

LUNDIN MINING CORPORATION

INCENTIVE STOCK OPTION PLAN

ARTICLE I INTRODUCTION

1.1 Purpose of Plan

The purpose of the Plan is to secure for the Company and its shareholders the benefits of incentive inherent in the share ownership by the Directors, key Employees and Consultants of the Company and its subsidiaries who, in the judgment of the Board, will be largely responsible for its future growth and success. It is generally recognized that a stock option plan of the nature provided for herein aids in retaining and encouraging Employees and Directors of exceptional ability because of the opportunity offered them to acquire a proprietary interest in the Company.

1.2 Definitions

- (a) **"Affiliate"** means any corporation that is an affiliate of the Company as defined in National Instrument 45-106 – *Prospectus and Registration Exemptions*, as may be amended from time to time.
- (b) **"Associate"** of any person or company, is as defined in the Securities Act, as may be amended from time to time.
- (c) **"Board"** means the board of directors of the Company, or any committee of the board of directors to which the duties of the board of directors hereunder are delegated.
- (d) **"Change of Control"** means the occurrence of any one or more of the following events:
 - (i) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving the Company or any of its Affiliates and another corporation or other entity, as a result of which the holders of Shares immediately prior to the completion of the transaction hold less than 50% of the outstanding shares of the successor corporation immediately after completion of the transaction;
 - (ii) the sale, lease, exchange or other disposition, in a single transaction or a series of related transactions, of all or substantially all of the assets, rights or properties of the Company and its subsidiaries on a consolidated basis to any other person or entity, other than transactions among the Company and its subsidiaries;
 - (iii) a resolution is adopted to wind-up, dissolve or liquidate the Company;
 - (iv) any person, entity or group of persons or entities acting jointly or in concert (the **"Acquiror"**) acquires, or acquires control (including, without limitation, the power to vote or direct the voting) of, voting securities of the Company which, when added to the voting securities owned of record or beneficially by the Acquiror or which the Acquiror has the right to vote or in respect of which the Acquiror has the right to direct the voting, would entitle the Acquiror and/or Associates and/or Affiliates of the Acquiror to cast or direct the casting of 30% or more of the votes attached to all of the Company's outstanding voting securities which may be cast to elect directors of the Company or the successor corporation (regardless of whether a meeting has been called to elect directors);

- (v) as a result of or in connection with: (A) a contested election of directors of the Company; or (B) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving the Company or any of its Affiliates and another corporation or other entity (a "**Transaction**"), fewer than 50% of the Directors are persons who were directors of the Company immediately prior to such Transaction; or
- (vi) the Board adopts a resolution to the effect that a Change of Control as defined herein has occurred or is imminent.

For the purposes of the foregoing definition of Change of Control, "**voting securities**" means Shares and any other shares entitled to vote for the election of directors of the Company and shall include any security, whether or not issued by the Company, which are not shares entitled to vote for the election of directors but are convertible into or exchangeable for shares which are entitled to vote for the election of directors, including any options or rights to purchase such shares or securities.

- (e) "**Company**" means Lundin Mining Corporation and includes any successor corporation thereof.
- (f) "**Consultant**" means, in relation to the Company, an individual or a consultant company, other than an Employee, Director or Officer of the Company, that:
 - (i) is engaged to provide on a continuous bona fide basis, consulting, technical, management or other services to the Company or to an Affiliate of the Company, other than services provided in relation to a distribution, for a period of at least 12 months;
 - (ii) provides the services under a written contract between the Company or the Affiliate and the individual or the consultant company;
 - (iii) in the reasonable opinion of the Company, spends or will spend a significant amount of time and attention on the affairs and business of the Company or an Affiliate of the Company; and
 - (iv) has a relationship with the Company or an Affiliate of the Company that enables the individual to be knowledgeable about the business and affairs of the Company.
- (g) "**Consultant Company**" means for an individual Consultant, a company or partnership of which the individual is an employee, shareholder or partner.
- (h) "**Director**" means a director of the Company or any of its subsidiaries.
- (i) "**Disinterested Shareholder Approval**" means approval by a majority of the votes cast by all the Company's shareholders at a duly constituted shareholders' meeting, excluding votes attached to shares of the Company beneficially owned by Insiders of the Company to whom Options may be granted under the Plan and their Associates.
- (j) "**Eligible Person**" means an Employee, Director or Officer of the Company or any of its subsidiaries or Affiliates, Consultant, and a Management Company Employee, and, except in relation to a Consultant Company, includes a company that is wholly-owned by such persons.

- (k) **"Employee"** means an individual who is a bona fide employee of the Company or of any subsidiary of the Company and includes a bona fide permanent part-time employee of the Company or any subsidiary of the Company.
- (l) **"Exchange"** means, as the context requires, the TSX, or any other stock exchange on which the Shares are listed for trading at the relevant time.
- (m) **"Insider"** has the meaning ascribed to such term in the TSX Company Manual.
- (n) **"Management Company Employee"** means an individual who is a bona fide employee of a company providing management services to the Company, which are required for the ongoing successful operation of the business enterprise of the Company.
- (o) **"Market Price"** as at any date in respect of the Shares shall be the closing price of the Shares on the TSX, or if the Shares are not then listed on the TSX, on the principal stock exchange on which such Shares are traded, on the trading day of the Option grant. In the event that the Shares are not then listed and posted for trading on a stock exchange, the Market Price shall be the fair market value of such Shares as determined by the Board in its sole discretion.
- (p) **"non-employee director"** means a director who is not also an officer of the Company.
- (q) **"Officer"** means a senior officer of the Company or any of its subsidiaries.
- (r) **"Option"** shall mean an option granted under the terms of the Plan.
- (s) **"Option Commitment"** means the commitment of grant of an Option delivered by the Company hereunder to an Optionee and substantially in the form of Exhibit A hereto.
- (t) **"Optionee"** shall mean a Participant to whom an Option has been granted under the terms of the Plan.
- (u) **"Participant"** means, in respect of the Plan, an Eligible Person who elects to participate in the Plan.
- (v) **"Plan"** means the Incentive Stock Option Plan, as may be amended from time to time.
- (w) **"Resignation"** means the cessation of employment (as an Officer or Employee) of the Participant with the Company or an Affiliate as a result of resignation, other than as a result of Retirement.
- (x) **"Retirement"** means the Participant ceasing to be an Employee or Officer of the Company or an Affiliate in accordance with the retirement policies of the Company or any subsidiary, if any, or such other time as the Company may agree with the Participant.
- (y) **"Securities Act"** means the *Securities Act*, R.S.O. 1990, Chapter S.5.
- (z) **"Shares"** mean the common shares in the capital of the Company.
- (aa) **"Termination With Cause"** means the termination of employment (as an Officer or Employee) of the Participant with cause by the Company or an Affiliate (and does not include Resignation or Retirement).
- (bb) **"Termination Without Cause"** means the termination of employment (as an Officer or Employee) of the Participant without cause by the Company or an Affiliate (and does not

include Resignation or Retirement) and, in the case of an Officer, includes the removal of or failure to reappoint the Participant as an Officer of the Company or an Affiliate.

(cc) "TSX" means the Toronto Stock Exchange.

ARTICLE II STOCK OPTION PLAN

2.1 Participation

Options to purchase Shares may be granted hereunder to Eligible Persons.

2.2 Determination of Option Recipients

The Board shall make all necessary or desirable determinations regarding the granting of Options to Eligible Persons and may take into consideration the present and potential contributions of a particular Eligible Person to the success of the Company and any other factors which it may deem proper and relevant.

2.3 Exercise Price

The exercise price per Share under an Option shall be determined by the Board but, in any event, shall not be lower than the Market Price of the Shares of the Company on the date of grant of the Options.

2.4 Grant of Options

The Board may at any time authorize the granting of Options to such Eligible Persons as it may select for the number of Shares that it shall designate, subject to the provisions of the Plan. A Director of the Company to whom an Option may be granted shall not participate in the decision of the Board to grant such Option. The date of each grant of Options shall be determined by the Board when the grant is authorized.

2.5 Option Commitment

Each Option granted to an Optionee shall be evidenced by an Option Commitment detailing the terms of the Option and upon delivery of the Option Commitment to the Optionee by the Company, the Optionee shall have the right to purchase the Shares underlying the Option at the exercise price set out therein, subject to any provisions as to the vesting of the Option.

2.6 Term of Options

The period within which Options may be exercised and the number of Options which may be exercised in any such period shall be determined by the Board at the time of granting the Options provided, however, that all Options must be exercisable during a period not extending beyond five (5) years from the date of the Option grant. Notwithstanding the foregoing, in the event that the expiry of an Option period falls within, or within two (2) days of, a trading blackout period imposed by the Company (the "**Blackout Period**"), the expiry date of such Option shall be automatically extended to the 10th business day following the end of the Blackout Period.

2.7 Exercise of Options

Subject to the provisions of the Plan, an Option may be exercised from time to time by delivery to the Company of a written notice of exercise specifying the number of Shares with respect to which the Option is being exercised and accompanied by payment in full of the exercise price of the Shares to be

purchased. Certificates for such Shares shall be issued and delivered to the Optionee within a reasonable time following the receipt of such notice and payment.

2.8 **Vesting**

Options granted pursuant to the Plan shall vest and become exercisable by an Optionee at such time or times as may be determined by the Board at the date of the Option grant and as indicated in the Option Commitment related thereto.

2.9 **Lapsed Options**

If Options are surrendered, terminated or expire without being exercised, in whole or in part, new Options may be granted covering the Shares not purchased under such lapsed Options..

2.10 **Change of Control**

In the event of a Change of Control, all unvested Options outstanding shall automatically immediately vest on the date of such Change of Control. Upon a Change of Control, Participants shall not be treated any more favourably than shareholders of the Company with respect to the consideration that the Participants would be entitled to receive for the Shares issued upon exercise of their Options. Options may be cancelled if such Options are out of the money.

2.11 **Death or Disability of Optionee**

In the event of:

- (a) the death of a Participant, any unvested Options held by such Participant will automatically vest and become exercisable on the date of death of such Participant and all Options shall be exercisable for a period of 12 months after the date of death, subject to the expiration of such Options occurring prior to the end of such 12-month period; or
- (b) the disability of a Participant (as may be determined in accordance with the policies, if any, or general practices of the Company or any subsidiary), any unvested Options held by such Participant will automatically vest and become exercisable on the date on which the Participant is determined to be totally disabled and all Options shall be exercisable for a period of 12 months after the date the Participant is determined to be totally disabled, subject to the expiration of such Options occurring prior to the end of such 12-month period.

2.12 **Retirement**

In the event of Retirement of a Participant, any unvested Options held by such Participant will automatically vest and become exercisable on the date of Retirement and all Options shall be exercisable for a period of 12 months after the date of Retirement, subject to the expiration of such Options occurring prior to the end of such 12-month period.

2.13 **Termination Without Cause**

In the event of Termination Without Cause of a Participant that has been continuously employed by the Company, a subsidiary or Affiliate, or retained as a Consultant to the Company or a Management Company Employee, for at least two (2) years prior to the date of such Termination Without Cause inclusive of any notice period, if applicable, any unvested Options held by such Participant will automatically vest on the date of Termination Without Cause, and shall be exercisable for a period of 90 days after the date of Termination Without Cause, subject to the expiration of such Options occurring prior to the end of such 90-day period. In the event of Termination Without Cause of a Participant that has

been continuously employed by the Company, a subsidiary or Affiliate, or retained as a Consultant to the Company or a Management Company Employee, for less than two (2) years prior to the date of such Termination Without Cause inclusive of any notice period, if applicable, any vested Options held by such Participant shall be exercisable for a period of 90 days after the date of Termination Without Cause, but any unvested Options held by the Participant shall become void and the Participant shall have no entitlement and will forfeit any rights to any issuance of Shares under this Plan in connection with such unvested Options, except as may otherwise be stipulated in the Participant's Option Commitment.

2.14 **Resignation**

In the event of Resignation of a Participant, all of the Participant's Options that have vested shall be exercisable for a period of 90 days after the date of Resignation, subject to the expiration of such Options occurring prior to the end of such 90-day period, and any unvested Options held by such Participant shall become void on the date of Resignation.

2.15 **Termination With Cause**

In the event of Termination With Cause of a Participant, all of the Participant's Options shall become void and the Participant shall have no entitlement and will forfeit any rights to any issuance of Shares under Options awarded under this Plan, except as may otherwise be stipulated in the Participant's Option Commitment, employment agreement or as may otherwise be determined by the Board in its sole and absolute discretion.

2.16 **Subject to Employment/Severance Agreements**

Sections 2.10, 2.11, 2.12, 2.13, and 2.14 shall be subject to any employment/severance agreement between the Participant and the Company or its Affiliates.

2.17 **Effect of Take-Over Bid**

If a bona fide offer (the "Offer") for Shares is made to shareholders generally (or to a class of shareholders that would include the Participant), which Offer, if accepted in whole or in part, would result in the offeror (the "Offeror") exercising control over the Company within the meaning of the Securities Act, then the Company shall, as soon as practicable following receipt of the Offer, notify each Participant of the full particulars of the Offer. The Board will have the sole discretion to amend, abridge or otherwise eliminate any vesting schedule related to each Participant's Options so that notwithstanding the other terms of this Plan, such Option may be conditionally exercised in whole or in part by the Optionee and the underlying Shares may be conditionally issued to each such Participant so (and only so) as to permit the Participant to tender the Shares received in connection with the exercise of the Options pursuant to the Offer. If:

- (a) the Offer is not complied with within the time specified therein;
- (b) the Participant does not tender the Shares underlying the Options pursuant to the Offer;
or
- (c) all of the Shares tendered by the Participant pursuant to the Offer are not taken up and paid for by the Offeror,

then at the discretion of the Board, the Options shall be deemed not to have been exercised and the Shares or, in the case of clause (c) above, the Shares that are not taken up and paid for, shall be deemed not to have been issued and will be reinstated as authorized but unissued Shares and the Options shall be reinstated and the terms of the Options as set forth in this Plan and the applicable Option Commitment shall again apply to the Options. If any Shares are returned to the Company under this Section, the Company shall refund the exercise price to the Optionee for such Shares without interest or deduction.

2.18 **Adjustment in Shares Subject to the Plan**

In the event there is any change in the Shares, whether by reason of a stock dividend, consolidation, subdivision, reclassification or otherwise, an appropriate adjustment shall be made by the Board, in its sole discretion, to the exercise price of any outstanding Options as well as the number of Shares which may be issued upon exercise of the Options to reflect such changes. If the foregoing adjustment shall result in a fractional Share, the fraction shall be disregarded. All such adjustments shall be conclusive, final and binding for all purposes of this Plan.

ARTICLE III GENERAL

3.1 **Maximum Number of Shares**

- (a) The maximum number of Shares made available for issuance from treasury under this Plan, subject to adjustments pursuant to Section 2.18, is 30,000,000 Shares (including Shares underlying outstanding Options). Any Option which has been cancelled or terminated prior to exercise in accordance with the terms of the Plan will again be available under the Plan.
- (b) The grant of Options under the Plan is subject to the number of the Shares: (i) issued to insiders of the Company, within any one (1) year period, and (ii) issuable to Insiders of the Company, at any time, under the Plan, or when combined with all of the Company's other security based compensation arrangements, shall not exceed 10% of the Company's total issued and outstanding Shares, respectively. For the purposes of this Plan, "security-based compensation arrangement" shall have the meaning set out in the TSX Company Manual. For greater certainty, the number of Shares outstanding shall mean the number of Shares outstanding on a non-diluted basis on the date immediately prior to the proposed date of grant of the Options.
- (c) The aggregate number of Options granted pursuant to this Plan to any one non-employee Director, if ever applicable, within any one-year period shall not exceed a maximum value of Cdn\$100,000 worth of Options. The value of the Options shall be determined using a generally accepted valuation model.
- (d) The aggregate number of Shares reserved for issuance pursuant to this Plan to non-employee Directors as a group, if ever applicable, shall not exceed 1% of the number of issued and outstanding Shares of the Company, as calculated without reference to the initial options granted under the Plan to a person who is not previously an insider of the Company upon such person becoming or agreeing to become a director of the Company, and without reference to options held by former directors of the Company.

For the purposes of this Section 3.1, the number of Shares then outstanding shall mean the number of Shares outstanding on a non-diluted basis on the date immediately prior to the proposed grant date of the applicable Options.

3.2 **Transferability**

Options are not assignable or transferable other than by will or by the applicable laws of descent. During the lifetime of an Optionee, all Options may only be exercised by the Optionee.

3.3 **Employment**

Nothing contained in the Plan shall confer upon any Optionee any right with respect to employment or continuance of employment with the Company or any subsidiary, or interfere in any way with the right of

the Company or any subsidiary, to terminate the Optionee's employment at any time. Participation in the Plan by an Optionee is voluntary.

3.4 **No Shareholder Rights**

An Optionee shall not have any rights as a shareholder of the Company with respect to any of the Shares covered by an Option until the Optionee exercises such Option in accordance with the terms of the Plan and the issuance of the Shares by the Company.

3.5 **Record Keeping**

The Company shall maintain a register in which shall be recorded the name and address of each Optionee, the number of Options granted to an Optionee, the details thereof and the number of Options outstanding.

3.6 **Necessary Approvals**

The Plan shall be effective only upon the approval of both the Board and the shareholders of the Company by ordinary resolution. The obligation of the Company to sell and deliver Shares in accordance with the Plan is subject to the approval of any governmental authority having jurisdiction or the Exchange which may be required in connection with the authorization, issuance or sale of such Shares by the Company. If any Shares cannot be issued to any Optionee for any reason including, without limitation, the failure to obtain such approval, then the obligation of the Company to issue such Shares shall terminate and any exercise price paid by an Optionee to the Company shall be returned to the Optionee without interest or deduction.

3.7 **Delegation to Committee**

All of the powers exercisable hereunder by the Board may, to the extent permitted by applicable law and by resolution of the Board, be exercised by the Human Resource & Compensation Committee of the Board, or such other committee as the Board may determine from time to time. The directors of such committee shall not be employees of the Company so long as they are on such committee.

3.8 **Administration of the Plan**

The Board is authorized to interpret the Plan from time to time and to adopt, amend and rescind rules and regulations for carrying out the Plan. The interpretation and construction of any provision of the Plan by the Board shall be final and conclusive. Administration of the Plan shall be the responsibility of the appropriate Officers of the Company and all costs in respect thereof shall be paid by the Company.

3.9 **Income Taxes**

The Company or its Affiliates may take such steps as are considered necessary or appropriate for the withholding of any taxes or other source deduction which the Company or its Affiliate is required by any law or regulation of any governmental authority whatsoever to withhold in connection with this Plan, including a sale on behalf of a Participant, of a sufficient number of Shares to fund such withholding obligation.

3.10 **Amendments to the Plan**

The Board may from time to time in its sole discretion, and without shareholder approval, amend, modify and change the provisions of this Plan and any Option Commitment, in connection with (without limitation):

- (a) amendments of a housekeeping nature;

- (b) the addition or a change to any vesting provisions of a Option;
- (c) changes to the termination provisions of an Option or the Plan which do not entail an extension beyond the original expiry date;
- (d) the addition of a cashless exercise feature, payable in cash or securities, whether or not providing for a full deduction of the number of underlying Shares from the Plan reserves; and
- (e) amendments to reflect changes to applicable securities or tax laws.

However, other than as set out above, any amendment, modification or change to the provisions of this Plan which would:

- (a) reduce the exercise price of an Option, cancel and reissue an Option or cancel an Option in order to issue an alternative entitlement;
- (b) amend the term of an Option to extend the term beyond its original expiry;
- (c) amend the limits imposed on non-employee Directors in Sections 3.1(c) and 3.1(d) (other than by virtue of adjustments pursuant to section 2.18 of this Plan);
- (d) materially increase the benefits to the holder of the Options who is an Insider to the material detriment of the Company and its shareholders;
- (e) increase the number of Shares or maximum percentage of Shares which may be issued pursuant to this Plan (other than by virtue of adjustments pursuant to Section 2.18 of this Plan);
- (f) permit Options to be transferred other than for normal estate settlement purposes;
- (g) remove or exceed the Insider participation limits;
- (h) materially modify the eligibility requirements for participation in this Plan; or
- (i) modify the amending provisions of the Plan set forth in this Section 3.10,

shall only be effective on such amendment, modification or change being approved by the shareholders of the Company. In addition, any such amendment, modification or change of any provision of this Plan shall be subject to the approval, if required, by the Exchange having jurisdiction over the securities of the Company.

3.11 **No Representation or Warranty**

The Company makes no representation or warranty as to the future market value of any Shares issued in accordance with the provisions of the Plan.

3.12 **Interpretation**

The Plan will be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

3.13 **Compliance with Applicable Law**

If any provision of the Plan or any agreement entered into pursuant to the Plan contravenes any law or any order, policy, by-law or regulation of any regulatory body or stock exchange having authority over the Company or the Plan then such provision shall be deemed to be amended to the extent required to bring such provision into compliance therewith.

3.14 **Effective Dates and Amendments**

Approved by the Board on March 26, 2014.

Approved by the Shareholders on May 9, 2014.

EXHIBIT A

LUNDIN MINING CORPORATION

**INCENTIVE STOCK OPTION PLAN
STOCK OPTION COMMITMENT**

Notice is hereby given that effective the ____ day of _____ (the "Effective Date"), Lundin Mining Corporation (the "Company") has granted to _____, an Option to acquire _____ Common Shares ("Shares") exercisable up to 5:00 p.m. Vancouver Time on the ____ day of _____ (the "Expiry Date") at an exercise price of Cdn. \$_____ per share.

The shares may be acquired as follows:

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The grant of the Option evidenced hereby is made subject to the terms and conditions of the Company's Incentive Stock Option Plan, the terms and conditions of which are hereby incorporated herein.

To exercise your Option, deliver a written notice specifying the number of Shares you wish to acquire, together with cash or a certified cheque payable to the Company for the aggregate exercise price, to the Company. A certificate for the Shares so acquired will be issued by the transfer agent as soon as practicable thereafter.

LUNDIN MINING CORPORATION

Authorized Signatory