

## NEWS RELEASE

# LUNDIN MINING SECOND QUARTER RESULTS

**Toronto, July 27, 2016 (TSX: LUN; OMX: LUMI) Lundin Mining Corporation** (“Lundin Mining” or the “Company”) today reported cash flows of \$153.2 million generated from operations in the quarter, not including the Company’s attributable cash flows from Tenke Fungurume. A net loss attributable to Lundin shareholders of \$791.2 million (\$1.10 per share) for the quarter ended June 30, 2016, included an asset impairment on the Company’s interest in Tenke of \$772.1 million.

Mr. Paul Conibear, President and CEO commented, *“Our operations continued to perform very well during the quarter, positioning us to meet or improve upon full year guidance on metal production, capital spending, and cash costs. Positive cash flow generated at all operations has enabled the Company to further strengthen our financial position, with our net debt improving by almost \$100 million during the quarter.*

*We are pleased to announce that we have received the first of two key approvals necessary to commence construction of the main Los Diques dam at Candelaria, and that the second is expected shortly.*

*As we progress through 2016 and beyond, we intend to maintain focus on consistent high performance at our operations, cost efficiencies, capital discipline, and brownfields growth available at each of our operations. During the quarter, we reached a milestone with the announcement of a maiden resource for the Eagle East high grade nickel/copper deposit and access ramp development has commenced based on favourable study results.”*

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

| US\$ Millions (except per share amounts)                         | Three months ended<br>June 30, |       | Six months ended<br>June 30, |         |
|--|--------------------------------|-------|------------------------------|---------|
|  | 2016                           | 2015  | 2016                         | 2015    |
| Sales  | <b>342.3</b>                   | 501.3 | <b>711.9</b>                 | 1,032.8 |
| Operating earnings <sup>1</sup>                                  | <b>134.5</b>                   | 243.0 | <b>286.3</b>                 | 517.0   |
| Impairments  | <b>(772.1)</b>                 | -     | <b>(772.1)</b>               | -       |
| Net (loss) / earnings  | <b>(787.9)</b>                 | 53.7  | <b>(803.4)</b>               | 137.0   |
| <b>Net (loss) / earnings attributable to Lundin shareholders</b> | <b>(791.2)</b>                 | 46.4  | <b>(813.3)</b>               | 118.1   |
| Basic and diluted (loss) / earnings per share                    | <b>(1.10)</b>                  | 0.06  | <b>(1.13)</b>                | 0.16    |
| Cash flow from operations  | <b>153.2</b>                   | 262.7 | <b>196.1</b>                 | 486.6   |
| Ending net debt position <sup>2</sup>                            | <b>341.9</b>                   | 497.2 | <b>341.9</b>                 | 497.2   |

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

<sup>2</sup> Net debt is a non-GAAP measure defined as cash and cash equivalents, less long-term debt and finance leases, before deferred financing fees.

## Highlights

### Operational Performance

For the second quarter of 2016, production and cash costs<sup>1</sup> results were favourable as the Company continues with its production optimization and spending restraint measures, but financial results were negatively impacted by a lower metal price environment, when compared to the prior year. The Company remains on track to meet or exceed full year guidance across all operations.

**Candelaria (80% owned):** The Candelaria operations produced, on a 100% basis, 36,907 tonnes of copper, approximately 345,000 ounces of silver and 22,000 ounces of gold in concentrate. As expected in this year's mine plan, copper production was 21% lower than the prior year comparable period due to lower head grades and recoveries. Copper cash costs of \$1.28/lb for the quarter were marginally higher than the prior year, but better than full year guidance due to cost reduction plans, operational efficiencies, lower electricity and diesel prices, increased productivity, and higher sales volumes.

Early works on the Los Diques tailings project continue under budget and on schedule. To date, approximately \$25 million has been spent on the project in 2016 with a further \$35 million expected over the remainder of the year. The existing tailings dam freeboard permit has now been granted, which enables an extra year of capacity in the existing facility. We are also pleased to report that Sernageomin, Chile's National Geology and Mining Service, has now approved the construction of the main Los Diques tailings facility. Subsequent approval from Dirección General de Aguas ("DGA"), Chile's General Water Directorate, is expected shortly now that the prerequisite Sernageomin approval has been received.

**Eagle (100% owned):** Eagle produced 6,812 tonnes of nickel and 5,639 tonnes of copper in the current quarter, higher than the prior year comparable period for both metals due to higher head grades and recoveries. Nickel cash costs of \$1.75/lb for the quarter were lower than the comparable period in the prior year and guidance due largely to cost control measures, excellent nickel and copper production results, and lower treatment costs.

On June 29, 2016 a maiden Eagle East Inferred Mineral Resource estimate was announced. Given the positive results from a Preliminary Economic Assessment, a Feasibility Study has been initiated and construction of a development ramp has been approved. The Eagle East access ramp has been started, supporting the fast track approach adopted for the project.

**Neves-Corvo (100% owned):** Neves-Corvo produced 12,146 tonnes of copper and 18,272 tonnes of zinc in the second quarter. Copper production was lower than the prior year comparable period due to lower mill throughput and lower recoveries, while zinc production in the quarter exceeded the prior year comparable period as a result of higher throughput, grades and recoveries. Zinc plant operations exceeded expectations year-to-date with stable, better than expected zinc recoveries. Copper cash costs of \$1.49/lb for the quarter were marginally higher than the prior year comparable period, but lower than previous guidance (\$1.60/lb).

**Zinkgruvan (100% owned):** Zinc and lead production in the second quarter of 2016 were 19% and 4% lower, respectively, than the comparable period in 2015, partially as a result of lower throughput due to harder ore milled and lower zinc head grades in the current period. Cash costs for zinc of \$0.34/lb for the quarter were better than both the prior year comparable period and previous guidance (\$0.45/lb) due primarily to higher by-product credits.

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

**Tenke (24% owned):** Tenke operations continue to perform well, generally meeting expectations for the quarter. Lundin's attributable share of second quarter production included 13,300 tonnes of copper cathode and 1,033 tonnes of cobalt in hydroxide. The Company's attributable share of sales included 13,539 tonnes of copper at an average realized price of \$2.07/lb and 1,011 tonnes of cobalt at an average realized price of \$6.58/lb.

## Financial Performance

- Operating earnings for the quarter ended June 30, 2016 were \$134.5 million, a decrease of \$108.5 million in comparison to the second quarter of the prior year (\$243.0 million). The decrease was primarily due to lower metal prices, net of price adjustments (\$72.9 million) and lower sales volumes (\$36.5 million).

On a year-to-date basis, operating earnings were \$286.3 million, a decrease of \$230.7 million in comparison to the first six months of 2015 (\$517.0 million). The decrease was primarily due to lower metal prices, net of price adjustments (\$153.4 million), lower sales volumes (\$64.7 million), and the shutdown of the Aguablanca operations (\$28.4 million).

- Sales for the quarter ended June 30, 2016 were \$342.3 million, a decrease of \$159.0 million in comparison to the second quarter of the prior year (\$501.3 million). The decrease was mainly due to lower metal prices, net of price adjustments, lower sales volumes (\$70.7 million), and the shutdown of the Aguablanca operations (\$24.7 million).

On a year-to-date basis, sales were \$711.9 million, a decrease of \$320.9 million in comparison to the first six months of 2015 (\$1,032.8 million). The decrease was mainly due to lower metal prices, net of price adjustments, lower sales volumes (\$123.5 million), and the shutdown of the Aguablanca operations (\$53.2 million).

- Operating costs (excluding depreciation) for the quarter ended June 30, 2016 were \$202.2 million, a decrease of \$49.4 million in comparison to the second quarter of the prior year (\$251.6 million). The decrease was largely due to lower sales volumes (\$34.2 million) and the shutdown of the Aguablanca operations (\$13.3 million).

On a year-to-date basis, operating costs (excluding depreciation) were \$412.5 million, a decrease of \$89.7 million in comparison to the first six months of 2015 (\$502.2 million). The decrease was largely due to lower sales volumes (\$58.8 million) and the shutdown of the Aguablanca operations (\$24.8 million).

- Depreciation, depletion and amortization expense decreased for the three and six months ended June 30, 2016 when measured against the comparable period in 2015. The decrease was attributable to lower production in the current year at Candelaria and an increase in the Candelaria Mineral Resources & Reserves Estimate (Q2: \$31.4 million, YTD: \$55.2 million), and the shutdown of the Aguablanca operations (Q2: \$6.6 million, YTD: \$11.3 million).
- Cash flow from operations for the quarter ended June 30, 2016 was \$153.2 million, a decrease of \$109.5 million in comparison to the second quarter of the prior year (\$262.7 million). The decrease was primarily due to lower operating earnings in the current quarter.

On a year-to-date basis, cash flow from operations was \$196.1 million, a decrease of \$290.5 million in comparison to the first six months of 2015 (\$486.6 million). The decrease was attributable to lower operating earnings in the current year (\$230.7 million) as well as changes in non-cash working capital and long-term inventory (\$73.9 million).

- During the second quarter, Freeport announced that it intends to sell its interest in Tenke. This was identified as an impairment indicator. The Company has re-estimated the recoverable amount of its interest in Tenke and as a result an impairment loss of \$772.1 million was recorded in the period.

Net loss for the quarter ended June 30, 2016 was \$787.9 million compared to net earnings of \$53.7 million in the second quarter of the prior year, primarily as a result of the impairment loss of \$772.1 million, as discussed above. Before the impact of the impairment, net loss for the current quarter was \$15.8 million, which was impacted by:

- lower operating earnings (\$108.5 million); and
- lower income from investment in Tenke (\$9.8 million); partially offset by
- lower depreciation, depletion and amortization expense (\$42.3 million); and
- comparative foreign exchange gains (\$9.5 million).

On a year-to-date basis, net loss was \$803.4 million, compared to the first six months of 2015 (net earnings of \$137.0 million). Net loss in the current year was impacted by:

- impairment of investment in Tenke (\$772.1 million);
- lower operating earnings (\$230.7 million);
- lower income from investment in Tenke (\$24.0 million); and
- comparative foreign exchange losses (\$12.7 million); partially offset by
- lower depreciation, depletion and amortization expense (\$79.8 million); and
- lower net tax expense (\$22.8 million).

## **Corporate Highlights**

- On May 9, 2016, Freeport-McMoRan Inc. ("Freeport") announced that it had entered into an agreement to sell its indirect interest in TF Holdings Limited ("TF Holdings") to China Molybdenum Co., Ltd ("CMOC"), which is subject to, among other things, Lundin's right of first offer.

TF Holdings is the holding company that indirectly owns an 80 percent interest in Tenke Fungurume Mining S.A. Lundin has an indirect 30 percent interest in TF Holdings and an effective 24 percent interest in Tenke.

On July 19, 2016, the Company announced that the period in which the Company has the right to acquire Freeport's indirect interest in TF Holdings had been extended to September 15, 2016 at 11:59 pm.

The Company, in consultation with its legal and financial advisors, continues to evaluate all its options in connection with its ownership interest in TF Holdings.

- On June 29, 2016, the Company announced a maiden Eagle East Inferred Mineral Resource estimate. Eagle East is located 2 km east and 650 metres below the Eagle mine deposit. The Company also announced the results of a Preliminary Economic Assessment that indicate that these Inferred Mineral Resources can potentially be mined with no significant changes to the current mine, ore transport, mill and tailings disposal infrastructure.

Similar mining methods to Eagle are proposed and the potential mine production will significantly increase nickel and copper production from 2020 and extend the mine life to at least the end of 2023.

Given the robust results of the Preliminary Economic Assessment, the Company has initiated a Feasibility Study on Eagle East, which is due for completion prior to year-end. In parallel, the Company has also commenced ramp development to Eagle East in order to fast track access to the deposit.

Refer to the new release entitled *“Lundin Mining Announces Eagle East Mineral Resources, PEA Results and Project Commencement”* on the Company’s website ([www.lundinmining.com](http://www.lundinmining.com)).

## **Financial Position and Financing**

- Net debt position at June 30, 2016 was \$341.9 million compared to \$441.3 million at December 31, 2015 and \$438.1 million at March 31, 2016.
- The \$96.2 million decrease in net debt during the quarter was largely attributable to operating cash flows of \$153.2 million and receipt of distributions from Tenke of \$14.6 million, partially offset by investments in mineral properties, plant and equipment of \$38.8 million and net interest payments of \$38.3 million.

For the six months ended June 30, 2016, net debt decreased by \$99.4 million due primarily to operating cash flows of \$196.1 million and receipt of distributions from Tenke and Freeport Cobalt of \$15.4 million and \$6.3 million, respectively, partially offset by investments in mineral properties, plant and equipment of \$86.3 million and net interest payments of \$38.9 million.

- The Company has a revolving credit facility available for borrowing up to \$350 million. As at June 30, 2016, the Company had no amount drawn on the credit facility, only a letter of credit in the amount of \$19.1 million (SEK 162 million).
- Net debt at July 27, 2016 is approximately \$385 million.

## Outlook

### Market Conditions

Production optimization, cost saving and cost deferral programs remain in place, pending improvements in market conditions. As metal prices improve, spending restraint programs will be reassessed.

### 2016 Production and Cost Guidance

- Copper production guidance has increased to reflect higher than expected throughput at our Candelaria operations.
- Cash cost guidance has been lowered at our Candelaria, Neves-Corvo and Zinkgruvan operations, reflecting the expected full year impact of cost savings initiatives and overall operating performance improvements.
- Guidance on Tenke's cash costs reflect the most recent guidance from Freeport.

| 2016 Guidance<br>(contained tonnes) |                  | Previous Guidance <sup>a</sup><br>Tonnes C1 Cost |           | Revised Guidance<br>Tonnes C1 Cost <sup>b</sup> |                  |
|-------------------------------------|------------------|--|-----------|---|------------------|
| <b>Copper</b>                       | Candelaria (80%) | 124,000 - 128,000                                | \$1.45/lb | <b>128,000 - 132,000</b>                        | <b>\$1.35/lb</b> |
|                                     | Eagle            | 20,000 - 23,000                                  |           | 20,000 - 23,000                                 |                  |
|                                     | Neves-Corvo      | 50,000 - 55,000                                  | \$1.60/lb | 50,000 - 55,000                                 | <b>\$1.55/lb</b> |
|                                     | Zinkgruvan       | 2,500 - 3,000                                    |           | 2,500 - 3,000                                   |                  |
|                                     | Tenke (24%)      | 52,800   | \$1.32/lb | 52,800  | <b>\$1.28/lb</b> |
| Total attributable                  |                  | 249,300 - 261,800                                |           | <b>253,300 - 265,800</b>                        |                  |
| <b>Nickel</b>                       | Eagle            | 21,000 - 24,000                                  | \$2.00/lb | 21,000 - 24,000                                 | \$2.00/lb        |
| <b>Zinc</b>                         | Neves-Corvo      | 65,000 - 70,000                                  |           | 65,000 - 70,000                                 |                  |
|                                     | Zinkgruvan       | 80,000 - 85,000                                  | \$0.45/lb | 80,000 - 85,000                                 | <b>\$0.40/lb</b> |
| Total                               |                  | 145,000 - 155,000                                |           | 145,000 - 155,000                               |                  |

a. Guidance as outlined in our Management's Discussion and Analysis for the three months ended March 31, 2016.

b. Cash costs remain dependent upon exchange rates (forecast at €/USD:1.15, USD/SEK:8.30, USD/CLP:690) and metal prices (forecast at Cu: \$2.10/lb, Ni: \$4.00/lb, Zn: \$0.80/lb, Pb: \$0.75/lb, Au: \$1,150/oz, Ag: \$15.00/oz, Co: \$11.00/lb). Prior guidance assumed exchange rates of €/USD:1.10 and USD/SEK:8.50 and metal prices of Zn: \$0.75/lb and Co: \$10.00/lb.

### 2016 Capital Expenditure

Capital expenditures (excluding Tenke) for 2016 are expected to be \$185 million. This is a \$35 million reduction from the previous guidance and is largely the result of further project deferrals and cost savings measures at Candelaria and Neves-Corvo.

The Company estimates its share of sustaining capital funding for 2016 at Tenke to be approximately \$25 million, unchanged from previous guidance. All of Tenke's capital expenditures and exploration programs are expected to be self-funded by cash flow from operations. After capital expenditures, the Company expects to receive cash distributions from Tenke and Freeport Cobalt in 2016 of approximately \$50 million to \$60 million, in-line with previous guidance.

## Revised Capital Expenditure Guidance

| (\$ millions)         | Prior Guidance <sup>a</sup> | Revisions | Revised Guidance |
|-----------------------|-----------------------------|-----------|------------------|
| <b>by Mine</b>        |                             |           |                  |
| Candelaria            |                             |           |                  |
| Los Diques Tailings   | 70                          | (10)      | <b>60</b>        |
| Capitalized Stripping | 35                          | (5)       | <b>30</b>        |
| Other Sustaining      | 15                          | (5)       | <b>10</b>        |
|                       | 120                         | (20)      | <b>100</b>       |
| Eagle                 | 10                          | -         | <b>10</b>        |
| Neves-Corvo           | 55                          | (15)      | <b>40</b>        |
| Zinkgruvan            | 35                          | -         | <b>35</b>        |
|                       | 220                         | (35)      | <b>185</b>       |

a - Guidance as outlined in our Management's Discussion and Analysis for the year ended December 31, 2015.

### Exploration Investment

The Company's exploration expenditures (not including Tenke) are expected to approximate \$50 million in 2016, a \$10 million increase over previous guidance as additional efforts will be undertaken on near-mine targets at Candelaria and Eagle.

On Behalf of the Board,

Paul Conibear  
President and CEO

The information in this release is subject to the disclosure requirements of Lundin Mining under the EU Market Abuse Regulation. This information was publically communicated on July 27, 2016 at 5:45 p.m. Eastern Time.

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## Cautionary Statement in Forward-Looking Information and Non-GAAP performance measures

*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 and capital expenditures, as noted in the Outlook section and elsewhere in this document. These estimates and other forward-looking statements are based on a number of assumptions and are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to 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; 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.*

*Certain financial measures contained herein, such as operating earnings, net debt and cash costs, 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 or performance prepared in accordance with IFRS.*



# lundin mining

## Management's Discussion and Analysis For the three and six months ended June 30, 2016

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This management's discussion and analysis ("MD&A") has been prepared as of July 27, 2016 and should be read in conjunction with the Company's condensed interim consolidated financial statements for the three and six months ended June 30, 2016. 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 \$ or USD 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.

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<sup>1</sup> Cash cost per pound is a non-GAAP measure – see page 32 of this MD&A for discussion of non-GAAP measures.

Tenke's operating cash costs for the second quarter of 2016 were \$1.34/lb of copper sold, in-line with the latest guidance. Cash distributions received by Lundin Mining in the quarter were \$14.6 million from Tenke and \$3.9 million from the Freeport Cobalt operations, for total Tenke related distributions to the Company of \$18.5 million for the second quarter of 2016, and \$21.7 million year-to-date.

**Total production, including attributable share of Candelaria (80%) and Tenke (24%):**

| <i>(Contained metal in concentrate - tonnes)</i> | 2016    |        |        | Total   | 2015   |        |        |        |
|--|---------|--------|--------|---------|--------|--------|--------|--------|
|  | YTD     | Q2     | Q1     |         | Q4     | Q3     | Q2     | Q1     |
| Copper   | 126,840 | 61,662 | 65,179 | 282,210 | 61,418 | 70,481 | 73,565 | 76,746 |
| Zinc   | 75,941  | 35,558 | 40,383 | 145,372 | 39,535 | 32,821 | 37,259 | 35,757 |
| Nickel   | 12,780  | 6,812  | 5,968  | 34,380  | 7,588  | 8,146  | 8,594  | 10,052 |

**Financial Performance**

- Operating earnings<sup>1</sup> for the quarter ended June 30, 2016 were \$134.5 million, a decrease of \$108.5 million in comparison to the second quarter of the prior year (\$243.0 million). The decrease was primarily due to lower metal prices, net of price adjustments (\$72.9 million) and lower sales volumes (\$36.5 million).

On a year-to-date basis, operating earnings were \$286.3 million, a decrease of \$230.7 million in comparison to the first six months of 2015 (\$517.0 million). The decrease was primarily due to lower metal prices, net of price adjustments (\$153.4 million), lower sales volumes (\$64.7 million), and the shutdown of the Aguablanca operations (\$28.4 million).

- Sales for the quarter ended June 30, 2016 were \$342.3 million, a decrease of \$159.0 million in comparison to the second quarter of the prior year (\$501.3 million). The decrease was mainly due to lower metal prices, net of price adjustments, lower sales volumes (\$70.7 million), and the shutdown of the Aguablanca operations (\$24.7 million).

On a year-to-date basis, sales were \$711.9 million, a decrease of \$320.9 million in comparison to the first six months of 2015 (\$1,032.8 million). The decrease was mainly due to lower metal prices, net of price adjustments, lower sales volumes (\$123.5 million), and the shutdown of the Aguablanca operations (\$53.2 million).

- Operating costs (excluding depreciation) for the quarter ended June 30, 2016 were \$202.2 million, a decrease of \$49.4 million in comparison to the second quarter of the prior year (\$251.6 million). The decrease was largely due to lower sales volumes (\$34.2 million) and the shutdown of the Aguablanca operations (\$13.3 million).

On a year-to-date basis, operating costs (excluding depreciation) were \$412.5 million, a decrease of \$89.7 million in comparison to the first six months of 2015 (\$502.2 million). The decrease was largely due to lower sales volumes (\$58.8 million) and the shutdown of the Aguablanca operations (\$24.8 million).

- Depreciation, depletion and amortization expense decreased for the three and six months ended June 30, 2016 when measured against the comparable period in 2015. The decrease was attributable to lower production in the current year at Candelaria and an increase in the Candelaria Mineral Resources & Reserves Estimate (Q2: \$31.4 million, YTD: \$55.2 million), and the shutdown of the Aguablanca operations (Q2: \$6.6 million, YTD: \$11.3 million).

<sup>1</sup> Operating earnings is a non-GAAP measure – see page 32 of this MD&A for discussion of non-GAAP measures.

- Cash flow from operations for the quarter ended June 30, 2016 was \$153.2 million, a decrease of \$109.5 million in comparison to the second quarter of the prior year (\$262.7 million). The decrease was primarily due to lower operating earnings in the current quarter.

On a year-to-date basis, cash flow from operations was \$196.1 million, a decrease of \$290.5 million in comparison to the first six months of 2015 (\$486.6 million). The decrease was attributable to lower operating earnings in the current year (\$230.7 million) as well as changes in non-cash working capital and long-term inventory (\$73.9 million).

- During the second quarter, Freeport announced that it intends to sell its interest in Tenke. This was identified as an impairment indicator. The Company has re-estimated the recoverable amount of its interest in Tenke and as a result an impairment loss of \$772.1 million was recorded in the period.

Net loss for the quarter ended June 30, 2016 was \$787.9 million compared to net earnings of \$53.7 million in the second quarter of the prior year, primarily as a result of the impairment loss of \$772.1 million, as discussed above. Before the impact of the impairment, net loss for the current quarter was \$15.8 million, which was impacted by:

- lower operating earnings (\$108.5 million); and
- lower income from investment in Tenke (\$9.8 million); partially offset by
- lower depreciation, depletion and amortization expense (\$42.3 million); and
- comparative foreign exchange gains (\$9.5 million).

On a year-to-date basis, net loss was \$803.4 million, compared to the first six months of 2015 (net earnings of \$137.0 million). Net loss in the current year was impacted by:

- impairment of investment in Tenke (\$772.1 million);
- lower operating earnings (\$230.7 million);
- lower income from investment in Tenke (\$24.0 million); and
- comparative foreign exchange losses (\$12.7 million); partially offset by
- lower depreciation, depletion and amortization expense (\$79.8 million); and
- lower net tax expense (\$22.8 million).

## Corporate Highlights

- On May 9, 2016, Freeport-McMoRan Inc. ("Freeport") announced that it had entered into an agreement to sell its indirect interest in TF Holdings Limited ("TF Holdings") to China Molybdenum Co., Ltd ("CMOC"), which is subject to, among other things, Lundin's right of first offer.

TF Holdings is the holding company that indirectly owns an 80 percent interest in Tenke Fungurume Mining S.A. Lundin has an indirect 30 percent interest in TF Holdings and an effective 24 percent interest in Tenke.

On July 19, 2016, the Company announced that the period in which the Company has the right to acquire Freeport's indirect interest in TF Holdings had been extended to September 15, 2016 at 11:59 pm.

The Company, in consultation with its legal and financial advisors, continues to evaluate all its options in connection with its ownership interest in TF Holdings.

- On June 29, 2016, the Company announced a maiden Eagle East Inferred Mineral Resource estimate. Eagle East is located 2 km east and 650 metres below the Eagle mine deposit. The Company also announced the results of a Preliminary Economic Assessment that indicate that these Inferred Mineral Resources can potentially be mined with no significant changes to the current mine, ore transport, mill and tailings disposal infrastructure.

Similar mining methods to Eagle are proposed and the potential mine production will significantly increase nickel and copper production from 2020 and extend the mine life to at least the end of 2023.

Given the robust results of the Preliminary Economic Assessment, the Company has initiated a Feasibility Study on Eagle East, which is due for completion prior to year-end. In parallel, the Company has also commenced ramp development to Eagle East in order to fast track access to the deposit.

Refer to the new release entitled “*Lundin Mining Announces Eagle East Mineral Resources, PEA Results and Project Commencement*” on the Company’s website ([www.lundinmining.com](http://www.lundinmining.com)).

## Financial Position and Financing

- Net debt<sup>1</sup> position at June 30, 2016 was \$341.9 million compared to \$441.3 million at December 31, 2015 and \$438.1 million at March 31, 2016.
- The \$96.2 million decrease in net debt during the quarter was largely attributable to operating cash flows of \$153.2 million and receipt of distributions from Tenke of \$14.6 million, partially offset by investments in mineral properties, plant and equipment of \$38.8 million and net interest payments of \$38.3 million.

For the six months ended June 30, 2016, net debt decreased by \$99.4 million due primarily to operating cash flows of \$196.1 million and receipt of distributions from Tenke and Freeport Cobalt of \$15.4 million and \$6.3 million, respectively, partially offset by investments in mineral properties, plant and equipment of \$86.3 million and net interest payments of \$38.9 million.

- The Company has a revolving credit facility available for borrowing up to \$350 million. As at June 30, 2016, the Company had no amount drawn on the credit facility, only a letter of credit in the amount of \$19.1 million (SEK 162 million).
- Net debt at July 27, 2016 is approximately \$385 million.

<sup>1</sup> Net debt is a non-GAAP measure – see page 32 of this MD&A for discussion of non-GAAP measures.

## Outlook

### Market Conditions

Production optimization, cost saving and cost deferral programs remain in place, pending improvements in market conditions. As metal prices improve, spending restraint programs will be reassessed.

### 2016 Production and Cost Guidance

- Copper production guidance has increased to reflect higher than expected throughput at our Candelaria operations.
- Cash cost guidance has been lowered at our Candelaria, Neves-Corvo and Zinkgruvan operations, reflecting the expected full year impact of cost savings initiatives and overall operating performance improvements.
- Guidance on Tenke's cash costs reflect the most recent guidance from Freeport.

| 2016 Guidance<br>(contained tonnes) |                  | Previous Guidance <sup>a</sup> |           | Revised Guidance         |                      |
|-------------------------------------|------------------|--------------------------------|-----------|--------------------------|----------------------|
|                                     |                  | Tonnes                         | C1 Cost   | Tonnes                   | C1 Cost <sup>b</sup> |
| <b>Copper</b>                       | Candelaria (80%) | 124,000 - 128,000              | \$1.45/lb | <b>128,000 - 132,000</b> | <b>\$1.35/lb</b>     |
|                                     | Eagle            | 20,000 - 23,000                |           | 20,000 - 23,000          |                      |
|                                     | Neves-Corvo      | 50,000 - 55,000                | \$1.60/lb | 50,000 - 55,000          | <b>\$1.55/lb</b>     |
|                                     | Zinkgruvan       | 2,500 - 3,000                  |           | 2,500 - 3,000            |                      |
|                                     | Tenke (24%)      | 52,800                         | \$1.32/lb | 52,800                   | <b>\$1.28/lb</b>     |
| Total attributable                  |                  | 249,300 - 261,800              |           | <b>253,300 - 265,800</b> |                      |
| <b>Nickel</b>                       | Eagle            | 21,000 - 24,000                | \$2.00/lb | 21,000 - 24,000          | \$2.00/lb            |
| <b>Zinc</b>                         | Neves-Corvo      | 65,000 - 70,000                |           | 65,000 - 70,000          |                      |
|                                     | Zinkgruvan       | 80,000 - 85,000                | \$0.45/lb | 80,000 - 85,000          | <b>\$0.40/lb</b>     |
| Total                               |                  | 145,000 - 155,000              |           | 145,000 - 155,000        |                      |

a. Guidance as outlined in our Management's Discussion and Analysis for the three months ended March 31, 2016.

b. Cash costs remain dependent upon exchange rates (forecast at €/USD:1.15, USD/SEK:8.30, USD/CLP:690) and metal prices (forecast at Cu: \$2.10/lb, Ni: \$4.00/lb, Zn: \$0.80/lb, Pb: \$0.75/lb, Au: \$1,150/oz, Ag: \$15.00/oz, Co: \$11.00/lb). Prior guidance assumed exchange rates of €/USD:1.10 and USD/SEK:8.50 and metal prices of Zn: \$0.75/lb and Co: \$10.00/lb.

### 2016 Capital Expenditure

Capital expenditures (excluding Tenke) for 2016 are expected to be \$185 million. This is a \$35 million reduction from the previous guidance and is largely the result of further project deferrals and cost savings measures at Candelaria and Neves-Corvo.

## Revised Capital Expenditure Guidance

| (\$ millions)         | Prior<br>Guidance <sup>a</sup> | Revisions | Revised<br>Guidance |
|-----------------------|--------------------------------|-----------|---------------------|
| <b>by Mine</b>        |                                |           |                     |
| Candelaria            |                                |           |                     |
| Los Diques Tailings   | 70                             | (10)      | <b>60</b>           |
| Capitalized Stripping | 35                             | (5)       | <b>30</b>           |
| Other Sustaining      | 15                             | (5)       | <b>10</b>           |
|                       | 120                            | (20)      | <b>100</b>          |
| Eagle                 | 10                             | -         | <b>10</b>           |
| Neves-Corvo           | 55                             | (15)      | <b>40</b>           |
| Zinkgruvan            | 35                             | -         | <b>35</b>           |
|                       | 220                            | (35)      | <b>185</b>          |

a - Guidance as outlined in our Management's Discussion and Analysis for the year ended December 31, 2015.

The Company estimates its share of sustaining capital funding for 2016 at Tenke to be approximately \$25 million, unchanged from previous guidance. All of Tenke's capital expenditures and exploration programs are expected to be self-funded by cash flow from operations. After capital expenditures, the Company expects to receive cash distributions from Tenke and Freeport Cobalt in 2016 of approximately \$50 million to \$60 million, in-line with previous guidance.

### Exploration Investment

The Company's exploration expenditures (not including Tenke) are expected to approximate \$50 million in 2016, a \$10 million increase over previous guidance as additional efforts will be undertaken on near-mine targets at Candelaria and Eagle.



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

| (\$ millions, except share and per share amounts)            | Three months ended June 30, |         | Six months ended June 30, |         |
|--|-----------------------------|---------|---------------------------|---------|
|  | 2016                        | 2015    | 2016                      | 2015    |
| <b>Sales</b>   | <b>342.3</b>                | 501.3   | <b>711.9</b>              | 1,032.8 |
| Operating costs  | (202.2)                     | (251.6) | (412.5)                   | (502.2) |
| General and administrative expenses                          | (5.6)                       | (6.7)   | (13.1)                    | (13.6)  |
| <b>Operating earnings</b>                                    | <b>134.5</b>                | 243.0   | <b>286.3</b>              | 517.0   |
| Depreciation, depletion and amortization                     | (110.6)                     | (152.9) | (230.1)                   | (309.9) |
| General exploration and business development                 | (16.4)                      | (14.6)  | (29.2)                    | (26.5)  |
| Income (loss) from equity investment in associates           | 1.2                         | 9.1     | (4.1)                     | 20.7    |
| Finance income and costs, net                                | (21.7)                      | (23.1)  | (40.0)                    | (45.7)  |
| Other income and expenses, net                               | 0.7                         | (8.4)   | (7.4)                     | 11.0    |
| Impairment of investment in associates                       | (772.1)                     | -       | (772.1)                   | -       |
| <b>(Loss) earnings before income taxes</b>                   | <b>(784.4)</b>              | 53.1    | <b>(796.6)</b>            | 166.6   |
| Income tax (expense) recovery                                | (3.5)                       | 0.6     | (6.8)                     | (29.6)  |
| <b>Net (loss) earnings</b>                                   | <b>(787.9)</b>              | 53.7    | <b>(803.4)</b>            | 137.0   |
| <b>Attributable to:</b> Lundin Mining shareholders           | <b>(791.2)</b>              | 46.4    | <b>(813.3)</b>            | 118.1   |
| Non-controlling interests                                    | 3.3                         | 7.3     | 9.9                       | 18.9    |
| <b>Net (loss) earnings</b>                                   | <b>(787.9)</b>              | 53.7    | <b>(803.4)</b>            | 137.0   |
| <b>Cash flow from operations</b>                             | <b>153.2</b>                | 262.7   | <b>196.1</b>              | 486.6   |
| <b>Capital expenditures (including capitalized interest)</b> | <b>38.8</b>                 | 78.8    | <b>86.3</b>               | 142.7   |
| <b>Total assets</b>  | <b>5,959.1</b>              | 7,302.6 | <b>5,959.1</b>            | 7,302.6 |
| <b>Total long-term debt &amp; finance leases</b>             | <b>982.1</b>                | 983.8   | <b>982.1</b>              | 983.8   |
| <b>Net debt</b>  | <b>341.9</b>                | 497.2   | <b>341.9</b>              | 497.2   |
| <b>Shareholders' equity</b>                                  | <b>3,458.1</b>              | 4,688.4 | <b>3,458.1</b>            | 4,688.4 |

### Key Financial Data:

|  |        |      |        |      |
|--|--------|------|--------|------|
| Basic and diluted (loss) earnings per share attributable to shareholders (EPS) | (1.10) | 0.06 | (1.13) | 0.16 |
| Operating cash flow per share <sup>2</sup>                                     | 0.12   | 0.26 | 0.24   | 0.57 |
| Dividends  | -      | -    | -      | -    |

### Shares outstanding:

|                          |             |             |             |             |
|--------------------------|-------------|-------------|-------------|-------------|
| Basic weighted average   | 719,634,633 | 718,974,916 | 719,631,495 | 718,615,375 |
| Diluted weighted average | 719,634,633 | 721,787,199 | 719,631,495 | 720,681,277 |
| End of period            | 719,640,957 | 719,500,357 | 719,640,957 | 719,500,357 |

| (\$ millions, except per share data)              | Q2-16   | Q1-16  | Q4-15   | Q3-15  | Q2-15 | Q1-15 | Q4-14  | Q3-14 |
|---|---------|--------|---------|--------|-------|-------|--------|-------|
| Sales   | 342.3   | 369.6  | 316.0   | 353.2  | 501.3 | 531.5 | 443.0  | 166.6 |
| Operating earnings                                | 134.5   | 151.7  | 101.0   | 94.1   | 243.0 | 274.0 | 144.1  | 42.9  |
| Asset impairment                                  | (772.1) | -      | (293.3) | -      | -     | -     | (47.1) | -     |
| Net (loss) earnings                               | (787.9) | (15.5) | (383.5) | (35.3) | 53.7  | 83.3  | 36.6   | 33.7  |
| Attributable to shareholders                      | (791.2) | (22.1) | (377.7) | (34.6) | 46.4  | 71.8  | 25.8   | 33.7  |
| EPS - Basic and Diluted                           | (1.10)  | (0.03) | (0.52)  | (0.05) | 0.06  | 0.10  | 0.04   | 0.06  |
| Cash flow from operations                         | 153.2   | 42.9   | 107.1   | 120.2  | 262.7 | 224.0 | 68.4   | 57.5  |
| Capital expenditures (incl. capitalized interest) | 38.8    | 47.5   | 62.0    | 73.0   | 78.8  | 63.9  | 101.2  | 128.7 |
| Net debt  | 341.9   | 438.1  | 441.3   | 453.8  | 497.2 | 649.2 | 829.2  | 214.7 |

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 32 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

| (Contained metal in concentrate) | 2016           |               |        | 2015    |        |        |        |        |
|----------------------------------|----------------|---------------|--------|---------|--------|--------|--------|--------|
|                                  | Total          | Q2            | Q1     | Total   | Q4     | Q3     | Q2     | Q1     |
| <b>Copper (tonnes)</b>           |                |               |        |         |        |        |        |        |
| Candelaria (100%)                | 76,927         | 35,611        | 41,316 | 176,133 | 38,619 | 42,345 | 44,588 | 50,581 |
| Eagle                            | 11,318         | 5,366         | 5,952  | 22,661  | 6,075  | 5,689  | 5,797  | 5,100  |
| Neves-Corvo                      | 25,075         | 11,804        | 13,271 | 54,104  | 12,675 | 11,662 | 14,631 | 15,136 |
| Zinkgruvan                       | 880            | 902           | (22)   | 2,065   | 12     | 461    | 906    | 686    |
| Aguablanca                       | nil            | nil           | nil    | 2,319   | 186    | 559    | 790    | 784    |
|                                  | <b>114,200</b> | <b>53,683</b> | 60,517 | 257,282 | 57,567 | 60,716 | 66,712 | 72,287 |
| <b>Nickel (tonnes)</b>           |                |               |        |         |        |        |        |        |
| Eagle                            | 10,470         | 5,314         | 5,156  | 23,069  | 5,756  | 6,063  | 5,815  | 5,435  |
| Aguablanca                       | nil            | nil           | nil    | 4,399   | 324    | 978    | 1,415  | 1,682  |
|                                  | <b>10,470</b>  | <b>5,314</b>  | 5,156  | 27,468  | 6,080  | 7,041  | 7,230  | 7,117  |
| <b>Zinc (tonnes)</b>             |                |               |        |         |        |        |        |        |
| Neves-Corvo                      | 28,657         | 15,044        | 13,613 | 51,279  | 10,737 | 12,638 | 13,744 | 14,160 |
| Zinkgruvan                       | 33,921         | 14,673        | 19,248 | 70,550  | 20,931 | 17,243 | 17,711 | 14,665 |
|                                  | <b>62,578</b>  | <b>29,717</b> | 32,861 | 121,829 | 31,668 | 29,881 | 31,455 | 28,825 |
| <b>Gold (000 oz)</b>             |                |               |        |         |        |        |        |        |
| Candelaria (100%)                | 44             | 21            | 23     | 95      | 20     | 23     | 25     | 27     |
|                                  | <b>44</b>      | <b>21</b>     | 23     | 95      | 20     | 23     | 25     | 27     |
| <b>Lead (tonnes)</b>             |                |               |        |         |        |        |        |        |
| Neves-Corvo                      | 1,927          | 1,174         | 753    | 2,767   | 387    | 174    | 1,134  | 1,072  |
| Zinkgruvan                       | 16,383         | 6,178         | 10,205 | 32,093  | 10,475 | 8,991  | 4,999  | 7,628  |
|                                  | <b>18,310</b>  | <b>7,352</b>  | 10,958 | 34,860  | 10,862 | 9,165  | 6,133  | 8,700  |
| <b>Silver (000 oz)</b>           |                |               |        |         |        |        |        |        |
| Candelaria (100%)                | 710            | 300           | 410    | 1,574   | 316    | 349    | 390    | 519    |
| Eagle                            | 42             | 16            | 26     | 93      | 56     | 18     | 8      | 11     |
| Neves-Corvo                      | 309            | 159           | 150    | 663     | 143    | 118    | 197    | 205    |
| Zinkgruvan                       | 928            | 368           | 560    | 1,936   | 597    | 553    | 378    | 408    |
|                                  | <b>1,989</b>   | <b>843</b>    | 1,146  | 4,266   | 1,112  | 1,038  | 973    | 1,143  |

### Sales Analysis

| (\$ thousands) | Three months ended June 30, |    |         |    |                  | Six months ended June 30, |    |           |    |                  |
|----------------|-----------------------------|----|---------|----|------------------|---------------------------|----|-----------|----|------------------|
|                | 2016                        |    | 2015    |    | Change           | 2016                      |    | 2015      |    | Change           |
|                | \$                          | %  | \$      | %  |                  | \$                        | %  | \$        | %  |                  |
| <b>by Mine</b> |                             |    |         |    |                  |                           |    |           |    |                  |
| Candelaria     | 175,737                     | 51 | 256,524 | 51 | (80,787)         | 382,439                   | 54 | 548,714   | 53 | (166,275)        |
| Eagle          | 57,999                      | 17 | 85,032  | 17 | (27,033)         | 111,222                   | 16 | 173,423   | 17 | (62,201)         |
| Neves-Corvo    | 69,674                      | 20 | 93,673  | 19 | (23,999)         | 140,987                   | 20 | 180,296   | 17 | (39,309)         |
| Zinkgruvan     | 38,906                      | 12 | 41,301  | 8  | (2,395)          | 79,267                    | 10 | 79,165    | 8  | 102              |
| Other          | -                           | -  | 24,749  | 5  | (24,749)         | (2,030)                   | -  | 51,209    | 5  | (53,239)         |
|                | <b>342,316</b>              |    | 501,279 |    | <b>(158,963)</b> | <b>711,885</b>            |    | 1,032,807 |    | <b>(320,922)</b> |

| (\$ thousands)  | Three months ended June 30, |    |         |    |           | Six months ended June 30, |    |           |    |           |
|-----------------|-----------------------------|----|---------|----|-----------|---------------------------|----|-----------|----|-----------|
|                 | 2016                        |    | 2015    |    | Change    | 2016                      |    | 2015      |    | Change    |
|                 | \$                          | %  | \$      | %  | \$        | \$                        | %  | \$        | %  | \$        |
| <b>by Metal</b> |                             |    |         |    |           |                           |    |           |    |           |
| Copper          | <b>218,901</b>              | 64 | 331,853 | 66 | (112,952) | <b>477,068</b>            | 67 | 685,880   | 66 | (208,812) |
| Nickel          | <b>30,474</b>               | 9  | 65,729  | 13 | (35,255)  | <b>53,214</b>             | 7  | 141,415   | 14 | (88,201)  |
| Zinc            | <b>46,176</b>               | 13 | 47,237  | 9  | (1,061)   | <b>85,401</b>             | 12 | 86,912    | 8  | (1,511)   |
| Gold            | <b>23,181</b>               | 7  | 28,871  | 6  | (5,690)   | <b>46,351</b>             | 7  | 59,677    | 6  | (13,326)  |
| Lead            | <b>10,801</b>               | 3  | 9,288   | 2  | 1,513     | <b>25,387</b>             | 4  | 21,501    | 2  | 3,886     |
| Silver          | <b>8,749</b>                | 3  | 9,231   | 2  | (482)     | <b>17,451</b>             | 2  | 20,543    | 2  | (3,092)   |
| Other           | <b>4,034</b>                | 1  | 9,070   | 2  | (5,036)   | <b>7,013</b>              | 1  | 16,879    | 2  | (9,866)   |
|                 | <b>342,316</b>              |    | 501,279 |    | (158,963) | <b>711,885</b>            |    | 1,032,807 |    | (320,922) |

Sales for the quarter ended June 30, 2016 were \$342.3 million, a decrease of \$159.0 million in comparison to the second quarter of the prior year (\$501.3 million). The decrease was mainly due to lower metal prices, net of price adjustments (\$72.9 million), lower sales volumes (\$70.7 million), and the shutdown of the Aguablanca operations (\$24.7 million).

On a year-to-date basis, sales were \$711.9 million, a decrease of \$320.9 million in comparison to the first six months of 2015 (\$1,032.8 million). The decrease was mainly due to lower metal prices, net of price adjustments (\$153.4 million), lower sales volumes (\$123.5 million), and the shutdown of the Aguablanca operations (\$53.2 million).

Sales of gold and silver for the quarter ended June 30, 2016 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 as of June 30, 2016

| Metal  | Tonnes Payable | Valued at \$ per lb | Valued at \$ per tonne |
|--------|----------------|---------------------|------------------------|
| Copper | 63,226         | 2.20                | 4,846                  |
| Nickel | 4,090          | 4.28                | 9,426                  |
| Zinc   | 12,754         | 0.96                | 2,107                  |

### Quarterly Reconciliation of Realized Prices

| (\$ thousands)                            | Three months ended June 30, 2016 |                |                |                | Three months ended June 30, 2015 |                |                |                |
|---|----------------------------------|----------------|----------------|----------------|----------------------------------|----------------|----------------|----------------|
|   | Copper                           | Nickel         | Zinc           | Total          | Copper                           | Nickel         | Zinc           | Total          |
| Current period sales <sup>1</sup>         | 259,942                          | 49,303         | 60,114         | 369,359        | 383,437                          | 87,109         | 66,773         | 537,319        |
| Prior period price adjustments            | (9,995)                          | 1,789          | 1,495          | (6,711)        | (11,742)                         | 3,875          | 1,771          | (6,096)        |
|   | 249,947                          | 51,092         | 61,609         | 362,648        | 371,695                          | 90,984         | 68,544         | 531,223        |
| Other metal sales                         |                                  |                |                | 49,641         |                                  |                |                | 58,940         |
| Less: TC/RC                               |                                  |                |                | (69,973)       |                                  |                |                | (88,884)       |
| <b>Total Sales</b>                        |                                  |                |                | <b>342,316</b> |                                  |                |                | <b>501,279</b> |
| <b>Payable Metal (tonnes)</b>             | <b>53,683</b>                    | <b>5,314</b>   | <b>29,717</b>  |                | <b>66,712</b>                    | <b>7,230</b>   | <b>31,455</b>  |                |
| Current period sales (\$/lb) <sup>1</sup> | \$ 2.20                          | \$ 4.21        | \$ 0.92        |                | \$ 2.61                          | \$ 5.47        | \$ 0.96        |                |
| Prior period adjustments (\$/lb)          | (0.09)                           | 0.15           | 0.02           |                | (0.08)                           | 0.24           | 0.03           |                |
| <b>Realized prices (\$/lb)</b>            | <b>\$ 2.11</b>                   | <b>\$ 4.36</b> | <b>\$ 0.94</b> |                | <b>\$ 2.53</b>                   | <b>\$ 5.71</b> | <b>\$ 0.99</b> |                |

1. Includes provisional price adjustments on current period sales.

### Year to Date Reconciliation of Realized Prices

| (\$ thousands)                            | Six months ended June 30, 2016 |                |                |                | Six months ended June 30, 2015 |                |                |                  |
|---|--------------------------------|----------------|----------------|----------------|--------------------------------|----------------|----------------|------------------|
|   | Copper                         | Nickel         | Zinc           | Total          | Copper                         | Nickel         | Zinc           | Total            |
| Current period sales <sup>1</sup>         | 546,689                        | 94,539         | 120,691        | 761,919        | 807,337                        | 184,721        | 127,143        | 1,119,201        |
| Prior period price adjustments            | (2,680)                        | (3,073)        | (726)          | (6,479)        | (36,150)                       | (2,945)        | (2,018)        | (41,113)         |
|   | 544,009                        | 91,466         | 119,965        | 755,440        | 771,187                        | 181,776        | 125,125        | 1,078,088        |
| Other metal sales                         |                                |                |                | 103,343        |                                |                |                | 124,264          |
| Less: TC/RC                               |                                |                |                | (146,898)      |                                |                |                | (169,545)        |
| <b>Total Sales</b>                        |                                |                |                | <b>711,885</b> |                                |                |                | <b>1,032,807</b> |
| <b>Payable Metal (tonnes)</b>             | <b>114,200</b>                 | <b>10,470</b>  | <b>62,578</b>  |                | <b>138,999</b>                 | <b>14,347</b>  | <b>60,280</b>  |                  |
| Current period sales (\$/lb) <sup>1</sup> | \$ 2.17                        | \$ 4.10        | \$ 0.87        |                | \$ 2.63                        | \$ 5.84        | \$ 0.96        |                  |
| Prior period adjustments (\$/lb)          | (0.01)                         | (0.14)         | -              |                | (0.11)                         | (0.09)         | (0.02)         |                  |
| <b>Realized prices (\$/lb)</b>            | <b>\$ 2.16</b>                 | <b>\$ 3.96</b> | <b>\$ 0.87</b> |                | <b>\$ 2.52</b>                 | <b>\$ 5.75</b> | <b>\$ 0.94</b> |                  |

1. Includes provisional price adjustments on current period sales.

## Financial Results

### Operating Costs

Operating costs (excluding depreciation) for the quarter ended June 30, 2016 were \$202.2 million, a decrease of \$49.4 million in comparison to the second quarter of the prior year (\$251.6 million). The decrease was largely due to lower sales volumes (\$34.2 million) and the shutdown of the Aguablanca operations (\$13.3 million).

On a year-to-date basis, operating costs (excluding depreciation) were \$412.5 million, a decrease of \$89.7 million in comparison to the first six months of 2015 (\$502.2 million). The decrease was largely due to lower sales volumes (\$58.8 million) and the shutdown of the Aguablanca operations (\$24.8 million).

### Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expense decreased for the three and six months ended June 30, 2016 when measured against the comparable period in 2015. The decrease was attributable to lower production in the current year periods at Candelaria and an increase in the Candelaria Mineral Resources & Reserves Estimate (Q2: \$31.4 million, YTD: \$55.2 million), and the shutdown of the Aguablanca operations (Q2: \$6.6 million, YTD: \$11.3 million).

For the three and six months ended June 30, 2016, Candelaria's depreciation expense included the amortization of previous capitalized deferred stripping costs of \$18.2 million and \$46.4 million, respectively. The deferred stripping asset balance at June 30, 2016 was \$326.6 million.

| Depreciation by operation<br>(\$ thousands) | Three months ended June 30, |         |          | Six months ended June 30, |         |          |
|---|-----------------------------|---------|----------|---------------------------|---------|----------|
|   | 2016                        | 2015    | Change   | 2016                      | 2015    | Change   |
| Candelaria                                  | 49,239                      | 80,681  | (31,442) | 110,626                   | 165,801 | (55,175) |
| Eagle                                       | 33,324                      | 35,300  | (1,976)  | 63,836                    | 72,721  | (8,885)  |
| Neves-Corvo                                 | 21,876                      | 23,476  | (1,600)  | 43,288                    | 47,111  | (3,823)  |
| Zinkgruvan                                  | 5,548                       | 6,199   | (651)    | 11,280                    | 11,724  | (444)    |
| Other                                       | 580                         | 7,195   | (6,615)  | 1,111                     | 12,569  | (11,458) |
|   | 110,567                     | 152,851 | (42,284) | 230,141                   | 309,926 | (79,785) |

### General Exploration and Business Development

For the three and six months ended June 30, 2016, general exploration and business development expenses increased \$1.8 million and \$2.7 million, respectively, when compared to the prior year comparable periods. The increase is largely attributable to the Eagle East exploration drill program in the current quarter.

### 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 \$0.7 million were recognized for the three months ended June 30, 2016 (Q2 2015 - \$10.5 million) and a loss of \$3.7 million on a year-to-date basis (2015 - earnings of \$20.3 million). Refer to the section titled "Tenke Fungurume" contained in this MD&A for further discussion.

### Finance Costs

Net finance costs of \$21.7 million for the three months ended June 30, 2016 were in-line with the \$23.1 million reported in the prior year comparable period.

On a year-to-date basis, net finance costs decreased \$5.7 million when compared to the prior year comparable period. The change was primarily attributable to net unrealized gains on revaluation of currency options and marketable securities (\$4.5 million).

## Other Income and Expense

Net other income for the three months ended June 30, 2016 was \$0.7 million compared to net other expense of \$8.4 million for the three months ended June 30, 2015. A foreign exchange gain was recognized in the current quarter of \$2.9 million, while a foreign exchange loss of \$6.5 million was recognized in the prior year quarter.

Net other expense for the six months ended June 30, 2016 was \$7.4 million compared to net other income of \$11.0 million for the six months ended June 30, 2015. A foreign exchange loss was recognized in the current year of \$1.9 million, while a foreign exchange gain of \$10.8 million was recognized in the prior year.

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 June 30, 2016 were \$1.00:CLP661 (March 31, 2016 - \$1.00:CLP675; December 31, 2015 - \$1.00:CLP710), \$1.11:€1.00 (March 31, 2016 - \$1.14:€1.00; December 31, 2015 - \$1.09:€1.00) and \$1.00:SEK8.48 (March 31, 2016 - \$1.00:SEK8.15; December 31, 2015 - \$1.00:SEK8.35).

## Impairment of Investment in Associates

During the second quarter of 2016, an impairment indicator was identified as a result of Freeport's announcement that it had entered into a definitive agreement to sell its indirect interests in TF Holdings to CMOC for \$2.65 billion in cash and contingent consideration up to \$120 million. In addition, Freeport announced that it had agreed to negotiate exclusively with CMOC to enter into a definitive agreement to sell its interest in Freeport Cobalt for \$100 million. As a result, the Company re-estimated the recoverable amount of its interest in Tenke and Freeport Cobalt for possible impairment.

An updated estimated recoverable value calculation was performed under a number of assumptions, including; forecast metal prices, treatment and refining charges, Mineral Resource and Reserve estimation quantities, operating costs, capital expenditures, reclamation and other closure costs, and discount rates. However, given the greater uncertainty related to future expansion, as a result of the impending change in operator, the value associated with potential future expansion was reassessed in the updated Tenke base case valuation. As a result, an impairment loss of \$772.1 million was taken against the Company's interest in Tenke. No impairment was recorded on the Company's interest in Freeport Cobalt.

## Income Taxes

### Income taxes by mine

| Income tax expense (recovery)<br>(\$ thousands) | Three months ended June 30, |         |         | Six months ended June 30, |         |          |
|---|-----------------------------|---------|---------|---------------------------|---------|----------|
|   | 2016                        | 2015    | Change  | 2016                      | 2015    | Change   |
| Candelaria                                      | 3,211                       | 7,363   | (4,152) | 2,710                     | 21,887  | (19,177) |
| Eagle   | -                           | (1,948) | 1,948   | -                         | 1,511   | (1,511)  |
| Neves-Corvo                                     | (4,068)                     | (8,176) | 4,108   | (7,834)                   | (5,323) | (2,511)  |
| Zinkgruvan                                      | 3,627                       | 3,163   | 464     | 5,892                     | 5,813   | 79       |
| Other   | 757                         | (974)   | 1,731   | 6,016                     | 5,662   | 354      |
|   | 3,527                       | (572)   | 4,099   | 6,784                     | 29,550  | (22,766) |

### Income taxes by classification

| Income tax expense (recovery)<br>(\$ thousands) | Three months ended June 30, |          |          | Six months ended June 30, |          |          |
|---|-----------------------------|----------|----------|---------------------------|----------|----------|
|   | 2016                        | 2015     | Change   | 2016                      | 2015     | Change   |
| Current income tax                              | 1,417                       | 14,069   | (12,652) | 21,082                    | 51,235   | (30,153) |
| Deferred income tax                             | 2,110                       | (14,641) | 16,751   | (14,298)                  | (21,685) | 7,387    |
|   | 3,527                       | (572)    | 4,099    | 6,784                     | 29,550   | (22,766) |

Income tax expense of \$3.5 million for the three months ended June 30, 2016 was \$4.1 million higher than the \$0.6 million recovery recorded in the prior year. The increase was mainly due to lower investment tax credits recorded at Neves-Corvo in the current quarter (\$3.5 million) compared to the three months ended June 30, 2015 (\$8.7 million) and an income tax recovery recorded at Eagle in the prior year on tax losses, partially offset by lower taxable earnings at Candelaria in the current year period.

On a year-to-date basis, income tax expense of \$6.8 million was \$22.8 million lower than the \$29.6 million expense recorded in the prior year, mainly due to lower taxable earnings at all the operations, including the shutdown of Aguablanca, partly offset by taxable earnings in Canada in the current year period.

## Mining Operations

### Production Overview

| (Contained metal in concentrate) | 2016           |               |        | 2015    |        |        |        |        |
|----------------------------------|----------------|---------------|--------|---------|--------|--------|--------|--------|
|                                  | YTD            | Q2            | Q1     | Total   | Q4     | Q3     | Q2     | Q1     |
| <b>Copper (tonnes)</b>           |                |               |        |         |        |        |        |        |
| Candelaria (80%)                 | 62,731         | 29,525        | 33,206 | 144,832 | 31,875 | 36,156 | 37,321 | 39,480 |
| Eagle                            | 11,879         | 5,639         | 6,240  | 24,331  | 5,996  | 6,514  | 5,403  | 6,418  |
| Neves-Corvo                      | 25,891         | 12,146        | 13,745 | 55,831  | 11,078 | 13,917 | 15,348 | 15,488 |
| Zinkgruvan                       | 1,051          | 1,051         | nil    | 2,044   | 5      | 475    | 974    | 590    |
| Aguablanca                       | nil            | nil           | nil    | 6,221   | 466    | 1,658  | 1,975  | 2,122  |
| Tenke (24%)                      | 25,288         | 13,300        | 11,988 | 48,951  | 11,998 | 11,761 | 12,544 | 12,648 |
|                                  | <b>126,840</b> | <b>61,661</b> | 65,179 | 282,210 | 61,418 | 70,481 | 73,565 | 76,746 |
| <b>Nickel (tonnes)</b>           |                |               |        |         |        |        |        |        |
| Eagle                            | 12,780         | 6,812         | 5,968  | 27,167  | 7,074  | 6,438  | 6,349  | 7,306  |
| Aguablanca                       | nil            | nil           | nil    | 7,213   | 514    | 1,708  | 2,245  | 2,746  |
|                                  | <b>12,780</b>  | <b>6,812</b>  | 5,968  | 34,380  | 7,588  | 8,146  | 8,594  | 10,052 |
| <b>Zinc (tonnes)</b>             |                |               |        |         |        |        |        |        |
| Neves-Corvo                      | 35,999         | 18,272        | 17,727 | 61,921  | 14,196 | 14,363 | 16,022 | 17,340 |
| Zinkgruvan                       | 39,942         | 17,286        | 22,656 | 83,451  | 25,339 | 18,458 | 21,237 | 18,417 |
|                                  | <b>75,941</b>  | <b>35,558</b> | 40,383 | 145,372 | 39,535 | 32,821 | 37,259 | 35,757 |
| <b>Gold (000 oz)</b>             |                |               |        |         |        |        |        |        |
| Candelaria (80%)                 | 37             | 18            | 19     | 82      | 18     | 20     | 22     | 22     |
|                                  | <b>37</b>      | <b>18</b>     | 19     | 82      | 18     | 20     | 22     | 22     |
| <b>Lead (tonnes)</b>             |                |               |        |         |        |        |        |        |
| Neves-Corvo                      | 2,151          | 1,245         | 906    | 3,077   | 311    | 366    | 1,080  | 1,320  |
| Zinkgruvan                       | 17,892         | 7,063         | 10,829 | 34,120  | 10,733 | 8,609  | 7,379  | 7,399  |
|                                  | <b>20,043</b>  | <b>8,308</b>  | 11,735 | 37,197  | 11,044 | 8,975  | 8,459  | 8,719  |
| <b>Silver (000 oz)</b>           |                |               |        |         |        |        |        |        |
| Candelaria (80%)                 | 655            | 276           | 379    | 1,499   | 315    | 347    | 371    | 466    |
| Eagle                            | 112            | 50            | 62     | 210     | 63     | 60     | 46     | 41     |
| Neves-Corvo                      | 650            | 331           | 319    | 1,329   | 269    | 310    | 359    | 391    |
| Zinkgruvan                       | 1,154          | 495           | 659    | 2,542   | 729    | 627    | 622    | 564    |
|                                  | <b>2,571</b>   | <b>1,152</b>  | 1,419  | 5,580   | 1,376  | 1,344  | 1,398  | 1,462  |



## Cash Cost Overview

|   | Three months ended June 30, |             | Six months ended June 30, |             |
|---|-----------------------------|-------------|---------------------------|-------------|
|   | 2016                        | 2015        | 2016                      | 2015        |
| <b>Candelaria (cost/lb Cu)</b>            |                             |             |                           |             |
| Gross cost                                | 1.52                        | 1.41        | 1.47                      | 1.40        |
| By-product <sup>1</sup>                   | (0.24)                      | (0.20)      | (0.22)                    | (0.20)      |
| <b>Net Cash Cost</b>                      | <b>1.28</b>                 | <b>1.21</b> | <b>1.25</b>               | <b>1.20</b> |
| <b>All-In Sustaining Cost<sup>2</sup></b> | <b>1.52</b>                 | <b>1.66</b> | <b>1.56</b>               | <b>1.57</b> |
| <b>Eagle (cost/lb Ni)</b>                 |                             |             |                           |             |
| Gross cost                                | 4.10                        | 5.00        | 4.15                      | 4.56        |
| By-product <sup>1</sup>                   | (2.35)                      | (2.85)      | (2.47)                    | (2.75)      |
| <b>Net Cash Cost</b>                      | <b>1.75</b>                 | <b>2.15</b> | <b>1.68</b>               | <b>1.81</b> |
| <b>All-In Sustaining Cost</b>             | <b>2.19</b>                 | <b>2.68</b> | <b>2.05</b>               | <b>2.36</b> |
| <b>Neves-Corvo (cost/lb Cu)</b>           |                             |             |                           |             |
| Gross cost                                | 2.42                        | 2.12        | 2.22                      | 2.05        |
| By-product <sup>1</sup>                   | (0.93)                      | (0.69)      | (0.74)                    | (0.64)      |
| <b>Net Cash Cost</b>                      | <b>1.49</b>                 | <b>1.43</b> | <b>1.48</b>               | <b>1.41</b> |
| <b>All-In Sustaining Cost</b>             | <b>1.84</b>                 | <b>2.00</b> | <b>1.78</b>               | <b>1.82</b> |
| <b>Zinkgruvan (cost/lb Zn)</b>            |                             |             |                           |             |
| Gross cost                                | 0.78                        | 0.77        | 0.75                      | 0.83        |
| By-product <sup>1</sup>                   | (0.44)                      | (0.34)      | (0.40)                    | (0.40)      |
| <b>Net Cash Cost</b>                      | <b>0.34</b>                 | <b>0.43</b> | <b>0.35</b>               | <b>0.43</b> |
| <b>All-In Sustaining Cost</b>             | <b>0.56</b>                 | <b>0.63</b> | <b>0.55</b>               | <b>0.62</b> |

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

2. All-in Sustaining Cost is a non-GAAP measure – see page 32 of this MD&A for discussion of non-GAAP measures.

## Capital Expenditures (including capitalized interest)<sup>1</sup>

| by Mine     | Three months ended June 30, |            |              |             |         |            |              |             |
|-------------|-----------------------------|------------|--------------|-------------|---------|------------|--------------|-------------|
|             | 2016                        |            |              |             | 2015    |            |              |             |
|             | (\$ thousands)              | Sustaining | Expansionary | Capitalized | Total   | Sustaining | Expansionary | Capitalized |
| Interest    |                             |            |              | Interest    |         |            |              |             |
| Candelaria  | 21,019                      | -          | -            | 21,019      | 51,813  | -          | -            | 51,813      |
| Eagle       | 1,476                       | -          | -            | 1,476       | 3,319   | -          | -            | 3,319       |
| Neves-Corvo | 8,144                       | -          | -            | 8,144       | 12,389  | -          | -            | 12,389      |
| Zinkgruvan  | 7,193                       | 928        | -            | 8,121       | 6,242   | -          | -            | 6,242       |
| Other       | 64                          | -          | -            | 64          | 4,995   | -          | -            | 4,995       |
|             | 37,896                      | 928        | -            | 38,824      | 78,758  | -          | -            | 78,758      |
| by Mine     | Six months ended June 30,   |            |              |             |         |            |              |             |
|             | 2016                        |            |              |             | 2015    |            |              |             |
|             | (\$ thousands)              | Sustaining | Expansionary | Capitalized | Total   | Sustaining | Expansionary | Capitalized |
| Interest    |                             |            |              | Interest    |         |            |              |             |
| Candelaria  | 48,397                      | -          | 1,305        | 49,702      | 81,107  | -          | -            | 81,107      |
| Eagle       | 3,046                       | -          | -            | 3,046       | 7,541   | 7,258      | -            | 14,799      |
| Neves-Corvo | 16,177                      | -          | -            | 16,177      | 22,209  | -          | -            | 22,209      |
| Zinkgruvan  | 15,459                      | 1,664      | -            | 17,123      | 13,270  | -          | -            | 13,270      |
| Other       | 296                         | -          | -            | 296         | 11,293  | -          | -            | 11,293      |
|             | 83,375                      | 1,664      | 1,305        | 86,344      | 135,420 | 7,258      | -            | 142,678     |

1. Sustaining capital expenditures and expansionary capital expenditures are non-GAAP measures – see page 32 of this MD&A for discussion of non-GAAP measures.

## 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 Cerda (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)                 | 2016    |         |         | 2015    |         |         |         |         |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
|                              | Total   | Q2      | Q1      | Total   | Q4      | Q3      | Q2      | Q1      |
| Ore mined (000s tonnes)      | 15,221  | 5,910   | 9,311   | 33,922  | 8,012   | 8,240   | 9,022   | 8,648   |
| Ore milled (000s tonnes)     | 16,047  | 7,890   | 8,157   | 30,133  | 7,943   | 7,933   | 7,327   | 6,930   |
| Grade                        |         |         |         |         |         |         |         |         |
| Copper (%)                   | 0.53    | 0.52    | 0.55    | 0.64    | 0.53    | 0.61    | 0.68    | 0.78    |
| Recovery                     |         |         |         |         |         |         |         |         |
| Copper (%)                   | 91.7    | 90.7    | 92.7    | 92.7    | 92.2    | 92.4    | 94.0    | 92.6    |
| Production (contained metal) |         |         |         |         |         |         |         |         |
| Copper (tonnes)              | 78,414  | 36,907  | 41,507  | 181,040 | 39,844  | 45,195  | 46,651  | 49,350  |
| Gold (000 oz)                | 46      | 22      | 24      | 102     | 22      | 25      | 27      | 28      |
| Silver (000 oz)              | 818     | 345     | 473     | 1,874   | 394     | 433     | 464     | 583     |
| Sales (\$000s)               | 382,439 | 175,737 | 206,702 | 908,129 | 167,451 | 191,964 | 256,524 | 292,190 |
| Operating earnings (\$000s)  | 174,723 | 75,407  | 99,316  | 451,240 | 79,475  | 66,737  | 141,338 | 163,690 |
| Cash cost (\$ per pound)     | 1.25    | 1.28    | 1.22    | 1.25    | 1.14    | 1.44    | 1.21    | 1.20    |
| AISC (\$ per pound)          | 1.56    | 1.52    | 1.59    | 1.66    | 1.58    | 1.96    | 1.66    | 1.49    |

### Operating Earnings

Operating earnings of \$75.4 million for the three months ended June 30, 2016 were \$65.9 million lower than the prior year comparable period. The decrease was due to lower metal prices, net of price adjustments (\$34.5 million) and lower sales volumes (\$24.5 million).

On a year-to-date basis, operating earnings of \$174.7 million were \$130.3 million lower than the prior year comparable period. The decrease was again due to lower metal prices, net of price adjustments (\$69.9 million) and lower sales volumes (\$53.7 million).

### Production

Copper production for the three and six months ended June 30, 2016 of 36,907 tonnes and 78,414 tonnes, respectively, was lower than the comparable periods in 2015 by 21% and 18%, respectively. The decrease in copper production is largely a result of lower copper head grades as the benches mined in the prior year had better ore grade than the current year mine plan.

Although copper production for the quarter and year-to-date was lower than the prior year comparable periods, the operations remain on-track to meet or exceed full year guidance for copper production.

## Costs

Copper cash costs for the three months ended June 30, 2016 were \$1.28/lb, higher than cash costs of \$1.21/lb in the prior year comparable period. Higher per unit mine and mill costs (\$0.23/lb) were partially offset by favourable foreign exchange rates (\$0.07/lb) and lower transportation costs (\$0.08/lb). Total mine and mill costs for the current quarter were consistent with that reported in the prior year, but lower grades and hence lower metal sales in 2016 have resulted in higher costs on a per unit basis.

On a year-to-date basis, copper cash costs were \$1.25/lb, higher than cash costs of \$1.20/lb in the prior year comparable period. Higher per unit mine and mill costs (\$0.20/lb) were partially offset by favourable foreign exchange rates (\$0.08/lb) and reductions in administration costs from aggressive cost reduction plans (\$0.03/lb).

Cash costs for the quarter and year-to-date were lower than previous cash cost guidance due to cost reduction plans, operational efficiencies, lower electricity and diesel prices, increased productivity, and higher sales volumes. Accordingly, full year cash cost guidance has been lowered to \$1.35/lb.

All-in sustaining costs of \$1.52/lb for the three months ended June 30, 2016, were lower than that of the corresponding period in 2015. The decrease is a result of lower sustaining capital expenditures as part of the Company's cost saving and cost deferral programs, partly offset by higher cash costs.

For the six months ended and June 30, 2016, all-in sustaining costs of \$1.56/lb were in-line with the prior year comparable period of \$1.57/lb.

Approximately 14,000 oz of gold and 215,000 oz of silver were subject to terms of a streaming agreement in which \$400/oz and \$4.00/oz were recognized for gold and silver, respectively.

## Projects

The Los Diques tailings dam facility is progressing under budget and on schedule, with early construction activities substantially complete. The construction of a large crushing/screening plant to produce aggregates for the main dam construction commenced in January 2016 and is expected to be completed early in the third quarter of 2016. The relocation of power lines is substantially complete and a provincial road relocation continues.

Total project spend to complete the Los Diques tailings facility are currently estimated to be \$225 million (from July 1, 2016). Approximately \$60 million is expected to be spent in the year, with approximately \$25 million spent in the first six months of 2016. Expenditures in 2017 and 2018 are expected to be \$150 million and \$40 million, respectively.

The existing tailings dam freeboard permit has now been granted, which enables an extra year of capacity in the existing facility. We are also pleased to report that Sernageomin, Chile's National Geology and Mining Service, has now approved the construction of the main Los Diques tailings facility. Subsequent approval from DGA is expected shortly given the prerequisite Sernageomin approval now in hand.

Conceptual level studies into growth opportunities at Candelaria have recommended truck haulage solutions for extensions to existing underground mines. These studies are expected to progress in the second half of the year including a Feasibility Study examining a potential incremental mill expansion. These studies are being supported by ongoing underground exploration success from the large exploration program.

## 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

|                              | 2016    |        |        | 2015    |        |        |        |        |
|------------------------------|---------|--------|--------|---------|--------|--------|--------|--------|
|                              | Total   | Q2     | Q1     | Total   | Q4     | Q3     | Q2     | Q1     |
| Ore mined (000s tonnes)      | 373     | 188    | 185    | 740     | 190    | 191    | 175    | 184    |
| Ore milled (000s tonnes)     | 370     | 184    | 186    | 746     | 183    | 193    | 184    | 186    |
| Grade                        |         |        |        |         |        |        |        |        |
| Nickel (%)                   | 4.1     | 4.3    | 3.8    | 4.3     | 4.3    | 3.9    | 4.2    | 4.7    |
| Copper (%)                   | 3.3     | 3.1    | 3.4    | 3.4     | 3.4    | 3.5    | 3.1    | 3.6    |
| Recovery                     |         |        |        |         |        |        |        |        |
| Nickel (%)                   | 84.5    | 85.4   | 83.6   | 84.2    | 83.8   | 85.0   | 84.4   | 83.5   |
| Copper (%)                   | 97.6    | 97.5   | 97.7   | 97.0    | 97.9   | 97.3   | 96.4   | 96.4   |
| Production (contained metal) |         |        |        |         |        |        |        |        |
| Nickel (tonnes)              | 12,780  | 6,812  | 5,968  | 27,167  | 7,074  | 6,438  | 6,349  | 7,306  |
| Copper (tonnes)              | 11,879  | 5,639  | 6,240  | 24,331  | 5,996  | 6,514  | 5,403  | 6,418  |
| Sales (\$000s)               | 111,222 | 57,999 | 53,223 | 284,015 | 50,611 | 59,981 | 85,032 | 88,391 |
| Operating earnings (\$000s)  | 51,436  | 29,204 | 22,232 | 128,595 | 13,676 | 18,489 | 40,297 | 56,133 |
| Cash cost (\$ per pound)     | 1.68    | 1.75   | 1.61   | 2.02    | 2.06   | 2.38   | 2.15   | 1.45   |
| AISC (\$ per pound)          | 2.05    | 2.19   | 1.91   | 2.55    | 2.68   | 2.77   | 2.68   | 2.02   |

### Operating Earnings

Operating earnings for the three months ended June 30, 2016 of \$29.2 million were \$11.1 million lower than 2015. The decrease was primarily due to lower metal prices, net of price adjustments (\$21.9 million), partially offset by lower per unit operating costs (\$12.2 million).

On a year-to-date basis, operating earnings of \$51.4 million were \$45.0 million lower than 2015. The decrease was again primarily due to lower metal prices, net of price adjustments (\$54.8 million), partially offset by lower per unit operating costs (\$13.9 million).

### Production

Nickel production for the three months ended June 30, 2016 was 6,812 tonnes compared to 6,349 tonnes in the prior year comparable period, while copper production was 5,639 tonnes compared to 5,403 tonnes in the prior year comparable period. The increase in both metals was due to higher head grades and plant recoveries.

On a year-to-date basis, nickel production was 12,780 tonnes compared to 13,655 tonnes in the prior year comparable period. Planned lower head grades from mine sequencing resulted in the decrease.

Copper production on a year-to-date basis was in-line with the prior year.

### Costs

Nickel cash costs for the three months ended June 30, 2016 of \$1.75/lb were lower than the \$2.15/lb reported in the prior year. The decrease in cash costs is due to targeted cost savings (\$0.69/lb) in response to nickel market conditions and lower treatment costs (\$0.21/lb) associated with the customer mix, partly offset by lower by-product credits (\$0.50/lb).

On a year-to-date basis, nickel cash costs of \$1.68/lb were lower than the \$1.81/lb reported in the prior year. The decrease in cash costs is due to targeted cost savings (\$0.45/lb) in response to nickel market conditions, partly offset by lower by-product credits (\$0.28/lb).

Cash costs for the quarter were lower than full year guidance of \$2.00/lb. Higher nickel metal sales coupled with lower mine, mill, and administration costs were only partly offset by lower than expected by-product credits.

All-in sustaining costs of \$2.19/lb and \$2.05/lb for the three and six months ended June 30, 2016, respectively, were lower than that of the corresponding period in 2015. The decrease for the quarter is a result of lower cash costs and lower royalties expense. The decrease year-to-date is a result of lower cash costs and lower sustaining capital expenditures as part of the Company's cost saving and cost deferral programs.

### **Projects**

Drilling continued on Eagle East throughout the second quarter enabling a maiden Inferred Mineral Resource estimate to be completed prior to quarter end. The results of a Preliminary Economic Assessment on mining these Inferred Mineral Resources were positive and showed the potential to increase nickel and copper production from 2020 and to extend the mine life to at least 2023.

A Feasibility Study on Eagle East has been initiated which is due for completion prior to year-end and, in parallel, ramp development to the deposit commenced on July 12, 2016. Drilling will continue to define the limits of Eagle East and to test for new targets.

## 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

|                                 | 2016    |        |        | 2015    |        |        |        |        |
|---------------------------------|---------|--------|--------|---------|--------|--------|--------|--------|
|                                 | Total   | Q2     | Q1     | Total   | Q4     | Q3     | Q2     | Q1     |
| Ore mined, copper (000 tonnes)  | 1,196   | 594    | 602    | 2,501   | 583    | 614    | 673    | 631    |
| Ore mined, zinc (000 tonnes)    | 540     | 272    | 268    | 1,000   | 241    | 255    | 254    | 250    |
| Ore milled, copper (000 tonnes) | 1,228   | 602    | 626    | 2,542   | 584    | 619    | 699    | 640    |
| Ore milled, zinc (000 tonnes)   | 545     | 270    | 275    | 1,014   | 240    | 257    | 258    | 259    |
| Grade per tonne                 |         |        |        |         |        |        |        |        |
| Copper (%)                      | 2.7     | 2.6    | 2.8    | 2.7     | 2.4    | 2.8    | 2.7    | 2.9    |
| Zinc (%)                        | 8.3     | 8.3    | 8.2    | 8.0     | 7.5    | 8.1    | 7.9    | 8.5    |
| Recovery                        |         |        |        |         |        |        |        |        |
| Copper (%)                      | 77.1    | 77.1   | 77.2   | 80.6    | 79.6   | 79.1   | 81.1   | 82.4   |
| Zinc (%)                        | 76.6    | 77.4   | 75.9   | 71.8    | 75.6   | 63.3   | 73.6   | 74.9   |
| Production (contained metal)    |         |        |        |         |        |        |        |        |
| Copper (tonnes)                 | 25,891  | 12,146 | 13,745 | 55,831  | 11,078 | 13,917 | 15,348 | 15,488 |
| Zinc (tonnes)                   | 35,999  | 18,272 | 17,727 | 61,921  | 14,196 | 14,363 | 16,022 | 17,340 |
| Lead (tonnes)                   | 2,151   | 1,245  | 906    | 3,077   | 311    | 366    | 1,080  | 1,320  |
| Silver (000 oz)                 | 650     | 331    | 319    | 1,329   | 270    | 310    | 359    | 390    |
| Sales (\$000s)                  | 140,987 | 69,674 | 71,313 | 292,107 | 55,543 | 56,268 | 93,673 | 86,623 |
| Operating earnings (\$000s)     | 36,432  | 15,466 | 20,966 | 71,316  | (439)  | 6,991  | 34,051 | 30,713 |
| Cash cost (€ per pound)         | 1.33    | 1.32   | 1.34   | 1.47    | 1.80   | 1.64   | 1.29   | 1.24   |
| Cash cost (\$ per pound)        | 1.48    | 1.49   | 1.48   | 1.63    | 1.96   | 1.83   | 1.43   | 1.39   |
| AISC (\$ per pound)             | 1.78    | 1.84   | 1.73   | 2.01    | 2.26   | 2.24   | 2.00   | 1.63   |

### Operating Earnings

Operating earnings of \$15.5 million for the three months ended June 30, 2016 were \$18.6 million lower than the comparable period in 2015. The decrease was mainly attributable to lower metal prices, net of price adjustments (\$13.7 million) and lower copper sales volumes (\$4.7 million).

Operating earnings of \$36.4 million for the six months ended June 30, 2016 were \$28.4 million lower than 2015. The decrease was again attributable to lower metal prices, net of price adjustments (\$19.0 million) and lower sales volumes (\$10.3 million).

### Production

Copper production for the three and six months ended June 30, 2016 was lower than the comparable periods in 2015 by 3,202 tonnes and 4,945 tonnes, respectively. The decrease was largely due to lower mill throughput, the result of a planned maintenance shutdown and the delayed restart of the second line in order to rebuild stockpiles as part of the copper plant stabilization strategy, and lower recoveries.

Zinc production for the three and six months ended June 30, 2016 was higher than the comparable period in 2015 by 2,250 tonnes and 2,637 tonnes, respectively. The increase is a result of higher mill throughput, ore grades, and plant recoveries in the current year periods. The sustained improvements in zinc production year-to-date are a result of concerted efforts directed to zinc plant stabilization over the past nine months.

Production of lead in concentrate for the three and six months ended June 30, 2016 of 1,245 tonnes and 2,151 tonnes, respectively, was derived as a by-product from the zinc circuit.

**Costs**

Copper cash costs of \$1.49/lb for the quarter ended June 30, 2016 were higher than that of the corresponding period in 2015 of \$1.43/lb. The increase is primarily a result of higher mine and mill costs (\$0.24/lb) and higher administration costs (\$0.09/lb), partially offset by higher by-product credits (\$0.25/lb).

On a year-to-date basis, copper cash costs of \$1.48/lb were higher than the comparable period in the prior year of \$1.41/lb. The increase is again primarily a result of higher mine and mill costs (\$0.16/lb), partially offset by higher by-product credits (\$0.10/lb).

Full year cash costs guidance has been reduced to \$1.55/lb given results to date and the on-going impact of cost savings programs.

All-in sustaining costs of \$1.84/lb and \$1.78/lb for the three and six months ended June 30, 2016, respectively, were lower than that of the corresponding period in 2015. The decrease is a result of lower sustaining capital expenditures as part of the Company's cost saving and cost deferral programs, partly offset by higher cash costs.

## 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 processing capacity of 1.1 mtpa, producing zinc and lead in concentrate, and the copper plant has capacity of 0.3 mtpa with the ability to process copper or zinc-lead ore, producing copper, or zinc and lead concentrates. The primary metal is zinc, with lead, silver, and copper as by-products.

### Operating Statistics

|                                 | 2016   |        |        | 2015    |        |        |        |        |
|---------------------------------|--------|--------|--------|---------|--------|--------|--------|--------|
|                                 | Total  | Q2     | Q1     | Total   | Q4     | Q3     | Q2     | Q1     |
| Ore mined, zinc (000 tonnes)    | 552    | 264    | 288    | 1,126   | 313    | 257    | 289    | 267    |
| Ore mined, copper (000 tonnes)  | 61     | 48     | 13     | 137     | nil    | 40     | 52     | 45     |
| Ore milled, zinc (000 tonnes)   | 541    | 237    | 304    | 1,096   | 307    | 260    | 267    | 262    |
| Ore milled, copper (000 tonnes) | 51     | 51     | nil    | 139     | nil    | 52     | 43     | 44     |
| Grade per tonne                 |        |        |        |         |        |        |        |        |
| Zinc (%)                        | 8.2    | 8.2    | 8.3    | 8.3     | 9.0    | 7.7    | 8.6    | 7.6    |
| Lead (%)                        | 4.0    | 3.6    | 4.3    | 3.8     | 4.2    | 4.0    | 3.4    | 3.4    |
| Copper (%)                      | 2.3    | 2.3    | nil    | 1.7     | nil    | 1.1    | 2.4    | 1.5    |
| Recovery                        |        |        |        |         |        |        |        |        |
| Zinc (%)                        | 89.7   | 89.3   | 90.0   | 92.1    | 91.5   | 91.5   | 92.8   | 92.6   |
| Lead (%)                        | 82.9   | 81.6   | 83.8   | 82.9    | 83.0   | 83.7   | 82.4   | 82.6   |
| Copper (%)                      | 92.4   | 92.4   | nil    | 88.1    | nil    | 80.1   | 91.9   | 89.0   |
| Production (contained metal)    |        |        |        |         |        |        |        |        |
| Zinc (tonnes)                   | 39,942 | 17,286 | 22,656 | 83,451  | 25,339 | 18,458 | 21,237 | 18,417 |
| Lead (tonnes)                   | 17,892 | 7,063  | 10,829 | 34,120  | 10,733 | 8,609  | 7,379  | 7,399  |
| Copper (tonnes)                 | 1,051  | 1,051  | nil    | 2,044   | 5      | 475    | 974    | 590    |
| Silver (000 oz)                 | 1,154  | 495    | 659    | 2,542   | 729    | 627    | 622    | 564    |
| Sales (\$000s)                  | 79,267 | 38,906 | 40,361 | 155,130 | 40,082 | 35,883 | 41,301 | 37,864 |
| Operating earnings (\$000s)     | 39,929 | 20,600 | 19,329 | 74,870  | 21,697 | 13,425 | 23,144 | 16,604 |
| Cash cost (SEK per pound)       | 2.92   | 2.78   | 3.02   | 3.16    | 2.29   | 3.44   | 3.65   | 3.49   |
| Cash cost (\$ per pound)        | 0.35   | 0.34   | 0.36   | 0.37    | 0.27   | 0.41   | 0.43   | 0.42   |
| AISC (\$ per pound)             | 0.55   | 0.56   | 0.55   | 0.55    | 0.44   | 0.56   | 0.63   | 0.60   |

### Operating Earnings

Operating earnings of \$20.6 million were \$2.5 million lower than the \$23.1 million reported in the second quarter of 2015. The decrease in earnings is largely attributable to lower metal prices, net of price adjustments (\$2.8 million).

For the six months ended June 30, 2016, operating earnings of \$39.9 million were in-line with the \$39.7 million reported for the comparable period in 2015. Lower treatment charges (\$4.7 million), lower operating costs (\$2.9 million), and higher sales volumes (\$2.6 million) were offset by lower metal prices, net of price adjustments (\$9.7 million). Treatment charges declined due to falling zinc concentrate supply as some large operations shut down as Mineral Reserves were depleted, while other producers suspended zinc operations, further reducing market supply.

### Production

Zinc production in the second quarter of 2016 was 19% lower than the comparable period in 2015, while lead production was 4% lower for the same period. The decrease in production for both metals is primarily a result of lower mill throughput caused by harder ore, in combination with a campaign undertaken to process copper ore on both mill processing lines to reduce the amount of stockpiled copper ore.

Copper production in the current quarter was higher than the amount of production in the previous year comparable period, a result of higher mill throughput.



On a year-to-date basis, zinc production was in-line with 2015 levels, while higher lead grades resulted in 21% higher lead production.

Year-to-date copper production was 33% below the comparable period in 2015 due to lower mill throughput as zinc ore was prioritized throughout the first half of the year as planned.

### **Costs**

Zinc cash costs of \$0.34/lb for the quarter ended June 30, 2016 were lower than previous guidance of \$0.45/lb and that of the corresponding period in 2015 of \$0.43/lb due primarily to higher by-product credits.

On a year-to-date basis, cash costs for zinc were \$0.35/lb, compared to \$0.43/lb for the same period in 2015. The decrease is primarily due to lower mine costs (\$0.06/lb) and lower treatment charges (\$0.05/lb).

Full year cash guidance has been lowered to \$0.40/lb in recognition of higher than expected by-product credits.

All-in sustaining costs of \$0.56/lb and \$0.55/lb for the three and six months ended June 30, 2016, respectively, were lower than that of the corresponding period in 2015. The decrease is a result of lower cash costs, partly offset by higher sustaining capital expenditures.

### **Projects**

The \$16 million zinc plant project to increase plant capacity by 10% continued on pace for a mid-2017 commissioning. Approximately \$1 million was spent on the project during the quarter (approximately \$2 million year-to-date), and an estimated \$6 million is expected to be spent in the second half of 2016.

## Tenke Fungurume

Lundin Mining holds an effective 24% equity interest in the mine. Freeport is the operating partner and holds an effective 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   | 2016    |        |         | 2015    |         |        |        |        |
|--|---------|--------|---------|---------|---------|--------|--------|--------|
|  | Total   | Q2     | Q1      | Total   | Q4      | Q3     | Q2     | Q1     |
| Ore mined (000 tonnes)                                     | 4,996   | 2,408  | 2,588   | 12,657  | 2,926   | 3,426  | 3,163  | 3,142  |
| Ore milled (000 tonnes)                                    | 2,819   | 1,444  | 1,375   | 5,440   | 1,458   | 1,285  | 1,392  | 1,305  |
| Grade per tonne  |         |        |         |         |         |        |        |        |
| Copper (%)   | 4.0     | 4.0    | 4.0     | 4.0     | 3.6     | 4.0    | 4.0    | 4.4    |
| Recovery   |         |        |         |         |         |        |        |        |
| Copper (%)   | 93.7    | 94.5   | 92.8    | 94.0    | 94.0    | 94.0   | 93.9   | 94.0   |
| Production (contained metal)                               |         |        |         |         |         |        |        |        |
| Copper (tonnes)  | 105,366 | 55,418 | 49,948  | 203,964 | 49,990  | 49,005 | 52,268 | 52,701 |
| Cobalt (tonnes)  | 8,605   | 4,304  | 4,301   | 16,014  | 4,571   | 3,973  | 4,148  | 3,322  |
| Income (loss) from equity investment (\$000s) <sup>1</sup> | (3,664) | 727    | (4,391) | 24,617  | (2,212) | 6,550  | 10,538 | 9,741  |
| Attributable share of operating cash flows (\$000s)        | 46,381  | 20,285 | 26,096  | 63,486  | 8,780   | 9,296  | 4,279  | 41,131 |
| Cash cost (\$ per pound) <sup>2</sup>                      | 1.33    | 1.34   | 1.31    | 1.21    | 1.35    | 1.15   | 1.07   | 1.26   |

1. Lundin Mining's share of equity earnings includes adjustments for GAAP harmonization differences and purchase price allocations.

2. 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 \$0.7 million in the current quarter was \$9.8 million lower than the second quarter of last year largely due to lower prices. Volume of copper cathode sold during the quarter, on a 100% basis, was 56,412 tonnes, higher than the 47,401 tonnes sold in the comparable period of last year.

The average price realized for copper sales during the quarter was \$2.07/lb, compared to \$2.63/lb in the second quarter of 2015. The average realized price for cobalt sold during the second quarter of 2016 was \$6.58/lb, compared to \$9.27/lb in the second quarter of 2015.

### Production

Tenke produced 55,418 tonnes of copper for the three months ended June 30, 2016, higher than the prior year comparable quarter production of 52,268 tonnes due to higher mill throughput and recoveries. Cobalt production for the quarter was 4,304 tonnes, higher than the prior year comparable quarter of 4,148 tonnes due primarily to higher mill throughput and cobalt recoveries.

The expanded milling facilities at Tenke continue to exceed original design capacity with throughput averaging 15,900 metric tonnes of ore per day ("mtpd") for the three months ended June 30, 2016. Mining rate during the quarter was approximately 134,000 mtpd, slightly lower than expectations due to haul truck availability.

### Cash Costs

Cash costs for copper, net of cobalt by-product credits, were \$1.34/lb for the quarter and \$1.33/lb year-to date. These are higher than the prior year comparable periods primarily reflecting lower cobalt by-product credits.

Freeport projects 2016 cash costs to approximate \$1.28/lb of copper, based on current sales volume and cost estimates and assuming an average cobalt price of \$11.00/lb for the second half of the year.

### **Tenke Cash Flow**

Lundin's attributable share of operating cash flow at Tenke for the second quarter of 2016 was \$20.3 million. This is higher than the \$4.3 million recognized in the second quarter of 2015, due primarily to changes in non-cash working capital.

Year-to-date, Lundin's attributable share of operating cash flow was \$46.4 million, consistent with the \$45.4 million generated in the same period in 2015.

For the three and six months ended June 30, 2016, \$5.6 million and \$15.6 million, respectively, was spent on the Company's attributable share of capital investments, which was fully funded by cash flow from Tenke operations. Lundin Mining's share of 2016 capital investment for Tenke, which is also expected to be self-funded by cash flow from Tenke operations, is expected to be approximately \$25 million. Key capital spending areas in 2016 include costs for site and transport related infrastructure.

The Company received cash distributions of \$14.6 million for the quarter ended June 30, 2016 from Tenke and \$3.9 million from Freeport Cobalt.

On a year-to-date basis, the Company received cash distributions of \$15.4 million from Tenke and \$6.3 million from Freeport Cobalt, for total distributions of \$21.7 million from Tenke related investments. The Company expects to receive cash distributions from Tenke and Freeport Cobalt in 2016 of approximately \$50 million to \$60 million.

## Exploration

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

Block models for the Santos mine were completed, incorporating drilling results from July 2015 to January 2016. There are seven exploration drill rigs active in Candelaria. Four drill rigs are working in Candelaria Norte, Lila 3 and 4 sectors, one drill rig is in the Cerro Granate sector, and two drill rigs are working on Phase 10 of the open pit. A total of 24,819 metres were drilled in the second quarter of 2016.

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

Six drill rigs successfully completed the delineation of the new Eagle East discovery. Refer to the Corporate Highlights section within this Management's Discussion and Analysis or the new release entitled "Lundin Mining Announces Eagle East Mineral Resources, PEA Results and Project Commencement" on the Company's website ([www.lundinmining.com](http://www.lundinmining.com)).

A total of 16,500 metres were drilled in the second quarter of 2016. In addition, geotechnical logging, televiwer, and hydrological studies were completed on selected holes to support engineering studies for a Feasibility Study evaluating the potential development of Eagle East. The report is scheduled for completion by the end of 2016. Two drill rigs were demobilized and it is anticipated that four drill rigs will continue exploration in the Eagle East area for the remainder of the year.

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

The average metal prices for copper, nickel and zinc for the second quarter of 2016 were higher than the average prices for the first quarter of 2016 by 1%, 4% and 14%, respectively. The prices of zinc and nickel increased substantially during the second half of the quarter as a shortage of raw materials for both metals has become evident.

| (Average LME Price) |            | Three months ended June 30, |        |        | Six months ended June 30, |        |        |
|---------------------|------------|-----------------------------|--------|--------|---------------------------|--------|--------|
|                     |            | 2016                        | 2015   | Change | 2016                      | 2015   | Change |
| Copper              | US\$/pound | 2.15                        | 2.74   | -22%   | 2.13                      | 2.69   | -21%   |
|                     | US\$/tonne | 4,729                       | 6,043  |        | 4,701                     | 5,929  |        |
| Nickel              | US\$/pound | 4.00                        | 5.90   | -32%   | 3.93                      | 6.21   | -37%   |
|                     | US\$/tonne | 8,823                       | 13,008 |        | 8,662                     | 13,684 |        |
| Zinc                | US\$/pound | 0.87                        | 0.99   | -12%   | 0.82                      | 0.97   | -16%   |
|                     | US\$/tonne | 1,918                       | 2,190  |        | 1,799                     | 2,134  |        |

LME inventory for copper and zinc increased during the second quarter of 2016 by 32% and 2%, respectively, while LME inventory for nickel decreased by 12% during the same period.

The treatment charges ("TC") and refining charges ("RC") in the spot market for copper concentrates between mining companies and commodity trading companies increased during the second quarter of 2016. In April, the spot TC was \$84 per dmt of concentrate and the spot RC was \$0.084 per payable lb of copper and in June the TC had increased to \$95 per dmt of concentrate with a RC of \$0.095 per payable lb of copper contained. In addition, the spot terms at which the Chinese copper smelters were buying at increased from a TC of \$91 per dmt of concentrate and a RC of \$0.091 per payable lb of copper in April to a TC of \$105 per dmt of concentrate and a RC of \$0.105 per payable lb of copper at the end of June. Supply of copper concentrates increased as several new copper mines reached production capacity during the quarter, in parallel with unusually few production disruptions on the mining side.

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 in China continued to drop during the second quarter of 2016 from \$125 per dmt, flat, in April to \$115 per dmt, flat, at the end of the second quarter of 2016. Continued reduced supply due to mine closures, both scheduled due to depletion and price induced, caused the decrease.

## Liquidity and Financial Condition

### Cash Reserves

Cash and cash equivalents were \$657.6 million as at June 30, 2016, an increase of \$101.1 million from \$556.5 million at December 31, 2015 and an increase of \$96.9 million from \$560.7 million at March 31, 2016.

Cash inflows for the three months ended June 30, 2016 included operating cash flows of \$153.2 million and receipt of distributions from Tenke of \$14.6 million. Use of cash was primarily directed towards investments in mineral properties, plant and equipment of \$38.8 million and net interest payments of \$38.3 million.

For the six months ended June 30, 2016, cash inflows included operating cash flows of \$196.1 million and receipt of distributions from Tenke and Freeport Cobalt of \$15.4 million and \$6.3 million, respectively. Use of cash was primarily directed towards investments in mineral properties, plant and equipment of \$86.3 million and net interest payments of \$38.9 million.

### Working Capital

Working capital was \$779.9 million as at June 30, 2016, compared to \$707.2 million at December 31, 2015 and \$729.2 million as at March 31, 2016. The increase in working capital for the three and six months is largely a reflection of a higher cash balance at June 30, 2016.

### Long-Term Debt

As at June 30, 2016, 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 (\$19.1 million).

Subject to various risks and uncertainties (*see Managing Risks section, page 31*), the Company believes it will generate sufficient cash flow and has adequate cash and debt facilities to finance on-going operations and planned capital and exploration investment programs.

### Commitments

The Company has the following capital commitments as at June 30, 2016:

(\$ thousands)

|              |               |
|--------------|---------------|
| 2016         | 44,934        |
| 2017         | 5,538         |
| 2018         | 5,106         |
| 2019         | 697           |
| <b>Total</b> | <b>56,275</b> |

## Shareholders' Equity

Shareholders' equity was \$3,458.1 million at June 30, 2016, compared to \$4,247.6 million at December 31, 2015. The decrease in shareholders' equity is primarily due to current year's net loss of \$803.4 million, partially offset by foreign currency translation adjustments of \$12.5 million in other comprehensive income.

## Sensitivities

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

| Metal  | Tonnes Payable | Provisional price on<br>June 30, 2016<br>(\$US/tonne) | Change | Effect on operating<br>earnings (\$millions) |
|--------|----------------|---|--------|--|
| Copper | 63,226         | 4,846   | +/-10% | +/- \$30.6                                   |
| Nickel | 4,090          | 9,426   | +/-10% | +/- \$3.9                                    |
| Zinc   | 12,754         | 2,107   | +/-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:

| Currency      | Change | Three months ended<br>June 30, 2016<br>(\$millions) | Six months ended<br>June 30, 2016<br>(\$millions) |
|---------------|--------|---|---|
| Chilean peso  | +/-10% | +/- \$8.7   | +/- \$17.0  |
| Euro          | +/-10% | +/- \$4.9   | +/- \$9.5   |
| Swedish krona | +/-10% | +/- \$1.9   | +/- \$4.0   |

## Financial Instruments

Summary of financial instruments:

|  | Fair value at June 30, 2016<br>(\$ thousands) | Basis of measurement | Associated risks       |
|--|---|----------------------|------------------------|
| Cash and cash equivalents                  | 657,618                                       | Carrying value       | Credit/Exchange        |
| Trade and other receivables                | 62,528  | Carrying value       | Credit/Market/Exchange |
| Trade receivables                          | 137,664                                       | FVTPL                | Credit/Market/Exchange |
| Marketable securities and restricted funds | 54,132  | FVTPL                | Market/Liquidity       |
| Currency options                           | 6,499   | FVTPL                | Market/Liquidity       |
| Marketable securities                      | 31  | AFS                  | Market/Liquidity       |
| Trade and other payables                   | 174,305                                       | Carrying value       | Exchange               |
| Long-term debt and finance leases          | 1,031,823                                     | Amortized cost       | Interest               |
| Other long-term liabilities                | 11,932  | 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.

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.

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

For the quarter ended June 30, 2016, the Company recognized negative prior period pricing adjustments of \$6.7 million in sales (2015: \$6.1 million), a revaluation loss of \$0.1 million on FVTPL securities (2015: \$0.1 million), and a revaluation gain of \$0.5 million on FVTPL currency options (2015: nil). In addition, a foreign exchange gain of \$2.9 million (2015: loss of \$6.5 million) was realized in the quarter on working capital denominated in foreign currencies that was held in the Company's various entities.

For the six months ended June 30, 2016, the Company recognized negative prior period pricing adjustments of \$6.5 million in sales (2015: \$41.1 million), a revaluation loss of \$0.5 million on FVTPL securities (2015: \$1.4 million), and a revaluation gain of \$3.6 million on FVTPL currency options (2015: nil). In addition, a foreign exchange loss of \$1.9 million (2015: gain of \$10.8 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.

The Company received \$14.6 million and \$15.4 million of cash distributions from Tenke during the three and six months ended June 30, 2016, respectively.

### 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 \$3.9 million and \$6.3 million of cash distributions from Freeport Cobalt during the three and six months ended June 30, 2016, respectively.

### 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:

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| (\$ thousands)           | Three months ended June 30, |       | Six months ended June 30, |       |
|--------------------------|-----------------------------|-------|---------------------------|-------|
|                          | 2016                        | 2015  | 2016                      | 2015  |
| Wages and salaries       | <b>1,681</b>                | 1,572 | <b>3,115</b>              | 3,038 |
| Pension and benefits     | <b>29</b>                   | 31    | <b>81</b>                 | 62    |
| Share-based compensation | <b>640</b>                  | 530   | <b>1,280</b>              | 1,175 |
|                          | <b>2,350</b>                | 2,133 | <b>4,476</b>              | 4,275 |

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For the three and six months ended June 30, 2016, the Company paid \$0.1 million and \$0.4 million, respectively (Q2 2015 - \$0.2 million; YTD 2015 - \$0.4 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**

For information on new standards and interpretations not yet adopted, refer to note 2 of the Company's consolidated financial statements for the year ended December 31, 2015.

### **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. For a complete discussion of accounting estimates and assumptions deemed most critical by the Company, refer to the Company's annual 2015 Management's Discussion and Analysis.

## **Managing Risks**

### **Risks and Uncertainties**

The operations of Lundin Mining involve certain significant risks, including but not limited to fluctuations in commodity prices and foreign exchange rates and various operational risk. For a complete discussion on risks, refer to the Company's annual 2015 Management's Discussion and Analysis.

### **Outstanding Share Data**

As at July 27, 2016, the Company has 719,831,157 common shares issued and outstanding, and 17,345,285 stock options and 2,023,900 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)  | June 30, 2016    | March 31, 2016   | December 31, 2015 |
|--|------------------|------------------|-------------------|
| Current portion of long-term debt and finance leases | (1,361)          | (1,263)          | (1,102)           |
| Long-term debt and finance leases                    | (980,781)        | (979,512)        | (978,014)         |
|  | (982,142)        | (980,775)        | (979,116)         |
| Deferred financing fees (netted in above)            | (17,418)         | (18,087)         | (18,743)          |
|  | (999,560)        | (998,862)        | (997,859)         |
| Cash and cash equivalents                            | 657,618          | 560,748          | 556,511           |
| <b>Net debt</b>                                      | <b>(341,942)</b> | <b>(438,114)</b> | <b>(441,348)</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 cash provided by operating activities as follows:

| (\$000s, except share and per share amounts)                         | Three months ended June 30, |             | Six months ended June 30, |             |
|--|-----------------------------|-------------|---------------------------|-------------|
|  | 2016                        | 2015        | 2016                      | 2015        |
| Cash provided by operating activities                                | 153,181                     | 262,673     | 196,059                   | 486,648     |
| Add: Changes in non-cash working capital items                       | (67,585)                    | (75,092)    | (26,263)                  | (78,803)    |
| Operating cash flow before changes in non-cash working capital items | 85,596                      | 187,581     | 169,796                   | 407,845     |
| Weighted average common shares outstanding (basic)                   | 719,634,633                 | 718,974,916 | 719,631,495               | 718,615,375 |
| <b>Operating cash flow per share (basic)</b>                         | <b>0.12</b>                 | 0.26        | <b>0.24</b>               | 0.57        |

## Capital Expenditures

Identifying capital expenditures, on a cash basis, using a sustaining or expansionary classification provides management with a better understanding of costs required to maintain existing operations, and costs required for future growth of existing or new assets.

- **Sustaining capital expenditures** – Expenditures which maintain existing operations and sustain production levels.
- **Expansionary capital expenditures** – Expenditures which increase current or future production capacity, cash flow or earnings potential.

Where an expenditure both maintains and expands current operations, classification would be based on the primary decision for which the expenditure is being considered/was made.

## 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 any allocation of upfront streaming proceeds or 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.

## All-in Sustaining Cost per Pound "(AISC)"

All-in sustaining cost per pound is an extension of the cash cost per pound measure discussed above and is also a key performance measure that management uses to monitor performance. Management uses this measure to analyze margins achieved on existing assets while sustaining and maintaining production at current levels. Expansionary capital and certain exploration costs are excluded from this definition as these are costs typically incurred to extend mine life or materially increase the productive capacity of existing assets, or for new operations. Corporate general and administrative expenses have also been excluded from the all-in sustaining cost measure, as any attribution of these costs to an operating site would not necessarily be reflective of costs directly attributable to the administration of the site.

All-in sustaining cost per pound is not reported by Tenke's operator, Freeport, and accordingly has not been disclosed.

Cash and All-in Sustaining Costs can be reconciled to the Company's operating costs as follows:

| Three months ended June 30, 2016                                    |                    |               |                     |                    |          |
|---|--------------------|---------------|---------------------|--------------------|----------|
| Operations<br>(\$000s, unless otherwise noted)                      | Candelaria<br>(Cu) | Eagle<br>(Ni) | Neves-Corvo<br>(Cu) | Zinkgruvan<br>(Zn) | Total    |
| Sales Volumes (Contained metal in concentrate):                     |                    |               |                     |                    |          |
| Tonnes  | 35,611             | 5,314         | 11,804              | 14,673             |          |
| Pounds (000s)   | 78,509             | 11,715        | 26,023              | 32,348             |          |
| Total Operating Cost  |                    |               |                     |                    | 202,208  |
| Less: By-Product Credits  |                    |               |                     |                    | (84,840) |
| Treatment Costs   |                    |               |                     |                    | 55,413   |
| Non-Cash Inventory  |                    |               |                     |                    | 1,053    |
| Royalties and Other   |                    |               |                     |                    | (3,068)  |
| Cash Operating Cost   | 100,491            | 20,502        | 38,775              | 10,998             | 170,766  |
| <b>Cash Cost per pound (\$/lb)</b>                                  | <b>1.28</b>        | <b>1.75</b>   | <b>1.49</b>         | <b>0.34</b>        |          |
| Add: Sustaining Capital Expenditure<br>& Exploration <sup>(1)</sup> | 18,473             | 3,095         | 7,870               | 6,725              |          |
| Royalties   | -                  | 1,825         | 834                 | -                  |          |
| Accretion   | 726                | 207           | 400                 | 116                |          |
| Leases & Other  | -                  | -             | 131                 | 197                |          |
| All-in Sustaining Cost  | 119,690            | 25,629        | 48,010              | 18,036             |          |
| <b>AISC per pound (\$/lb)</b>                                       | <b>1.52</b>        | <b>2.19</b>   | <b>1.84</b>         | <b>0.56</b>        |          |

  

| Three months ended June 30, 2015                     |                    |               |                     |                    |            |          |
|--|--------------------|---------------|---------------------|--------------------|------------|----------|
| Operations<br>(\$000s, unless otherwise noted)       | Candelaria<br>(Cu) | Eagle<br>(Ni) | Neves-Corvo<br>(Cu) | Zinkgruvan<br>(Zn) | Other      | Total    |
| Sales Volumes (Contained metal in concentrate):      |                    |               |                     |                    |            |          |
| Tonnes   | 44,588             | 5,815         | 14,631              | 17,711             |            |          |
| Pounds (000s)  | 98,300             | 12,820        | 32,256              | 39,046             |            |          |
| Total Operating Cost                                 |                    |               |                     |                    |            | 251,588  |
| Less: By-Product Credits                             |                    |               |                     |                    |            | (99,174) |
| Treatment Costs                                      |                    |               |                     |                    |            | 72,765   |
| Non-Cash Inventory                                   |                    |               |                     |                    |            | (4,058)  |
| Royalties and Other                                  |                    |               |                     |                    |            | (6,333)  |
| Cash Operating Cost                                  | 118,943            | 27,563        | 46,126              | 16,790             | 5,366      | 214,788  |
| <b>Cash Cost per pound (\$/lb)</b>                   | <b>1.21</b>        | <b>2.15</b>   | <b>1.43</b>         | <b>0.43</b>        | <b>n/a</b> |          |
| Add: Sustaining Capital Expenditure<br>& Exploration | 43,590             | 3,158         | 16,597              | 6,597              |            |          |
| Royalties  | -                  | 3,379         | 1,517               | -                  |            |          |
| Accretion  | 517                | 200           | 391                 | 98                 |            |          |
| Leases & Other                                       | -                  | -             | -                   | 979                |            |          |
| All-in Sustaining Cost                               | 163,050            | 34,300        | 64,631              | 24,464             |            |          |
| <b>AISC per pound (\$/lb)</b>                        | <b>1.66</b>        | <b>2.68</b>   | <b>2.00</b>         | <b>0.63</b>        |            |          |

1. Sustaining Exploration is exploration expenditures incurred to further define existing producing ore bodies in order to sustain current operations. Sustaining Capital Expenditure, for the purposes of reporting AISC, is presented on an accrual basis and excludes capitalized interest.

**Six months ended June 30, 2016**

| <b>Operations</b><br>(\$000s, unless otherwise noted) | <b>Candelaria<br/>(Cu)</b> | <b>Eagle<br/>(Ni)</b> | <b>Neves-Corvo<br/>(Cu)</b> | <b>Zinkgruvan<br/>(Zn)</b> | <b>Total</b> |
|---|----------------------------|-----------------------|-----------------------------|----------------------------|--------------|
| Sales Volumes (Contained metal in concentrate):       |                            |                       |                             |                            |              |
| Tonnes  | 76,927                     | 10,470                | 25,075                      | 33,921                     |              |
| Pounds (000s)   | 169,595                    | 23,082                | 55,281                      | 74,783                     |              |
| Total Operating Cost                                  |                            |                       |                             |                            | 412,498      |
| Less: By-Product Credits                              |                            |                       |                             |                            | (163,205)    |
| Treatment Costs                                       |                            |                       |                             |                            | 115,718      |
| Non-Cash Inventory                                    |                            |                       |                             |                            | 1,328        |
| Royalties and Other                                   |                            |                       |                             |                            | (7,577)      |
| Cash Operating Cost                                   | 211,994                    | 38,778                | 81,816                      | 26,174                     | 358,762      |
| <b>Cash Cost per pound (\$/lb)</b>                    | <b>1.25</b>                | <b>1.68</b>           | <b>1.48</b>                 | <b>0.35</b>                |              |
| Add: Sustaining Capital Expenditure                   |                            |                       |                             |                            |              |
| & Exploration   | 51,449                     | 4,665                 | 14,451                      | 14,624                     |              |
| Royalties   | -                          | 3,484                 | 1,338                       | -                          |              |
| Accretion   | 1,436                      | 415                   | 790                         | 229                        |              |
| Leases & Other  | -                          | -                     | 131                         | 351                        |              |
| All-in Sustaining Cost                                | 264,879                    | 47,342                | 98,526                      | 41,378                     |              |
| <b>AISC per pound (\$/lb)</b>                         | <b>1.56</b>                | <b>2.05</b>           | <b>1.78</b>                 | <b>0.55</b>                |              |

**Six months ended June 30, 2015**

| <b>Operations</b><br>(\$000s, unless otherwise noted) | <b>Candelaria<br/>(Cu)</b> | <b>Eagle<br/>(Ni)</b> | <b>Neves-Corvo<br/>(Cu)</b> | <b>Zinkgruvan<br/>(Zn)</b> | <b>Other</b> | <b>Total</b> |
|---|----------------------------|-----------------------|-----------------------------|----------------------------|--------------|--------------|
| Sales Volumes (Contained metal in concentrate):       |                            |                       |                             |                            |              |              |
| Tonnes  | 95,169                     | 11,250                | 29,767                      | 32,376                     |              |              |
| Pounds (000s)   | 209,811                    | 24,802                | 65,625                      | 71,377                     |              |              |
| Total Operating Cost                                  |                            |                       |                             |                            |              | 502,215      |
| Less: By-Product Credits                              |                            |                       |                             |                            |              | (195,290)    |
| Treatment Costs                                       |                            |                       |                             |                            |              | 138,261      |
| Non-Cash Inventory                                    |                            |                       |                             |                            |              | (3,351)      |
| Royalties and Other                                   |                            |                       |                             |                            |              | (13,206)     |
| Cash Operating Cost                                   | 251,774                    | 44,892                | 92,531                      | 30,692                     | 8,740        | 428,629      |
| <b>Cash Cost per pound (\$/lb)</b>                    | <b>1.20</b>                | <b>1.81</b>           | <b>1.41</b>                 | <b>0.43</b>                | <b>n/a</b>   |              |
| Add: Sustaining Capital Expenditure                   |                            |                       |                             |                            |              |              |
| & Exploration   | 75,627                     | 7,380                 | 22,294                      | 12,756                     |              |              |
| Royalties   | -                          | 5,790                 | 3,579                       | -                          |              |              |
| Accretion   | 1,036                      | 399                   | 790                         | 162                        |              |              |
| Leases & Other  | -                          | -                     | -                           | 658                        |              |              |
| All-in Sustaining Cost                                | 328,437                    | 58,461                | 119,194                     | 44,268                     |              |              |
| <b>AISC per pound (\$/lb)</b>                         | <b>1.57</b>                | <b>2.36</b>           | <b>1.82</b>                 | <b>0.62</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.

### ***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.

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

There have been no changes in the Company's internal control over financial reporting during the three month period ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### ***Other Information***

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

## Other Supplementary Information

### 1. *List of directors and officers at July 27, 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 Hars, *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 third quarter of 2016 is expected to be published by October 26, 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):

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Condensed Interim Consolidated Financial Statements of

# **Lundin Mining Corporation**

June 30, 2016  
(Unaudited)



**LUNDIN MINING CORPORATION**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS  
(Unaudited - in thousands of US dollars)June 30, December 31,  
2016 2015**ASSETS**

## Current

|                                      |                  |                |
|--------------------------------------|------------------|----------------|
| Cash and cash equivalents (Note 3)   | \$ 657,618       | \$ 556,511     |
| Trade and other receivables (Note 4) | 200,192          | 192,194        |
| Income taxes receivable              | 21,789           | 54,795         |
| Inventories (Note 5)                 | 133,501          | 144,746        |
| Other current assets                 | 3,401            | 5,101          |
|                                      | <b>1,016,501</b> | <b>953,347</b> |

## Non-Current

|  |                     |                     |
|--|---------------------|---------------------|
| Restricted funds                                 | 51,963              | 53,818              |
| Long-term inventory                              | 243,572             | 194,065             |
| Other non-current assets                         | 12,254              | 13,341              |
| Mineral properties, plant and equipment (Note 6) | 3,211,279           | 3,354,711           |
| Investment in associates (Note 7)                | 1,252,918           | 2,050,823           |
| Deferred tax assets                              | 63,859              | 55,022              |
| Goodwill   | 106,782             | 104,921             |
|  | <b>4,942,627</b>    | <b>5,826,701</b>    |
|  | <b>\$ 5,959,128</b> | <b>\$ 6,780,048</b> |

**LIABILITIES**

## Current

|   |                |                |
|---|----------------|----------------|
| Trade and other payables (Note 10)                          | \$ 216,689     | \$ 231,960     |
| Income taxes payable  | 19,921         | 14,201         |
| Current portion of long-term debt and finance leases        | 1,361          | 1,102          |
| Current portion of deferred revenue (Note 11)               | 51,895         | 58,666         |
| Current portion of reclamation and other closure provisions | 6,456          | 14,425         |
|   | <b>296,322</b> | <b>320,354</b> |

## Non-Current

|  |                  |                  |
|--|------------------|------------------|
| Long-term debt and finance leases        | 980,781          | 978,014          |
| Deferred revenue (Note 11)               | 534,104          | 549,830          |
| Reclamation and other closure provisions | 255,379          | 242,556          |
| Other long-term liabilities              | 11,932           | 13,815           |
| Provision for pension obligations        | 14,431           | 15,332           |
| Deferred tax liabilities                 | 408,098          | 412,536          |
|  | <b>2,204,725</b> | <b>2,212,083</b> |
|  | <b>2,501,047</b> | <b>2,532,437</b> |

**SHAREHOLDERS' EQUITY**

|   |                     |                     |
|---|---------------------|---------------------|
| Share capital   | 4,107,520           | 4,107,469           |
| Contributed surplus   | 52,404              | 49,112              |
| Accumulated other comprehensive loss                          | (296,326)           | (308,819)           |
| Deficit   | (847,228)           | (33,975)            |
| Equity attributable to Lundin Mining Corporation shareholders | 3,016,370           | 3,813,787           |
| Non-controlling interests                                     | 441,711             | 433,824             |
|   | <b>3,458,081</b>    | <b>4,247,611</b>    |
|   | <b>\$ 5,959,128</b> | <b>\$ 6,780,048</b> |

Commitments (Note 18)

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

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

## LUNDIN MINING CORPORATION

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS

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

|   | Three months ended |             | Six months ended |              |
|---|--------------------|-------------|------------------|--------------|
|   | June 30            |             | June 30          |              |
|   | 2016               | 2015        | 2016             | 2015         |
| Sales   | \$ 342,316         | \$ 501,279  | \$ 711,885       | \$ 1,032,807 |
| Operating costs (Note 13)   | (202,208)          | (251,588)   | (412,498)        | (502,215)    |
| Depreciation, depletion and amortization (Note 6)   | (110,567)          | (152,851)   | (230,141)        | (309,926)    |
| General and administrative expenses   | (5,592)            | (6,681)     | (13,134)         | (13,621)     |
| General exploration and business development (Note 15)  | (16,394)           | (14,604)    | (29,215)         | (26,506)     |
| Income (loss) from equity investment in associates (Note 7)   | 1,200              | 9,109       | (4,086)          | 20,700       |
| Finance costs (Note 16)   | (21,653)           | (23,131)    | (39,931)         | (45,696)     |
| Other income (expense) (Note 17)  | 638                | (8,387)     | (7,348)          | 11,050       |
| Impairment of investment in associates (Note 9)   | (772,114)          | -           | (772,114)        | -            |
| (Loss) earnings before income taxes   | (784,374)          | 53,146      | (796,582)        | 166,593      |
| Current tax expense (Note 8)  | (1,417)            | (14,069)    | (21,082)         | (51,235)     |
| Deferred tax (expense) recovery (Note 8)  | (2,110)            | 14,641      | 14,298           | 21,685       |
| Net (loss) earnings   | \$ (787,901)       | \$ 53,718   | \$ (803,366)     | \$ 137,043   |
| <b>Net (loss) earnings attributable to:</b>   |                    |             |                  |              |
| Lundin Mining Corporation shareholders  | \$ (791,168)       | \$ 46,398   | \$ (813,253)     | \$ 118,187   |
| Non-controlling interests   | 3,267              | 7,320       | 9,887            | 18,856       |
| Net (loss) earnings   | \$ (787,901)       | \$ 53,718   | \$ (803,366)     | \$ 137,043   |
| <br>  |                    |             |                  |              |
| Basic and diluted (loss) earnings per share attributable to<br>Lundin Mining Corporation shareholders | \$ (1.10)          | \$ 0.06     | \$ (1.13)        | \$ 0.16      |
| <br>  |                    |             |                  |              |
| Weighted average number of shares outstanding (Note 12)   |                    |             |                  |              |
| Basic   | 719,634,633        | 718,974,916 | 719,631,495      | 718,615,375  |
| Diluted   | 719,634,633        | 721,787,199 | 719,631,495      | 720,681,277  |

**LUNDIN MINING CORPORATION**

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

(Unaudited - in thousands of US dollars)

|  | Three months ended  |                  | Six months ended    |                  |
|--|---------------------|------------------|---------------------|------------------|
|  | June 30             |                  | June 30             |                  |
|  | 2016                | 2015             | 2016                | 2015             |
| Net (loss) earnings  | \$ (787,901)        | \$ 53,718        | \$ (803,366)        | \$ 137,043       |
| <b>Other comprehensive (loss) income, net of taxes</b>       |                     |                  |                     |                  |
| Items that may be reclassified subsequently to net earnings: |                     |                  |                     |                  |
| Effects of foreign exchange                                  | (23,877)            | 41,694           | 12,493              | (84,491)         |
| <b>Other comprehensive (loss) income</b>                     | <b>(23,877)</b>     | <b>41,694</b>    | <b>12,493</b>       | <b>(84,491)</b>  |
| <b>Comprehensive (loss) income</b>                           | <b>\$ (811,778)</b> | <b>\$ 95,412</b> | <b>\$ (790,873)</b> | <b>\$ 52,552</b> |
| <b>Comprehensive (loss) income attributable to:</b>          |                     |                  |                     |                  |
| Lundin Mining Corporation shareholders                       | \$ (815,045)        | \$ 88,092        | \$ (800,760)        | \$ 33,696        |
| Non-controlling interests                                    | 3,267               | 7,320            | 9,887               | 18,856           |
| <b>Comprehensive (loss) income</b>                           | <b>\$ (811,778)</b> | <b>\$ 95,412</b> | <b>\$ (790,873)</b> | <b>\$ 52,552</b> |

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

## LUNDIN MINING CORPORATION

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - in thousands of US dollars, except for shares)

|                                   | Number of<br>shares | Share<br>capital    | Contributed<br>surplus | Accumulated<br>other<br>comprehensive<br>loss | (Deficit)<br>Retained<br>earnings | Non-<br>controlling<br>interests | Total               |
|-----------------------------------|---------------------|---------------------|------------------------|---|-----------------------------------|----------------------------------|---------------------|
| Balance, December 31, 2015        | 719,628,357         | \$ 4,107,469        | \$ 49,112              | \$ (308,819)                                  | \$ (33,975)                       | \$ 433,824                       | \$ 4,247,611        |
| Distributions                     | -                   | -                   | -                      | -   | -                                 | (2,000)                          | (2,000)             |
| Exercise of share-based awards    | 12,600              | 51                  | (51)                   | -   | -                                 | -                                | -                   |
| Share-based compensation          | -                   | -                   | 3,343                  | -   | -                                 | -                                | 3,343               |
| Net loss                          | -                   | -                   | -                      | -   | (813,253)                         | 9,887                            | (803,366)           |
| Other comprehensive income        | -                   | -                   | -                      | 12,493  | -                                 | -                                | 12,493              |
| Total comprehensive income (loss) | -                   | -                   | -                      | 12,493  | (813,253)                         | 9,887                            | (790,873)           |
| <b>Balance, June 30, 2016</b>     | <b>719,640,957</b>  | <b>\$ 4,107,520</b> | <b>\$ 52,404</b>       | <b>\$ (296,326)</b>                           | <b>\$ (847,228)</b>               | <b>\$ 441,711</b>                | <b>\$ 3,458,081</b> |
| 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    | 1,332,184           | 7,231               | (2,759)                | -   | -                                 | -                                | 4,472               |
| Share-based compensation          | -                   | -                   | 4,047                  | -   | -                                 | -                                | 4,047               |
| Deferred tax adjustment           | -                   | 632                 | -                      | -   | -                                 | -                                | 632                 |
| Net earnings                      | -                   | -                   | -                      | -   | 118,187                           | 18,856                           | 137,043             |
| Other comprehensive loss          | -                   | -                   | -                      | (84,491)                                      | -                                 | -                                | (84,491)            |
| Total comprehensive (loss) income | -                   | -                   | -                      | (84,491)                                      | 118,187                           | 18,856                           | 52,552              |
| Balance, June 30, 2015            | 719,500,357         | \$ 4,106,901        | \$ 46,309              | \$ (283,514)                                  | \$ 378,296                        | \$ 440,385                       | \$ 4,688,377        |

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

## LUNDIN MINING CORPORATION

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited - in thousands of US dollars)

|   | Three months ended |            | Six months ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30            |            | June 30          |            |
|   | 2016               | 2015       | 2016             | 2015       |
| <b>Cash provided by (used in)</b>                       |                    |            |                  |            |
| <b>Operating activities</b>                             |                    |            |                  |            |
| Net (loss) earnings                                     | \$ (787,901)       | \$ 53,718  | \$ (803,366)     | \$ 137,043 |
| Items not involving cash and other adjustments          |                    |            |                  |            |
| Depreciation, depletion and amortization                | 110,567            | 152,851    | 230,141          | 309,926    |
| Share-based compensation                                | 1,654              | 1,940      | 3,343            | 3,978      |
| (Income) loss from equity investment in associates      | (1,200)            | (9,109)    | 4,086            | (20,700)   |
| Unrealized foreign exchange (gain) loss                 | (562)              | 3,620      | 1,515            | 3,471      |
| Deferred tax recovery                                   | 2,110              | (14,641)   | (14,298)         | (21,685)   |
| Recognition of deferred revenue                         | (11,346)           | (16,543)   | (22,200)         | (35,434)   |
| Reclamation and closure provisions                      | 132                | -          | 1,117            | -          |
| Finance costs   | 21,653             | 23,131     | 39,931           | 45,696     |
| Impairment of investment in associates                  | 772,114            | -          | 772,114          | -          |
| Other   | 224                | 2,968      | 1,095            | 2,991      |
| Reclamation payments                                    | (6,758)            | (1,053)    | (7,073)          | (2,125)    |
| Pension payments  | (330)              | (348)      | (673)            | (713)      |
| Changes in long-term inventory                          | (14,761)           | (8,953)    | (35,936)         | (14,603)   |
| Changes in non-cash working capital items (Note 22)     | 67,585             | 75,092     | 26,263           | 78,803     |
|   | 153,181            | 262,673    | 196,059          | 486,648    |
| <b>Investing activities</b>                             |                    |            |                  |            |
| Investment in mineral properties, plant and equipment   | (38,824)           | (78,758)   | (86,344)         | (142,678)  |
| Distributions from associates (Note 7)                  | 18,525             | 6,697      | 21,705           | 17,004     |
| Restricted funds movement                               | 1,030              | -          | 3,113            | 12,848     |
| Proceeds from sale of marketable securities, net        | 28                 | -          | 1,621            | -          |
| Other   | 415                | (777)      | 594              | 5,730      |
|   | (18,826)           | (72,838)   | (59,311)         | (107,096)  |
| <b>Financing activities</b>                             |                    |            |                  |            |
| Interest paid   | (38,344)           | (38,781)   | (38,909)         | (40,276)   |
| Distributions to non-controlling interests              | -                  | (12,000)   | (2,000)          | (12,000)   |
| Proceeds from common shares issued                      | -                  | 3,744      | -                | 4,472      |
| Long-term debt repayments                               | (328)              | (425)      | (482)            | (845)      |
| Other   | (540)              | -          | (674)            | (134)      |
|   | (39,212)           | (47,462)   | (42,065)         | (48,783)   |
| Effect of foreign exchange on cash balances             | 1,727              | 9,631      | 6,424            | 1,098      |
| Increase in cash and cash equivalents during the period | 96,870             | 152,004    | 101,107          | 331,867    |
| Cash and cash equivalents, beginning of period          | 560,748            | 354,655    | 556,511          | 174,792    |
| Cash and cash equivalents, end of period                | \$ 657,618         | \$ 506,659 | \$ 657,618       | \$ 506,659 |

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

# LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2016 and 2015

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

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## 1. NATURE OF OPERATIONS

Lundin Mining Corporation (the "Company") is a diversified Canadian base metals mining company. The Company's 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 and the Zinkgruvan zinc/lead mine located in Sweden. 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 SIGNIFICANT ACCOUNTING POLICIES

### (i) Basis of presentation and measurement

The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting including IAS 34 *Interim financial reporting*. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015.

The Company's presentation currency is US dollars. Reference herein of \$ or USD is to US dollars. Reference of C\$ is to Canadian dollars, reference of SEK is to Swedish Krona, reference to CLP is to Chilean pesos and € refers to the Euro.

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on July 27, 2016.

### (ii) Critical accounting estimates and judgments

Areas of judgment that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2015.

### (iii) Accounting principles

The accounting policies followed in these condensed interim financial statements are consistent with those disclosed in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2015.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2016 and 2015

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

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### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

|                     | <b>June 30,<br/>2016</b> | December 31,<br>2015 |
|---------------------|--------------------------|----------------------|
| Cash                | \$ 512,940               | \$ 438,142           |
| Short-term deposits | 144,678                  | 118,369              |
|                     | <b>\$ 657,618</b>        | <b>\$ 556,511</b>    |

### 4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

|                   | <b>June 30,<br/>2016</b> | December 31,<br>2015 |
|-------------------|--------------------------|----------------------|
| Trade receivables | \$ 158,722               | \$ 141,094           |
| Value added tax   | 16,726                   | 21,321               |
| Other receivables | 9,784                    | 12,593               |
| Prepaid expenses  | 14,960                   | 17,186               |
|                   | <b>\$ 200,192</b>        | <b>\$ 192,194</b>    |

### 5. INVENTORIES

Inventories are comprised of the following:

|                        | <b>June 30,<br/>2016</b> | December 31,<br>2015 |
|------------------------|--------------------------|----------------------|
| Ore stockpiles         | \$ 24,037                | \$ 26,446            |
| Concentrate stockpiles | 25,758                   | 29,197               |
| Materials and supplies | 83,706                   | 89,103               |
|                        | <b>\$ 133,501</b>        | <b>\$ 144,746</b>    |

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2016 and 2015

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

### 6. MINERAL PROPERTIES, PLANT AND EQUIPMENT

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

| Cost                        | Mineral properties  | Plant and equipment | Exploration properties | Assets under construction | Total               |
|-----------------------------|---------------------|---------------------|------------------------|---------------------------|---------------------|
| As at December 31, 2014     | \$ 3,087,148        | \$ 2,031,502        | \$ 8,687               | \$ 99,093                 | \$ 5,226,430        |
| Additions                   | 71,612              | (813)               | -                      | 65,468                    | 136,267             |
| Disposals and transfers     | 12,258              | 32,012              | -                      | (57,243)                  | (12,973)            |
| Effects of foreign exchange | (113,261)           | (52,445)            | (679)                  | (2,266)                   | (168,651)           |
| As at June 30, 2015         | 3,057,757           | 2,010,256           | 8,008                  | 105,052                   | 5,181,073           |
| Additions                   | 58,033              | 4,622               | -                      | 70,843                    | 133,498             |
| Impairment                  | (145,959)           | (662)               | (3,861)                | (2,047)                   | (152,529)           |
| Disposals and transfers     | 26,622              | 49,251              | -                      | (89,980)                  | (14,107)            |
| Effects of foreign exchange | (35,733)            | (16,329)            | -                      | (922)                     | (52,984)            |
| As at December 31, 2015     | 2,960,720           | 2,047,138           | 4,147                  | 82,946                    | 5,094,951           |
| Additions                   | 26,784              | 2,214               | -                      | 61,855                    | 90,853              |
| Disposals and transfers     | (49)                | 13,074              | -                      | (15,467)                  | (2,442)             |
| Effects of foreign exchange | 14,646              | 8,932               | (143)                  | (77)                      | 23,358              |
| <b>As at June 30, 2016</b>  | <b>\$ 3,002,101</b> | <b>\$ 2,071,358</b> | <b>\$ 4,004</b>        | <b>\$ 129,257</b>         | <b>\$ 5,206,720</b> |

| Accumulated depreciation, depletion and amortization | Mineral properties  | Plant and equipment | Exploration properties | Assets under construction | Total               |
|--|---------------------|---------------------|------------------------|---------------------------|---------------------|
| As at December 31, 2014                              | \$ 945,313          | \$ 353,826          | \$ -                   | \$ -                      | \$ 1,299,139        |
| Depreciation   | 177,227             | 132,699             | -                      | -                         | 309,926             |
| Disposals and transfers                              | (2,099)             | (6,169)             | -                      | -                         | (8,268)             |
| Effects of foreign exchange                          | (65,274)            | (24,866)            | -                      | -                         | (90,140)            |
| As at June 30, 2015                                  | 1,055,167           | 455,490             | -                      | -                         | 1,510,657           |
| Depreciation   | 168,853             | 102,668             | -                      | -                         | 271,521             |
| Disposals and transfers                              | 2,099               | (14,387)            | -                      | -                         | (12,288)            |
| Effects of foreign exchange                          | (20,980)            | (8,670)             | -                      | -                         | (29,650)            |
| As at December 31, 2015                              | 1,205,139           | 535,101             | -                      | -                         | 1,740,240           |
| Depreciation   | 135,840             | 107,684             | -                      | -                         | 243,524             |
| Disposals and transfers                              | -                   | (516)               | -                      | -                         | (516)               |
| Effects of foreign exchange                          | 8,090               | 4,103               | -                      | -                         | 12,193              |
| <b>As at June 30, 2016</b>                           | <b>\$ 1,349,069</b> | <b>\$ 646,372</b>   | <b>\$ -</b>            | <b>\$ -</b>               | <b>\$ 1,995,441</b> |

| Net book value             | Mineral properties  | Plant and equipment | Exploration properties | Assets under construction | Total               |
|----------------------------|---------------------|---------------------|------------------------|---------------------------|---------------------|
| As at December 31, 2015    | \$ 1,755,581        | \$ 1,512,037        | \$ 4,147               | \$ 82,946                 | \$ 3,354,711        |
| <b>As at June 30, 2016</b> | <b>\$ 1,653,032</b> | <b>\$ 1,424,986</b> | <b>\$ 4,004</b>        | <b>\$ 129,257</b>         | <b>\$ 3,211,279</b> |

During the three and six months ended June 30, 2016, the Company capitalized \$3.2 million (2015 - \$24.1 million) and \$8.1 million (2015 - \$45.7 million), respectively, of deferred stripping costs to mineral properties.

Included in the mineral properties balance as at June 30, 2016 and December 31, 2015 are non-depreciable assets of \$204.9 million and \$196.7 million, respectively.



## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and six months ended June 30, 2016 and 2015

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

Depreciation, depletion and amortization is comprised of:

|  | Three months ended |            | Six months ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30            |            | June 30          |            |
|  | 2016               | 2015       | 2016             | 2015       |
| Operating costs                          | \$ 110,498         | \$ 152,760 | \$ 229,997       | \$ 309,744 |
| General and administrative expenses      | 69                 | 91         | 144              | 182        |
| Depreciation, depletion and amortization | \$ 110,567         | \$ 152,851 | \$ 230,141       | \$ 309,926 |

### 7. INVESTMENT IN ASSOCIATES

|                               | Tenke               |                  | Freeport            |  | Total |
|-------------------------------|---------------------|------------------|---------------------|--|-------|
|                               | Fungurume           |                  | Cobalt              |  |       |
| As at December 31, 2014       | \$ 1,961,200        | \$ 97,999        | \$ 2,059,199        |  |       |
| Distributions                 | (14,100)            | (2,904)          | (17,004)            |  |       |
| Share of equity income        | 20,279              | 421              | 20,700              |  |       |
| As at June 30, 2015           | 1,967,379           | 95,516           | 2,062,895           |  |       |
| Distributions                 | (10,470)            | (5,465)          | (15,935)            |  |       |
| Share of equity income (loss) | 4,338               | (475)            | 3,863               |  |       |
| As at December 31, 2015       | 1,961,247           | 89,576           | 2,050,823           |  |       |
| Distributions                 | (15,405)            | (6,300)          | (21,705)            |  |       |
| Share of equity loss          | (3,664)             | (422)            | (4,086)             |  |       |
| Impairment (Note 9)           | (772,114)           | -                | (772,114)           |  |       |
| <b>As at June 30, 2016</b>    | <b>\$ 1,170,064</b> | <b>\$ 82,854</b> | <b>\$ 1,252,918</b> |  |       |

### 8. INCOME TAXES

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

### 9. ASSET 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.

#### Investment in Tenke Fungurume

During the second quarter of 2016, the Company identified an impairment indicator, specifically, the Freeport McMoran Ltd. ("FCX") May 9, 2016 announcement which stated it had entered into a definitive agreement to sell its interests in TF Holdings Limited ("TFHL") to China Molybdenum Co. Ltd ("CMOC") for \$2.65 billion in cash and contingent consideration up to \$120 million based upon future copper and cobalt prices to 2019 ("FCX Sale").

In previous periods, the Company used a fair value less cost to dispose model ("FVLTD" – a level 3 measurement) which assumed an expansion scenario. The expansion scenario contemplated the mining and processing of the Tenke Fungurume mine's mixed sulphide ores in addition to the oxide ores it is currently mining ("expansion scenario"). The prospective change in operator presents a level of uncertainty in respect of the nature and timing

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of this expansion scenario. During the quarter ended June 30, 2016, the Company calculated the recoverable amount for TFHL using an operating scenario where no future investments are made for the processing of the mixed sulphide resource ("base case scenario") for its cash flow projections. A separate valuation was performed for the in-situ value of the mixed sulphide resource which was benchmarked using third-party market information.

The recoverable amount is determined using cash flow projections based on life-of-mine financial plans. The assumptions used in cash flow projections consist of forecasted commodity prices, reserve and resource quantities, operating costs, capital expenditures, reclamation and other closure costs and discount rates. Commodity prices used in the cash flow projections are within the range of current market consensus observed during the second quarter of 2016. The valuation of recoverable amount is most sensitive to changes in metal prices and discount rates. Operating costs and capital expenditure included in the cash flow projections are based on approved operating plans.

The Company has assessed the recoverable amount to be lower than the carrying value; as such, an impairment loss of \$772.1 million was recognized. The recoverable amount after the impairment, based on FVLTD, is \$1,170.1 million.

The Company prepared a sensitivity analysis on the 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 \$82.0 million and \$38.0 million, respectively.

### Key assumptions for Tenke Fungurume

|                         | 2016              | 2015            |
|-------------------------|-------------------|-----------------|
| Copper price \$/lb      | \$2.20 – \$3.00   | \$2.30 – \$3.00 |
| Cobalt price \$/lb      | \$11.00 – \$12.40 | \$12.50         |
| After-tax discount rate | 10%               | 10%             |
| Life of mine            | 25 years          | 45 years        |

### Investment in Freeport Cobalt

In relation to the FCX Sale, FCX has agreed to negotiate exclusively with CMOC to enter into definitive agreements to sell its ownership interests in Freeport Cobalt for \$100 million.

The Company has identified this potential sale as an impairment indicator. The Company has calculated the recoverable amount by preparing cash flow projections for the cobalt refinery using a 9% after-tax discount rate. In preparing the impairment test, the Company has concluded that the recoverable amount exceeds the carrying value and that no impairment exists. The most significant assumption in the cash flow model is the discount rate. A 1% change in the discount rate would not have an impact on the result of the impairment assessment.

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### 10. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

|                             | June 30,<br>2016  | December 31,<br>2015 |
|-----------------------------|-------------------|----------------------|
| Trade payables              | \$ 97,059         | \$ 122,195           |
| Unbilled goods and services | 70,785            | 62,100               |
| Payroll obligations         | 42,384            | 41,427               |
| Royalty payable             | 6,461             | 6,238                |
|                             | <b>\$ 216,689</b> | <b>\$ 231,960</b>    |

### 11. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

|                             |                   |
|-----------------------------|-------------------|
| As at December 31, 2014     | \$ 667,342        |
| Recognition of revenue      | (35,434)          |
| Effects of foreign exchange | 4,602             |
| As at June 30, 2015         | 636,510           |
| Stream agreement proceeds   | 7,500             |
| Recognition of revenue      | (27,600)          |
| Effects of foreign exchange | (7,914)           |
| As at December 31, 2015     | 608,496           |
| Recognition of revenue      | (22,200)          |
| Effects of foreign exchange | (297)             |
| As at June 30, 2016         | 585,999           |
| Less: current portion       | 51,895            |
| <b>Long-term portion</b>    | <b>\$ 534,104</b> |

### 12. DILUTED WEIGHTED AVERAGE NUMBER OF SHARES

The total incremental shares added to the basic weighted average number of common shares outstanding to arrive at the fully diluted number of shares is comprised of nil shares for the three and six months ended June 30, 2016 (Q2 2015 - 2,812,283 shares; year-to-date 2015 - 2,065,902 shares). The incremental shares relate to in-the-money outstanding stock options and outstanding restricted share units ("SU"). Stock options and SUs were not included in the computation of diluted loss per common share for the three and six months ended June 30, 2016 as their inclusion would be anti-dilutive. During the quarter ended June 30, 2016, the Company granted 4,100 SUs (2015 - nil) to employees which vest over three years.

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### 13. OPERATING COSTS

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

|   | Three months ended |            | Six months ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30            |            | June 30          |            |
|   | 2016               | 2015       | 2016             | 2015       |
| Direct mine and mill costs                        | \$ 182,006         | \$ 220,974 | \$ 371,901       | \$ 444,811 |
| Transportation                                    | 17,543             | 25,223     | 35,775           | 47,011     |
| Royalties   | 2,659              | 5,391      | 4,822            | 10,393     |
|   | 202,208            | 251,588    | 412,498          | 502,215    |
| Depreciation, depletion and amortization (Note 6) | 110,498            | 152,760    | 229,997          | 309,744    |
| Total operating costs                             | \$ 312,706         | \$ 404,348 | \$ 642,495       | \$ 811,959 |

### 14. EMPLOYEE BENEFITS

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

|  | Three months ended |           | Six months ended |            |
|--|--------------------|-----------|------------------|------------|
|  | June 30            |           | June 30          |            |
|  | 2016               | 2015      | 2016             | 2015       |
| Operating costs                              |                    |           |                  |            |
| Wages and benefits                           | \$ 53,658          | \$ 55,973 | \$ 103,991       | \$ 107,790 |
| Pension benefits                             | 330                | 348       | 673              | 713        |
| Share-based compensation                     | (268)              | 651       | 300              | 1,889      |
|  | 53,720             | 56,972    | 104,964          | 110,392    |
| General and administrative expenses          |                    |           |                  |            |
| Wages and benefits                           | 2,761              | 3,077     | 6,493            | 5,976      |
| Pension benefits                             | 133                | 124       | 265              | 355        |
| Share-based compensation                     | 1,983              | 1,209     | 2,949            | 1,989      |
|  | 4,877              | 4,410     | 9,707            | 8,320      |
| General exploration and business development |                    |           |                  |            |
| Wages and benefits                           | 1,775              | 2,526     | 4,150            | 5,205      |
| Pension benefits                             | 11                 | 11        | 22               | 22         |
| Share-based compensation                     | (64)               | 80        | 94               | 100        |
|  | 1,722              | 2,617     | 4,266            | 5,327      |
| Other  |                    |           |                  |            |
| Wages and benefits                           | 2,252              | -         | 2,734            | -          |
| Total employee benefits                      | \$ 62,571          | \$ 63,999 | \$ 121,671       | \$ 124,039 |

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### 15. GENERAL EXPLORATION AND BUSINESS DEVELOPMENT

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

|                                   | Three months ended |           | Six months ended |           |
|-----------------------------------|--------------------|-----------|------------------|-----------|
|                                   | June 30            |           | June 30          |           |
|                                   | 2016               | 2015      | 2016             | 2015      |
| General exploration               | \$ 13,729          | \$ 12,695 | \$ 24,437        | \$ 22,857 |
| Project and corporate development | 2,665              | 1,909     | 4,778            | 3,649     |
|                                   | \$ 16,394          | \$ 14,604 | \$ 29,215        | \$ 26,506 |

### 16. FINANCE COSTS

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

|   | Three months ended |                    | Six months ended   |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | June 30            |                    | June 30            |                    |
|   | 2016               | 2015               | 2016               | 2015               |
| Interest income   | \$ 297             | \$ 227             | \$ 485             | \$ 279             |
| Interest expense and bank fees                          | (21,181)           | (21,286)           | (40,941)           | (43,149)           |
| Accretion expense on reclamation provisions             | (1,472)            | (1,220)            | (2,915)            | (2,415)            |
| Unrealized loss on revaluation of marketable securities | (144)              | (137)              | (523)              | (1,441)            |
| Unrealized gain on revaluation of currency options      | 455                | -                  | 3,554              | -                  |
| Other   | 392                | (715)              | 409                | 1,030              |
| <b>Total finance costs</b>                              | <b>\$ (21,653)</b> | <b>\$ (23,131)</b> | <b>\$ (39,931)</b> | <b>\$ (45,696)</b> |

### 17. OTHER INCOME AND EXPENSES

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

|                                     | Three months ended |                   | Six months ended  |                  |
|-------------------------------------|--------------------|-------------------|-------------------|------------------|
|                                     | June 30            |                   | June 30           |                  |
|                                     | 2016               | 2015              | 2016              | 2015             |
| Foreign exchange (loss) gain        | \$ 2,941           | \$ (6,525)        | \$ (1,907)        | \$ 10,770        |
| Other income                        | 503                | -                 | 1,523             | 3,848            |
| Other expenses                      | (2,806)            | (1,862)           | (6,964)           | (3,568)          |
| <b>Total other income (expense)</b> | <b>\$ 638</b>      | <b>\$ (8,387)</b> | <b>\$ (7,348)</b> | <b>\$ 11,050</b> |

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

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### 18. COMMITMENTS

The Company has the following capital commitments as at June 30, 2016:

|              |                  |
|--------------|------------------|
| 2016         | \$ 44,934        |
| 2017         | 5,538            |
| 2018         | 5,106            |
| 2019         | 697              |
| <b>Total</b> | <b>\$ 56,275</b> |

### 19. SEGMENTED INFORMATION

The Company is engaged in mining, exploration and development of mineral properties, primarily in Chile, USA, Portugal, Sweden 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 are responsible for allocating resources and assessing performance of the operating segments. Aguablanca mine is grouped in the other segment. Prior year comparatives have been reclassified accordingly.

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### For the three months ended June 30, 2016

|  | Tenke               |              |                         |                      |                  |             | Total        |
|--|---------------------|--------------|-------------------------|----------------------|------------------|-------------|--------------|
|  | Candelaria<br>Chile | Eagle<br>USA | Neves-Corvo<br>Portugal | Zinkgruvan<br>Sweden | Fungurume<br>DRC | Other       |              |
| Sales  | \$ 175,737          | \$ 57,999    | \$ 69,674               | \$ 38,906            | \$ -             | \$ -        | \$ 342,316   |
| Operating costs                              | (100,330)           | (28,795)     | (54,208)                | (18,306)             | -                | (569)       | (202,208)    |
| General and administrative expenses          | -                   | -            | -                       | -                    | -                | (5,592)     | (5,592)      |
| Operating earnings (loss) <sup>1</sup>       | 75,407              | 29,204       | 15,466                  | 20,600               | -                | (6,161)     | 134,516      |
| Depreciation, depletion and amortization     | (49,239)            | (33,324)     | (21,876)                | (5,548)              | -                | (580)       | (110,567)    |
| General exploration and business development | (3,937)             | (8,721)      | (1,979)                 | (263)                | -                | (1,494)     | (16,394)     |
| Income from equity investment in associates  | -                   | -            | -                       | -                    | 727              | 473         | 1,200        |
| Finance costs                                | (516)               | (207)        | (3)                     | (148)                | -                | (20,779)    | (21,653)     |
| Impairment of investment in associates       | -                   | -            | -                       | -                    | (772,114)        | -           | (772,114)    |
| Other income (expenses)                      | 2,421               | (67)         | 2,316                   | 2,405                | -                | (6,437)     | 638          |
| Income tax (expense) recovery                | (3,211)             | -            | 4,068                   | (3,627)              | -                | (757)       | (3,527)      |
| Net earnings (loss)                          | \$ 20,925           | \$ (13,115)  | \$ (2,008)              | \$ 13,419            | \$ (771,387)     | \$ (35,735) | \$ (787,901) |
| Capital expenditures                         | \$ 21,019           | \$ 1,476     | \$ 8,144                | \$ 8,121             | \$ -             | \$ 64       | \$ 38,824    |

### For the six months ended June 30, 2016

|  | Tenke               |              |                         |                      |                  |             | Total        |
|--|---------------------|--------------|-------------------------|----------------------|------------------|-------------|--------------|
|  | Candelaria<br>Chile | Eagle<br>USA | Neves-Corvo<br>Portugal | Zinkgruvan<br>Sweden | Fungurume<br>DRC | Other       |              |
| Sales  | \$ 382,439          | \$ 111,222   | \$ 140,987              | \$ 79,267            | \$ -             | \$ (2,030)  | \$ 711,885   |
| Operating costs                              | (207,716)           | (59,786)     | (104,555)               | (39,338)             | -                | (1,103)     | (412,498)    |
| General and administrative expenses          | -                   | -            | -                       | -                    | -                | (13,134)    | (13,134)     |
| Operating earnings (loss) <sup>1</sup>       | 174,723             | 51,436       | 36,432                  | 39,929               | -                | (16,267)    | 286,253      |
| Depreciation, depletion and amortization     | (110,626)           | (63,836)     | (43,288)                | (11,280)             | -                | (1,111)     | (230,141)    |
| General exploration and business development | (6,103)             | (15,429)     | (3,686)                 | (566)                | -                | (3,431)     | (29,215)     |
| Loss from equity investment in associates    | -                   | -            | -                       | -                    | (3,664)          | (422)       | (4,086)      |
| Finance costs                                | (1,192)             | (415)        | (372)                   | (299)                | -                | (37,653)    | (39,931)     |
| Impairment of investment in associates       | -                   | -            | -                       | -                    | (772,114)        | -           | (772,114)    |
| Other income (expenses)                      | 1,028               | (31)         | (1,560)                 | (144)                | -                | (6,641)     | (7,348)      |
| Income tax (expense) recovery                | (2,710)             | -            | 7,834                   | (5,892)              | -                | (6,016)     | (6,784)      |
| Net earnings (loss)                          | \$ 55,120           | \$ (28,275)  | \$ (4,640)              | \$ 21,748            | \$ (775,778)     | \$ (71,541) | \$ (803,366) |
| Capital expenditures                         | \$ 49,702           | \$ 3,046     | \$ 16,177               | \$ 17,123            | \$ -             | \$ 296      | \$ 86,344    |

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

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### For the three months ended June 30, 2015

|  | Candelaria | Eagle    | Neves-Corvo | Zinkgruvan | Tenke<br>Fungurume | Other       | Total      |
|--|------------|----------|-------------|------------|--------------------|-------------|------------|
|  | Chile      | USA      | Portugal    | Sweden     | DRC                |             |            |
| Sales  | \$ 256,524 | 85,032   | 93,673      | \$ 41,301  | \$ -               | \$ 24,749   | \$ 501,279 |
| Operating costs                                    | (115,186)  | (44,735) | (59,622)    | (18,157)   | -                  | (13,888)    | (251,588)  |
| General and administrative expenses                | -          | -        | -           | -          | -                  | (6,681)     | (6,681)    |
| Operating earnings (loss) <sup>1</sup>             | 141,338    | 40,297   | 34,051      | 23,144     | -                  | 4,180       | 243,010    |
| Depreciation, depletion and amortization           | (80,681)   | (35,300) | (23,476)    | (6,199)    | -                  | (7,195)     | (152,851)  |
| General exploration and business development       | (6,424)    | (2,724)  | (1,359)     | (294)      | -                  | (3,803)     | (14,604)   |
| Income (loss) from equity investment in associates | -          | -        | -           | -          | 10,538             | (1,429)     | 9,109      |
| Finance income (costs)                             | (506)      | (200)    | (1,094)     | (261)      | -                  | (21,070)    | (23,131)   |
| Other (expenses) income                            | (2,372)    | 6        | (6,413)     | (1,556)    | -                  | 1,948       | (8,387)    |
| Income tax (expense) recovery                      | (7,363)    | 1,948    | 8,176       | (3,163)    | -                  | 974         | 572        |
| Net earnings (loss)                                | \$ 43,992  | 4,027    | 9,885       | \$ 11,671  | \$ 10,538          | \$ (26,395) | \$ 53,718  |
| Capital expenditures                               | \$ 51,813  | 3,319    | 12,389      | \$ 6,242   | \$ -               | \$ 4,995    | \$ 78,758  |

### For the six months ended June 30, 2015

|  | Candelaria | Eagle    | Neves- Corvo | Zinkgruvan | Tenke<br>Fungurume | Other       | Total        |
|--|------------|----------|--------------|------------|--------------------|-------------|--------------|
|  | Chile      | USA      | Portugal     | Sweden     | DRC                |             |              |
| Sales  | \$ 548,714 | 173,423  | 180,296      | \$ 79,165  | \$ -               | \$ 51,209   | \$ 1,032,807 |
| Operating costs                              | (243,686)  | (76,993) | (115,532)    | (39,417)   | -                  | (26,587)    | (502,215)    |
| General and administrative expenses          | -          | -        | -            | -          | -                  | (13,621)    | (13,621)     |
| Operating earnings (loss) <sup>1</sup>       | 305,028    | 96,430   | 64,764       | 39,748     | -                  | 11,001      | 516,971      |
| Depreciation, depletion and amortization     | (165,801)  | (72,721) | (47,111)     | (11,724)   | -                  | (12,569)    | (309,926)    |
| General exploration and business development | (11,207)   | (4,411)  | (2,881)      | (572)      | -                  | (7,435)     | (26,506)     |
| Income from equity investment in associates  | -          | -        | -            | -          | 20,279             | 421         | 20,700       |
| Finance (costs) income                       | (1,023)    | (399)    | 170          | (1,104)    | -                  | (43,340)    | (45,696)     |
| Other income                                 | 3,034      | 17       | 6,033        | 1,225      | -                  | 741         | 11,050       |
| Income tax (expense) recovery                | (21,887)   | (1,511)  | 5,323        | (5,813)    | -                  | (5,662)     | (29,550)     |
| Net earnings (loss)                          | \$ 108,144 | 17,405   | 26,298       | \$ 21,760  | \$ 20,279          | \$ (56,843) | \$ 137,043   |
| Capital expenditures                         | \$ 81,107  | 14,799   | 22,209       | \$ 13,270  | \$ -               | \$ 11,293   | \$ 142,678   |

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



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

|        | Three months ended |            | Six months ended |              |
|--------|--------------------|------------|------------------|--------------|
|        | June 30            |            | June 30          |              |
|        | 2016               | 2015       | 2016             | 2015         |
| Copper | \$ 218,901         | \$ 331,853 | \$ 477,068       | \$ 685,880   |
| Nickel | 30,474             | 65,729     | 53,214           | 141,415      |
| Zinc   | 46,176             | 47,237     | 85,401           | 86,912       |
| Gold   | 23,181             | 28,871     | 46,351           | 59,677       |
| Lead   | 10,801             | 9,288      | 25,387           | 21,501       |
| Silver | 8,749              | 9,231      | 17,451           | 20,543       |
| Other  | 4,034              | 9,070      | 7,013            | 16,879       |
|        | \$ 342,316         | \$ 501,279 | \$ 711,885       | \$ 1,032,807 |

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

|               | Three months ended |            | Six months ended |              |
|---------------|--------------------|------------|------------------|--------------|
|               | June 30            |            | June 30          |              |
|               | 2016               | 2015       | 2016             | 2015         |
| Europe        | \$ 174,644         | 217,027    | \$ 390,528       | \$ 445,769   |
| Asia          | 108,665            | 211,198    | 204,784          | 418,656      |
| North America | 37,487             | 54,833     | 76,318           | 113,968      |
| South America | 21,520             | 18,221     | 40,255           | 54,414       |
|               | \$ 342,316         | \$ 501,279 | \$ 711,885       | \$ 1,032,807 |

## 20. 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 7).
- b) **Key management personnel** - The Company has identified its directors and certain senior officers as its key management personnel. The employee benefits for key management personnel are as follows:

|                          | Three months ended |          | Six months ended |          |
|--------------------------|--------------------|----------|------------------|----------|
|                          | June 30            |          | June 30          |          |
|                          | 2016               | 2015     | 2016             | 2015     |
| Wages and salaries       | \$ 1,681           | \$ 1,572 | \$ 3,115         | \$ 3,038 |
| Pension benefits         | 29                 | 31       | 81               | 62       |
| Share-based compensation | 640                | 530      | 1,280            | 1,175    |
|                          | \$ 2,350           | \$ 2,133 | \$ 4,476         | \$ 4,275 |

- c) **Other related parties** - For the three and six months ended June 30, 2016, the Company paid \$0.1 million and \$0.4 million (Q2 2015 - \$0.2 million; year-to-date 2015 - \$0.4 million), respectively, to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company.

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### 21. 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 June 30, 2016 and December 31, 2015:

|                                   | Level | June 30, 2016     |                     | December 31, 2015 |                   |
|-----------------------------------|-------|-------------------|---------------------|-------------------|-------------------|
|                                   |       | Carrying value    | Fair value          | Carrying value    | Fair value        |
| <b>Financial assets</b>           |       |                   |                     |                   |                   |
| Cash and cash equivalents         | 1     | \$ 657,618        | \$ 657,618          | \$ 556,511        | \$ 556,511        |
| Restricted funds                  | 1     | 51,963            | 51,963              | 53,818            | 53,818            |
| Trade receivables                 | 2     | 137,664           | 137,664             | 141,207           | 141,207           |
| Marketable securities - shares    | 1     | 2,169             | 2,169               | 3,337             | 3,337             |
| Currency options                  | 2     | 6,499             | 6,499               | 2,944             | 2,944             |
|                                   |       | <u>\$ 855,913</u> | <u>\$ 855,913</u>   | <u>\$ 757,817</u> | <u>\$ 757,817</u> |
| Available for sale                |       |                   |                     |                   |                   |
| Marketable securities - shares    | 1     | \$ 31             | \$ 31               | \$ 867            | \$ 867            |
|                                   |       | <u>31</u>         | <u>31</u>           | <u>867</u>        | <u>867</u>        |
| <b>Financial liabilities</b>      |       |                   |                     |                   |                   |
| Amortized cost                    |       |                   |                     |                   |                   |
| Long-term debt and finance leases | 1,2   | \$ 982,142        | \$ 1,031,823        | \$ 979,116        | \$ 937,865        |
| Other long-term liabilities       | 2     | 11,932            | 11,932              | 13,815            | 13,815            |
|                                   |       | <u>\$ 994,074</u> | <u>\$ 1,043,755</u> | <u>\$ 992,931</u> | <u>\$ 951,680</u> |

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 positive pricing adjustments of \$3.7 million in sales during the three months ended June 30, 2016 (2015 - \$39.9 million negative price adjustment) and positive pricing adjustments of \$12.2 million in sales during the six months ended June 30, 2016 (2015 - \$67.9 million negative pricing adjustment).

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 condensed interim consolidated financial statements

For the three and six months ended June 30, 2016 and 2015

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

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Long-term debt – 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.

## 22. SUPPLEMENTARY CASH FLOW INFORMATION

|  | Three months ended |           | Six months ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30            |           | June 30          |           |
|  | 2016               | 2015      | 2016             | 2015      |
| Changes in non-cash working capital items consist of:      |                    |           |                  |           |
| Trade receivable, inventories and other current assets     | \$ 56,243          | \$ 54,794 | \$ 37,028        | \$ 84,136 |
| Trade payable and other current liabilities                | 11,342             | 20,298    | (10,765)         | (5,333)   |
|  | \$ 67,585          | \$ 75,092 | \$ 26,263        | \$ 78,803 |
| Operating activities included the following cash payments: |                    |           |                  |           |
| Income taxes (refunded) paid                               | \$ (34,197)        | \$ 2,141  | \$ (18,153)      | \$ 40,076 |