

lundin mining

Management's Discussion and Analysis For the year ended December 31, 2010

This management's discussion and analysis has been prepared as of February 23, 2010 and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2010. Those financial statements are prepared in accordance with Canadian generally accepted accounting principles. The Company's reporting currency is United States dollars. Reference herein of \$ is to United States dollars. Reference of C\$ is to Canadian dollars, reference to SEK is to Swedish krona and € refers to the Euro.

About Lundin Mining

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

Cautionary Statement on Forward-Looking Information

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

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Highlights

Operational and Financial Highlights

- Overall, production approximated guidance. Wholly-owned operations: mine production was generally in accordance with expectations, while milling/deliveries fell marginally short owing to the extreme weather in Europe and shaft/crusher availability at Zinkgruvan. Tenke: continues to perform consistently above design capacity and was ahead of expectations.

Production was below the prior year owing to: industrial action at the beginning of 2010 at Neves-Corvo (estimated effect: 10,000 tonnes of copper in concentrate); and the closure of Galmoy in mid-2009.

At Neves-Corvo, mined tonnes were at record levels, which helped to offset the effect of lower head-grade. Zinkgruvan, despite the challenges stemming from a blocked orepass in the first quarter of 2010, exceeded the prior year's record mined tonnes and metal production.

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

	Years ended December 31				
	2010 Actual	2010 Latest Guidance	2009	2008	2007
Copper (tonnes)	80,035	81,200	93,451	97,944	97,120
Zinc (tonnes)	90,129	93,000	101,401	151,157	151,830
Lead (tonnes)	39,568	40,000	43,852	44,799	44,560
Nickel (tonnes)	6,296	6,150	8,029	8,136	3,270
Copper (tonnes)	29,767	28,500	17,325	-	-
Tenke attributable (24.75%)					

- Operating earnings¹ increased by \$83.4 million from \$373.2 million in 2009 to \$456.6 million in 2010. Favourable price and price adjustments (\$212 million effect) and exchange rates (\$15 million) offset the effect of higher unit costs (\$92 million effect), lower sales volumes (\$47 million effect) and closure at Galmoy (\$5 million effect).

Total operating expenses increased \$19.8 million year on year. The higher unit cost effect of \$92 million, reported above, assumes that costs are directly variable to the volume of metal produced and not the tonnes mined and is made up of: Neves-Corvo \$48.6 million; Zinkgruvan \$5.5 million; Aguablanca \$42.2 million; and lower stock-based compensation and general and administrative costs of \$4.5 million. Significant items affecting this are:

- Neves-Corvo:** royalty increase related to increased sales price (\$8.5 million); royalty related to 2008 (\$8.1 million). The remainder of the increase largely reflects around 10,000 tonnes lower metal production owing to strike action at the start of the year, and subsequent additional costs to try and recover lost metal production (10,000 tonnes at a C1 cash cost² of \$1.30/lb is approximately \$29 million);
- Zinkgruvan:** the higher cost relates to increased ore handling (owing to orepass blockages) and plant maintenance;
- Aguablanca:** increased waste removal in accordance with announced plans (\$20.3 million) and lower volume, as reported, related to pit instabilities and suspension of operation.

¹ Operating earnings is a Non-GAAP measure defined as sales, less operating costs, accretion of ARO and other provisions, general and administration costs and stock-based compensation. See page 40 of this MD&A for discussion of Non-GAAP measures.

² Cash cost per pound is a non-GAAP measure reflecting the sum of direct costs and inventory changes less by-product credits.

- Sales for the year were \$849.2 million compared to sales of \$746.0 million last year. Metal price improvements and price adjustments (\$211.8 million) were partially offset by the effect of lower volume: from continuing operations (\$86.6 million); and from closure at Galmoy (\$22.0 million).

Average metal prices in 2010 were 24% to 48% higher than the average for 2009.

- Net income of \$317.1 million (\$0.55 per share) was \$243.4 million ahead of the \$73.7 million (\$0.13 per share) reported in 2009. In addition to higher operating earnings (\$83.4 million), the increase was related to: \$78.3 million higher equity earnings from Tenke; a \$71.7 million difference in the gain/loss on copper price derivatives; \$46.6 million lower depreciation and amortization charges; and \$50.2 million incremental gain on sale of AFS securities and investments.
- Cash flow from operations for the year was \$277.3 million, compared to \$137.4 million for 2009. The increase relates mainly to: higher operating earnings and the normalization of working capital. In 2009, the Company paid \$68 million to customers for settlement of 2008 sales for which provisional payments had been received at higher metal prices. Cash-settled derivatives were \$10 million higher this year than last and approximately \$15 million was paid last year related to the closure of Galmoy. This does not include cash flow related to Tenke which is referred to on page 5.
- Mining operations at Aguablanca were suspended following a major slope failure on the main access ramp caused by heavy rainfall in the second week of December 2010 (see news release dated December 9, 2010 entitled "*Lundin Mining Suspends Full-Scale Pit Operations at Aguablanca Pending Review*").
- Surface exploration drilling focusing on a prospective area close to the Neves-Corvo mine has discovered a new high-grade, copper-rich massive sulphide deposit, "Semblana", one kilometre to the northeast of the Zambujal copper-zinc ore body (see news release dated October 27, 2010 entitled "*Lundin Mining Discovers New Copper Deposit at Neves-Corvo*" and news release dated November 30, 2010 entitled "*Lundin Mining Announces Further High-Grade Copper Results at New Semblana Deposit and Details Exploration Strategy at Neves-Corvo*"). An 80,000 metre surface drilling program is planned for 2011 which is intended to deliver an initial resource estimate for Semblana prior to the end of 2011.

Corporate Highlights

- On January 12, 2011, Inmet Mining Corporation ("Inmet") and Lundin Mining announced that they have entered into an arrangement agreement (the "Arrangement Agreement") to merge and create Symterra Corporation ("Symterra").

Under the terms of the Arrangement Agreement, each Inmet shareholder will receive 3.4918 shares of Symterra and each Lundin Mining shareholder will receive 0.3333 shares of Symterra for each share held.

Completion of the proposed merger is conditional on approval by Inmet and Lundin shareholders and satisfaction of other customary approvals including regulatory, stock exchange and court approvals. The required shareholder approval will be two-thirds of the votes cast by each of the holders of Inmet and Lundin Mining common shares at shareholder meetings held to consider the proposed merger. Shareholder meetings for Inmet and Lundin Mining are scheduled for March 14, 2011.

The Arrangement Agreement includes customary reciprocal deal protections. Each party has agreed not to solicit alternative transactions. Each company has agreed to pay the other a break fee of C\$120 million in certain circumstances. In addition, each company has granted the other a right to match any competing offer.

- During the year, the Company's revolving credit facility agreement was amended, increasing the facility to \$300 million from \$225 million, and extending the term to September 2013. The amended facility provides additional flexibility for future growth projects and reduced carrying costs. The \$300 million revolving credit facility was undrawn at year-end.

- On August 31, 2010, the Company reported its Mineral Reserve and Resource estimates as at June 30, 2010. The full release can be found on the Company's website at www.lundinmining.com.

Tenke Fungurume

- In October 2010, the government of the DRC announced the conclusion of the review of Tenke Fungurume Mining SARL's ("TFM") mining contracts (see news release entitled "*Lundin Announces Successful Completion of Tenke Fungurume Contract Review Process*" and also refer to further details on page 22 of this MD&A).
- The Tenke Fungurume mine is now running consistently above design capacity and, with the procurement of more mine equipment and changes to the mine plan, Freeport is expecting annual copper production to increase from 120,000 tonnes per annum in 2010 to approximately 130,000 tonnes per annum in 2011.

For the year ended December 31, 2010, Tenke produced 120,271 tonnes of copper, and 118,929 tonnes were sold at an average realized price of \$3.45 per pound.

- As at December 31, 2010, the amount outstanding on the Excess Over-run Costs facility ("EOC facility"), related to the Company's proportionate share of the Phase I development at Tenke, was \$108.4 million, a reduction of \$118.7 million during the year (\$40.4 million reduction for the fourth quarter). At present metal prices, it is expected that the EOC will be repaid around mid-year 2011.

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

(US\$ millions)	Years ended Dec 31	
	2010	2009
Cash advances to Tenke	(30.5)	(56.7)
Repayments (draws) on EOC	118.7	(164.2)
Attributable net cash flow	88.2	(220.9)

Financial Position and Financing

- Net cash¹ at December 31, 2010 was \$159.2 million compared to a net debt¹ position of \$49.3 million at the end of 2009.

The increase in net cash during the year was attributable to cash flow from operations plus the proceeds from the sale of AFS securities and investments (\$83.8 million), offset by: investment in mineral property, plant and equipment (\$129.8 million) and Tenke funding obligations (\$30.5 million).

- Cash on hand at December 31, 2010 was \$198.9 million.
- As at February 21, 2011, cash on hand is approximately \$305 million.

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

Fourth Quarter Results

- Copper and zinc production for the quarter was ahead of production for the same quarter in 2009; lead was marginally below owing to lower head-grade and consequent recoveries at Zinkgruvan; and nickel was down owing to the suspension of operations at Aguablanca.
- Operating earnings¹ increased by \$38.8 million from \$152.2 million in the fourth quarter of 2009 to \$191.0 million in the fourth quarter of 2010. This was the highest quarterly result in over three years and was helped by robust metal prices which significantly outweighed lower sales volumes at Aguablanca and higher costs.
- Sales revenue for the quarter was \$309.3 million compared to sales of \$256.7 in the prior corresponding quarter. Metal price improvements and price adjustments (\$73 million, quarter over quarter), were partially offset by lower sales at Aguablanca where a pre-mature pushback in the pit, followed by a suspension of operations, curtailed production.
- Included in net income for the quarter was a gain of \$10.4 million on the sale of AFS securities.
- Cash flow from operations for the quarter was \$68.9 million, compared to \$97.0 million for the corresponding quarter in 2009. The increase in operating earnings was largely offset by an increase in current income tax payments and the overall reduction in cash flow is related to changes in working capital between the quarters. It should be noted that the fourth quarter in 2009 included a number of large non-cash charges.

¹ Operating earnings is a Non-GAAP measure defined as sales, less operating costs, accretion of ARO and other provisions, general and administration costs and stock-based compensation. See page 40 of this MD&A for discussion of Non-GAAP measures.

Fourth Quarter Sales

2010 (\$ millions)	Quarter ended December 31, 2010				
	Copper	Zinc	Nickel	Lead	Total
Sales invoiced at shipment date	207.8	40.5	15.3	20.9	284.5
Adjustments for provisionally priced sales settled during the quarter	12.2	2.6	7.5	0.6	22.9
Period end price adjustments for unfixed sales	19.3	0.2	1.0	1.1	21.6
Sales before TC/RC	239.3	43.3	23.8	22.6	329.0
Other metal sales					6.2
Less: TC/RC					(25.9)
Total Net Sales					309.3
Payable Metal (tonnes)	24,324	17,273	559	8,920	
Realized prices, \$ per pound	\$ 4.46	\$ 1.14	\$ 19.28 ¹	\$ 1.15	
Realized prices, \$ per tonne	\$9,840	\$2,507	\$42,506	\$2,528	

2009 (\$ millions)	Quarter ended December 31, 2009				
	Copper	Zinc*	Nickel	Lead*	Total
Sales invoiced at shipment date	163.2	39.1	35.3	23.5	261.1
Adjustments for provisionally priced sales settled during the quarter	21.6	1.8	2.3	1.5	27.2
Period end price adjustments for unfixed sales	1.8	1.0	3.1	(1.2)	4.7
Sales before TC/RC	186.6	41.9	40.7	23.8	293.0
Other metal sales					6.0
Less: TC/RC					(42.3)
Total Net Sales					256.7
Payable Metal (tonnes)	24,779	17,187	2,155	10,357	
Realized prices, \$ per pound	\$ 3.42	\$ 1.11	\$ 8.57	\$ 1.04	
Realized prices, \$ per tonne	\$7,531	\$2,436	\$18,898	\$2,295	

* Excludes Galmoy ore sales

Fourth Quarter Cash Cost Overview

	Cash cost / lb (US dollars)		Cash cost / lb (local currency)	
	Three months ended December 31		Three months ended December 31	
	2010	2009	2010	2009
Neves-Corvo (Local in €)				
Gross cost	1.40	1.25	1.03	0.85
By-product **	(0.06)	(0.03)	(0.04)	(0.02)
Net Cost – Cu/lb	1.34	1.22	0.99	0.83
Zinkgruvan (Local in SEK)				
Gross cost	0.81	0.83	5.56	5.90
By-product **	(0.66)	(0.60)	(4.53)	(4.21)
Net Cost - Zn/lb	0.15	0.23	1.03	1.69
Aguablanca (Local in €)				
Gross cost	22.34	7.38	16.46	5.02
By-product **	(6.95)	(3.07)	(5.12)	(2.09)
Net Cost - Ni/lb	15.39	4.31	11.34	2.93

**By-product is after related TC/RC

¹ \$19.28 per pound of realized nickel prices in the quarter are as a result of price adjustments on provisionally priced sales being reflected in the current quarter on abnormally low metal sales volumes.

Outlook

2011 Production and Cost Guidance

- Production targets for 2011 remain unchanged from the guidance provided on December 9, 2010 (see news release entitled “*Lundin Mining Releases 2011 Guidance*”), except for C1 cost guidance at Zinkgruvan which has been reduced from 0.20/lb to 0.15/lb, and are as follows:

(contained tonnes)		2011 Guidance	
		Tonnes	C1 Cost ^{1,2}
Neves-Corvo	<i>Cu</i>	76,000	1.30
	<i>Zn</i>	25,000	
Zinkgruvan	<i>Zn</i>	78,000	0.15
	<i>Pb</i>	38,000	
	<i>Cu</i>	3,400	
Galmoy (in ore)	<i>Zn</i>	17,000	
	<i>Pb</i>	6,000	
Total: Wholly-owned operations	<i>Cu</i>	79,400	
	<i>Zn</i>	120,000	
	<i>Pb</i>	44,000	
Tenke: 24.0% attributable share³	<i>Cu</i>	31,200	

¹ Cash costs remain dependent upon exchange rates (2011 €/USD: 1.30).

² Cash cost is a Non-GAAP measure reflecting the sum of direct costs and inventory changes less by-product credits. See Non-GAAP Performance Measures on page 40 of this MD&A.

³ Tenke's attributable share will be reduced to 24.0% from 24.75% after obtaining approval of the modifications to TFM's bylaws, as noted in the *Tenke Fungurume* discussion on page 22 of this MD&A.

- Neves-Corvo:** Copper production expected to be similar to 2010. Based on the present high price of copper, the zinc plant will be used to process low-grade copper ore in the first six months of 2011 with zinc production starting in Q3 2011 once the plant expansion is complete. C1 costs are expected to remain around \$1.30/lb after by-product credits.
- Zinkgruvan:** Zinc production is expected to increase as a result of higher throughput. C1 costs remain in the lowest-cost quartile with the reduction based on higher by-product credits.
- Aguablanca:** An assessment is underway reviewing alternatives for recommencement of mining operations, including the possible relocation of the main ramp. Reserves represent around five years of production and recommencement of operations, while not expected prior to the end of 2011, is likely.
- Galmoy:** Sales of remnant high-grade ore are expected to be made to a third-party processing facility. Production tonnage is based on a 50% attributable-share to Lundin Mining.
- Tenke:** Freeport, the mine's operator, is expecting copper cathode production to increase from 120,000 tonnes per annum in 2010 to approximately 130,000 tonnes per annum in 2011.

2011 Capital Expenditure Guidance

Capital expenditures for the year are expected to be around \$290 million which includes:

- Sustaining capital in European operations:** \$100 million (2010 - \$74 million). The increase is related to: Neves-Corvo, the replacement of underground mobile equipment and additional service water dam; at Zinkgruvan, expenditure to increase mine production capacity to provide higher throughput.
- New investment capex in European operations:** \$70 million (2010 - \$56 million). The majority of this is related to Lombador development (\$50 million):

- The Lombador orebody access ramp is being accelerated to reach a depth of 900 metres below surface by Q2 2012 in order to facilitate further exploration that will be key to gaining a full understanding of the zinc and, more importantly, copper mineralization associated with Lombador.
- The Lombador feasibility study, based on a small upper section of Lombador South, is now expected to be completed in Q2 2011 and commissioning of the expanded zinc plant to cater for production from Lombador is targeted for mid-2013.
- The Zinkgruvan copper plant will be converted to treat zinc ores in addition to copper, thereby significantly increasing the flexibility of the Zinkgruvan operation. The conversion is expected to be complete by Q4 2011 giving Zinkgruvan the combined plant capacity to produce around 100,000 tonnes per annum of zinc metal contained in concentrates, if warranted by metal prices.
- **New investment in Tenke:** For planning purposes, we have assumed an expansion at Tenke to commence in mid-2011 and we contemplate our share of expansion funding to be up to \$120 million for the year. This is contingent on a number of factors not within the control of Lundin Mining. Final decisions on capital investment levels for 2011 are not yet in place and are ultimately made by Freeport, the mine's operator.
- **Semblana:** Scoping studies are planned to evaluate an early start on an access drift to the new Semblana deposit at Neves-Corvo. No allowance has been included in the capital estimates above pending completion of the scoping studies expected to progress during 2011. Production estimates do not take into account any shaft capacity that may need to be dedicated to underground development associated with Semblana access drift development. Additional studies on shaft-capacity de-bottlenecking are in progress to better facilitate Lombador and Semblana development waste hoisting needs and so as not to unduly affect mine ore production.

Exploration/Resource acquisition

- Exploration expenditures are expected to increase from around \$24 million in 2010 to \$38 million in 2011. Approximately \$20 million of this is expected to be spent on exploration drilling to delineate additional copper resources at Neves-Corvo. A further \$4 million is allocated for a 24 square kilometre, high resolution, 3D seismic survey to cover the entire near-mine area, which will attempt to detect other nearby massive sulphide lenses. Drill testing of copper-gold targets will be conducted in Spain and drilling at the Company's Clare joint-venture property in Ireland will continue.

Symterra Corporation

Under an Arrangement Agreement signed with Inmet, shareholders of Inmet and Lundin Mining are expected to vote on the proposed merger on March 14, 2011. In the event that this merger is approved, it is reasonable to assume that the Board and management of Symterra will review all pre-existing programs, including capital expenditure plans and exploration priorities. While it is not anticipated that there will be major changes, the above guidance should be read in this context.

Selected Quarterly and Annual Financial Information

(USD millions, except per share amounts)	Years ended December 31				
	2010	2009 Excluding Impairment	2009	2008 Excluding Impairment	2008
Sales	849.2	746.0	746.0	835.3	835.3
Operating earnings¹	456.6	373.2	373.2	323.2	323.2
Depletion, depreciation & amortization	(123.4)	(170.0)	(170.0)	(202.3)	(202.3)
General exploration and project investigation	(23.6)	(22.6)	(22.6)	(38.9)	(38.9)
Other income and expenses	(11.6)	5.1	5.1	(24.6)	(24.6)
Gain (loss) on derivative contracts	10.2	(61.5)	(61.5)	(0.1)	(0.1)
Income (loss) from equity investment in Tenke	78.6	0.3	0.3	(2.2)	(2.2)
Gain (loss) on sale of AFS securities and investments	43.5	(6.7)	(6.7)	(1.3)	(1.3)
Impairment charges	-	-	(53.0)	-	(904.3)
Income (loss) from continuing operations before income taxes	430.3	117.8	64.8	53.8	(850.5)
Income tax (expense) recovery	(113.2)	(12.6)	3.3	(4.8)	130.5
Income (loss) from continuing operations	317.1	105.2	68.1	49.0	(720.0)
Gain (loss) from discontinued operations	-	5.6	5.6	(0.7)	(237.1)
Net income (loss)	317.1	110.8	73.7	48.3	(957.1)
Shareholders' equity	3,168.1		2,915.2		2,603.7
Cash flow from operations	277.3		137.4		215.0
Capital expenditures (incl. Tenke)	160.3		185.0		538.5
Total assets	3,833.4		3,740.1		3,704.5
Net cash (debt)²	159.2		(49.3)		(145.5)
Key Financial Data:					
Shareholders' equity per share ³	5.46		5.03		5.34
Basic and diluted income (loss) per share	0.55	0.20	0.13	0.12	(2.41)
Basic and diluted (loss) income per share from continuing operations	0.55	0.19	0.12	0.12	(1.82)
Dividends	-		-		-
Equity ratio ⁴	83%		78%		70%
Shares outstanding:					
Basic weighted average	579,924,538		550,000,833		396,416,414
Diluted weighted average	580,539,367		550,045,231		396,416,414
End of period	580,575,355		579,592,464		487,433,771

(\$ millions, except per share data)	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09
Sales	309.3	215.1	183.1	141.7	256.7	171.1	194.8	123.4
Operating earnings¹	191.0	120.2	80.8	64.6	152.2	91.8	91.0	38.2
Impairment charges (after tax)⁵	-	-	-	-	(37.1)	-	-	-
Income (loss) from continuing operations	144.6	59.0	75.6	38.0	35.1	3.7	43.5	(14.1)
Net income (loss)	144.6	59.0	75.6	38.0	35.1	3.7	43.5	(8.6)
Income (loss) per share⁶ from continuing operations, basic and diluted	0.25	0.10	0.13	0.07	0.06	0.01	0.08	(0.03)
Income (loss) per share⁶, basic and diluted	0.25	0.10	0.13	0.07	0.06	0.01	0.08	(0.02)
Cash flow from operations	68.9	44.7	78.8	84.9	97.0	40.0	63.7	(63.3)
Capital expenditure (incl. Tenke)	42.9	40.2	39.1	38.1	39.0	54.7	57.8	33.6
Net cash (debt)²	159.2	125.7	107.8	10.2	(49.3)	(132.2)	(110.7)	(259.5)

¹ Operating earnings is a Non-GAAP measure defined as sales, less operating costs, accretion of asset retirement obligation ("ARO") and other provisions, general and administration costs and stock-based compensation.

² Net cash (debt) is a Non-GAAP measure defined as available unrestricted cash less financial debt, including capital leases and other debt-related obligations.

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

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

⁵ Includes impairment from discontinued operations.

⁶ Income (loss) per share is determined for each quarter. As a result of using a different weighted average number of shares outstanding, the sum of the quarterly amounts may differ from the year-to-date amount.

See page 40 of this MD&A for a discussion of Non-GAAP measures.

Sales Overview

Sales Volumes by Payable Metal

	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Total 2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Copper (tonnes)										
Neves-Corvo	69,935	23,765	16,398	20,252	9,520	82,747	23,126	17,236	22,277	20,108
Aguablanca	3,793	559	644	1,418	1,172	6,295	1,653	1,281	1,798	1,563
	73,728	24,324	17,042	21,670	10,692	89,042	24,779	18,517	24,075	21,671
Zinc (tonnes)										
Neves-Corvo	5,251	861	1,459	2,046	885	-	-	-	-	-
Zinkgruvan	59,405	14,657	13,713	18,297	12,738	63,146	17,187	11,167	18,324	16,468
Galmoy*	6,147	1,755	2,510	1,324	558	26,035	(88)	1,569	13,283	11,271
	70,803	17,273	17,682	21,667	14,181	89,181	17,099	12,736	31,607	27,739
Lead (tonnes)										
Zinkgruvan	35,808	8,490	9,735	9,630	7,953	33,729	10,357	7,571	9,275	6,526
Galmoy*	1,786	430	791	436	129	7,541	(9)	805	4,967	1,778
	37,594	8,920	10,526	10,066	8,082	41,270	10,348	8,376	14,242	8,304
Nickel (tonnes)										
Aguablanca	5,116	559	1,029	1,826	1,702	7,582	2,155	1,616	1,766	2,045

* includes payable metal in sales of ore (50% attributable to Galmoy – see MD&A page 21)

Net Sales by Mine

(US\$ millions)	Years ended December 31		
	2010	2009	Change
Neves-Corvo	541.3	448.7	92.6
Zinkgruvan	165.3	137.3	28.0
Aguablanca	129.8	125.2	4.6
Galmoy	12.8	34.8	(22.0)
	849.2	746.0	103.2

Net Sales by Metal

(US\$ millions)	Years ended December 31		
	2010	2009	Change
Copper	557.8	482.2	75.6
Zinc	106.5	99.5	7.0
Nickel	92.7	79.5	13.2
Lead	69.1	60.7	8.4
Other	23.1	24.1	(1.0)
	849.2	746.0	103.2

Higher net sales for the year reflects higher metal prices, particularly in copper and nickel which were up 46% and 48%, respectively, compared to the prior year. This was partially offset by lower sales volumes, including Galmoy.

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

Reconciliation of realized prices

2010 (\$ millions)	Year ended December 31, 2010				
	Copper	Zinc	Nickel	Lead	Total
Sales invoiced at shipment date	557.9	151.4	115.8	79.8	904.9
Adjustments for provisionally priced sales					
fixed/settled during the year	2.0	(2.8)	7.1	0.2	6.5
Period end price adjustments for unfixed sales	33.9	0.1	1.1	0.5	35.6
Sales before TC/RC	\$ 593.8	\$ 148.7	\$ 124.0	\$ 80.5	\$ 947.0
Other metal sales					23.1
Less: TC/RC					(120.9)
Total Net Sales					\$ 849.2
Payable Metal (tonnes)	73,728	70,803	5,116	37,594	
Realized prices, \$ per pound	\$ 3.65	\$ 0.95	\$ 10.99	\$ 0.97	
Realized prices, \$ per tonne	\$ 8,053	\$ 2,101	\$24,235	\$ 2,142	

2009 (\$ millions)	Year ended December 31, 2009				
	Copper	Zinc*	Nickel	Lead*	Total
Sales invoiced at shipment date	458.0	137.5	115.7	69.8	781.0
Adjustments for provisionally priced sales					
fixed/settled during the year	49.4	6.9	10.1	1.6	68.0
Period end price adjustments for unfixed sales	18.2	2.4	1.0	2.1	23.7
Sales before TC/RC	\$ 525.6	\$ 146.8	\$ 126.8	\$ 73.5	\$ 872.7
Other metal sales					24.1
Less: TC/RC					(150.8)
Total Net Sales					\$ 746.0
Payable Metal (tonnes)	89,042	87,806	7,582	40,381	
Realized prices, \$ per pound	\$ 2.68	\$ 0.76	\$ 7.59	\$ 0.83	
Realized prices, \$ per tonne	\$ 5,903	\$ 1,672	\$ 16,724	\$ 1,820	

* excludes Galmoy ore sales

Outstanding receivables (provisionally valued) as of December 31, 2010

Metal	Tonnes payable	Valued at \$ per lb	Valued at \$ per tonne
Copper	21,036	4.37	9,630
Zinc	18,015	1.07	2,360
Lead	10,749	1.12	2,476
Nickel	724	11.22	24,743

Operating Results

Operating Costs

Cost of sales related to mining operations were \$368.0 million, compared to \$340.3 million in 2009. Excluding an \$8.1 million royalty charge relating to 2008, the increase is \$19.6 million. Generally, gross unit costs (before by-product credits) were higher owing to remedial plans following earlier production disruptions. Royalties increased by \$8.8 million as a result of higher metal prices. Actual costs are showing very little price inflation. Gross unit cost increases were partially, or wholly, offset by higher by-product credits. (See *additional commentary under individual mine discussion*).

Accretion of Asset Retirement Obligations and Other

Accretion of asset retirement obligations and other costs of \$3.5 million for 2010 were lower than prior year's costs of \$6.9 million primarily due to changes in estimates for severance payments.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization decreased by \$46.6 million to \$123.4 million in 2010, compared with \$170.0 million in 2009. This decrease is primarily attributable to: lower production levels; revised reserve and resource estimates at Neves-Corvo; certain non-recurring adjustments owing to estimate changes at Zinkgruvan; and the effects of a weaker euro.

Depreciation by operation (\$ millions)	Years ended December 31		
	2010	2009	Change
Neves-Corvo	87.1	126.5	(39.4)
Zinkgruvan	15.3	15.7	(0.4)
Aguablanca	20.4	27.0	(6.6)
Galmoy	0.1	0.1	-
Other	0.5	0.7	(0.2)
	123.4	170.0	(46.6)

Other Costs

Other costs are as follows:

(\$ millions)	Years ended December 31		
	2010	2009	Change
General and administrative	18.8	20.0	(1.2)
Stock-based compensation	2.3	5.6	(3.3)
Other income and expenses	(2.3)	(5.9)	3.6
Interest and bank charges	8.8	15.0	(6.2)
Foreign exchange loss (gain)	5.1	(14.4)	19.5
(Gain) loss on derivative contracts	(10.2)	61.5	(71.7)
(Gain) loss on sale of AFS securities and investments	(43.5)	6.7	(50.2)
Long-lived asset impairment	-	53.0	(53.0)
	(21.0)	141.5	(162.5)

Stock-based compensation

The reduction in stock-based compensation expense reflects fewer options granted in 2010 (340,834) compared to 2009 (1,448,334).

Interest and bank charges

The reduction from last year is the result of the significant change in liquidity with a change from a net debt position last year to a net cash position this year. In addition, borrowing costs under the amended credit facility are lower. Included in the 2010 expense is an incremental amount of \$2.0 million related to the extending and expanding of the revolving credit facility.

Foreign exchange gain (loss)

The foreign exchange gain relates to US\$ denominated debt that was held in the Canadian and Swedish group entities. These gains were partly offset by losses on revaluation of cash held in US\$ by the European operations. Average exchange rates in 2010 were \$1.33:€1.00 (2009 – \$1.39:€1.00) and \$1.00:SEK7.21 (2009 – \$1.00:SEK7.65).

Gain (loss) on derivative contracts

During 2010, the Company recognized a gain of \$10.2 million related to copper derivative contracts. \$30.6 million was paid during the year to settle contracts representing 22,577 tonnes of copper. As at December 31, 2010, the Company has no derivative contracts.

In 2009, the Company recorded a \$61.5 million loss on copper derivatives and made payments of \$20.4 million on settled contracts.

Long-lived asset impairment

In 2009, the Company recorded a write-down of \$53.0 million (\$37.1 million after tax) to the carrying value of the Salave gold project in northern Spain to reflect the expected fair value of the proceeds. The sale was completed in early 2010.

Gain (loss) on sale of AFS securities and investments

During the year, the Company sold AFS securities for proceeds of \$52.3 million and recognized a gain of \$43.5 million. An unrealized gain of \$24.6 million related to prior year's mark-to-market adjustments were reclassified from accumulated other comprehensive income to net income.

In 2009, the Company recognized a gain of \$12.0 million from the sale of AFS securities and received cash proceeds of \$17.3 million.

During the third quarter of 2009, the Company completed the sale of its 49% interest in the Ozernoe zinc project in Russia for gross proceeds of \$35.0 million, resulting in a loss on sale of the investment of \$18.7 million.

Current and Future Income Taxes

Current Tax Expense (\$ millions)	Years ended December 31		
	2010	2009	Change
Neves-Corvo	77.1	45.4	31.7
Zinkgruvan	5.1	2.2	2.9
Aguablanca	0.7	-	0.7
Galmoy	0.4	0.3	0.1
Other	1.9	3.2	(1.3)
Current tax expense	85.2	51.1	34.1

The increase in current income tax expense is a reflection of higher taxable earnings, partially offset by the utilization of prior years' tax losses.

The corporate tax rates in the countries where the Company has mining operations range from 25% in Ireland to 30% in Spain. To December 31, 2010, the Company has paid a total of \$57.0 million in income taxes, including \$48.1 million paid in Portugal, \$4.8 million in Sweden, \$2.3 million in Spain, \$1.2 million in Cyprus and \$0.6 million in Ireland.

During the year, the statutory tax rate in Portugal changed from 26.5% to 29%. As a result, an additional \$14.2 million future tax expense was recorded reflecting the effects on future income tax assets and liabilities.

Future Tax Expense (Recovery) (\$ millions)	Years ended December 31		
	2010	2009	Change
Neves-Corvo	13.2	(27.7)	40.9
Zinkgruvan	13.4	12.5	0.9
Aguablanca	6.9	(10.8)	17.7
Galmoy	-	-	-
Other	(5.5)	(28.4)	22.9
Future tax expense (recovery)	28.0	(54.4)	82.4

Future income tax expense for 2010 was \$82.4 million higher than the prior year and reflects the utilization of prior years' tax losses.

Mining Operations

Production Overview

	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Total 2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Copper (tonnes)										
Neves-Corvo	74,011	23,105	19,353	20,342	11,211	86,462	22,150	19,756	22,189	22,367
Zinkgruvan	540	540	-	-	-	-	-	-	-	-
Aguablanca	5,484	1,263	1,156	1,432	1,633	6,989	1,718	1,595	1,803	1,873
	80,035	24,908	20,509	21,774	12,844	93,451	23,868	21,351	23,992	24,240
Zinc (tonnes)										
Neves-Corvo	6,422	897	2,237	1,446	1,842	501	293	208	-	-
Zinkgruvan	72,206	18,546	15,916	20,624	17,120	70,968	19,598	13,439	17,896	20,035
Galmoy*	11,501	4,039	4,418	2,388	656	29,932	120	1,504	14,066	14,242
	90,129	23,482	22,571	24,458	19,618	101,401	20,011	15,151	31,962	34,277
Lead (tonnes)										
Zinkgruvan	36,636	8,602	9,641	10,286	8,107	36,183	10,289	7,261	8,972	9,661
Galmoy*	2,932	868	1,261	667	136	7,669	104	850	3,506	3,209
	39,568	9,470	10,902	10,953	8,243	43,852	10,393	8,111	12,478	12,870
Nickel (tonnes)										
Aguablanca	6,296	1,062	1,363	1,715	2,156	8,029	2,324	1,784	1,960	1,961

* includes payable metal in sales of ore (50% attributable to Galmoy – see MD&A page 21)

Production was marginally lower than guidance (See commentary under individual mine discussion).

Cash Cost Overview

	Cash cost / lb (US dollars)		Cash cost / lb (local currency)	
	2010	2009	2010	2009
Neves-Corvo (Local in €)				
Gross cost	1.40	1.16	1.06	0.83
By-product **	(0.07)	(0.02)	(0.05)	(0.02)
Net Cost – Cu/lb	1.33	1.14	1.01	0.81
Zinkgruvan (Local in SEK)				
Gross cost	0.79	0.69	5.75	5.22
By-product **	(0.57)	(0.43)	(4.15)	(3.25)
Net Cost - Zn/lb	0.22	0.26	1.60	1.97
Aguablanca (Local in €)				
Gross cost	10.36	7.13	7.81	5.10
By-product **	(3.28)	(2.73)	(2.47)	(1.95)
Net Cost - Ni/lb	7.08	4.40	5.34	3.15

**By-product is after related TC/RC

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

Neves-Corvo Mine

Neves-Corvo is an underground mine, 100 km north of Faro, Portugal, in the western part of the Iberian Pyrite Belt. The mine has been a significant producer of copper since 1989 and in 2006 commenced treating zinc ores. The processing of zinc-rich ores was suspended in November 2008 pending an improvement in zinc prices and the zinc facility was converted to treat copper ore. Zinc production was restarted at a limited rate in 2010 and is expected to recommence full scale zinc production at an annualized rate of 50,000 tonnes per annum by Q3 2011.

Operating Statistics

	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Total 2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Ore mined, copper (tonnes)	2,537,927	776,682	630,304	649,641	481,300	2,509,460	633,337	619,567	620,155	636,401
Ore mined, zinc (tonnes)	74,295	1,449	38,960	16,133	17,753	-	-	-	-	-
Ore milled, copper (tonnes)	2,499,563	750,798	603,340	674,628	470,797	2,569,603	632,696	642,605	622,822	671,480
Ore milled, zinc (tonnes)	100,331	-	38,960	18,506	42,865	-	-	-	-	-
Grade per tonne										
Copper (%)	3.4	3.5	3.8	3.5	2.8	3.9	4.0	3.6	4.3	3.9
Zinc (%)	5.7	-	6.5	6.6	4.6	-	-	-	-	-
Recovery										
Copper (%)	86	87	85	86	86	86	88	84	84	86
Zinc (%)	73	-	80	77	66	-	-	-	-	-
Concentrate grade										
Copper (%)	24.2	24.3	23.9	24.1	24.4	24.8	24.9	24.5	25.0	24.8
Zinc (%)	44.5	-	47.8	43.2	41.9	-	-	-	-	-
Production- tonnes (metal contained)										
Copper	74,011	23,105	19,353	20,342	11,211	86,462	22,150	19,756	22,189	22,367
Zinc	6,422	897	2,237	1,446	1,842	501	293	208	-	-
Silver (oz)	725,260	223,242	176,094	203,035	122,889	722,501	193,345	164,554	168,072	196,530
Sales (\$000s)	541,313	224,964	135,159	120,980	60,210	448,742	163,755	107,757	103,818	73,412
Operating earnings (\$000s) ¹	332,692	154,736	84,786	67,140	26,030	263,361	106,619	66,874	54,645	35,223
Cash cost (€ per pound) ²	1.01	0.99	0.92	0.96	1.29	0.81	0.83	0.81	0.80	0.78
Cash cost (\$ per pound) ²	1.33	1.34	1.19	1.20	1.78	1.14	1.22	1.21	1.10	1.01

Operating Earnings¹

Operating earnings of \$332.7 million were \$69.3 million higher than 2009. Higher metal prices (\$145.6 million effect) and favourable exchange rates (\$13.4 million effect), were partially offset by lower sales volume (\$41.1 million effect), higher unit costs (\$40.5 million effect) and an \$8.1 million additional royalty charge relating to 2008 arising from the disallowance of certain one-off costs incurred in that year. The lower metal production, and consequently higher costs, related primarily to the effect of industrial action at the start of the year. Industrial action is estimated to have resulted in the reduction of copper production for the year by around 10,000 tonnes.

Production

Copper production was marginally below guidance (75,000 tonnes) owing to restrictions on milling resulting from heavy rain, coupled with an increase in fine material, restricting the crusher. Mine production was at record levels in the quarter and high inventories of broken ore were held at quarter-end.

For the year, ore and waste mined were at record levels. Copper ore milled was in-line with last year; however, lower grades contributed less contained metal. The lower head-grade reflects: the general down-trend as high-grade zones are depleted; a lower cut-off grade based on higher copper prices; sequence delays in high-grade stopes owing to ground control restrictions (as referred in the Q3 2010 report); and milling of low-grade surface stockpiles in Q1 2010 to minimize the effects of industrial action.

¹ Operating earnings is a Non-GAAP measure defined as sales, less operating costs, accretion of ARO and other provisions, general and administration costs and stock-based compensation. See page 40 of this MD&A for discussion of Non-GAAP measures.

² Cash cost per pound of payable copper sold is the sum of direct cash costs and inventory changes less by-product credits. See Non-GAAP Performance Measures on page 40 of this MD&A.

With all lines running on copper ores, the zinc produced during the fourth quarter of 2010 came solely from recovery in the circuit treating tailings in the copper plant.

Cash Costs¹

Cash costs were largely in-line with guidance (\$1.30/lb). The higher costs were primarily the result of the industrial action in the first quarter of 2010 (namely: lower copper production volume; treatment of low-grade ore; and subsequent efforts to recover lost metal production) and sequence delays in high-grade stopes. These were partially offset by a weaker euro and higher by-product credits (\$0.04/lb effect).

Neves-Corvo Zinc Expansion Project

The zinc expansion project at Neves-Corvo, designed to produce a minimum of 50,000 tonnes per annum of zinc from existing orebodies, is advancing on schedule and on budget. Production is expected to build from the first half 2011 and reaching full production rates prior to year-end 2011. The estimated cost of the project is €43 million and it is approximately 70% complete.

Lombador Zinc/Copper/Lead Project

A feasibility study is now underway and expected to be completed around the end of the first quarter of 2011. Key components of the study include: incorporation of latest reserve and resource data; finalization of mine design; engineering of the milling circuit; and results of shaft and underground ore-transport capacity studies.

The ramp into Lombador commenced in 2009 and is presently at the 455 level. It is expected to reach the 300 level (approximately 900 metres below surface) by the second quarter of 2012 and this will facilitate the development of an exploration drive on the 335 level to allow underground exploration of the Lombador orebody.

¹ Cash cost per pound of payable copper sold is the sum of direct cash costs and inventory changes less by-product credits. See Non-GAAP Performance Measures on page 40 of this MD&A.

Zinkgruvan Mine

The Zinkgruvan mine is located approximately 250 km south-west of Stockholm, Sweden. Zinkgruvan has been producing zinc, lead and silver on a continuous basis since 1857. The operation consists of an underground mine, processing facilities and associated infrastructure with a nominal production capacity of 1 million tonnes of ore.

Operating Statistics

	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Total 2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Ore mined, zinc (tonnes)	990,657	273,020	234,236	244,945	238,456	990,655	269,976	205,955	252,971	261,753
Ore mined, copper (tonnes)	33,640	33,640	-	-	-	-	-	-	-	-
Ore milled, zinc (tonnes)	995,884	266,610	245,543	257,731	226,000	1,028,234	268,839	225,097	276,747	257,551
Ore milled, copper (tonnes)	27,296	27,296	-	-	-	-	-	-	-	-
Grade per tonne										
Zinc (%)	8.0	7.8	7.3	8.8	8.2	7.5	8.0	6.5	7.0	8.3
Lead (%)	4.4	4.0	4.5	4.7	4.3	4.1	4.5	3.8	3.8	4.4
Copper (%)	2.2	2.2	-	-	-	-	-	-	-	-
Recovery										
Zinc (%)	91	90	89	91	92	92	91	91	92	93
Lead (%)	84	81	86	85	84	85	84	85	85	86
Copper (%)	90	90	-	-	-	-	-	-	-	-
Concentrate grade										
Zinc (%)	52.7	51.8	51.8	53.4	53.5	52.6	52.4	52.7	53.0	52.4
Lead (%)	74.9	73.7	74.2	76.9	74.3	74.4	74.5	72.8	74.9	75.3
Copper (%)	24.0	24.0	-	-	-	-	-	-	-	-
Production – tonnes (metal contained)										
Zinc	72,206	18,546	15,916	20,624	17,120	70,968	19,598	13,439	17,896	20,035
Lead	36,636	8,602	9,641	10,286	8,107	36,183	10,289	7,261	8,972	9,661
Copper	540	540	-	-	-	-	-	-	-	-
Silver (oz)	1,800,827	427,865	507,866	478,106	386,990	1,861,029	505,026	414,555	480,077	461,371
Sales (\$000s)	165,273	48,421	42,233	38,963	35,656	137,281	52,167	29,800	34,925	20,389
Operating earnings (\$000s) ¹	95,185	31,764	24,459	19,995	18,967	74,775	32,502	16,123	17,841	8,309
Cash cost (SEK per pound) ²	1.60	1.03	0.85	2.12	2.33	1.97	1.69	1.36	2.05	2.58
Cash cost (\$ per pound) ²	0.22	0.15	0.11	0.28	0.33	0.26	0.23	0.20	0.26	0.31

Operating Earnings¹

Operating earnings of \$95.2 million were \$20.4 million above 2009. The increase is attributable to higher metal prices (\$29.0 million effect) partially offset by an increase in unit costs (\$5.5 million effect) and unfavourable exchange rates (\$3.2 million earnings effect).

Production

Zinc production fell slightly short of guidance (75,000 tonnes) owing to lower tonnage mined. Orepass blockages, along with shaft/crusher availability and extreme cold weather, hampered production late in the quarter. Completion of the daylight ramp during Q4 2010, commissioning of a new ore pass system (Burkland 650-800 levels) and automating decoupling of the shaft and crusher in Q1 2011 will considerably improve ore and waste handling from underground, and allow for further increases in overall capacity.

Cash Costs²

Cash costs were below guidance (\$0.30/lb). Compared to last year, higher costs (\$0.07/lb) related to increased mine transportation and unplanned plant maintenance, and a stronger SEK (\$0.03/lb), were more than offset by higher by-product credits (\$0.14/lb). Costs remain in the lowest cost quartile.

Copper Project

The copper plant operated as ore became available. Plans are underway to convert this plant to allow it to treat zinc ores, as and when justified by metal prices.

¹ Operating earnings is a Non-GAAP measure defined as sales, less operating costs, accretion of ARO and other provisions, general and administration costs and stock-based compensation. See page 40 of this MD&A for discussion of Non-GAAP measures.

² Cash cost per pound of payable zinc sold is the sum of direct cash costs and inventory changes less by-product credits. See Non-GAAP Performance Measures on page 40 of this MD&A.

Aguablanca Mine

The Aguablanca nickel-copper mine is located in the province of Badajoz, 80 km by road to Seville, Spain, and 140 km from a major seaport at Huelva. The operations consist of an open pit mine and an on-site processing facility (milling and flotation) with a present production capacity of 1.9 million tonnes per annum.

Operating Statistics

	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Total 2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Ore mined (tonnes)	1,349,336	288,455	272,825	390,646	397,410	1,441,903	373,626	361,676	389,364	317,237
Ore milled (tonnes)	1,435,177	318,826	300,347	369,113	446,891	1,912,675	463,175	478,474	486,931	484,095
Grade per tonne										
Nickel (%)	0.5	0.4	0.6	0.6	0.6	0.5	0.6	0.5	0.5	0.5
Copper (%)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4
Recovery										
Nickel (%)	82	79	82	82	82	77	78	75	77	78
Copper (%)	93	93	93	93	92	90	90	91	91	89
Concentrate grade										
Nickel (%)	6.8	6.1	7.0	7.0	7.1	6.8	7.3	6.7	6.6	6.3
Copper (%)	6.1	7.2	6.0	5.8	5.4	5.9	5.5	6.0	6.1	6.1
Production-tonnes (metal contained)										
Nickel	6,296	1,062	1,363	1,715	2,156	8,029	2,324	1,784	1,960	1,961
Copper	5,484	1,263	1,156	1,432	1,633	6,989	1,718	1,595	1,803	1,873
Sales (\$'000s)	129,784	31,848	32,502	20,776	44,658	125,146	41,256	30,281	34,376	19,233
Operating earnings (loss) (\$'000s) ¹	42,642	6,651	12,989	(1,538)	24,540	48,854	17,907	11,696	18,468	783
Cash cost (€ per pound) ²	5.34	11.34	4.59	4.32	4.92	3.15	2.93	3.49	3.57	2.77
Cash cost (\$ per pound) ²	7.08	15.39	5.93	5.43	6.80	4.40	4.31	4.99	4.89	3.62

Suspension of Operations

As previously reported, high rainfall in December resulted in a significant slope failure affecting the main open-pit access ramp causing suspension of operations. An assessment is underway reviewing alternatives for recommencement of mining operations, including the possible relocation of the main ramp. Reserves represent around five years of production and recommencement of operations, while not expected prior to the end of 2011, is likely.

Operating Earnings¹

Operating earnings of \$42.6 million were \$6.2 million below 2009 owing to lower production and nearly twice the amount of waste removed in accordance with plan, compared to 2009. Lower volume (\$5.9 million effect) and higher unit costs (\$42.2 million effect of which \$20.3 million related to the planned higher waste removal) were partially offset by higher metal prices (\$37.2 million effect) and favourable foreign exchange (\$4.7 million effect).

Production

Production was in-line with guidance (6,150 tonnes of nickel and 5,200 tonnes of copper) provided on December 9, 2010 when suspension of full-scale pit operations was announced. Waste removal, which was a key target for this year, was in accordance with plans.

Cash Costs²

Cash cost per pound of \$7.08 is higher than guidance (\$5.80/lb) owing to the effect of reduced ore mined. The guidance took into account a near doubling of waste removal planned for 2010 (20.6 million tonnes compared to 11.3 million tonnes in 2009).

¹ Operating earnings is a Non-GAAP measure defined as sales, less operating costs, accretion of ARO and other provisions, general and administration costs and stock-based compensation. See page 40 of this MD&A for discussion of Non-GAAP measures.

² Cash cost per pound of payable nickel sold is the sum of direct cash costs and inventory changes less by-product credits. See page 40 of this MD&A for discussion of Non-GAAP measures.

Galmoy Mine

The Galmoy underground zinc mine is located in south-central Ireland in County Kilkenny. Operational mining ceased in May 2009 and milling on-site ceased in June 2009. Mining of remnant high-grade ore has recommenced and ore is being shipped to an adjacent mine for processing. Production tonnage is based on a 50% attributable-share to Lundin Mining.

Operating Statistics

	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
	2010	2010	2010	2010	2010	2009	2009	2009	2009	2009
Ore mined (tonnes)	139,681	52,498	50,143	22,988	14,052	172,903	-	-	68,673	104,230
Ore sold (tonnes)	72,983	19,387	27,756	18,741	7,099	18,318	-	18,318	-	-
Grade per tonne										
Zinc (%)	22.0	23.5	23.2	18.7	21.5	17.7	-	-	19.8	16.8
Lead (%)	7.4	6.8	8.5	7.2	6.2	5.0	-	-	5.5	4.9
Production- tonnes (metal contained)										
Zinc **	11,501	4,039	4,418	2,388	656	29,932	120*	1,504	14,066	14,242
Lead **	2,932	868	1,261	667	136	7,669	104*	850	3,506	3,209
Silver	-	-	-	-	-	56,044	-	-	24,596	31,448
Sales (\$000s)	12,853	4,034	5,234	2,430	1,155	34,820	(475)	3,242	21,707	10,346
Operating earnings (loss) (\$000s) ¹	6,937	3,011	3,611	405	(90)	12,480	373	2,007	9,406	694

* Final production adjustment

** Estimated production on a 50% attributable-share to Lundin Mining from ore treated at an adjacent mine for 2010.

Operating Earnings¹

Selective mining of high-grade areas, and the extraction of high-grade ore for processing by a third party, yielded operating earnings of \$6.9 million in 2010.

Production

Production was marginally below guidance (12,000 tonnes zinc & 4,000 tonnes lead) owing to severe weather precluding shipping for the last 11 days of December. Production is reported based on a 50% attributable-share of the metal contained in ore delivered (after accounting for expected plant recoveries) to a third party processing facility.

Closure Costs

Mine closure is progressing as planned, and agreement has been reached with the authorities to facilitate draw-down of the restricted funds, designated to cover closure costs. When restricted funds are aggregated with asset sales, the closure of Galmoy is likely to yield a surplus. The final mine closure plan is expected to be approved by the three regulating authorities by June 30, 2011.

¹ Operating earnings is a Non-GAAP measure defined as sales, less operating costs, accretion of ARO and other provisions, general and administration costs and stock-based compensation. See page 40 of this MD&A for discussion of Non-GAAP measures.

Tenke Fungurume

(Current holding: Lundin 24.75%, FCX 57.75%, Gécamines 17.5%)

Tenke Fungurume ("Tenke") is a major new copper-cobalt operation in its second year of production. Tenke is located in the southern part of Katanga Province, Democratic Republic of Congo ("DRC"). Freeport-McMoRan Copper & Gold Inc. ("FCX" or "Freeport") is the operating partner. La Générale des Carrières et des Mines ("Gécamines"), the Congolese state mining company, holds a 17.5% free carried interest in the project. Owing to Gécamines carried interest, capital funding is provided by FCX and the Company as to 70% and 30%, respectively.

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

In October 2010, the government of the DRC announced the conclusion of the review of Tenke Fungurume Mining S.A.R.L.'s mining contracts. The conclusion of the review process confirmed that TFM's existing mining contracts are in good standing and acknowledged the rights and benefits granted under those contracts. TFM's key fiscal terms, including a 30 percent income tax rate, a 2% mining royalty rate and a 1% export fee, will continue to apply and are consistent with the rates in the DRC's current Mining Code. In connection with the review, TFM made several commitments, which have been reflected in amendments to its mining contracts, including: an increase in the ownership interest of Gécamines, which is wholly owned by the government of the DRC, from 17.5% (non-dilutable) to 20.0% (non-dilutable), resulting in a decrease of Freeport effective ownership interest from 57.75% to 56% and Lundin Mining's effective ownership interest from 24.75% to 24%; an additional royalty of \$1.2 million for each 100,000 tonnes of proven and probable copper reserves above 2.5 million tonnes at the time new reserves are established by FCX; additional payments totaling \$30 million to be paid in six equal installments of \$5 million upon reaching certain production milestones; conversion of \$50 million in intercompany loans to equity; a payment of approximately \$5 million for surface area fees and ongoing surface area fees of approximately \$0.8 million annually; incorporating clarifying language stating that TFM's rights and obligations are governed by the Amended and Restated Mining Convention ("ARMC"); and expanding Gécamines' participation in TFM management.

TFM has also reiterated its commitment to the use of local services and Congolese employment. In connection with the modifications, the annual interest rate on advances from TFM shareholders increases from a rate of LIBOR plus 2% to LIBOR plus 6%. In December 2010, the addenda to TFM's ARMC and Amended and Restated Shareholders' Agreement were signed by all parties and are pending a Presidential Decree. TFM's existing mining contracts will be in effect until the Presidential Decree is obtained approving the signed amendments. In addition, the change in Lundin Mining's effective ownership interest in TFM and the conversion of intercompany loans to equity will be effected after obtaining approval of the modifications to TFM's bylaws. In December 2010, TFM made payments totaling \$26.5 million, which have been recorded as prepaid contract costs at December 31, 2010.

Production Statistics

100% Basis	Total 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Total 2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Ore mined (000 tonnes)	8,541	1,980	2,471	2,389	1,701	6,219	1,891	1,676	1,615	1,037
Ore milled (000 tonnes)	3,766	1,017	1,083	797	869	2,111	715	730	621	45
Grade per tonne										
Copper (%)	3.5	3.4	3.2	3.9	3.7	3.7	4.2	3.7	3.4	-
Recovery										
Copper (%)	91	93	91	91	92	92	95	89	92	-
Production – tonnes										
Copper	120,271	31,949	31,115	28,438	28,769	70,001	29,201	24,317	16,483	-
Cobalt	9,225	2,922	2,421	1,651	2,231	2,580	1,928	642	10	-
Income (loss) from equity investment (\$millions)	78.6	35.6	17.5	8.3	17.2	0.3	5.6	(1.0)	(3.4)	(0.9)
Cash costs (\$ per pound) ^{1,2}	0.90	0.89	0.86	0.79	1.04	na	na	na	na	na

Income (Loss) from Equity Investment in Tenke

Income of \$78.6 million was \$78.3 million above the prior year. The increase reflects a full year of commercial production as compared to only four months during 2009. Sales volume of cathode sold during the year, on a 100% basis, amounted to 118,929 tonnes compared to 59,211 tonnes in 2009.

The average price realized for copper sales during the year was \$3.45 per pound of cathode sold (2009: \$2.85/lb).

The Company recognizes its 24.75% interest in the earnings of Tenke and includes adjustments for GAAP harmonization differences and purchase price allocations.

Production

Copper and cobalt production during the year exceeded nameplate capacity.

Milling throughput is now performing consistently above design capacity and, with the procurement of additional mining equipment and changes to the mine plan, Freeport is expecting production to increase from the 120,000 tpa reached in 2010 to approximately 130,000 tpa in 2011.

Freeport is continuing to address operational issues in the cobalt circuit. Cobalt production has improved steadily over the last three quarters and results for the 2010 year were in excess of nameplate capacity. Further improvements are likely over the next several quarters, particularly with respect to recoveries and impurity removal.

Cash Costs

During the year, cash operating costs averaged \$0.90/lb of copper including the cobalt by-product credit. Lundin expects cash costs will benefit in the future as: higher throughput is achieved from planned de-bottlenecking investments; successful implementation of ongoing operating cost reduction efforts; and initiatives to improve operating performance in the SO₂ plant and cobalt circuits.

Excess Overrun Facility

At December 31, 2010, the amount owing to FCX on the Excess Overrun Cost facility for the completed Phase I facilities was \$108.4 million, a reduction of \$118.7 million during the year (\$40.4 million reduction in the fourth quarter).

¹ Cash cost per pound of payable copper sold is the sum of direct cash costs and inventory changes less by-product credits. See Non-GAAP Performance Measures on page 40 of this MD&A.

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

Expansion Studies

Expansion studies are ongoing and a number of new scenarios are being assessed which have the potential, as advised by Freeport, to add 45,000 tonnes to 90,000 tonnes of copper production per year over the next two to three years. It is anticipated that production volumes will increase significantly over time. The capital investment required from Lundin Mining for the year ahead remains uncertain until the results of the feasibility studies have been considered and a final decision made on a second phase of the project.

Tenke Funding

During the year, \$30.5 million (2009 - \$56.7 million) was advanced to cover sustaining capital, on-going concession exploration and expansion initiatives.

Lundin Mining's 2011 capital investment for Tenke has been assumed, for internal planning purposes, to be \$120 million, to fund our share of expansion. Expansion size and timing is contingent upon a number of factors not under the control of Lundin Mining. Final decisions on capital investment levels for 2011 are not yet in place and are ultimately made by Freeport, the mine's operator.

Exploration Highlights

Portugal

Neves-Corvo Mine Exploration (Copper, Zinc)

The 2010 surface drill program at Neves-Corvo saw the completion of 58,250 metres of diamond drilling with a total of 53 individual targets tested. Geophysical surveys were completed in most of the drill holes, and targeting was further enhanced using surface geophysics.

The initial focus of exploration was on expanding high-grade copper and zinc deposits within the Lombador massive sulphide lens leading to an expansion of the recently discovered Lombador-Mid copper deposit. As economic conditions improved, the exploration program was expanded to include a program of large step-outs to test extensions to known orebodies and to test previously untested anomalies. This led to the discovery of the Semblana deposit in the third quarter and the focus of drilling shifted to this new discovery area. By year-end, 20 targets had been tested.

The discovery of the Semblana deposit represents the first new massive sulphide deposit discovery at Neves-Corvo in over 20 years. Drilling in the fourth quarter continued to expand this new deposit. Semblana remains open to expansion in several directions, and a major drill program has been planned for 2011. Step-out and infill drilling will begin in January 2011 with the goal of completing an initial resource estimate for Semblana by mid-year. A total of 80,000 metres of drilling has been budgeted to achieve this objective. Also planned for 2011 is a high-resolution 3D seismic survey over the deposit area which is scheduled for completion in the second quarter and will help to guide the exploration drilling in coming years.

The Semblana discovery supports the belief that Neves-Corvo remains underexplored.

Iberian Pyrite Belt Regional Exploration (Copper, Zinc)

Regional exploration within the Portuguese side of the Iberian Pyrite Belt focused on accelerating target development work, emphasizing geophysical TEM surveying within all concession areas. A total of 3,009 metres were drilled in 2010, testing five targets. Additional drill-testing is planned for 2011.

Spain

Ossa Morena Belt Regional Exploration (Copper, Gold)

In 2010 a total of 2,116 metres in eight holes was drilled at the Alconchel copper-gold project located within the northern part of the Ossa Morena belt of southern Spain. Drilling revealed mineralization that warrants further investigation and this mineralization remains open in all directions. Additional drilling at Alconchel and other copper-gold prospects in the Ossa Morena belt is planned for early 2011. A 1,865 km airborne magnetic/radiometric survey covering the north-western properties within the Ossa Morena belt was in progress at year-end and is expected to be completed in early 2011.

Ireland

Clare Joint Venture Exploration (Zinc, Lead, Silver)

A total of 25,220 metres was drilled on this project during the year and 43 holes were completed in the Kilbricken deposit area. Drilling continues to outline a promising zinc-lead-silver deposit, which remains open along strike in both directions. Geological interpretation of the drill results has successfully identified the main structural controls of the mineralization and will help to focus ongoing drilling. Plans for 2011 include 38,000 metres of drilling which will focus on developing an initial resource at Kilbricken and expanding upon this first resource in addition to testing several regional targets. High-resolution 3D seismic surveying will be carried out over the Kilbricken deposit area in order to help to interpret the structural setting of the deposit and help guide future drilling.

Metal Prices, LME Inventories and Smelter Treatment and Refining Charges

Metal prices increased over 2010 as global industrial production picked up. The reduction in mine and smelting capacity in 2009 also contributed and most of this idled capacity resumed production in 2010 as a function of the increase in prices. Demand from China continues to be the driving force and is now being supplemented by broader demand in most developing nations.

(Average LME Prices)		Three months ended December 31			Twelve months ended December 31		
		2010	2009	Change	2010	2009	Change
Copper	US\$/pound	3.92	3.01	30%	3.42	2.34	46%
	US\$/tonne	8,634	6,643	30%	7,539	5,164	46%
Lead	US\$/pound	1.08	1.04	4%	0.97	0.78	24%
	US\$/tonne	2,390	2,292	4%	2,148	1,726	24%
Zinc	US\$/pound	1.05	1.00	5%	0.98	0.75	30%
	US\$/tonne	2,315	2,211	5%	2,159	1,659	30%
Nickel	US\$/pound	10.70	7.96	35%	9.89	6.67	48%
	US\$/tonne	23,598	17,543	35%	21,809	14,700	48%

LME inventory for copper and nickel decreased during 2010: copper by 25% and nickel by 14%. LME zinc and lead inventories increased over the year: zinc by 44% and lead by 42%.

The treatment charges (“TC”) and refining charges (“RC”) in the spot market for copper concentrates have increased over 2010. In January 2010, the spot TC was \$10 per dmt of concentrate and the spot RC was \$0.01 per lb of payable copper. The market remained at these levels until July when it turned and spot terms started to increase. In December 2010 the spot TC reached \$78 per dmt of concentrate with a RC of \$0.078 per lb of payable copper. A slowdown in demand for concentrates from China and India was behind this increase. Annual negotiations for copper treatment and refining charges are underway. Terms for annual contracts have been agreed at a TC of \$56 per dmt of concentrates and a RC of \$0.056 per payable lb of copper. These terms are slightly higher than the conditions for 2010 (TC: \$46.50, RC: \$0.0465). There have also been settlements for the first six months of 2011, only, at a TC of \$65 per dmt and a RC of \$0.065 per payable lb of copper where the terms for the second half of the year will be set in line with the spot market at the time.

The spot TC for zinc concentrates decreased during the first half 2010 from \$200 per dmt, flat, in January to \$80 per dmt, flat, in July. During the second half of the year the spot TC increased in line with the increase in the LME zinc price and ended the year at \$135 per dmt, flat. During the second half of 2010 the differential between the realized TC under the annual contracts and the spot TC increased to over \$100 per dmt. This increase was a function of an increase in demand for zinc concentrates and, consequently, the Company expects an improvement in the TC under annual contracts in favour of the mines for 2011.

Lead consumption in China continued to increase in 2010 and the lead concentrate imports to China remained high. The spot TC for lead concentrates decreased over the year from \$140 per dmt, flat, in January 2010 to \$80 per dmt in December. The Company expects an improvement in the TC for lead concentrates under annual contracts in favour of the mines for 2011.

The Company’s long-term contract for its nickel concentrates expired during the second quarter 2010 and some spot sales were made during the second and third quarter of the year. In July, the Company finalized a new long-term contract with Glencore International AG at terms in line with the recent market conditions.

Liquidity and Financial Condition

Cash Reserves

Cash and cash equivalents increased by \$57.3 million to \$198.9 million as at December 31, 2010, from \$141.6 million at December 31, 2009. Inflows for the year ended December 31, 2010 included operating cash flows of \$277.3 million and proceeds of \$83.8 million from sale of AFS securities and investments. Uses of cash included:

- \$129.8 million investment in mineral property, plant and equipment;
- \$30.5 million for Tenke funding; and
- \$145.0 million for repayment of the revolving credit facility.

Working Capital

At December 31, 2010, there is working capital of \$290.4 million, compared to \$245.6 million at December 31, 2009. The increase in working capital reflects a substantial improvement in liquidity and increased receivables which have benefited from significantly improved metal prices, partially offset by increased income taxes payable, accounts payable and accrued liabilities as a result of higher taxable income and operating costs.

Revolving Credit Facility

The Company signed an amended and restated credit agreement in September 2010. The facility was increased from \$225.0 million to \$300.0 million and extended to a full three-year term, expiring in September 2013.

Aside from a letter of credit issued in the amount of SEK 80 million (\$11.9 million), there are no amounts outstanding on the facility.

Shareholders' Equity

Shareholders' equity was \$3,168.1 million at December 31, 2010, compared to \$2,915.2 million at December 31, 2009. Shareholders' equity increased primarily as a result of net income of \$317.1 million and partially offset by translation adjustments in other comprehensive income of \$63.4 million.

Contractual Obligations and Commitments

\$US thousands	Payments due by period				Total
	< 1 year	1-3 years	4-5 years	After 5 years	
Long-term debt	856	30,638	1,335	1,010	33,839
Capital leases	1,833	2,747	1,244	-	5,824
Asset retirement obligations ¹	6,184	23,146	26,779	55,071	111,180
Capital commitments	26,144	-	-	-	26,144
Operating leases and other	8,538	5,953	149	42	14,682
	43,555	62,484	29,507	56,123	191,669

Off-Balance Sheet Financing Arrangements

The Company had protection for cost overruns related to the development of Phase I of the Tenke copper/cobalt project. Costs above a certain level were funded by Freeport (see page 23 of this MD&A for details.) During the fourth quarter of 2008, capital expenditures on Phase I reached a certain threshold, beyond which the Company was not required to provide cash funding. Freeport contributed the Company's proportionate share of project funding required by advancing amounts to the project on the Company's behalf. The funding is non-recourse to the Company and will be repaid from the operating cash flows of the

¹ Asset retirement obligations are reported on an undiscounted basis and before inflation.

project with first priority to other shareholder advances and dividends. The balance at December 31, 2010 was \$108.4 million.

Sensitivities

Net income and income per share (EPS) are affected by certain external factors including fluctuations in metal prices and changes in exchange rates between the Euro, the Swedish Krona and the US dollar.

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

Metal	Provisional price on December 31, 2010 (\$US/tonne)	Change	Effect on pre-tax earnings (\$ millions)
Copper	9,630	+10%	20.3
Zinc	2,360	+10%	4.3
Lead	2,476	+10%	2.7
Nickel	24,743	+10%	1.8

Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standard Boards ("AcSB") confirmed that IFRS will replace Canadian GAAP ("CGAAP") for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Company's first mandatory filing under IFRS, which will be the first quarter of 2011, will include IFRS-compliant financial statements on a comparative basis, as well as reconciliations for that quarter and as at the January 1, 2010 transition date. Although IFRS uses a conceptual framework similar to CGAAP, there are significant differences in recognition, measurement and disclosure.

The Company's IFRS conversion plan has three phases which are design and planning, assess and quantify and implementation. During 2010, the IFRS conversion plan was substantially executed. The Company is prepared for the changeover to IFRS in 2011 and the its first mandatory filing under IFRS.

During the final quarter of this year, the Company concluded the review of the opening IFRS balance sheet.

The IFRS 1 *First time adoption of IFRS* elections on transition are as follows:

- **Business Combinations:** In choosing to elect this exemption, the Company is not required to apply IFRS 3 *Business combinations* retroactively to transactions that occurred prior to the date of transition to IFRS.
- **Fair value as deemed cost:** This exemption allows the Company to use a previous GAAP revaluation of a mineral property at, or before, the date of transition to IFRS as deemed cost at the date of the revaluation.
- **Cumulative translation differences:** Allows the Company to deem the cumulative translation difference at the date of transition to IFRS as zero.
- **Decommissioning liabilities included in the cost of mineral properties:** In electing this exemption, the Company is able to calculate its ARO asset at the transition date using a simplified method based on the related ARO liability.
- **Designation of previously recognized financial instruments:** The Company has elected this option and on transition will reclassify the designation of its AFS securities to fair value through profit and loss ("FVTPL"). On transition to IFRS this election will have an effect on shareholders' equity as all deferred gains and losses previously recognized in accumulated other comprehensive income ("AOCI") will be reclassified to retained earnings.
- **Share based-payments:** In accordance, with IFRS 2 *Share based payments*, the Company will recognize a forfeiture rate on its initial recognition of stock option grants. In applying the IFRS 1 election available, the effect of the forfeiture rates will be applied only to unvested options at the date of transition.

In assessing the impact of its conversion to IFRS, the Company identified the following significant differences in its current accounting policies and those that it expects to apply under IFRS:

- **Foreign currency considerations:** The Company has analyzed the functional currency under IAS 21 *The effect of changes to foreign exchange rates*. On assessment of primary indicators the Company has changed the functional currency of two of its group companies.

As a result of this change, the IFRS 1 *Cumulative translation adjustments* will be elected. This will have the effect of reclassifying all previously recorded translation adjustments from other comprehensive income to retained earnings.

- **Asset retirement obligations:** Under IAS 37 *Provisions, Contingent liabilities and contingent assets*, the Company has reassessed its ARO under IFRS. The IFRS standard requires the periodic updating of assumptions such as inflation and discount rates. Accordingly, the Company has made adjustments to the ARO liability and related asset.

Presented below is the reconciliation of the Company's opening balance sheet showing the adjustments from CGAAP to IFRS. In preparing the opening balance sheet the Company is required to use the standards in effect as at December 31, 2011 which may differ from the policies the Company currently expects to adopt and as a result the opening balance sheet is subject to change.

Transition to IFRS - Preliminary Opening Consolidated Balance Sheet

Unaudited \$US thousands	CGAAP January 1, 2010	Notes	Transition adjustments to IFRS	IFRS January 1, 2010
ASSETS				
Cash and cash equivalents	\$ 141,575		\$ -	\$ 141,575
Accounts receivable	195,370		-	195,370
Inventories	27,519		-	27,519
Prepaid expenses	3,541		-	3,541
Current Assets	368,005		-	368,005
Reclamation funds	67,076		-	67,076
Mineral properties, plant and equipment	1,310,287	(a)	(6,910)	1,303,377
Investment in Tenke Fungurume	1,633,740		-	1,633,740
Investments and other assets	42,508		-	42,508
Deferred income tax assets	68,707	(e)	2,056	70,763
Goodwill	249,820		-	249,820
	\$ 3,740,143		\$ (4,854)	\$ 3,735,289
LIABILITIES				
Accounts payable and accrued liabilities	\$ 59,473		-	\$ 59,473
Accrued liabilities	48,235		-	48,235
Income taxes payable	14,657		-	14,657
Current portion of long term debt and capital leases	2,536		-	2,536
Current portion of asset retirement obligations	5,830		-	5,830
Deferred revenue	5,667		-	5,667
Forward sales contracts	40,557		-	40,557
Current Liabilities	176,955		-	176,955
Long-term debt and capital leases	188,352		-	188,352
Other long-term liabilities	11,936		-	11,936
Deferred revenue	72,230		-	72,230
Provision for pension obligations	16,385		-	16,385
Asset retirement obligations and other provisions	120,954	(a)	1,895	122,849
Deferred income tax liabilities	238,089	(e)	(568)	237,521
	824,901		1,327	826,228
SHAREHOLDERS' EQUITY				
Share capital	3,480,487		-	3,480,487
Contributed surplus	30,415	(b)	(1,328)	29,087
Accumulated other comprehensive income	265,051	(c), (d)	(265,051)	-
Deficit	(860,711)		260,198	(600,513)
	2,915,242		(6,181)	2,909,061
	\$ 3,740,143		\$ (4,854)	\$ 3,735,289

Transitional adjustments notes:

- a) In applying IAS 37 *Provisions, contingent liabilities and contingent assets*, discount and inflation rates were updated resulting in an increase of the ARO by \$1.9 million. Under CGAAP, the historical rates were applied. On election of IFRS 1 *Decommissioning liabilities included in the cost of mineral properties*, the Company has adjusted the mineral property balance by \$6.9 million.
- b) Under IFRS the Company will recognize a forfeiture rate in its initial recognition of stock option grants. Applied retroactively on all unvested options at the date of transition, contributed surplus was reduced by \$1.3 million.
- c) On transition to IFRS, and in applying the optional election IFRS 1 *Designation of previously recognized financial instruments*, the Company reclassified deferred gains and losses in AOCI to retained earnings in the amount of \$23.5 million.
- d) The Company has elected IFRS 1 *Cumulative translation difference*. All cumulative translation differences on the date of transition are deemed to be zero and recognized in retained earnings in the amount of \$241.6 million.
- e) Related tax effects on above adjustments.

Next steps for 2011

The Company is still finalizing the impacts of the IFRS conversion adjustments on its 2010 statement of operations. However, it is anticipated that the adjustments will not be material.

In 2011, the Company will finalize its IFRS quarterly and annual financial statements and related disclosures. It is expected that all items will be completed within the required timelines for conversion.

Critical Accounting Estimates

The application of certain accounting policies requires the Company to make estimates based on assumptions that may be undertaken at the time the accounting estimate is made. The Company has determined that the following accounting estimates are critical and could have a material effect on the financial statements of the Company if there is a change in an estimate.

Depreciation, Depletion and Amortization of Mineral Properties, Plant and Equipment

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

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

A change in the original estimate of reserves would result in a change in the rate of depreciation and amortization of the related mining assets and could result in an impairment of the mining assets.

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

Valuation of Mineral Properties and Exploration and Development Properties

The Company carries its mineral properties at cost less a provision for impairment. The Company expenses exploration costs, which are related to specific projects, until the commercial feasibility of the project is determinable. The costs of each property and related capitalized development expenditures are amortized over the economic life of the property on a units-of-production basis. Costs are charged to the statement of operations when a property is abandoned or when impairment in value that is other than temporary has been determined. General exploration costs are charged to operations as incurred.

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

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

Goodwill

The amount by which the purchase price of a business acquisition exceeds the fair value of identifiable assets and liabilities acquired is goodwill. Goodwill is allocated to the reporting units acquired based on management's estimates of the fair value of each reporting unit as compared to the fair value of the assets and liabilities of the reporting unit. Estimates of fair value may be impacted by changes in base metal prices, currency exchange rates, discount rates, level of capital expenditures, interest rate, operating costs and other factors. Changes in estimates could have a material impact on the carrying value of the goodwill.

For reporting units that have recorded goodwill, the estimated fair value of the unit is compared to its carrying value at least once each year, or when circumstances indicate that the value may have become impaired. If the carrying value exceeds the estimated or implied fair value of goodwill, which is equal to management's estimate of potential value within the reporting unit, any excess of the carrying amount of goodwill over the estimated or implied goodwill is deducted from the carrying value of goodwill and charged to the current period earnings.

Income Taxes

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

The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax payable requires management to exercise judgment and make certain assumptions about the future

performance of the Company. Management is required to assess whether the Company is “more likely than not” to benefit from these prior losses and other future tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses. In the event that it is determined that certain of the losses are not likely to be utilized, a valuation reserve would have to be recorded against the recognized future tax assets through a charge to income. Conversely, where amounts that are considered not likely to be utilized to reduce future tax payable are determined to be likely to be utilized in the future, the valuation allowances against these losses would be removed by recording a future income tax recovery in the statement of operations.

As at December 31, 2010, the Company has estimated non-capital loss carry-forwards of approximately \$320.9 million, which can be applied to reduce future income taxes payable. Non-capital losses in Spain and Canada will expire between 2011 and 2030. In Sweden and Ireland, non-capital losses do not have an expiry. The Company may not be able to benefit from a portion of these loss carry-forwards and is uncertain whether they will be utilized in the future. As such, a valuation allowance has been applied against the future tax asset booked on \$286.7 million of loss carry-forwards.

Stock-Based Compensation

The Company grants stock options to employees of the Company under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management is required to make certain assumptions such as the life of options. Changes in the assumptions used to estimate fair value could result in materially different results.

Mine Closure Provisions

The Company has obligations for site restoration and decommissioning related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet its obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. The Company’s policy for recording mine closure provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to operating costs.

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

Managing Risks

Risks and Uncertainties

Metal Prices

Metal prices, primarily zinc, copper and lead are key performance drivers and fluctuations in the prices of these commodities can have a dramatic effect on the results of operations. Prices fluctuate widely and are affected by numerous factors beyond the Company's control. The prices of metals are influenced by supply and demand, exchange rates, inflation rates, changes in global economies, and political, social and other factors. The supply of metals consists of a combination of new mine production and existing stocks held by governments, producers and consumers.

If the market prices for metals fall below the Company's full production costs and remain at such levels for any sustained period of time, the Company may, depending on hedging practices, experience losses and may determine to discontinue mining operations or development of a project at one or more of its properties. If the prices drop significantly, the economic prospects of the mines and projects in which the Company has an interest could be significantly reduced or rendered uneconomic. Low metal prices will affect the Company's liquidity, and if they persist for an extended period of time, the Company may have to look for other sources of cash flow to maintain liquidity until metal prices recover.

Credit Risk

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

Foreign Exchange Risk

The Company's revenue from operations is received in United States dollars while most of its operating expenses will be incurred in Euro and SEK. Accordingly, foreign currency fluctuations may adversely affect the Company's financial position and operating results. The Company does not currently engage in foreign currency hedging activities for regularly occurring operational transactions.

Derivative Instruments

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

Reclamation Funds and Mine Closure Costs

As at December 31, 2010, the Company had \$61.6 million in a number of reclamation funds that will be used to fund future site restoration and mine closure costs at the Company's various mine sites. The Company will continue to contribute annually to these funds as required, based on an estimate of the future site restoration and mine closure costs as detailed in the closure plans. Changes in environmental laws and regulations can create uncertainty with regards to future reclamation costs and affect the funding requirements.

The Company ceased production at its Galmoy mine during the first half of 2009 but resumed limited mining of ore in late 2009 for treatment at a third-party processing facility. Current mining activity does not have a significant effect on closure activities which continue to be carried out.

Rehabilitation programs were largely completed at the Storliden mine during 2010 following production shutdown in 2008. The site is subject to ongoing monitoring for several years following the completion of closure activities. The Company also has ongoing long-term monitoring programs in place associated with legacy mining operations previously carried on in Honduras under the ownership of a subsidiary of Rio Narcea Gold Mines Ltd., which was acquired by the Company in 2007.

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

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

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

Competition

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

Foreign Countries and Regulatory Requirements

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

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

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

Company's assets in these countries will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by an authority or body.

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

Mining and Processing

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

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

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

Mine Development Risks

The Company's ability to maintain, or increase, its annual production of copper, zinc, lead, nickel and other metals will be dependent in significant part on its ability to bring new mines into production and to expand existing mines. Although the Company utilizes the operating history of its existing mines to derive estimates of future operating costs and capital requirements, such estimates may differ materially from actual operating results at new mines or at expansions of existing mines. The economic feasibility analysis with respect to any individual project is based upon, among other things, the interpretation of geological data obtained from drill holes and other sampling techniques, feasibility studies (which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed), precious and base metals price assumptions, the configuration of the orebody, expected recovery rates of metals from the ore, comparable facility and equipment costs, anticipated climatic conditions, estimates of labour, productivity, royalty or other ownership requirements and other factors. Some of the Company's development projects are also subject to the successful completion of final feasibility studies, issuance of necessary permits and other governmental approvals and receipt of adequate financing. Although the Company's feasibility studies are generally completed with the Company's knowledge of the operating history of similar ore bodies in the region, the actual operating results of its development projects may

differ materially from those anticipated, and uncertainties related to operations are even greater in the case of development projects.

Environmental and Other Regulatory Requirements

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

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

Mineral Resource and Reserve Estimates

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

Estimation of Asset Carrying Values

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

Factors which may affect carrying values include, but are not limited to, metal prices, capital cost estimates, mining, processing and other operating costs, grade and metallurgical characteristics of ore, mine design and timing of production. In the event of a prolonged period of depressed prices, the Company may be required to take material write-downs of its operating and development properties.

Funding Requirements and Economic Volatility

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

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

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

Uninsurable Risks

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

No Assurance of Titles or Boundaries

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

Partner in the Tenke Fungurume Project

The Company's partner in the Tenke Fungurume copper/cobalt project is Freeport-McMoRan Copper & Gold Inc. There may be risks associated with this partner, including its financial condition, of which the Company is not aware. There is a risk for non-payment by partners of their share of project expenditures, which would adversely affect the Company's financial position and financial results.

Tax

The Company runs its business in different countries and strives to run its business in as tax efficient a manner as possible. The tax systems in certain of these countries are complicated and subject to changes. By this reason, future negative effects on the result of the Company due to changes in tax regulations cannot be excluded. Repatriation of earnings to Canada from other countries may be subject to withholding taxes. The Company has no control over the withholding tax rates in the countries where the operations are carried out.

Employee Relations

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

Infrastructure

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

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

Key Personnel

The Company is dependant on a relatively small number of key employees, the loss of any of whom could have an adverse effect on the Company. The Company does not have key person insurance on these individuals.

Outstanding Share Data

As at February 23, 2011, the Company had 581,604,450 common shares issued and outstanding and 5,796,450 stock options and 171,360 stock appreciation rights outstanding under its stock-based incentive plans.

Non-GAAP Performance Measures

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

- Operating earnings

“Operating earnings” is a performance measure used by the Company to assess the contribution by mining operations to the Company’s net income or loss. Operating earnings is defined as sales, less operating costs, accretion of ARO and other provisions, selling, general and administration costs and stock-based compensation. The operating earnings are shown on the statement of operations as “Income before undernoted”.

- Cash cost per pound

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

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

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

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

	Three months ended December 31, 2010				Three months ended December 31, 2009			
	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (000s)	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (000s)
Operation								
Neves-Corvo (cu)	23,765	52,393	1.34	70,207	23,126	50,984	1.22	62,200
Zinkgruvan (zn)	14,657	32,313	0.15	4,847	17,187	37,891	0.23	8,715
Aguablanca (ni)	559	1,232	15.39	18,960	2,155	4,751	4.31	20,477
Galmoy (zn)*	-	-	-	970	-	-	-	-
				94,984				91,392
Add: By-product credits				34,180				38,498
Treatment costs				(22,757)				(37,893)
Royalties and other				8,842				6,810
Total Operating Costs				115,249				98,807

	Twelve months ended December 31, 2010				Twelve months ended December 31, 2009			
	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (000s)	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (000s)
Operation								
Neves-Corvo (cu)	69,935	154,180	1.33	205,059	82,747	182,426	1.14	207,966
Zinkgruvan (zn)	59,405	130,966	0.22	28,813	63,146	139,213	0.26	36,195
Aguablanca (ni)	5,116	11,279	7.08	79,855	7,582	16,715	4.40	73,546
Galmoy (zn)*	-	-	-	5,511	-	-	-	26,096
				319,238				343,803
Add: By-product credits				126,717				119,866
Treatment costs				(103,100)				(135,647)
Royalties and other				25,165				12,299
Total Operating Costs				368,020				340,321

* Operating costs for Galmoy in 2010 include shipment and processing of ore by an adjacent mine.

Management's Report on Internal Controls

Disclosure controls and procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures and has concluded that they were effective as at December 31, 2010.

Internal control over financial reporting

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

Management has used the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') framework in to assess the effectiveness of the Company's internal control over financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting and concluded that it was effective as at December 31, 2010.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the fiscal year ended December 31, 2010 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.

Management's Report

The accompanying consolidated financial statements of Lundin Mining Corporation and other information contained in the management's discussion and analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and include some amounts that are based on management's estimates and judgment.

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

(Signed) Philip J. Wright

President and Chief Executive Officer

Toronto, Ontario, Canada
February 23, 2011

(Signed) Marie Inkster

Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Lundin Mining Corporation

We have audited the accompanying consolidated financial statements of Lundin Mining Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lundin Mining Corporation as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP

**Chartered Accountants, Licensed Public Accountants
February 23, 2011**

LUNDIN MINING CORPORATION

CONSOLIDATED BALANCE SHEETS

As at December 31, 2010 and 2009

(in thousands of US dollars)	2010	2009
ASSETS		
Current		
Cash and cash equivalents (Note 4)	\$ 198,909	\$ 141,575
Accounts receivable (Note 5)	233,820	195,370
Inventories (Note 6)	31,688	27,519
Prepaid expenses	5,038	3,541
	469,455	368,005
Reclamation funds and restricted cash	61,559	67,076
Mineral properties, plant and equipment (Note 7)	1,254,434	1,310,287
Investment in Tenke Fungurume (Note 8)	1,742,875	1,633,740
Investments and other assets (Note 9)	32,411	42,508
Future income tax assets (Note 10)	39,841	68,707
Goodwill (Note 11)	232,813	249,820
	\$ 3,833,388	\$ 3,740,143
LIABILITIES		
Current		
Accounts payable	\$ 70,976	\$ 59,473
Accrued liabilities (Note 12)	64,307	48,235
Income taxes payable	43,743	14,657
Current portion of long-term debt and capital leases (Note 13)	2,512	2,536
Current portion of asset retirement obligations and other provisions (Note 18)	5,985	5,830
Current portion of deferred revenue (Note 15)	6,087	5,667
Derivative contracts (Note 16)	-	40,557
	193,610	176,955
Long-term debt and capital leases (Note 13)	37,152	188,352
Other long-term liabilities (Note 14)	10,881	11,936
Deferred revenue (Note 15)	67,957	72,230
Provision for pension obligations (Note 17)	18,816	16,385
Asset retirement obligations and other provisions (Note 18)	107,684	120,954
Future income tax liabilities (Note 10)	229,177	238,089
	665,277	824,901
SHAREHOLDERS' EQUITY		
Share capital (Note 19)	3,485,814	3,480,487
Contributed surplus	30,895	30,415
Accumulated other comprehensive income	194,989	265,051
Deficit	(543,587)	(860,711)
	3,168,111	2,915,242
	\$ 3,833,388	\$ 3,740,143

Commitments and contingencies (Note 22)

Subsequent event (Note 27)

See accompanying notes to consolidated financial statements

Approved by the Board of Directors*(Signed) Lukas H. Lundin*

Lukas H. Lundin, Director

(Signed) Dale C. Peniuk

Dale C. Peniuk, Director

LUNDIN MINING CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2010 and 2009

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

	2010	2009
Sales	\$ 849,223	\$ 745,989
Operating costs	(368,020)	(340,321)
Accretion of asset retirement obligations and other provisions	(3,539)	(6,918)
General and administration	(18,761)	(19,960)
Stock-based compensation (Note 19b)	(2,333)	(5,629)
Income from continuing operations before undernoted	456,570	373,161
Depreciation, depletion and amortization	(123,390)	(170,004)
General exploration and project investigation	(23,624)	(22,645)
Interest and bank charges	(8,763)	(15,027)
Foreign exchange (loss) gain	(5,084)	14,430
Gain (loss) on derivative contracts (Note 16)	10,223	(61,496)
Income from equity investment in Tenke Fungurume (Note 8)	78,614	297
Long-lived asset impairment (Note 7)	-	(53,042)
Gain (loss) on sale of AFS securities and investments (Note 9)	43,460	(6,710)
Other income and expenses	2,266	5,900
Income from continuing operations before income taxes	430,272	64,864
Current income tax expense (Note 10)	(85,193)	(51,106)
Future income tax (expense) recovery (Note 10)	(27,955)	54,375
Income from continuing operations	317,124	68,133
Gain from discontinued operations, net of income taxes (Note 20)	-	5,573
Net income	\$ 317,124	\$ 73,706
Basic and diluted income per share from		
Continuing operations	\$ 0.55	\$ 0.12
Discontinued operations	-	0.01
Basic and diluted income per share	\$ 0.55	\$ 0.13
Weighted average number of shares outstanding		
Basic	579,924,538	550,000,833
Diluted	580,539,367	550,045,231

See accompanying notes to consolidated financial statements.

LUNDIN MINING CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2010 and 2009

(in thousands of US dollars)

	2010	2009
Net income	\$ 317,124	\$ 73,706
Other comprehensive income (loss), net of taxes		
Changes in the fair value of AFS securities	36,793	38,274
Reclassification adjustment of gains included in net income	(43,460)	(8,506)
Cumulative foreign currency translation adjustment	(63,395)	53,209
	(70,062)	82,977
Comprehensive income	\$ 247,062	\$ 156,683

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2010 and 2009

(in thousands of US dollars, except share amounts)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance, December 31, 2008	487,433,771	\$ 3,331,309	\$ 24,758	\$ 182,074	\$ (934,417)	\$ 2,603,724
Exercise of stock options and SARs	158,693	354	(26)	-	-	328
Stock-based compensation	-	-	5,683	-	-	5,683
Reclassification adjustment of gains included in net income	-	-	-	(8,506)	-	(8,506)
Changes in the fair value of AFS securities	-	-	-	38,274	-	38,274
Issuance of common shares, net of costs	92,000,000	148,824	-	-	-	148,824
Net income	-	-	-	-	73,706	73,706
Effects of foreign currency translation	-	-	-	53,209	-	53,209
Balance, December 31, 2009	579,592,464	\$ 3,480,487	\$ 30,415	\$ 265,051	\$ (860,711)	\$ 2,915,242
Exercise of stock options	982,891	5,327	(1,853)	-	-	3,474
Stock-based compensation	-	-	2,333	-	-	2,333
Reclassification adjustment of gains included in net income	-	-	-	(43,460)	-	(43,460)
Changes in the fair value of AFS securities	-	-	-	36,793	-	36,793
Net income	-	-	-	-	317,124	317,124
Effects of foreign currency translation	-	-	-	(63,395)	-	(63,395)
Balance, December 31, 2010	580,575,355	\$ 3,485,814	\$ 30,895	\$ 194,989	\$ (543,587)	\$ 3,168,111

See accompanying notes to consolidated financial statements.

LUNDIN MINING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(in thousands of US dollars)

	2010	2009
Cash provided by (used in)		
Operating activities		
Net income	\$ 317,124	\$ 73,706
Items not involving cash		
Accretion of asset retirement obligations and other provisions	3,539	6,918
Stock-based compensation	2,333	5,629
Depreciation, depletion and amortization	123,390	170,004
Unrealized foreign exchange loss (gain)	1,702	(33,400)
(Gain) loss on derivative contracts	(10,223)	61,496
Income from equity investment in Tenke Fungurume	(78,614)	(297)
Long-lived asset impairment	-	53,042
(Gain) loss on sale of AFS securities and investments	(43,460)	6,710
Future income tax expense (recovery)	27,955	(54,375)
Gain on disposal of Aljustrel	-	(5,573)
Provision for pension obligations	1,290	1,615
Recognition of deferred revenue	(5,688)	(5,689)
Other	(716)	1,048
Settlement of derivative contracts	(30,591)	(20,437)
Reclamation payments and other closure costs	(5,882)	(20,647)
Reclamation fund contributions	(1,321)	(2,309)
Pension payments	(858)	(790)
Changes in non-cash working capital items (Note 26)	(22,704)	(99,256)
	277,276	137,395
Investing activities		
Investment in mineral properties, plant and equipment	(129,770)	(128,319)
Investment in Tenke Fungurume	(30,521)	(56,700)
Investments in AFS securities	(2,962)	(2,936)
Proceeds from sale of AFS securities and investments	83,780	20,844
Cash outlay on disposition of Aljustrel	-	(20,979)
Other	4,197	2,264
	(75,276)	(185,826)
Financing activities		
Debt and capital lease repayments	(157,637)	(164,547)
Proceeds from long-term debt	-	39,483
Common shares issued	3,474	149,258
Other	(1,684)	(421)
	(155,847)	23,773
Effect of foreign exchange on cash balances	11,181	(3,465)
Increase (decrease) in cash and cash equivalents during the year	57,334	(28,123)
Cash and cash equivalents, beginning of year	141,575	169,698
Cash and cash equivalents, end of year	\$ 198,909	\$ 141,575

Supplemental cash flow information (Note 26).

See accompanying notes to consolidated financial statements.

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

1. NATURE OF OPERATIONS

Lundin Mining Corporation (the “Company” or “Lundin Mining”) is a diversified Canadian base metals mining company with operations in Portugal, Sweden, Spain and Ireland, producing copper, zinc, lead and nickel.

The Company’s principal operating mine assets include the Neves-Corvo copper/zinc mine, located in Portugal, the Zinkgruvan zinc/lead mine, located in Sweden, the Aguablanca nickel/copper mine, located in Spain, and a 24.75% equity accounted interest in the Tenke Fungurume copper/cobalt mine in the Democratic Republic of Congo (“DRC”). In addition, the Company holds a development project at its Neves-Corvo mine.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

The presentation currency of the Company is US dollars. All amounts are in US dollars unless otherwise indicated.

Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these consolidated financial statements where required.

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Management exercises significant judgment in the determination of the following estimates:

- the amounts of ore reserves and resources used in the evaluation of carrying values, amortization rates and the timing of cash flows;
- quantities and net realizable value of inventories;
- contingent liabilities;
- tax provisions and future income tax balances;
- useful economic life of plant and equipment;
- costs of asset retirement obligations and other mine closure obligations;
- stock-based compensation measurements;
- financial and derivative instruments valuations;
- assumptions used in impairment testing of all assets;
- assumptions used in the determination of pension obligations;
- determination of reporting units and the valuation of reporting units for goodwill determination; and
- valuation of mineral exploration and development properties.

Actual results could differ from estimates made by management during the preparation of these consolidated financial statements, and those differences may be material.

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

Significant Accounting Policies

The significant accounting policies used in these consolidated financial statements are as follows:

(a) Subsidiaries and investments

Investments over which the Company holds a controlling interest are consolidated in these financial statements. The Company consolidates subsidiaries and entities that are subject to control on a basis of ownership of a majority of the voting interests.

Investments over which the Company has the ability to exercise significant influence are accounted for by the equity method. Under this method, the investment is initially recorded at cost and adjusted thereafter to record the Company's share of post acquisition earnings or loss of the investee as if the investee had been consolidated. The carrying value of the investment is also increased or decreased to reflect the Company's share of capital transactions, including amounts recognized in other comprehensive income, and for accounting changes that relate to periods subsequent to the date of acquisition. When there is a loss in value of an equity accounted investment which is other than temporary, the investment is written down to recognize the loss by a charge included in net income.

(b) Translation of foreign currencies

The accounts of self-sustaining foreign operations are translated into US dollars at period-end exchange rates, and revenues and expenses and cash flows are translated at the average exchange rates. Differences arising from these foreign currency translations are recorded as cumulative foreign currency translation adjustments within other comprehensive income and as accumulated other comprehensive income until they are realized by a reduction in the investment.

For integrated foreign operations, monetary assets and liabilities are translated into US dollars at period-end exchange rates and non-monetary assets and liabilities are translated at historical rates. Revenues, expenses and cash flows are translated at average exchange rates, except for items related to non-monetary assets and liabilities, which are translated at historical rates. Gains or losses on translation of monetary assets and monetary liabilities are included in net income.

The measurement or functional currency of all material subsidiaries is the local currency.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit with banks, and highly liquid short-term interest bearing investments with a term to maturity at the date of purchase of 90 days or less.

(d) Inventories

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

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

(e) Mineral properties

Mineral properties are carried at cost less accumulated depletion and any accumulated impairment charges. Mineral property expenditures include:

- i. Acquisition costs which consist of payments for property rights and leases, including the estimated fair value of exploration properties acquired as part of a business acquisition or the acquisition of a group of assets.
- ii. Exploration and evaluation costs incurred on an area of interest once a determination has been made that a property has potential economically recoverable resources and there is a reasonable expectation that costs can be recovered by future exploitation or sale of the property. Exploration and evaluation expenditures made prior to a determination that a property has economically recoverable resources are expensed as incurred.
- iii. Development costs incurred on an area of interest once management has determined that, based on a feasibility study, a property is capable of economical commercial production as a result of having established a proven and probable reserve, are capitalized as development expenses. Development costs are directly attributable to the construction of a mine. When additional development expenditures are made on a property after commencement of production, the expenditure is deferred as mineral property expenditures when it is probable that additional economic benefit will be derived from future operations.
- iv. Stripping costs represent cost incurred to remove overburden and other waste materials to access ore. Stripping costs incurred prior to the production phase of a mine are capitalized and included as part of mineral property costs. During the production phase, stripping costs which represent a betterment of the mineral property are capitalized. Capitalized stripping costs are amortized on a unit-of-production basis over the proven and probable reserves to which they relate. All other stripping costs incurred during the production phase of a property are accounted for as variable production costs and are included in the cost of inventory produced during the period in which the cost is incurred.
- v. Pre-production expenditures, net of the proceeds from sales generated (if any), relating to any one area of interest are capitalized as mineral property expenditures until such time as production rates achieve sustained commercial production levels.

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

(f) Plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment charges. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset, or over the estimated remaining life of the mine if shorter, as follows:

	<u>Years</u>
Buildings	20 - 50
Plant and machinery	5 - 20
Equipment	5

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

(g) Mining equipment under capital lease

Leases that transfer substantially all of the ownership benefits and risks of the mining equipment to the Company are accounted for as capital leases. At the time a capital lease is entered into, the asset is recorded together with the related long-term obligation and is amortized on a straight line basis over its estimated useful life but not to exceed the life of mine. The interest portion of the lease payments are charged to net income as incurred.

(h) Impairment assessment

The Company performs impairment tests on its mineral properties, including exploration and development properties, plant and equipment, when events or changes in circumstances indicate that the carrying values of these assets may not be recoverable. These tests require the comparison of the expected undiscounted future cash flows derived from these assets with the carrying value of the assets. If shortfalls exist, the assets are written down to fair value, determined primarily using discounted cash flow methods.

(i) Interest capitalization

Interest and financing costs on debt or other liabilities that can be attributed to specific projects and that are incurred during the development or construction period are capitalized as a cost of the asset under development or construction.

(j) Goodwill

Acquisitions of businesses are accounted for using the purchase method of accounting whereby all identifiable assets and liabilities are recorded at their fair values as at the date of acquisition. Any excess purchase price over the aggregate fair value of net assets plus or minus the amounts recognized for future income taxes is recorded as goodwill. Goodwill is identified and allocated to reporting units by preparing estimates of the fair value of each reporting unit and comparing this amount to the fair value of the assets and liabilities and related future income tax balances of the reporting unit at the date of acquisition.

Goodwill is not amortized. Goodwill is tested annually for impairment, or more frequently if current events or changes in circumstances indicate that the carrying value of the goodwill of a reporting unit may exceed its fair value. A two-step impairment test is used to identify potential impairment of goodwill and to measure the amount of goodwill impairment, if any. In the first step, the fair value of a reporting unit is compared with its carrying value, including goodwill. When the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is not undertaken. When the carrying value of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill (determined on the same basis as the value of goodwill is determined in a business combination) is compared with its carrying value to measure the amount of the impairment loss, if any. When the carrying value of a reporting unit's goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

(k) Derivatives

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

Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless closely related to the host contract.

All derivative instruments, including certain embedded derivatives that are separated from their host contracts, are recorded on the consolidated balance sheets at fair value and mark-to-market adjustments on these instruments are included in the consolidated statements of operations.

(l) Deferred revenue

Deferred revenue consists of payments received by the Company in consideration for future commitments to deliver silver contained in concentrate at contracted prices. As deliveries are made, the Company records a portion of the deferred revenue as sales, based on a proportionate share of deliveries made compared with the total estimated contractual commitment.

(m) Provision for pension obligations

The Company's Zinkgruvan mine has an unfunded defined benefit pension plan. The cost of the defined benefit pension plan is determined periodically by independent actuaries. The actuarial valuation is based on the projected benefit method pro-rated on service (which incorporates management's best estimate of future salary levels, retirement ages of employees and other actuarial factors). Each year, actuarial gains and losses are calculated and accumulated actuarial gains and losses are amortized over the estimated remaining period of services to be received.

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

(n) Asset retirement obligations

The Company records the estimated fair value of its asset retirement obligations as a long-term liability as incurred and records an increase in the carrying value of the related asset by a corresponding amount. In subsequent periods, the carrying value of the liability is accreted by a charge to the statement of operations to reflect the passage of time and the liability is adjusted to reflect any changes in the timing or amount of the underlying expected future cash flows. Charges for accretion and asset retirement obligation expenditures are recorded as operating activities.

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the asset retirement obligation, and a corresponding change in the carrying value of the related long-lived asset. Upward revisions in the amounts of estimated cash flows are discounted using the credit-adjusted risk-free rate applicable at the time of the revision. Downward revisions in the amount of estimated cash flows

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

are discounted using the historical credit-adjusted risk-free rate when the original liability was recognized.

(o) Revenue recognition

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

(p) Stock-based compensation

The Company follows the fair value method with respect to stock-based awards to directors and employees, including options and stock appreciation rights that call for settlement by the issuance of equity instruments. Under this approach, stock-based awards are recognized as a compensation expense over the vesting period of the options or when the awards or rights are granted, with a corresponding credit to contributed surplus. With respect to options that vest over time, the fair value is amortized using the graded vesting attribution method and expensed on a monthly basis. When the stock options or rights are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(q) Income taxes

The Company accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax based values. Future income tax assets and liabilities are measured using the tax rates substantively enacted when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in the statement of operations in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(r) Income per share

Basic income per share is calculated using the weighted average number of common shares outstanding during the period. Diluted income per share is calculated using the treasury stock method. In applying the treasury stock method, the assumed proceeds which would be received upon the exercise of outstanding stock options is used to calculate how many common shares could be purchased at the average market price during the period and cancelled. If the calculated result is dilutive, it is included in the diluted income per share calculation.

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

(s) Financial instruments – recognition and measurement / presentation and disclosure

Financial assets and financial liabilities are recognized in the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are required to be measured at fair value on initial recognition except for certain financial instruments that arise in related party transactions. Measurement in subsequent periods is dependent upon the classification of the financial instrument as held-for-trading, available-for-sale (“AFS”), loans and receivables, held-to-maturity, or other financial liabilities. The held-for-trading classification is applied when an entity is “trading” in an instrument or, alternatively, the standard permits that any financial instrument be irrevocably designated as held-for-trading. For financial instruments classified as other than held-for-trading, transaction costs are added to the initial fair value of the related financial instrument.

Financial assets and financial liabilities classified as held-for-trading are measured at fair values with changes in those fair values recognized in net income. Financial assets classified as AFS are measured at fair value with changes in those fair values recognized in other comprehensive income. Financial assets classified as loans and receivables, held-to-maturity or other financial liabilities are measured at amortized cost using the effective interest rate method of amortization. Where a financial asset classified as AFS has a loss in value which is considered to be other than temporary, the loss is recognized in the statement of operations.

The Company’s financial assets and liabilities are classified as follows:

- Cash and cash equivalents are classified as held-for-trading and any period change in fair value is recorded in the consolidated statements of operations.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.
- Investments are classified as AFS when they are acquired for purpose other than near term selling or repurchasing. Any period change in fair value is recorded through other comprehensive income. Where the investment experiences an other than temporary decline in value, the loss is recognized in the consolidated statements of operations.
- Accounts payable, accrued liabilities, long-term debt and capital leases are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.
- Derivative instruments, including certain embedded derivatives separated from their host contracts, are classified as held for trading and recorded at fair value.

3. FUTURE ACCOUNTING AND REPORTING CHANGES

Canadian GAAP for publicly accountable entities will be replaced by International Financial Reporting Standards (“IFRS”), effective for interim and annual periods beginning in the first quarter of fiscal 2011. The annual and interim fiscal 2011 consolidated financial statements will include an IFRS opening consolidated balance sheet as at January 1, 2010, fiscal 2011 comparatives, related transitional reconciliation and note disclosures.

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2010	2009
Cash	\$ 136,898	\$ 102,774
Short-term investments	62,011	38,801
	\$ 198,909	\$ 141,575

5. ACCOUNTS RECEIVABLE

Accounts receivable comprise the following:

	2010	2009
Trade receivables (Note 23)	\$ 207,508	\$ 147,462
VAT and other receivables	26,312	47,908
	\$ 233,820	\$ 195,370

6. INVENTORIES

Inventories comprise the following:

	2010	2009
Ore stockpiles	\$ 5,156	\$ 3,884
Concentrate stockpiles	6,354	2,168
Materials and supplies	20,178	21,467
	\$ 31,688	\$ 27,519

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Mineral properties, plant and equipment comprise the following:

December 31, 2010	Cost	Accumulated depreciation, depletion and amortization	Carrying value
Mineral properties	\$ 1,470,805	\$ 648,551	\$ 822,254
Plant and equipment	479,230	195,431	283,799
Exploration properties	51,855	-	51,855
Assets under construction	96,526	-	96,526
	\$ 2,098,416	\$ 843,982	\$ 1,254,434

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

December 31, 2009	Cost	Accumulated depreciation, depletion and amortization	Carrying value
Mineral properties	\$ 1,460,737	\$ 561,121	\$ 899,616
Plant and equipment	489,527	182,676	306,851
Exploration properties	55,573	-	55,573
Assets under construction	48,247	-	48,247
	\$ 2,054,084	\$ 743,797	\$ 1,310,287

The Company acquired equipment through capital lease in the amount of \$2.2 million (2009 - \$NIL).

During 2010, the Company disposed of non-core exploration properties for total proceeds of \$8.0 million. A portion of the proceeds will be received in 2011 and as at year-end, \$7.0 million is recorded as receivable. A total gain of \$6.1 million was recorded in other income and expenses on disposition of the properties.

During 2009, a write down of \$53.0 million was recorded (after tax \$37.1 million) related to the Salave gold project in northern Spain. On April 13, 2010, the exploration property was disposed of for gross proceeds of \$0.8 million and 5,296,688 shares of the purchaser. Loss on disposal of \$1.2 million was recorded in 2010.

8. INVESTMENT IN TENKE FUNGURUME

	Carrying value
Balance, December 31, 2008	\$ 1,576,743
Advances	56,700
Share of equity income	297
Balance, December 31, 2009	1,633,740
Advances	30,521
Share of equity income	78,614
Balance, December 31, 2010	\$ 1,742,875

The Company holds a 30% interest in TF Holdings ("TFH") which in turn holds an 82.5% interest in a Congolese subsidiary company, Tenke Fungurume Mining Corp S.A.R.L ("TFM"). Freeport-McMoRan Copper & Gold Inc. ("FCX" or "Freeport") holds the remaining 70% interest in TFH. TFM holds a 100% interest in the Tenke Fungurume copper/cobalt mine. The Company's and FCX's effective interest in TFM is 24.75% and 57.75%, respectively. La Générale des Carrières et des Mines ("Gécamines"), a DRC Government-owned corporation, owns a free-carried 17.5% interest. FCX is the operator of the mine. The Company exercises significant influence over TFM. Accordingly, the Company uses the equity method to account for this investment.

In October 2010, the government of the DRC announced the conclusion of the review of TFM's mining contracts. The conclusion of the review process confirmed that TFM's existing mining contracts are in good standing and acknowledged the rights and benefits granted under those contracts. TFM's key fiscal terms, including a 30 % income tax rate, a 2% mining royalty rate and a 1% export fee, will continue to apply and are consistent with the rates in the DRC's current Mining Code. In connection with the review, TFM made several commitments, which have been reflected in amendments to its mining contracts, including (1) an increase in the ownership interest of Gécamines from 17.5% (non-dilutable) to 20.0% (non-dilutable), resulting in a decrease of Freeport's effective ownership interest from 57.75% to 56.0% and the Company's effective ownership interest from 24.75% to 24.0%; (2) an additional royalty of \$1.2 million for each 100,000 tonnes of

LUNDIN MINING CORPORATION

Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

proven and probable copper reserves above 2.5 million tonnes at the time new reserves are established by FCX; (3) additional payments totaling \$30 million to be paid in six equal installments of \$5 million upon reaching certain production milestones; (4) conversion of \$50 million in intercompany loans to equity; (5) a payment of approximately \$5 million for surface area fees and ongoing surface area fees of approximately \$0.8 million annually; (6) incorporating clarifying language stating that TFM's rights and obligations are governed by its Amended and Restated Mining Convention ("ARMC"); and (7) expanding Gécamines' participation in TFM management.

TFM has also reiterated its commitment to the use of local services and Congolese employment. In connection with the modifications, the annual interest rate on advances from TFM shareholders increases from a rate of LIBOR plus 2% to LIBOR plus 6%. In December 2010, the addenda to TFM's ARMC and Amended and Restated Shareholders' Agreement were signed by all parties and are pending a Presidential Decree. TFM's existing mining contracts will be in effect until the Presidential Decree is obtained approving the signed amendments. In addition, the change in the Company's effective ownership interest in TFM and the conversion of intercompany loans to equity will be effected after obtaining approval of the modifications to TFM's bylaws. In December 2010, TFM made payments totaling \$26.5 million, which have been recorded as prepaid contract costs at December 31, 2010.

During the year ended December 31, 2010, the Company made cash advances of \$27.5 million to fund its portion of TFM expenditures (2009 - \$56.7 million). The Company has an off-balance sheet financing arrangement whereby FCX was responsible for funding the Company's share of Phase I project development costs that were in excess of agreed budgets. The amounts were funded through loans from FCX to the project and are non-recourse to the Company. The Company also made a transfer bonus payment due under the original contract of \$3.0 million.

During the year, \$118.7 million was repaid to FCX by TFM in respect of the Company's share of the Excess Overrun Costs to fund the initial phase I project. The remaining principal balance of \$108.4 million plus accrued interest will be repaid to FCX on a priority basis from future operating cash flows of TFM.

The following is a summary of the financial information of TF Holdings on a 100% basis, presented in accordance with Canadian GAAP, as at December 31:

	2010		2009	
Total assets	\$	2,533,463	\$	2,393,814
Total liabilities	\$	1,163,678	\$	1,447,239
Total revenue	\$	1,106,205	\$	279,799
Net income	\$	279,046	\$	22,534

9. INVESTMENTS AND OTHER ASSETS

Investments and other assets include the following:

	2010		2009	
AFS securities (a)	\$	27,337	\$	39,539
Other assets (b)		5,074		2,969
	\$	32,411	\$	42,508

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a) AFS securities

Investments in AFS securities consist of marketable securities which are carried at fair value based on quoted market prices (Note 23). These investments consist of shares in publicly traded mining and exploration companies.

During the year ended December 31, 2010, the Company recognized a gain of \$43.5 million (2009 - \$12.0 million) from the sale of AFS securities. Cash proceeds of \$52.3 million were received (2009 - \$17.3 million). The realized gain of \$43.5 million related to mark-to-market adjustments was reclassified from accumulated other comprehensive income to net income.

The Company does not exercise significant influence over any of the companies in which investments in AFS securities are held, which in all cases, amounts to less than a 20% equity interest in any one company.

b) Other assets

During 2009, the Company completed the sale of its 49% interest in the Ozernoe zinc project in Russia and recorded a loss on the sale of investment of \$18.7 million. Cash proceeds of \$35.0 million were received during 2009 and 2010.

10. FUTURE INCOME TAXES

The reconciliation of income taxes computed at Canadian statutory tax rates to the Company's income tax expense for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Net income before taxes	\$ 430,272	\$ 70,437
Combined basic federal and provincial rates	31.0%	33.0%
Income tax expense based on statutory income tax rates	\$ 133,341	\$ 23,244
Effect of lower tax rates in foreign jurisdictions	(42,369)	(7,138)
Effect on future tax balances due to change in foreign statutory tax rates	14,167	-
Reversal of prior year's valuation allowance	(1,164)	-
Non-deductible and non-taxable items	3,022	(9,294)
Other	6,151	(10,081)
Income tax expense (recovery)	\$ 113,148	\$ (3,269)

During 2010, the statutory tax rate in Portugal changed from 26.5% to 29%. As a result, an additional \$14.2 million future tax expense was recorded reflecting the net effect on future income tax assets and liabilities.

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Temporary differences and loss carry-forwards which give rise to future income tax assets and liabilities as at December 31, 2010 and 2009 are as follows:

	2010	2009
Future income tax assets		
Loss carry forwards	\$ 82,175	\$ 101,345
Mineral properties, plant and equipment	3,360	3,862
Investments	100	3,006
Asset retirement obligations and other mine closure costs	20,836	21,150
Reserves and provisions	3,839	13,678
Share issue costs	1,505	2,181
Other	10,078	8,972
	121,893	154,194
Valuation allowance	(82,052)	(85,487)
Future income tax assets	\$ 39,841	\$ 68,707
Future income tax liabilities		
Mineral properties, plant and equipment	\$ 206,818	\$ 206,190
Reserves	19,751	21,628
Other	2,608	10,271
Future income tax liabilities	229,177	238,089
Net future income tax liability	\$ 189,336	\$ 169,382

As at December 31, 2010, the Company had accumulated non-capital losses as follows:

Year of expiry	Canada	Spain	Sweden	Ireland	Total
2011	\$ 4,383	\$ -	\$ -	\$ -	\$ 4,383
2012	9,978	-	-	-	9,978
2013	-	-	-	-	-
2014	4,330	-	-	-	4,330
2015	7,458	-	-	-	7,458
2016 and thereafter	129,585	25,829	33,199	106,096	294,709
	\$ 155,734	\$ 25,829	\$ 33,199	\$ 106,096	\$ 320,858

Non-capital loss carry-forwards in Ireland and Sweden have an indefinite life.

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11. GOODWILL

The following table summarizes changes to the carrying value of goodwill:

	EuroZinc	Rio Narcea	Total
Balance, December 31, 2008	\$ 174,992	\$ 67,527	\$ 242,519
Effect of changes in foreign exchange rates	5,267	2,034	7,301
Balance, December 31, 2009	180,259	69,561	249,820
Effect of changes in foreign exchange rates	(12,271)	(4,736)	(17,007)
Balance, December 31, 2010	\$ 167,988	\$ 64,825	\$ 232,813

Goodwill resulted from the acquisition of EuroZinc Mining Corporation ("EuroZinc") in 2006, which includes primarily the mining operations of Neves-Corvo, and the acquisition of Rio Narcea Gold Mines, Ltd ("Rio Narcea") in 2007, which includes primarily the mining operations of Aguablanca.

12. ACCRUED LIABILITIES

	2010	2009
Unbilled goods and services	\$ 29,994	\$ 28,858
Payroll obligations	10,652	11,242
Royalty payable	23,661	8,135
	\$ 64,307	\$ 48,235

13. LONG-TERM DEBT AND CAPITAL LEASES

	2010	2009
Revolving credit facility (a)	\$ -	\$ 141,620
Somincor debt (b)	29,276	38,713
Capital lease obligations (c)	5,824	4,693
Rio Narcea debt (d)	4,564	5,862
	39,664	190,888
Less: current portion	2,512	2,536
	\$ 37,152	\$ 188,352

Management estimates that the fair value of the Company's long-term debt approximates its carrying value.

- During September 2010, the Company signed an amended and restated credit agreement. The amended agreement provides for a three year revolving credit facility of \$300 million. The interest rate on amounts drawn on the facility will range from LIBOR plus 3% to LIBOR plus 4%. The facility is secured by charges against the Company's mining assets and has covenants customarily required for such debt facilities, including minimum tangible net worth and interest coverage.
- During December 2009, a three year commercial paper program was established by the Company's wholly owned Portuguese subsidiary, Sociedade Mineira de Neves-Corvo S.A. ("Somincor"). The commercial paper has terms of a minimum of 7 days and a maximum of 1 year and bears interest at EURIBOR plus 2%. The effective interest rate at December 31, 2010 was 3%.

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- c) Capital lease obligations relate to leases on mining equipment having lease terms of five to eight years with interest rates at 30-day STIBOR. The effective interest rate at December 31, 2010 was 1.6%.
- d) The Rio Narcea debt is an interest free loan extended by the Spanish Department of Trade, Industry and Commerce. It is repayable in equal annual installments of €0.5 million on December 15 of each year through 2017. The debt is recorded using an imputed interest rate of 4.7%.

The principal repayment obligations are scheduled as follows:

	Debt	Capital leases	Total
2011	\$ 856	\$ 1,656	\$ 2,512
2012	29,970	1,579	31,549
2013	668	1,167	1,835
2014	668	553	1,221
2015 and thereafter	1,677	870	2,547
Total	\$ 33,839	\$ 5,825	\$ 39,664

14. OTHER LONG-TERM LIABILITIES

Included in other long-term liabilities are grants received by Somincor of \$7.6 million (€5.7 million) (2009 - \$9.8 million or €6.8 million) from the Portuguese government and the European Union to promote capital investment. Based on expenditures made and achievement of certain goals, a portion of this grant may not have to be repaid. The portion of the grant that is to be repaid may be interest free if it is to be repaid within two years from receipt of the grant. Otherwise, it will carry an interest of EURIBOR plus 0.75%, payable over a four year term.

15. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

	2010	2009
Balance, beginning of year	\$ 77,897	\$ 79,130
Amortization on delivery of silver in concentrate	(5,688)	(5,689)
Effect of changes in foreign exchange rates	1,835	4,456
	74,044	77,897
Less: estimated current portion	6,087	5,667
Balance, end of year	\$ 67,957	\$ 72,230

- a) Neves-Corvo mine

The Company has an agreement that gives silver rights for all of the silver contained in concentrate produced from its Neves-Corvo mine in Portugal to Silver Wheaton Corp ("Silver Wheaton"). The Company received an up-front payment which is being recognized as revenue as silver is delivered under the contract and receives the lesser of \$3.90 per ounce (subject to a 1% annual adjustment) and the market price per ounce of silver. The agreement extends to the earlier of September 27, 2057 and the end of mine life for the Neves-Corvo mine.

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b) Zinkgruvan mine

The Company has an agreement with Silver Wheaton that gives rights to silver contained in concentrate from the Zinkgruvan mine in Sweden to Silver Wheaton. The Company received an up-front payment which is being recognized as revenue as silver is delivered under the contract and receives a payment of the lesser of \$3.90 per ounce (subject to adjustment based on changes in the US consumer price inflation index) and the market price per ounce of silver (Note 22d).

16. DERIVATIVE CONTRACTS

During the year ended December 31, 2010, the Company paid cash to settle 22,577 tonnes of copper derivative contracts (2009 - 27,328 tonnes), which resulted in a gain of \$10.2 million (2009 - loss of \$61.5 million).

As at December 31, 2010, there are no contracts outstanding (2009 - 22,577 tonnes with a carrying value of \$40.6 million) (Note 23).

17. PROVISION FOR PENSION OBLIGATIONS

The Company has calculated its liability relating to the defined benefit plan at the Zinkgruvan mine using the projected benefit pro-rated on services method. Actuarial assumptions used to determine benefit obligations as at December 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	4.5%	4.0%
Rate of salary increase	2.5%	2.5%
Long-term rate of inflation	2.5%	0%

Information about Zinkgruvan's defined benefit and other retirement plans as at December 31, 2010 and 2009 are as follows:

	2010	2009
Accrued benefit obligation:		
Balance, beginning of the year	\$ 12,237	\$ 9,924
Current service costs	492	858
Interest costs	546	442
Actuarial loss (gain)	537	(190)
Benefits paid	(858)	(790)
Effects of foreign exchange	1,067	1,993
Balance, end of the year	14,021	12,237
Adjustments of cumulative unrecognized actuarial loss	760	528
Unrecognized actuarial (loss) gain	(537)	190
Accrued benefit liability	14,244	12,955
Provision for indirect taxes on non-vested pension obligations	2,613	2,375
Pension obligations covered by insurance policies	1,959	1,055
Total provision for pension obligations	\$ 18,816	\$ 16,385

The defined benefit plan is unfunded and, accordingly, there are no plan assets and the Company made no

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contributions to the plan. The Company's pension expense related to the defined benefit plan is as follows:

	2010	2009
Current service costs	\$ 492	\$ 858
Interest costs	546	442
Indirect taxes	252	315
Pension expense	\$ 1,290	\$ 1,615

In addition, the Company recorded a pension expense of \$2.6 million (2009 - \$1.9 million) relating to defined contribution plans.

18. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS

The asset retirement obligations ("ARO") and other provisions relating to the Company's operations are as follows:

	Asset retirement obligations	Other mine closure costs	Total
Balance, December 31, 2008	\$ 78,816	\$ 30,714	\$ 109,530
Accretion	4,984	-	4,984
Accruals for services	-	1,934	1,934
Changes in estimates	26,335	-	26,335
Effect of changes in foreign exchange rates	2,518	2,130	4,648
Payments	(6,009)	(14,638)	(20,647)
Balance, December 31, 2009	106,644	20,140	126,784
Accretion	5,106	-	5,106
Accruals for services	-	547	547
Changes in estimates	(2,567)	(2,114)	(4,681)
Effects of changes in foreign exchange rates	(5,624)	(2,581)	(8,205)
Payments	(5,882)	-	(5,882)
Balance, December 31, 2010	97,677	15,992	113,669
Less: current portion due within one year	5,777	208	5,985
	\$ 91,900	\$ 15,784	\$ 107,684

At December 31, 2010, the asset retirement obligation at the Neves-Corvo mine is based on the estimated undiscounted future site restoration costs of \$73.9 million (€55.3 million) and a credit-adjusted risk-free interest rate of 4.75%. There was a change in estimate during 2009 which increased the carrying value of the asset retirement obligation and the related asset by \$19.6 million. The Company expects the payments for site restoration costs to be incurred during the last 10 years preceding the closure of the Neves-Corvo mine. Based on the current reserve estimate, Neves-Corvo mine's end of mine life is estimated to be 2024. For the year ended December 31, 2010, the Company recorded an accretion expense of \$3.0 million (2009 - \$2.8 million). The asset retirement obligation for the Neves-Corvo mine was \$74.6 million (2009 - \$65.2 million).

The asset retirement obligation at the Zinkgruvan mine at December 31, 2010 was \$8.5 million (December 31, 2009 - \$13.4 million). This was based on estimated undiscounted future site restoration costs of \$10.7 million (SEK 71.8 million) and a credit-adjusted risk-free interest rate of 5.5%. There was a change in estimate during 2010, which decreased the carrying value of the asset retirement obligation and the related asset by \$6.2 million. This estimate change was a result of a new rehabilitation plan as well as a

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change in the expected timing of restoration payments now to be incurred commencing in 2018. The Company previously estimated the payment to be made at the end of mine life. The Company has posted environmental bonds in the amount of \$11.9 million (SEK 80 million), to be followed by additional bonds of \$2.4 million (SEK 16.2 million) and \$1.5 million (SEK 10.0 million) in 2016 and 2024, respectively (Note 22c).

The future site restoration and mine closure costs at the Aguablanca mine were determined based on the current life of mine plan with estimated undiscounted future site restoration costs of \$16.6 million (€12.4 million) for the mine using a credit-adjusted risk-free interest rate of 5.0%. There was a change in estimate during 2009 which increased the carrying value of the asset retirement obligation and the related asset by \$12.0 million. The asset retirement obligation including severance for the Aguablanca mine at December 31, 2010 totaled \$20.3 million (December 31, 2009 - \$23.8 million). The ARO is expected to be settled in 2014 and 2015.

The asset retirement obligation at the Galmoy mine as at December 31, 2010 was \$6.0 million (2009 - \$11.6 million) which was based on an undiscounted asset retirement obligation of \$6.0 million (€4.4 million) and a credit-adjusted risk-free interest rate of 5.5%. There was an increase of estimate in the amount of \$4.8 million during 2009. In 2010, \$5.8 million of site restoration and other mine closure payments were made (2009 - \$19.3 million). Remaining expenditures for site restoration costs are expected to be incurred in 2011.

19. SHARE CAPITAL

(a) Authorized and issued shares

The authorized share capital consists of an unlimited number of voting common shares with no par value and one special non-voting share with no par value. As at December 31, 2010, 580,575,355 voting common shares (2009 – 579,592,464) were issued and fully-paid.

On April 27, 2009, the Company issued 92 million common shares at a price of C\$2.05 per share by way of a short form prospectus offering for aggregate gross proceeds to the Company of \$155.8 million (C\$188.6 million). Net proceeds were \$148.8 million.

(b) Stock options

The Company has an incentive stock option plan (the "Plan") available for certain employees, directors and officers to acquire shares in the Company. The term of any options granted are fixed by the Board of Directors and may not exceed ten years from the date of grant.

Option pricing models require the input of highly subjective assumptions including expected price volatility and expected life. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the year.

The Company uses the fair value method of accounting for all stock-based payments to employees, directors and officers. Under this method, the Company recorded a stock compensation expense of \$2.3 million for 2010 (2009 - \$5.6 million) with a corresponding credit to contributed surplus. The fair value of the stock options granted at the date of the grant using the Black-Scholes pricing model assumes risk-free interest rates of 1.2% to 1.4% (2009 – 0.8% to 1.2%) , no dividend yield, expected life of 1.9 to 2.1 years (2009 - 1.5 to 2.1 years) with an expected price volatility ranging from 89% to 93% (2009 - 79% to 101%). As at December 31, 2010, there was \$0.8 million of unamortized stock compensation expense (2009 - \$1.7 million).

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The continuity of incentive stock options issued and outstanding during 2010 and 2009 is as follows:

	Number of options	Weighted average exercise price (C\$)
Outstanding, December 31, 2008	11,092,020	\$ 8.01
Granted during the year	1,448,334	2.79
Cancelled/forfeited during the year	(3,345,651)	8.75
Exercised during the year	(23,333)	2.67
Outstanding, December 31, 2009	9,171,370	6.93
Granted during the year	340,834	4.41
Cancelled/forfeited during the year	(1,463,768)	10.65
Exercised during the year	(982,891)	3.60
Outstanding, December 31, 2010	7,065,545	\$ 6.55

During the year ended December 31, 2010, the Company granted 340,834 incentive stock options to employees and officers at a weighted average exercise price of C\$4.41 per share that expire between December 31, 2012 and September 16, 2013. In 2009, the Company granted 1,448,334 incentive stock options to employees and officers at a weighted average exercise price of C\$2.79 per share that expire between December 31, 2011 and April 22, 2012. The exercise price for each of the options granted during 2010 and 2009 was based on the closing stock price on the date of grant.

The following table summarizes options outstanding as at December 31, 2010, as follows:

Range of exercise prices (CAD\$)	Outstanding options			Exercisable options		
	Number of options outstanding	Weighted average remaining contractual life (Years)	Weighted average exercise price (C\$)	Number of options exercisable	Weighted average remaining contractual life (Years)	Weighted average exercise price (C\$)
\$1.24 to \$4.41	1,178,341	1.5	\$ 3.06	640,826	1.4	\$ 3.04
\$4.42 to \$5.80	3,414,164	2.0	4.45	1,070,824	1.4	4.51
\$5.81 to \$9.62	433,840	1.6	7.97	433,840	1.6	7.97
\$9.63 to \$12.73	752,200	1.2	9.93	752,200	1.1	9.93
\$12.74 to \$13.75	1,287,000	1.7	12.86	1,287,000	1.7	12.86
	7,065,545	1.8	\$ 6.55	4,184,690	1.6	\$ 8.18

In 2010, 982,891 options (2009 - 23,833) and no stock appreciation rights (2009 - 135,360) were exercised. This resulted in the issuance of 982,891 common shares (2009 - 158,693).

The incremental shares added to the basic weighted average number of common shares to arrive at the fully diluted number of shares for the year ended December 31, 2010 and 2009 relate to the outstanding in-the-money stock options.

(c) Stock appreciation rights

The stock appreciation rights are recorded as a current liability and are adjusted based on the Company's closing stock price at the end of each reporting period. There was no liability related to the stock appreciation rights as at December 31, 2010 and 2009. There were 171,360 stock appreciation rights outstanding at an exercise price of C\$10.15 as at December 31, 2010 and 2009.

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20. DISCONTINUED OPERATIONS

The Company disposed of the Aljustrel mine in 2009 with a cash outlay of \$21.0 million. Gain on disposition of \$5.6 million was recorded in 2009.

21. SEGMENTED INFORMATION

The Company is engaged in mining, exploration and development of mineral properties, primarily in Portugal, Spain, Sweden, Ireland and the DRC. The Company has reportable segments as identified by the individual mining operations at each of its operating mines as well as its significant investment in the Tenke Fungurume Mine. Segments are operations reviewed by the executive management. Each segment is identified based on quantitative factors, whereby its revenues or assets comprise 10% or more of the total revenues or assets of the Company.

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Segmented Information - Operational

For the year ended December 31, 2010

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke	Other	Total
Sales	\$ 541,313	\$ 165,273	\$ 129,784	\$ 12,853	\$ -	\$ -	\$ 849,223
Income (loss) before undernoted	332,692	95,185	42,642	6,937	-	(20,886)	456,570
Depreciation, depletion and amortization	(87,143)	(15,328)	(20,434)	(71)	-	(414)	(123,390)
General exploration and project investigation	(17,554)	-	(1,116)	-	-	(4,954)	(23,624)
Interest and bank charges	(1,429)	(284)	(319)	-	-	(6,731)	(8,763)
Foreign exchange (loss) gain	5,088	(7,694)	(4,964)	(15)	-	2,501	(5,084)
Gain on derivative contracts	10,223	-	-	-	-	-	10,223
Income from equity investment in Tenke	-	-	-	-	78,614	-	78,614
Gain on sale of AFS securities	-	-	-	-	-	43,460	43,460
Other income and expenses	(2,706)	676	782	1,068	-	2,446	2,266
Income tax (expense) recovery	(90,261)	(18,447)	(7,572)	(416)	-	3,548	(113,148)
Net income	\$ 148,910	\$ 54,108	\$ 9,019	\$ 7,503	\$ 78,614	\$ 18,970	\$ 317,124
Capital assets*	\$ 976,361	\$ 224,367	\$ 44,517	\$ 6,812	\$ 1,742,875	\$ 2,377	\$ 2,997,309
Total segment assets	\$ 1,450,384	\$ 306,205	\$ 195,910	\$ 42,469	\$ 1,742,875	\$ 95,545	\$ 3,833,388
Capital expenditures	\$ 88,413	\$ 37,974	\$ 3,127	\$ -	\$ 30,521	\$ 256	\$ 160,291

For the year ended December 31, 2009

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke	Other	Total
Sales	\$ 448,742	\$ 137,281	\$ 125,146	\$ 34,820	\$ -	\$ -	\$ 745,989
Income (loss) before undernoted	263,361	74,775	48,854	12,480	-	(26,309)	373,161
Depreciation, depletion and amortization	(126,469)	(15,654)	(27,018)	(71)	-	(792)	(170,004)
General exploration and project investigation	(16,340)	(57)	(948)	-	-	(5,300)	(22,645)
Interest and bank charges	(1,930)	(299)	(1,186)	-	-	(11,612)	(15,027)
Foreign exchange (loss) gain	(5,341)	(2,160)	1,448	(215)	-	20,698	14,430
Loss on derivative contracts	(61,496)	-	-	-	-	-	(61,496)
Income from equity investment in Tenke	-	-	-	-	297	-	297
Long-lived assets impairment	-	-	-	-	-	(53,042)	(53,042)
(Loss) gain on sale of AFS securities and investment	-	-	-	-	-	(6,710)	(6,710)
Other income and expenses	(874)	959	5,285	508	(1,500)	1,522	5,900
Income tax (expense) recovery	(17,683)	(14,641)	10,790	(314)	-	25,117	3,269
Net income (loss) from continuing operations	33,228	42,923	37,225	12,388	(1,203)	(56,428)	68,133
Gain from discontinued operations	-	-	-	-	-	5,573	5,573
Net income (loss)	\$ 33,228	\$ 42,923	\$ 37,225	\$ 12,388	\$ (1,203)	\$ (50,855)	\$ 73,706
Capital assets*	\$ 1,044,360	\$ 190,330	\$ 68,315	\$ 6,243	\$ 1,633,740	\$ 1,039	\$ 2,944,027
Total segment assets	\$ 1,463,122	\$ 246,786	\$ 234,972	\$ 38,614	\$ 1,633,740	\$ 122,909	\$ 3,740,143
Capital expenditures	\$ 86,552	\$ 36,151	\$ 5,346	\$ 208	\$ 56,700	\$ 62	\$ 185,019

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

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Segmented Information - Geographical

For the year ended December 31, 2010

	Portugal	Sweden	Spain	Ireland	DRC	Other	Total
Sales	\$ 541,313	\$ 165,273	\$ 129,784	\$ 12,853	\$ -	\$ -	\$ 849,223
Income (loss) before undernoted	332,693	92,818	42,642	6,937	-	(18,520)	456,570
Depreciation, depletion and amortization	(87,143)	(15,361)	(20,434)	(71)	-	(381)	(123,390)
General exploration and project investigation	(17,554)	-	(1,116)	(3,591)	-	(1,363)	(23,624)
Interest and bank charges	(1,442)	(3,279)	(319)	-	-	(3,723)	(8,763)
Foreign exchange (loss) gain	5,064	(6,098)	(4,964)	(15)	-	929	(5,084)
Gain on derivative contracts	10,223	-	-	-	-	-	10,223
Income from equity investment in Tenke	-	-	-	-	78,614	-	78,614
Gain on sale of AFS securities	-	-	-	-	-	43,460	43,460
Other income and expenses	(2,682)	821	1,812	-	-	2,315	2,266
Income tax (expense) recovery	(90,486)	(19,043)	(7,572)	(416)	-	4,369	(113,148)
Net income (loss)	\$ 148,673	\$ 49,858	\$ 10,049	\$ 2,844	\$ 78,614	\$ 27,086	\$ 317,124
Capital assets*	\$ 976,485	\$ 224,452	\$ 44,517	\$ 6,812	\$ 1,742,875	\$ 2,168	\$ 2,997,309
Total segment assets	\$ 1,450,765	\$ 316,258	\$ 195,910	\$ 42,469	\$ 1,742,875	\$ 85,111	\$ 3,833,388
Capital expenditures	\$ 88,471	\$ 37,974	\$ 3,127	\$ -	\$ 30,521	\$ 198	\$ 160,291

For the year ended December 31, 2009

	Portugal	Sweden	Spain	Ireland	DRC	Other	Total
Sales	\$ 448,742	\$ 137,281	\$ 125,146	\$ 34,820	\$ -	\$ -	\$ 745,989
Income (loss) before undernoted	263,361	71,747	48,852	12,480	-	(23,279)	373,161
Depreciation, depletion and amortization	(126,564)	(15,831)	(27,018)	(71)	-	(520)	(170,004)
General exploration and project investigation	(15,974)	(1,299)	(1,030)	(3,403)	-	(939)	(22,645)
Interest and bank charges	(1,943)	(5,408)	(1,186)	-	-	(6,490)	(15,027)
Foreign exchange (loss) gain	(5,342)	4,764	1,448	(215)	-	13,775	14,430
Loss on derivative contracts	(61,496)	-	-	-	-	-	(61,496)
Income from equity investment in Tenke	-	-	-	-	297	-	297
Long-lived asset impairment	-	-	(53,042)	-	-	-	(53,042)
(Loss) gain on sale of AFS securities and investment	-	(18,346)	-	-	-	11,636	(6,710)
Other income and expenses	(1,994)	484	5,285	508	(1,500)	3,117	5,900
Income tax (expense) recovery	(17,661)	(4,146)	26,703	(314)	-	(1,313)	3,269
Net income (loss) from continuing operations	32,387	31,965	12	8,985	(1,203)	(4,013)	68,133
Gain from discontinued operations	5,573	-	-	-	-	-	5,573
Net income (loss)	\$ 37,960	\$ 31,965	\$ 12	\$ 8,985	\$ (1,203)	\$ (4,013)	\$ 73,706
Capital assets*	\$ 1,043,362	\$ 191,257	\$ 68,315	\$ 6,243	\$ 1,633,740	\$ 1,110	\$ 2,944,027
Total segment assets	\$ 1,462,339	\$ 233,345	\$ 234,988	\$ 38,614	\$ 1,633,740	\$ 137,117	\$ 3,740,143
Capital expenditures	\$ 86,559	\$ 36,159	\$ 5,346	\$ 208	\$ 56,700	\$ 47	\$ 185,019

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

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Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

22. COMMITMENTS AND CONTINGENCIES

- a) The Company's wholly-owned subsidiary, Somincor, has entered into the following commitments:
- i. Royalty payments under a fifty year concession agreement to pay the greater of 10% of net income or 0.75% of mine-gate production. Royalty costs for the year ended December 31, 2010 were \$24.3 million (2009 - \$6.7 million);
 - ii. Use of the railways under a railway transport agreement was extended for two more years, renewable automatically for periods of two years at an estimated annual cost of \$5 million per year. The next expiry will be November 2012.
- b) Royalty payments relating to the Aguablanca mine are 2% of net sales. Royalty costs for the year ended December 31, 2010 were \$2.6 million (2009 - \$2.5 million).
- c) A Swedish bank issued a bank guarantee to the Swedish authorities in the amount of \$11.9 million (SEK 80.0 million) relating to the future reclamation costs at the Zinkgruvan mine. The Company has agreed to indemnify the Swedish bank for this guarantee.
- d) As disclosed in Note 15, under agreements with Silver Wheaton, the Company has agreed to deliver all future production of silver contained in concentrate produced from the Zinkgruvan and Neves-Corvo mines. The Silver Wheaton agreement with the Zinkgruvan mine includes a guaranteed minimum delivery of 40 million ounces of silver over an initial 25 year term. If, at the end of the initial term, the Company has not met its minimum obligation, it must pay \$1.00 to Silver Wheaton for each ounce of silver not delivered. An aggregate total of 11,158,913 ounces has been delivered since the inception of the contract in 2004.
- e) A bonus transfer payment of \$3.0 million is to be made on the second anniversary of commercial production of the Tenke Fungurume Mine in 2011.
- f) The Company provides certain letters of credit and guarantees for \$6.6 million worth of contracts entered into by TFM. These letters of credit expire between 2011 and 2012.
- g) The Company is a party to certain contracts relating to leases, office rent and capital commitments. Future minimum payments under these agreements as at December 31, 2010 are as follows:

2011	\$ 34,682
2012	5,525
2013	428
2014	92
2015 and thereafter	99
Total	\$ 40,826

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23. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying value of certain financial instruments maturing in the short-term approximates their fair value. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The Company calculates fair values based on the following methods of valuation and assumptions:

Embedded derivatives in trade receivables – The fair values of embedded derivatives on provisional sales are valued using quoted market prices based on forward LME price;

AFS securities – The fair value of AFS securities is based on quoted market price;

Derivative contracts – The fair value is determined using a valuation model that incorporates the prevailing forward price of interest rates and the price and volatility of the commodity; and

Long-term debt, capital leases and other long-term liabilities – The Company considers fair value to equal carrying value which is equivalent to the amount payable on the consolidated balance sheet dates.

The Company classifies the fair values of its financial instruments according to the following hierarchy based on the amount of observable inputs used to value the investment:

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. as prices) or indirectly (i.e. derived from prices).

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

	December 31, 2010		
	Level 1	Level 2	Level 3
Embedded derivatives in trade receivables	\$ -	\$ 43,936	\$ -
AFS securities	27,337	-	-
	\$ 27,337	\$ 43,936	\$ -

	December 31, 2009		
	Level 1	Level 2	Level 3
Embedded derivatives in trade receivables	\$ -	\$ 23,734	\$ -
AFS securities	39,539	-	-
Derivative contracts	-	(40,557)	-
	\$ 39,539	\$ (16,823)	\$ -

The carrying values of financial instruments approximate their fair values.

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24. MANAGEMENT OF FINANCIAL RISK

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

Concentration of credit risk

The exposure to credit risk arises through the failure of a customer or another third party to meet its contractual obligations to the Company. The Company believes that its maximum exposure to credit risk as at December 31, 2010 is the carrying value of its trade receivables.

Concentrate produced at the Company's Neves-Corvo and Zinkgruvan mines is sold to a small number of strategic customers with whom the Company has established long-term relationships. Limited amounts are occasionally sold to metals traders on an ad hoc basis. Production from the Aguablanca mine is sold to a trading company under a long term contract which expires in July 2013, extendable for additional 24 months. The payment terms vary and provisional payments are normally received within 2-4 weeks of shipment, in accordance with industry practice, with final settlement up to four months following the date of shipment. Sales to metals traders are made on a cash up-front basis. The failure of any of the Company's strategic customers could have a material adverse effect on the Company's financial position. For the year ended December 31, 2010, the Company derives approximately 73% of its revenue from five major customers (2009 – 77%).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities and other contractual obligations.

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there is sufficient committed capital to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. The Company has in place a three year, fully revolving credit facility to meet its cash flow needs (Note 13).

The maturities of the Company's financial liabilities are as follows:

	Within 1 year	1 to 5 years
Accounts payable and accrued liabilities	\$ 135,283	\$ -
Long-term debt and capital lease obligations	2,512	37,152
Outstanding, December 31, 2010	\$ 137,795	\$ 37,152

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

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Notes to consolidated financial statements

For the years ended December 31, 2010 and 2009

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

As at December 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars but held by group companies that report in Euros, Swedish Krona and Canadian dollars:

		US Dollar
Cash and cash equivalents	\$	105,613
Other working capital items	\$	193,982

Commodity price risk

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

The Company may, at its election, use forward or derivative contracts to manage its exposure to changes in commodity prices, the use of which is subject to appropriate approval procedures. As at December 31, 2010, the Company has no outstanding contractual obligations (2009 - 22,577 tonnes of copper outstanding). The Company is also subject to price risk on the final settlement of its trade receivables.

The sensitivity of the Company's financial instruments recorded as at December 31, 2010 before considering the effect of increased metal prices on smelter treatment charges is as follows:

	Provisional price on December 31, 2010 (\$US/tonne)	Change	Effect on pre-tax earnings (\$ millions)
Copper	\$ 9,630	+10%	\$ 20.3
Zinc	\$ 2,360	+10%	\$ 4.3
Lead	\$ 2,476	+10%	\$ 2.7
Nickel	\$ 24,743	+10%	\$ 1.8

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to interest rate risk arises both from the interest rate impact on its cash and cash equivalents as well as on its debt facilities. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any short-term investments included in cash and cash equivalents as they are generally held to maturity with large financial institutions. The Company does not own any asset-backed commercial paper.

As at December 31, 2010, holding all other variables constant and considering the Company's outstanding debt of \$39.7 million, a 1% change in the interest rate would result in an approximate \$0.4 million interest expense on an annualized basis.

25. MANAGEMENT OF CAPITAL RISK

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

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

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

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

The net cash (debt) to shareholders' equity as at December 31, 2010 and 2009 is calculated as follows:

	2010	2009
Cash and cash equivalents	\$ 198,909	\$ 141,575
Debt and capital leases - current and long-term	(39,664)	(190,888)
Net cash (debt)	159,245	(49,313)
Shareholders' equity	\$ 3,168,111	\$ 2,915,242
Net cash (debt) to shareholders' equity	5.0%	(1.7%)

26. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Changes in non-cash working capital items consist of:		
Accounts receivable and other current assets	\$ (76,665)	\$ (34,839)
Accounts payable and other current liabilities	53,961	(64,417)
	\$ (22,704)	\$ (99,256)
Operating activities included the following cash payments		
Interest paid	\$ 5,867	\$ 15,487
Income taxes paid	\$ 56,995	\$ 37,794

27. SUBSEQUENT EVENT

On January 12, 2011, Inmet Mining Corporation ("Inmet") and the Company announced that they have entered into an arrangement agreement (the "Arrangement Agreement") to merge and create Symterra Corporation ("Symterra").

Under the terms of the Arrangement Agreement, each Inmet shareholder will receive 3.4918 shares of Symterra and each Lundin shareholder will receive 0.3333 shares of Symterra for each share held.

Completion of the proposed merger is conditional on approval of Inmet and the Company's shareholders and satisfaction of other customary approvals including regulatory, stock exchanges and court approvals. The required shareholder approval will be two thirds of the votes cast by each of the holders of Inmet and the Company's common shares at shareholder meetings to be held to consider the proposed merger. Shareholder meetings for Inmet and Lundin are expected to be held on or about March 14, 2011.

The Arrangement Agreement includes customary reciprocal deal protections. Each party has agreed not to solicit any alternative transactions. Each company has agreed to pay the other a break fee of C\$120 million in certain circumstances. In addition, each company has granted the other a right to match any competing offer.