance income and costs, net	(1,985)	(835)	62	(490)	(1,582)	-	(84,410)	(89,240)
Goodwill and asset impairment	(146,275)	(62,928)	(42,624)	-	(37,597)	-	(3,861)	(293,285)
Other income and expenses, net	3,190	80	8,748	1,719	(562)	-	(8,321)	4,854
Income tax (expense) recovery	590	(22,921)	14,112	(5,949)	(12,372)	-	294	(26,246)
Net earnings (loss)	\$ (7,027)	\$ (114,756)	\$ (39,702)	\$ 45,492	\$ (49,482)	\$ 24,617	\$ (140,931)	\$ (281,789)
Capital expenditures	\$ 167,663	\$ 21,798	\$ 43,484	\$ 27,726	\$ 16,845	\$ -	\$ 226	\$ 277,742
Total non-current assets <sup>2</sup>	\$ 2,126,589	\$ 522,683	\$ 782,115	\$ 205,472	\$ 9,471	\$ 1,961,247	\$ 96,943	\$ 5,704,520

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

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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### For the year ended December 31, 2014

	Candelaria	Eagle	Neves-Corvo	Zinkgruvan	Aguablanca	Tenke	Other	Total
	Chile	USA	Portugal	Sweden	Spain	Fungurume		
						DRC		
Sales	215,192 \$	47,280 \$	373,148 \$	194,009 \$	120,421 \$	- \$	1,264 \$	951,314
Operating costs	(147,391)	(18,796)	(263,754)	(104,418)	(82,349)	-	(3,033)	(619,741)
General and administrative expenses	-	-	-	-	-	-	(27,238)	(27,238)
Operating earnings (loss) <sup>1</sup>	67,801	28,484	109,394	89,591	38,072	-	(29,007)	304,335
Depreciation, depletion and amortization	(49,244)	(24,250)	(96,551)	(29,521)	(8,409)	-	(728)	(208,703)
General exploration and business development	(4,251)	(21,039)	(5,244)	(7,488)	-	-	(36,663)	(74,685)
Income from equity investments in associates	-	-	-	-	-	88,016	1,780	89,796
Finance income and costs, net	(269)	(106)	19	692	62	-	(28,506)	(28,108)
Asset impairment	-	-	(47,064)	-	-	-	-	(47,064)
Other income and expenses, net	5,395	(22)	12,661	3,803	6,283	-	(9,046)	19,074
Income tax (expense) recovery	(2,376)	20,132	34,173	7,143	(10,265)	-	19,929	68,736
Net earnings (loss)	\$ 17,056 \$	\$ 3,199 \$	\$ 7,388 \$	\$ 64,220 \$	\$ 25,743 \$	\$ 88,016 \$	\$ (82,241) \$	\$ 123,381
Capital expenditures	\$ 18,320 \$	\$ 285,524 \$	\$ 74,203 \$	\$ 28,063 \$	\$ 14,879 \$	\$ - \$	\$ 568 \$	\$ 421,557
Total non-current assets <sup>2</sup>	\$ 2,395,598 \$	\$ 719,512 \$	\$ 963,586 \$	\$ 209,386 \$	\$ 40,953 \$	\$ 1,961,202 \$	\$ 112,461 \$	\$ 6,402,698

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

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

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

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

	2015	2014
Copper	\$ 1,127,084	\$ 518,205
Nickel	205,078	124,608
Zinc	150,892	192,525
Gold	106,498	22,061
Lead	49,258	59,696
Silver	37,623	19,787
Other	25,514	14,432
	\$ 1,701,947	\$ 951,314

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

	2015	2014
Europe	\$ 816,859	\$ 547,079
Asia	626,321	347,336
South America	85,418	35,965
North America	173,349	20,934
	\$ 1,701,947	\$ 951,314

## 26. 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:

	2015	2014
Wages and salaries	\$ 6,234	\$ 6,765
Pension benefits	120	133
Share-based compensation	2,250	2,713
	\$ 8,604	\$ 9,611

- c) **Other related parties** – For 2015, the Company paid \$0.1 million (2014 - \$0.2 million) for services provided by a company owned by the Chairman of the Company. The Company also paid \$0.9 million (2014 - \$0.7 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.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

### 27. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial assets and financial liabilities have been classified into categories that determine their basis of measurement. The following table shows the carrying values, fair values and fair value hierarchy of the Company's financial instruments as at December 31, 2015 and December 31, 2014:

	Level	December 31, 2015		December 31, 2014	
		Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>					
Cash and cash equivalents	1	\$ 556,511	\$ 556,511	\$ 174,792	\$ 174,792
Restricted funds	1	53,818	53,818	57,007	57,007
Trade receivables	2	141,207	141,207	322,130	322,130
Marketable securities - shares	1	3,337	3,337	5,483	5,483
Currency options	2	2,944	2,944	-	-
		\$ 757,817	\$ 757,817	\$ 559,412	\$ 559,412
Available for sale					
Marketable securities - shares	1	\$ 867	\$ 867	\$ 698	\$ 698
		867	867	698	698
<b>Financial liabilities</b>					
Amortized cost					
Long-term debt and finance leases	1,2	\$ 979,116	\$ 937,865	\$ 982,820	\$ 1,003,985
Other long-term liabilities	2	13,815	13,815	10,001	10,001
		\$ 992,931	\$ 951,680	\$ 992,821	\$ 1,013,986

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 negative pricing adjustments of \$172.8 million in sales during the year ended December 31, 2015 (2014 - \$45.0 million negative pricing adjustments).

Marketable securities/restricted funds – The fair value of investments in shares is determined based on quoted market price.

Currency options – The fair value of the currency options are determined using a valuation model that incorporates such factors as the quoted market price, strike price, the volatility of CLP:USD foreign exchange rates and the expiry date of the options.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

Long-term debt and other long-term liabilities – The fair value of long-term debt is determined using quoted market prices.

Finance leases and other long-term liabilities – The fair value of the finance leases and other long-term liabilities approximates 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, other assets, restricted funds, which are classified as loans and receivables, and trade and other payables which are classified as amortized cost.

### 28. BUSINESS COMBINATIONS

#### Candelaria acquisition

On November 3, 2014 the Company acquired 80% of Compañía Contractual Minera Candelaria S.A. and Compañía Contractual Minera Ojos del Salado S.A. copper mining operations and supporting infrastructure (“Candelaria Acquisition”) from FCX. Total cash consideration paid was \$1,852 million, consisting of a \$1,800 million base purchase price plus \$52 million for cash and non-cash working capital and other agreed adjustments. In addition, contingent consideration of up to \$200 million is also payable and calculated as 5% of net copper revenue in any annual period over the next five years from the acquisition date if the realized average copper price exceeds \$4.00 per pound. The remaining 20% ownership stake continues to be held by Sumitomo Metal Mining Co., Ltd and Sumitomo Corporation.

The Candelaria Acquisition was funded by a \$1,000 million senior secured note financing, a US\$601.5 million (C\$674 million) subscription receipt equity financing and a \$648 million upfront payment under the stream agreement with a subsidiary of Franco-Nevada (Note 15). The Company also repaid its existing \$250 million term loan with the proceeds from the financings.

#### The purchase price is as follows:

Cash consideration	\$	1,851,759
Cash acquired		(104,386)
Contingent consideration		8,100
<b>Purchase price</b>	<b>\$</b>	<b>1,755,473</b>

The fair value of the contingent consideration was calculated using a valuation method technique which involved determining probabilities for future copper prices. This liability has been recorded in other long-term liabilities.

#### Assets acquired and liabilities assumed

Trade and other receivables	\$	207,741
Income taxes receivable		8,549
Inventories		156,996
Long-term inventory		147,934
Other assets		6,485
Deferred tax assets		2,611
Mineral properties, plant and equipment		2,159,828
Goodwill		108,845
<b>Total assets</b>	<b>\$</b>	<b>2,798,989</b>
Trade and other payables	\$	117,633

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

Current portion of reclamation and other closure provisions	5,482
Reclamation and other closure provisions	94,629
Deferred tax liabilities	388,018
<b>Total liabilities</b>	<b>\$ 605,762</b>
Non-controlling interests	437,754
<b>Total assets acquired and liabilities assumed, net</b>	<b>\$ 1,755,473</b>

In accordance with the acquisition method of accounting, the purchase price has been allocated to the underlying assets acquired and liabilities assumed, based primarily upon their estimated fair values at the date of acquisition. No subsequent adjustments were made to the purchase price allocation.

We primarily used a discounted cash flow model (net present value of expected future cash flows) to determine the fair value of the mineral interests and long-term inventory, and used a replacement cost approach in determining the fair values of real property, plant and equipment. Expected future cash flows are based on estimates of projected revenues, production costs, capital expenditures and expected conversions of resources to reserves based on the life of mine plan as at the acquisition date.

The excess of the purchase price over the net identifiable assets acquired represents goodwill. The goodwill recognized primarily represents future mineral resource development potential. The goodwill is not expected to be deductible for income tax purposes.

The Company used the proportionate method in measuring non-controlling interest at the acquisition date.

### Total proceeds received and funds used:

Common share issuance, net proceeds	\$ 579,293
Senior secured notes, net proceeds	978,302
Stream agreement, net proceeds	632,064
<b>Total proceeds received</b>	<b>\$ 2,189,659</b>
Purchase price	\$ 1,851,759
Term loan repayment, including accrued interest	250,101
Acquisition related fees	25,706
General corporate purposes	62,093
<b>Total funds used</b>	<b>\$ 2,189,659</b>

Acquisition related fees are recorded in the consolidated statement of earnings as general exploration and business development (Note 21).

## 29. 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, 2015 is the carrying value of its trade receivables.

Concentrate produced at the Company's Candelaria, Eagle, Neves-Corvo and Zinkgruvan mines are sold to a

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

number of strategic customers with whom the Company has established long-term relationships. Limited amounts are occasionally sold to commodity 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 commodity 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, 2015, the Company has four customers that individually account for more than 10% of the Company's total sales. These customers represent approximately 23%, 17%, 15% and 12% of total sales and relate primarily to Candelaria and Neves-Corvo.

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 available 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 14).

The maturities of the Company's non-current liabilities are disclosed in Note 14. All current liabilities are settled within one year.

### **c) Foreign exchange risk**

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

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 foreign denominated balances and the functional 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.

During 2015, the Company purchased CLP call options against the USD to mitigate foreign exchange risk related to CLP strengthening (Note 8a).

The impact of a US dollar change against the SEK by 10% at December 31, 2015 would have a \$4.9 million (2014 - -\$1.4 million) impact on post-tax earnings. The impact of a US dollar change against the EUR by 10% at December 31, 2015 would have a \$5.3 million (2014 - \$11.8 million) impact on post-tax earnings. The impact of a US dollar change against CLP by 10% would have a \$6.0 million (2014 - \$5.3 million) impact on post-tax earnings, with all other variables held constant.

## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

---

The impact of a US dollar change against the EUR and SEK by 10% at December 31, 2015 would have a \$92.4 million (2014 - \$102.4 million) impact on OCI.

### 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, 2015 excluding the effect of the changes in metal prices on smelter treatment charges is as follows:

	Tonnes Payable	Provisional price on December 31, 2015 (\$/tonne)	Change	Effect on pre-tax earnings (\$ millions)
Copper	70,302	4,709	+/- 10%	+/- \$33.1
Nickel	5,779	8,802	+/- 10%	+/- \$5.1
Zinc	16,704	1,601	+/- 10%	+/- \$2.7

### 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. As at December 31, 2015, the Company's long-term debt is comprised of mainly fixed rate debt. As such, changes in interest rate will have no significant impact on interest expense.

## 30. 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.



## LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2015 and 2014

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

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

	<b>December 31, 2015</b>	December 31, 2014
Long-term debt and finance leases	\$ (979,116)	\$ (982,820)
Deferred financing fees included above	<b>(18,743)</b>	(21,165)
	<b>(997,859)</b>	(1,003,985)
Cash and cash equivalents	<b>556,511</b>	174,792
Net debt	\$ <b>(441,348)</b>	\$ (829,193)

### 31. SUPPLEMENTARY CASH FLOW INFORMATION

	<b>2015</b>	2014
Changes in non-cash working capital items consist of:		
Trade receivables, inventories and other current assets	\$ <b>204,788</b>	\$ (79,139)
Trade payables and other current liabilities	<b>(9,806)</b>	41,266
	\$ <b>194,982</b>	\$ (37,873)

Operating activities included the following cash payments:

Income taxes paid	\$ <b>73,808</b>	\$ 24,543
-------------------	------------------	-----------

### 32. SUBSEQUENT EVENT

On January 28, 2016, the Company advised local authorities and employees of the intention to permanently close the Aguablanca mine. The closure was originally scheduled for early 2018. The decision to close the Aguablanca mine was due to the significant and sustained decrease in nickel and copper prices.

## Other Supplementary Information

### 1. *List of directors and officers at February 18, 2016:*

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

Donald K. Charter  
Paul K. Conibear  
John H. Craig  
Peter C. Jones  
Lukas H. Lundin  
Dale C. Peniuk  
William A. Rand  
Catherine J. G. Stefan

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

Lukas H. Lundin, *Chairman*  
Paul K. Conibear, *President and Chief Executive Officer*  
Marie Inkster, *Senior Vice President and Chief Financial Officer*  
Peter M. Quinn, *Chief Operating 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*  
Derek Riehm, *Vice President, Environment*  
Lesley Duncan, *Corporate Secretary*

### 2. **Financial Information**

The report for the first quarter of 2016 is expected to be published by April 27, 2016.

### 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, 2 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:**

Sonia Tercas, *Investor Relations, North America*: +1-416-342-5583, [sonia.tercas@lundinmining.com](mailto:sonia.tercas@lundinmining.com)  
John Miniotis, *Senior Manager, Corporate Development and Investor Relations*: +1-416-342-5560, [john.miniotis@lundinmining.com](mailto:john.miniotis@lundinmining.com)  
Robert Eriksson, *Investor Relations, Sweden*: +46-(0)8-440-54-50, [robert.eriksson@lundinmining.com](mailto:robert.eriksson@lundinmining.com)