

# lundin mining

## Management's Discussion and Analysis For the three months ended March 31, 2014

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This management's discussion and analysis ("MD&A") has been prepared as of April 29, 2014 and should be read in conjunction with the Company's condensed interim consolidated financial statements for the three months ended March 31, 2014. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and with interpretations of the International Financial Reporting Interpretations Committee. The Company's presentation currency is United States ("US") dollars. Reference herein of \$ is to United States dollars, C\$ is to Canadian dollars, SEK is to Swedish krona and € refers to the Euro.

### **About Lundin Mining**

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

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

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

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## Highlights

### Operational Performance

**Wholly-owned operations:** Copper, nickel, and lead production all exceeded expectations, while zinc production was in-line with targeted production. Higher throughput at Neves-Corvo and Aguablanca resulted in better than expected copper and nickel production, respectively, while significantly higher lead grades at Zinkgruvan resulted in lead production exceeding expectations.

- Neves-Corvo produced 12,765 tonnes of copper and 14,228 tonnes of zinc in the first quarter of 2014. Production from the Lombador ore body resulted in a 39% increase in zinc production over the comparable period in the prior year. Higher copper ore throughput was more than offset by lower head grades and recoveries resulting in lower copper production compared with the first quarter of 2013, but was in-line with the mine plan for the first quarter of 2014. Copper cash costs<sup>1</sup> of \$2.10/lb for the quarter were higher than guidance (\$1.90/lb) due primarily to unfavourable foreign exchange rates and secondarily due to lower grades and recoveries than we expect as yearly averages.
- Zinc production of 19,239 tonnes at Zinkgruvan met expectations and was 23% higher than the comparable period in 2013, largely as a result of increased levels of mining and milling of zinc ore and improved head grades. Lead production of 9,133 tonnes exceeded expectations and presents an increase of 39% over the comparable period in 2013. Cash costs for zinc of \$0.45/lb were higher than guidance (\$0.35/lb) mostly due to higher levels of by-product inventory at period-end.
- Aguablanca continued to display strong operational performance, with current quarter production of 1,980 tonnes of nickel and 1,652 tonnes of copper. This exceeded both expectations for the first quarter of 2014 and production levels of the prior year comparable period. Lower mining costs resulted in cash costs of \$2.98/lb of nickel for the quarter, also below both guidance of \$4.50/lb and the prior year quarter (\$4.66/lb).

**Tenke:** Tenke operations continue to perform well.

- Lundin's attributable share of first quarter production included 11,871 tonnes of copper cathode and 713 tonnes of cobalt in hydroxide. The Company's attributable share of Tenke's sales included 9,168 tonnes of copper at an average realized price of \$3.07/lb and 872 tonnes of cobalt at an average realized price of \$9.21/lb.
- Attributable operating cash flow from Tenke for the first quarter of 2014 was \$27.7 million. Cash distributions received by Lundin Mining in the quarter were \$16.7 million, lower than expected due to timing of shipments and lower copper price.
- Operating cash costs for the first quarter of 2014 were \$0.89/lb of copper sold, better than the revised full year guidance of \$1.22/lb and prior year's cost of \$1.23/lb for the first quarter of 2013.

#### Total production from the Company's assets including attributable share of Tenke:

(tonnes)	2014	2013				
	Q1	FY	Q4	Q3	Q2	Q1
Copper	15,400	66,246	18,078	15,087	16,065	17,016
Zinc	33,467	124,748	32,796	33,466	32,539	25,947
Lead	9,938	34,370	7,968	9,119	10,692	6,591
Nickel	1,980	7,574	2,113	1,788	1,876	1,797
<i>Tenke attributable</i>						
Copper	11,871	50,346	12,155	11,890	13,230	13,071

<sup>1</sup> Cash costs per pound is a non-GAAP measure – see page 23 of this MD&A for discussion of non-GAAP measures.

**Eagle Nickel/Copper Project:** advancing on time, on budget.

- There are approximately 700 people currently working at the mine and mill, including contractors. All of the major equipment has been delivered and is in an advanced stage of installation. As of March 31, 2014, construction is progressing as planned at 79% project completion.
- Capital costs are on budget, expecting to come in at the original forecast of \$400 million from the date of acquisition. \$160 million has been spent since that time, of which \$62 million was spent in the first quarter of 2014. The majority of remaining costs to complete construction are within fixed price contracts.
- Operations hiring is well advanced with all key positions filled.
- Mine area facility commissioning has started and mill commissioning is expected to start in the third quarter of 2014. Eagle is on track to ship first saleable copper and nickel concentrates in the fourth quarter of 2014. Ore processing and concentrate production are expected to reach full design rates in the second quarter of 2015.

## Financial Performance

- Operating earnings<sup>1</sup> for the first quarter of 2014 were \$43.1 million, a decrease of \$25.0 million from the \$68.1 million reported in the comparable quarter of 2013. The decrease was primarily attributable to lower realized metal prices (\$14.8 million) and lower sales volumes at Neves-Corvo and Aguablanca (\$10.0 million).
- For the quarter ended March 31, 2014, sales of \$149.9 million decreased by \$38.3 million from the first quarter of the prior year (\$188.2 million) mainly due to lower realized metal prices and lower nickel and copper sales than in the prior year first quarter. Increased zinc and lead volumes were not enough to offset the decrease in nickel and copper sales volumes.
- Average London Metal Exchange (“LME”) metal prices for copper, lead and nickel for the quarter ended March 31, 2014 were lower (11%, 8% and 15%, respectively) than that of the comparable quarter in the prior year, while zinc prices remained flat (see page 19 of this MD&A for details).
- Operating costs (excluding depreciation) of \$100.2 million in the current quarter were lower than the prior year comparative quarter (\$113.5 million) primarily as a result of decreased sales volumes at Neves-Corvo and Aguablanca, partially offset by increased sales volumes at Zinkgruvan and unfavourable foreign exchange rates.
- Net earnings of \$13.3 million (\$0.02 per share) for the three months ended March 31, 2014 were \$36.8 million lower than the \$50.1 million (\$0.09 per share) reported for corresponding quarter in the prior year. Earnings were impacted by:
  - lower operating earnings primarily due to lower realized metal prices and lower sales volumes (\$25.0 million);
  - lower income from equity investment in Tenke Fungurume (\$12.9 million); and
  - no contribution from insurance proceeds as compared to the \$15.1 million in insurance proceeds for business interruption at the Aguablanca mine received in the first quarter of 2013; partially offset by
  - higher net tax recovery (\$12.5 million), primarily as a result of lower taxable income
- Cash flow from operations for the current quarter was \$27.5 million compared to \$45.8 million in the first quarter of 2013. The comparative decrease in the cash flow is attributable to lower operating earnings in the current quarter.

<sup>1</sup> Operating earnings is a non-GAAP measure defined as sales, less operating costs (excluding depreciation) and general and administrative costs. See page 23 of this MD&A for discussion of Non-GAAP measures.

## Financial Position and Financing

- Net debt<sup>1</sup> position at March 31, 2014 was \$148.3 million compared to \$112.1 million at December 31, 2013.
- The \$36.2 million increase in net debt during the quarter was attributable to investments in mineral properties, plant and equipment of \$92.4 million, primarily the development of the Eagle project, partially offset by operating cash flows of \$27.5 million, distributions from Tenke of \$16.7 million and \$10.8 million reduction in restricted funds.
- The Company has corporate term and revolving debt facilities available for borrowing up to \$600 million. At March 31, 2014 the Company had \$262.3 million committed against these facilities, leaving debt capacity of \$337.7 million available for future drawdowns.

## Outlook

### 2014 Production and Cost Guidance

- 2014 production and cash cost guidance for wholly-owned operations remains unchanged from that provided on February 20, 2014 in the Company's annual MD&A. Freeport-McMoRan Copper & Gold Inc.'s ("Freeport", or "FCX") forecast copper production at Tenke of 47,900 tonnes is down slightly from the 48,400 tonnes previously guided. Tenke's full year cash cost is expected to be lower than guided earlier (now \$1.22/lb versus previous guidance of \$1.28/lb of copper), largely as a result of higher realized cobalt prices. Given its performance year-to-date, Aguablanca's nickel and copper production are expected to be at the top end of the guidance range. Aguablanca's production and cash cost guidance will be re-assessed mid-year.

(contained tonnes)		Tonnes	Cash Costs <sup>a</sup>
<b>Copper</b>	<i>Neves-Corvo</i>	50,000 - 55,000	\$1.90/lb
	<i>Zinkgruvan</i>	3,000 - 4,000	
	<i>Aguablanca</i>	5,000 - 6,000	
	<i>Eagle</i>	2,000 - 3,000	
	<i>Wholly-owned</i>	60,000 - 68,000	
	<i>Tenke(@24%)<sup>b</sup></i>	47,900	\$1.22/lb
	<i>Total attributable</i>	107,900 - 115,900	
<b>Zinc</b>	<i>Neves-Corvo</i>	60,000 - 65,000	
	<i>Zinkgruvan</i>	75,000 - 80,000	\$0.35/lb
	<i>Total</i>	135,000 - 145,000	
<b>Lead</b>	<i>Neves-Corvo</i>	2,000 - 2,500	
	<i>Zinkgruvan</i>	27,000 - 30,000	
	<i>Total</i>	29,000 - 32,500	
<b>Nickel</b>	<i>Aguablanca</i>	6,000 - 7,000	\$4.50/lb
	<i>Eagle</i>	2,000 - 3,000	
	<i>Total</i>	8,000 - 10,000	

a. Cash costs remain dependent upon exchange rates (forecast at €/USD:1.35, USD/SEK:6.50) and metal prices (forecast at Cu: \$3.15/lb, Zn: \$0.90/lb, Pb: \$0.95/lb, Ni: \$6.50/lb, Co: \$12.00/lb). Prior guidance forecast €/USD at 1.30, Zn at \$0.87/lb and Pb at \$1.00/lb.

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

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

## 2014 Capital Expenditure Guidance

Capital expenditures for 2014 are expected to be \$440 million (including Eagle, but excluding Tenke), a \$20 million reduction from previous guidance. Major capital investments for 2014 are as follows:

- **Sustaining capital in European operations** - \$100 million, consisting of approximately \$55 million for Neves-Corvo, \$40 million for Zinkgruvan and \$5 million across other sites.
- **New investment capital in European operations** - \$40 million (previous guidance - \$60 million), consisting of:
  - Lombador - \$25 million (previous guidance - \$44 million): For underground vertical and horizontal development and associated mine infrastructure related to the development of the upper Lombador ore bodies for future high grade zinc and copper production. Redesign and optimization of development has allowed for a combination of cost savings and the deferral of certain expenditures into 2015.
  - Neves-Corvo zinc plant debottlenecking and zinc expansion studies - \$5 million: For the installation of a zinc tailings recovery circuit, zinc expansion feasibility studies and Santa Barbara hoisting shaft capacity increase design work.
  - Aguablanca underground mining project - \$10 million: For ramp and initial ore body development and the installation of associated mine infrastructure.
- **New investment in Eagle project** - \$300 million, to complete construction of the Humboldt mill and Eagle mine.
- **New investment in Tenke** - \$50 million, estimated by the Company as its share of the remaining Phase II expansion costs, other expansion related initiatives and sustaining capital funding for 2014. All of the capital expenditures are expected to be self-funded by cash flow from Tenke operations.

The Company believes it is reasonable to expect Lundin's attributable cash distributions from Tenke to be in the range of \$100 to \$130 million in 2014, below previous guidance due to lower copper prices. Guidance will be updated again at the end of the second quarter reflecting copper price trends and expectations for the balance of the year.

## 2014 Exploration Guidance

- Total exploration expenses for 2014 (excluding Tenke) are estimated to be \$35 million, \$5 million less than prior guidance. These expenditures will be principally directed towards underground and surface mine exploration at Neves-Corvo, Zinkgruvan and Eagle, select greenfield exploration programs and new business development activities in South America and Eastern Europe.

## Selected Quarterly Financial Information

(\$ millions, except share and per share amounts)	Three months ended	
	March 31	
	2014	2013
<b>Sales</b>	<b>149.9</b>	188.2
Operating costs	(100.2)	(113.5)
General and administrative expenses	(6.6)	(6.6)
<b>Operating earnings</b>	<b>43.1</b>	68.1
Depreciation, depletion and amortization	(37.8)	(40.2)
General exploration and business development	(11.6)	(12.6)
Income from equity investment in associates	18.1	31.9
Finance income and costs, net	(0.3)	(2.2)
Other income and expenses, net	0.1	15.8
<b>Earnings before income taxes</b>	<b>11.6</b>	60.8
Income tax recovery / (expense)	1.7	(10.7)
<b>Net earnings</b>	<b>13.3</b>	50.1
<b>Shareholders' equity</b>	<b>3,686.3</b>	3,493.4
<b>Cash flow from operations</b>	<b>27.5</b>	45.8
<b>Capital expenditures (including advances to Tenke)</b>	<b>92.4</b>	36.6
<b>Total assets</b>	<b>4,464.2</b>	4,062.0
<b>Long-term debt and finance leases (including current portion)</b>	<b>250.4</b>	92.8
<b>Net (debt) / cash</b>	<b>(148.3)</b>	199.4
<b>Key Financial Data:</b>		
Basic and diluted earnings per share	0.02	0.09
Operating cash flow per share <sup>1</sup>	0.05	0.09
Dividends	-	-
<b>Shares outstanding:</b>		
Basic weighted average	584,974,826	584,150,358
Diluted weighted average	585,803,622	585,280,925
End of period	585,181,841	584,206,673

(\$ millions, except per share data)	Q1-14	Q4-13	Q3-13	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12
<b>Sales</b>	149.9	186.9	176.4	176.3	188.2	176.4	159.6	172.3
<b>Operating earnings</b>	43.1	66.9	58.9	49.2	68.1	51.8	71.1	80.4
<b>Net earnings (loss)</b>	13.3	42.1	27.9	16.6	50.1	(17.1)	37.9	44.1
<b>Earnings (loss) per share, basic<sup>2</sup></b>	0.02	0.07	0.05	0.03	0.09	(0.03)	0.07	0.08
<b>Earnings (loss) per share, diluted<sup>2</sup></b>	0.02	0.07	0.05	0.03	0.09	(0.03)	0.06	0.08
<b>Cash flow from operations</b>	27.5	53.9	27.4	26.6	45.8	49.4	(25.7)	119.0
<b>Capital expenditures (incl. Tenke)</b>	92.4	116.5	53.6	37.0	36.6	29.0	52.3	47.6
<b>Net (debt) / cash</b>	(148.3)	(112.1)	(71.2)	221.1	199.4	265.1	245.0	312.7

1. Operating cash flow per share is a non-GAAP measure – see page 23 of this MD&A for discussion of non-GAAP measures.

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

## Sales Overview

### Sales Volumes by Payable Metal

	2014	2013				
	Q1	Total	Q4	Q3	Q2	Q1
<b>Copper (tonnes)</b>						
Neves-Corvo	10,335	53,394	14,197	11,469	14,102	13,626
Zinkgruvan	866	3,269	890	892	693	794
Aguablanca	636	2,795	647	615	573	960
	<b>11,837</b>	<b>59,458</b>	<b>15,734</b>	<b>12,976</b>	<b>15,368</b>	<b>15,380</b>
<b>Zinc (tonnes)</b>						
Neves-Corvo	10,275	43,199	11,254	11,971	12,981	6,993
Zinkgruvan	16,349	59,486	15,216	14,763	16,960	12,547
Galmoy <sup>1</sup>	189	9,151	2,029	2,777	3,513	832
	<b>26,813</b>	<b>111,836</b>	<b>28,499</b>	<b>29,511</b>	<b>33,454</b>	<b>20,372</b>
<b>Lead (tonnes)</b>						
Neves-Corvo	949	980	539	304	99	38
Zinkgruvan	6,671	29,785	6,438	10,397	8,113	4,837
Galmoy <sup>1</sup>	99	3,394	983	1,002	1,285	124
	<b>7,719</b>	<b>34,159</b>	<b>7,960</b>	<b>11,703</b>	<b>9,497</b>	<b>4,999</b>
<b>Nickel (tonnes)</b>						
Aguablanca	1,242	5,472	1,346	1,180	1,157	1,789

1. 50% of metal is attributable to Galmoy on sale of ore to third party processing facility.

### Sales Analysis

(\$ thousands)	Three months ended March 31				
	2014		2013		Change
	\$	%	\$	%	\$
<b>by Mine</b>					
Neves-Corvo	76,272	51	108,007	57	(31,735)
Zinkgruvan	43,078	29	35,862	19	7,216
Aguablanca	29,289	20	42,800	23	(13,511)
Galmoy	1,264	-	1,504	1	(240)
	<b>149,903</b>		<b>188,173</b>		<b>(38,270)</b>
<b>by Metal</b>					
Copper	67,805	45	109,582	58	(41,777)
Zinc	39,588	26	30,557	16	9,031
Lead	13,864	9	9,398	5	4,466
Nickel	21,792	15	30,179	16	(8,387)
Other	6,854	5	8,457	5	(1,603)
	<b>149,903</b>		<b>188,173</b>		<b>(38,270)</b>

Sales for the first quarter of 2014 were \$38.3 million lower than the first quarter of 2013, which was mainly due to lower realized metal prices (\$14.8 million) and lower net sales volume (\$21.8 million).



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

### Quarterly Reconciliation of Realized Prices

2014 (\$ thousands, except per pound amounts)	Quarter ended March 31, 2014				
	Copper	Zinc	Lead	Nickel	Total
Current period sales <sup>1</sup>	80,402	54,066	16,075	19,742	170,285
Prior period price adjustments	(5,277)	(258)	(107)	2,050	(3,592)
Sales before other metals and TC/RC	75,125	53,808	15,968	21,792	166,693
Other metal sales					6,854
Less: TC/RC					(23,644)
<b>Total Sales</b>					<b>149,903</b>
<b>Payable Metal (tonnes)</b>	<b>11,837</b>	<b>26,813</b>	<b>7,719</b>	<b>1,242</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.08	\$ 0.91	\$ 0.94	\$ 7.21	
Prior period price adjustments (\$/lb)	(0.20)	-	-	0.75	
<b>Realized prices (\$/lb)</b>	<b>\$ 2.88</b>	<b>\$ 0.91</b>	<b>\$ 0.94</b>	<b>\$ 7.96</b>	

2013 (\$ thousands, except per pound amounts)	Quarter ended March 31, 2013				
	Copper	Zinc	Lead	Nickel	Total
Current period sales <sup>1</sup>	117,564	39,754	10,839	29,765	197,922
Prior period price adjustments	(383)	390	180	458	645
Sales before other metals and TC/RC	117,181	40,144	11,019	30,223	198,567
Other metal sales					8,457
Less: TC/RC					(18,851)
<b>Total Sales</b>					<b>188,173</b>
<b>Payable Metal (tonnes)</b>	<b>15,380</b>	<b>20,372</b>	<b>4,999</b>	<b>1,789</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.47	\$ 0.88	\$ 0.98	\$ 7.55	
Prior period price adjustments (\$/lb)	(0.01)	0.01	0.02	0.11	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.46</b>	<b>\$ 0.89</b>	<b>\$ 1.00</b>	<b>\$ 7.66</b>	

1. Includes provisional price adjustments on current period sales.

### Provisionally valued sales as of March 31, 2014

Metal	Tonnes Payable	Valued at \$ per lb	Valued at \$ per tonne
Copper	13,108	3.02	6,649
Zinc	11,272	0.90	1,982
Lead	3,903	0.93	2,045
Nickel	1,272	7.21	15,900

## Financial Results

### Operating Costs

Operating costs of \$100.2 million for the three months ended March 31, 2014 were \$13.3 million lower than the three months ended March 31, 2013. Total costs decreased primarily as a result of lower sales volumes at Neves-Corvo and Aguablanca (\$13.5 million) and lower overall production costs (\$9.0 million), primarily at Aguablanca, partially offset by increased sales volumes at Zinkgruvan (\$6.8 million) and unfavourable foreign exchange rates (\$3.6 million).

### Depreciation, Depletion and Amortization

Decrease in depreciation, depletion and amortization expense was attributable to an extension of the mine life at Aguablanca as part of the development of the underground mine.

Depreciation by operation (\$ thousands)	Three months ended March 31		
	2014	2013	Change
Neves-Corvo	26,789	25,434	1,355
Zinkgruvan	6,992	6,814	178
Aguablanca	2,963	7,887	(4,924)
Eagle	905	-	905
Other	104	99	5
	37,753	40,234	(2,481)

### Income from Equity Investment in Associates

Income from equity investments includes earnings from a 24% interest in Tenke Fungurume. For Tenke, equity earnings of \$19.0 million were recognized for the three months ended March 31, 2014 (Q1 2013 - \$31.9 million). Refer to the section titled "Tenke Fungurume" contained in this MD&A for further discussion.

### Finance Income and Costs

For the quarter ended March 31, 2014, net finance costs were \$0.3 million, compared to \$2.2 million for the comparable period in the prior year. The decrease is attributable to net revaluation gains on marketable securities recorded in finance income and costs in 2014.

### Other Income and Expense

Net other income for the three months ended March 31, 2014 was \$0.1 million compared to \$15.9 million for the three months ended March 31, 2013. The decrease in net other income is primarily the result of insurance proceeds of \$15.1 million received in 2013 relating to the 2010 slope failure at the Aguablanca mine. In addition, a foreign exchange gain was recognized in the prior year quarter for \$1.4 million (nil for the quarter ended March 31, 2014). Foreign exchange gains and losses relate to US denominated cash and trade receivables that were held in the European group entities. Period end exchange rates at March 31, 2014 were \$1.38:€1.00 (December 31, 2013 - \$1.33:€1.00) and \$1.00:SEK6.51 (December 31, 2013 - \$1.00:SEK6.51).

## Current and Deferred Taxes

Current tax expense (recovery) (\$ thousands)	Three months ended March 31		
	2014	2013	Change
Neves-Corvo	(379)	8,719	(9,098)
Zinkgruvan	1,756	834	922
Aguablanca	(16)	(28)	12
Other	45	72	(27)
	<b>1,406</b>	<b>9,597</b>	<b>(8,191)</b>

Current income tax expense for the three months ended March 31, 2014 was \$1.4 million, \$8.2 million lower than the \$9.6 million recorded in the comparative quarter of 2013. The decrease is primarily as a result of lower taxable earnings at Neves-Corvo.

Deferred tax (recovery) expense (\$ thousands)	Three months ended March 31		
	2014	2013	Change
Neves-Corvo	(3,071)	(3,433)	362
Zinkgruvan	(139)	(198)	59
Aguablanca	2,748	4,505	(1,757)
Eagle	(2,489)	-	(2,489)
Other	(201)	278	(479)
	<b>(3,152)</b>	<b>1,152</b>	<b>(4,304)</b>

Deferred income tax recovery for the three months ended March 31, 2014 was \$3.2 million, \$4.3 million higher than the comparative quarter of 2013. The increase in the tax recovery in the current period is primarily attributed to deductible temporary differences at Eagle and a reduction in the deferred tax expense related to higher utilization of loss carry forwards at Aguablanca in 2013.

## Mining Operations

### Production Overview

	2014	2013				
	Q1	Total	Q4	Q3	Q2	Q1
<b>Copper (tonnes)</b>						
Neves-Corvo	12,765	56,544	15,499	12,629	14,102	14,314
Zinkgruvan	983	3,460	894	973	447	1,146
Aguablanca	1,652	6,242	1,685	1,485	1,516	1,556
	15,400	66,246	18,078	15,087	16,065	17,016
<b>Zinc (tonnes)</b>						
Neves-Corvo	14,228	53,382	14,456	14,723	13,940	10,263
Zinkgruvan	19,239	71,366	18,340	18,743	18,599	15,684
	33,467	124,748	32,796	33,466	32,539	25,947
<b>Lead (tonnes)</b>						
Neves-Corvo	805	1,496	849	416	231	-
Zinkgruvan	9,133	32,874	7,119	8,703	10,461	6,591
	9,938	34,370	7,968	9,119	10,692	6,591
<b>Nickel (tonnes)</b>						
Aguablanca	1,980	7,574	2,113	1,788	1,876	1,797

### Cash Cost Overview

	Cash cost/lb (US dollars)		Cash cost/lb (local currency)	
	Three months ended March 31			
	2014	2013	2014	2013
<b>Neves-Corvo (Local in €)</b>				
Gross cost	2.84	2.20	2.07	1.67
By-product <sup>1</sup>	(0.74)	(0.37)	(0.54)	(0.28)
<b>Net Cost - cost/lb Cu</b>	<b>2.10</b>	1.83	<b>1.53</b>	1.39
<b>Zinkgruvan (Local in SEK)</b>				
Gross cost	0.97	1.01	6.22	6.53
By-product <sup>1</sup>	(0.52)	(0.59)	(3.33)	(3.81)
<b>Net Cost - cost/lb Zn</b>	<b>0.45</b>	0.42	<b>2.89</b>	2.72
<b>Aguablanca (Local in €)</b>				
Gross cost	5.72	7.86	4.18	5.95
By-product <sup>1</sup>	(2.74)	(3.20)	(2.00)	(2.42)
<b>Net Cost - cost/lb Ni</b>	<b>2.98</b>	4.66	<b>2.18</b>	3.53

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

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

## Neves-Corvo Mine

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

### Operating Statistics

	2014	2013				
	Q1	Total	Q4	Q3	Q2	Q1
Ore mined, copper (000 tonnes)	<b>638</b>	2,535	674	618	648	595
Ore mined, zinc (000 tonnes)	<b>271</b>	968	236	255	266	211
Ore milled, copper (000 tonnes)	<b>645</b>	2,525	664	628	654	579
Ore milled, zinc (000 tonnes)	<b>271</b>	974	232	265	264	213
Grade per tonne						
Copper (%)	<b>2.3</b>	2.6	2.8	2.4	2.5	2.7
Zinc (%)	<b>7.0</b>	7.1	8.1	7.3	6.6	6.2
Recovery						
Copper (%)	<b>81.9</b>	84.5	80.7	81.1	86.0	90.8
Zinc (%)	<b>72.7</b>	74.1	74.0	73.2	76.1	73.2
Production (contained metal)						
Copper (tonnes)	<b>12,765</b>	56,544	15,499	12,629	14,102	14,314
Zinc (tonnes)	<b>14,228</b>	53,382	14,456	14,723	13,940	10,263
Lead (tonnes)	<b>805</b>	1,496	849	416	231	-
Silver (000 oz)	<b>338</b>	1,306	402	263	314	327
Sales (\$000s)	<b>76,272</b>	420,308	111,818	96,076	104,407	108,007
Operating earnings (\$000s)	<b>19,979</b>	158,546	46,136	29,214	35,338	47,858
Cash cost (€ per pound)	<b>1.53</b>	1.43	1.28	1.68	1.41	1.39
Cash cost (\$ per pound)	<b>2.10</b>	1.90	1.75	2.23	1.85	1.83

### Operating Earnings

Operating earnings of \$20.0 million for the three months ended March 31, 2014 were \$27.9 million lower than 2013. The decrease is mainly attributable to lower metal prices and price adjustments (\$12.4 million), lower copper sales volumes (\$5.7 million), and a change in sales mix as a result of selling a greater proportion of zinc (\$6.0 million).

### Production

Copper production for the three months ended March 31, 2014 was lower than the comparable period in 2013 by 1,549 tonnes (or 11%). Mill throughput was higher in the current year; however, head grades and metallurgical recoveries were lower resulting in lower copper production. Unusually high lead grades in isolated zones in the Lombador and Neves North copper ore bodies had a detrimental impact on recovery. Lead grades in copper ore are expected to reduce, with copper grades and recoveries increasing, as the year progresses.

During the first quarter of 2014, inventory of copper concentrates was specifically built up, reducing available sales in the quarter, and is being stored in a new concentrate storage facility at the plant site and at the existing storage shed at the port of Setúbal. This enables the Company to undertake concentrate blending to meet various smelter specific needs. The blending strategy requires increased levels of inventory, but results in a more consistent, saleable concentrate, with less penalty charges from smelters.

Zinc production for the three months ended March 31, 2014 was higher than the comparable period in 2013 by 3,965 tonnes (or 39%). The increase is largely a result of the contribution from the Lombador ore body which is steadily being brought into production with the successful mining of the first secondary stopes during the quarter, following the mining of primary stopes in 2013. Quarter by quarter, this year's zinc production will increase out of higher grade Lombador stopes.

Saleable lead concentrates continued to be produced at Neves-Corvo. The commercial production of 805 tonnes of lead in concentrate during the quarter was derived as a by-product from the zinc circuit.

## **Cash Costs**

Copper cash costs of \$2.10/lb for the quarter ended March 31, 2014 were higher than guidance of \$1.90/lb and that of the corresponding period in 2013 of \$1.83/lb. The variance against guidance is largely attributed to negative foreign exchange impacts, and to an extent due to lower copper grades and recoveries. The increase over the prior period was a result of higher per unit production costs largely associated with the increased production of zinc (\$0.49/lb) and unfavourable foreign exchanges rates (\$0.16/lb), partially offset by higher zinc and lead by-product credits, net of treatment charges (\$0.38/lb).

## **Projects**

High grade zinc ore production continues from the newly developed Lombador area of the mine, in parallel with the ongoing establishment of mine facilities to support increased future zinc production. Stope performances from the newly developed area continue to be in line with expectations.

A zinc expansion feasibility study is advancing at Neves-Corvo testing the potential economics of exploiting deeper Lombador zinc and copper mineralization through extension and debottlenecking of existing underground infrastructure, combined with at least doubling zinc plant capacity. The study is based on an objective of having increased zinc production on-line in 2017, if the results of the study show attractive returns. Study completion is scheduled for the first quarter of 2015.

## Zinkgruvan Mine

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

### Operating Statistics

	2014	2013				
	Q1	Total	Q4	Q3	Q2	Q1
Ore mined, zinc (000 tonnes)	257	911	216	230	222	243
Ore mined, copper (000 tonnes)	34	214	61	58	43	52
Ore milled, zinc (000 tonnes)	248	924	217	229	248	230
Ore milled, copper (000 tonnes)	35	222	59	58	49	56
Grade per tonne						
Zinc (%)	8.6	8.5	9.1	9.0	8.5	7.5
Lead (%)	4.4	4.2	3.9	4.5	4.9	3.4
Copper (%)	2.9	1.7	1.6	1.9	1.1	2.2
Recovery						
Zinc (%)	89.9	90.7	92.7	90.9	88.5	90.6
Lead (%)	84.0	84.8	83.6	84.5	85.5	85.2
Copper (%)	94.2	89.8	91.7	88.2	82.6	92.9
Production- tonnes (contained metal)						
Zinc (tonnes)	19,239	71,366	18,340	18,743	18,599	15,684
Lead (tonnes)	9,133	32,874	7,119	8,703	10,461	6,591
Copper (tonnes)	983	3,460	894	973	447	1,146
Silver (000 oz)	649	2,468	558	668	728	514
Sales (\$000s)	43,078	173,836	43,875	49,288	44,811	35,862
Operating earnings (\$000s)	16,539	71,486	17,818	25,634	13,664	14,370
Cash cost (SEK per pound)	2.89	2.10	2.44	0.40	2.83	2.72
Cash cost (\$ per pound)	0.45	0.32	0.37	0.06	0.43	0.42

### Operating Earnings

Operating earnings of \$16.5 million were \$2.1 million higher than the \$14.4 million reported in the first quarter of 2013. The increase in earnings is largely attributable to higher production and sales of zinc and lead.

### Production

Mining and milling of zinc ore progressed well in the first quarter of 2014. The combination of higher head grades and throughput resulted in current quarter zinc and lead production significantly exceeding the first quarter of 2013, by 23% and 39%, respectively.

Copper production was also strong for the three months ended March 31, 2014, due in large part to the mining of stopes with high copper head grades. However, production levels were lower than the comparable period in 2013, the result of prioritizing zinc ore production in the current quarter.

### Cash Costs

Zinc cash costs of \$0.45/lb for the quarter ended March 31, 2014 were higher than guidance of \$0.35/lb and that of the corresponding period in 2013 of \$0.42/lb. Cash costs in the current quarter were above the full year guidance target largely as a result of higher by-product inventory levels. Higher than normal levels of lead concentrate remained in inventory at quarter end, with approximately 3,300 tonnes of contained lead in concentrate awaiting shipment at the end of the period. The small increase over the prior period was primarily the result of lower by-product credits, net of treatment charges (\$0.08/lb), partially offset by lower per unit operating costs (\$0.05/lb).

### Projects

Investments continue to be made in the paste backfilling system to improve flexibility and redundancy in the distribution network, and studies are in progress to increase the overall capacity of the system.

## Aguablanca Mine

The Aguablanca nickel-copper mine is located in the province of Badajoz, 80 km by road to Seville, Spain, and 140 km from a major seaport at Huelva. Current operations consist of an open pit mine and an on-site processing facility (milling and flotation) with a production capacity of 1.9 million tonnes per annum. Commencing mid-2014, development will begin on an underground mining project, which is expected to extend mine production until 2018.

### Operating Statistics

	2014	2013				
	Q1	Total	Q4	Q3	Q2	Q1
Ore mined (000s tonnes)	184	1,785	459	539	409	378
Ore milled (000s tonnes)	418	1,606	438	378	387	403
Grade per tonne						
Nickel (%)	0.6	0.6	0.6	0.6	0.6	0.5
Copper (%)	0.4	0.4	0.4	0.4	0.4	0.4
Recovery						
Nickel (%)	82.0	82.8	81.8	82.6	83.8	82.4
Copper (%)	94.2	93.8	94.2	94.2	93.9	93.2
Production (contained metal)						
Nickel (tonnes)	1,980	7,574	2,113	1,788	1,876	1,797
Copper (tonnes)	1,652	6,242	1,685	1,485	1,516	1,556
Sales (\$000s)	29,289	114,027	26,162	25,278	19,787	42,800
Operating earnings (loss) (\$000s)	13,010	27,559	7,529	6,397	787	12,846
Cash cost (€ per pound)	2.18	2.85	2.16	2.78	2.69	3.53
Cash cost (\$ per pound)	2.98	3.78	2.95	3.67	3.50	4.66

### Operating Earnings

Operating earnings for the three months ended March 31, 2014 were \$13.0 million, comparable to the \$12.8 million reported for the first quarter of 2013.

### Production

Current production at Aguablanca was strong for both nickel and copper. With increased throughput and higher nickel head grades, the mine produced 1,980 tonnes of nickel and 1,652 tonnes of copper, respectively, for the three months ended March 31, 2014. This exceeds production reported in the first quarter of 2013.

Open pit mining accelerated during the quarter focussing on the final push back, with the objective of completing mining in the open pit by the end of 2014.

### Cash Costs

Nickel cash costs of \$2.98/lb for the quarter ended March 31, 2014 were lower than guidance of \$4.50/lb and that of the corresponding period in 2013 of \$4.66/lb. The decrease over guidance and the prior year was largely attributable to higher by-product credits, lower current period mining costs and lower milling costs from improved mill feed rates.

### Underground Project

Rehabilitation of the main decline ramp is advancing well to facilitate commencement of underground mine production.

Mine production is expected to commence in early 2015 and continue until 2018. The deposit mineralization is open at depth and if nickel and copper prices remain strong there is a possibility of mining past then.



## Tenke Fungurume

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

### Operating Statistics

100% Basis	2014	2013				
	Q1	Total	Q4	Q3	Q2	Q1
Ore mined (000 tonnes)	<b>3,951</b>	13,231	3,739	3,347	2,763	3,382
Ore milled (000 tonnes)	<b>1,306</b>	5,428	1,409	1,338	1,364	1,317
Grade per tonne Copper (%)	<b>4.1</b>	4.2	3.9	3.9	4.6	4.4
Recovery Copper (%)	<b>94.7</b>	91.4	90.6	91.6	89.9	93.7
Production (contained metal)						
Copper (tonnes)	<b>49,464</b>	209,774	50,645	49,541	55,126	54,462
Cobalt (tonnes)	<b>2,970</b>	12,751	4,247	3,659	2,305	2,540
Income from equity investment (\$000s) <sup>1</sup>	<b>18,987</b>	97,769	22,425	24,185	19,276	31,883
Attributable share of operating cash flows (\$000s)	<b>27,683</b>	168,385	50,091	42,219	32,436	43,639
Cash cost (\$ per pound) <sup>2</sup>	<b>0.89</b>	1.21	1.14	1.23	1.23	1.23

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

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

### Income from Equity Investment

Income of \$19.0 million in the current quarter was \$12.9 million lower than the first quarter of last year due to lower copper sales volumes and lower realized copper metal prices. Volume of copper cathode sold during the quarter, on a 100% basis, was 38,199 tonnes, much lower than the 53,583 tonnes sold in the comparable period of last year, due to timing of sales.

The average price realized for copper sales during the quarter was \$3.07/lb, compared to \$3.40/lb in the first quarter of 2013. The average realized price for cobalt sold during the first quarter of 2014 was \$9.21/lb (2013: \$7.28/lb).

### Production

Tenke produced 49,464 tonnes of copper for the three months ended March 31 2014, lower than the prior year comparable quarter production of 54,462 tonnes due primarily to lower head grades. Cobalt production for the quarter was 2,970 tonnes, 17% higher than the prior year comparable quarter.

The expanded milling facilities at Tenke continue to exceed original design capacity with throughput averaging 14,500 metric tonnes of ore per day (“mtpd”) for the three months ended March 31, 2014. Mining rate during the quarter was approximately 132,500 mtpd, slightly lower than expectations due to equipment availability and poor ground conditions.

The new acid plant is advancing with construction work expected to start on site in the second quarter of 2014. The acid plant is scheduled to be completed in 2016 and is sized to support future expansion initiatives as well as eliminating the current need to import third party acid in addition to the acid produced at Tenke’s existing plant.

Freeport has reduced its copper sales guidance for 2014 slightly to 200,000 tonnes from 202,000 tonnes. Forecast cobalt sales volume remains unchanged at 13,600 tonnes.

**Cash Costs**

Cash costs for copper, net of cobalt by-product credits, were \$0.89/lb for the quarter. This is significantly lower than cash costs in the first quarter of 2013 of \$1.23/lb and is a reflection of higher cobalt by-product credits realized in the current period. Freeport has reduced the Tenke cash cost guidance to \$1.22/lb, from \$1.28/lb of copper.

**Tenke Cash Flow**

Lundin's attributable share of operating cash flow at Tenke for the first quarter of 2014 was \$27.7 million. This is lower than the \$43.6 million recognized in the first quarter of 2013, due to timing of sales and lower realized copper prices.

Lundin Mining's share of 2014 capital investment for Tenke, which is expected to be self-funded by cash flow from Tenke operations, is expected to be approximately \$50 million. Key capital spending areas in 2014 include: a second acid plant, a tailings dam expansion, fleet vehicles and heavy equipment, and test work and studies for potential future phased expansions. During the quarter ended March 31, 2014, \$9.1 million was spent on our attributable share of capital investments, which was funded by cash flow from operations.

The Company received cash distributions of \$16.7 million for the quarter ended March 31, 2014.

## **Eagle Project**

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

### **Project Development**

Despite the coldest winter in 30 years, project activities remain on track to support shipment of the first saleable concentrates of copper and nickel in the fourth quarter of 2014. Ore processing is expected to reach the design rate of 2,000 tonnes/day in the second quarter of 2015.

The total capital cost of the project is estimated at \$400 million<sup>1</sup> from the date of acquisition, with \$160 million spent since that time, of which \$62 million was spent in the first quarter of 2014. The project remains on track to complete construction on time and within budget. There are approximately 700 people currently working at the mine and mill, including contractors, and all of the major equipment has been delivered.

As of March 31, 2014, construction is progressing as planned at 79% complete.

### **Mine**

The project is on track to complete commissioning and handover of all facilities to operations during the second quarter of 2014. The mining contractor is fully mobilized and development is ongoing with 488 metres of lateral development completed. Planning for ore production is well advanced with the first production blasts planned for the third quarter of 2014.

### **Mill**

Mill construction activities remain on track at 70% completion as of March 31, 2014. Additional shifts and overtime for selected critical work activities have been implemented to ensure completion as scheduled. Planning for pre-commissioning and commissioning is well advanced.

### **Transportation**

State road upgrade work will re-start in May, in time to be completed as planned in November 2014. Delivery of ore haulage trucks and contracts for rail haulage of concentrate to market are advancing as planned.

### **Operational Readiness**

Recruitment of operators and maintenance personnel is well underway, as well as development of training materials and operating procedures and systems. Spare parts lists have been finalized and long lead items ordered.

### **Permitting**

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

<sup>1</sup>This estimate is based on detailed project budgets and is supported by independent technical reports, regular project and cost reviews and committed and incurred costs to-date.

## **Exploration**

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

Exploration in the first quarter of 2014 focused on underground drilling, underground borehole geophysics, and planning for surface geophysical surveys. Seven near-mine exploration holes totalling 1,470 metres were drilled from underground. Both the underground test holes and the borehole geophysics continue to focus on identifying and tracing the feeder conduit to the Eagle deposit at depth. Plans for a surface gravity survey are in place for the second quarter of 2014, and planning is progressing for a seismic survey to take place later this year.

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

7,000 metres of drilling were completed during the first quarter as part of the 2014 surface exploration program, with a total of seven targets tested. Drilling was mainly focused on the Monte Branco area with the objective of delineating further resources to add to the Monte Branco deposit. One 3D seismic reflector was drilled southeast of the tailings management facility, with negative results. Surface drilling has been curtailed and programs will focus on targeted drilling from underground positions.

### **Los Rulos Joint Venture Exploration, Chile (Copper, Gold)**

A 50/50 Joint Venture (JV) agreement with Southern Hemisphere Mining was executed in late 2013 to explore copper-gold prospects across the 2,500 km<sup>2</sup> Los Rulos JV project area, located in the Coquimbo region of the Chilean coastal copper belt. Fieldwork completed to date, including trenching, mapping and geophysics, has resulted in two promising targets, both of which are being quickly advanced towards drill testing in the third quarter of 2014.

### **Peru (Copper)**

Initial work in Peru has focused on new copper project evaluations. Two new projects, including an undrilled porphyry copper prospect, have been acquired with initial targeting work underway in the first quarter and plans to drill in the third quarter of 2014.

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

Project evaluation work targeting new copper-gold opportunities in Romania was expanded to other favourable parts of Eastern Europe, including the neighbouring countries of Turkey and Serbia.

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

The average metal price for copper for the first quarter of 2014 was slightly lower than the average price for copper for the last quarter of 2013 by 2%, while the average prices for zinc and nickel were slightly higher over the same period, increasing by 6% and 5%, respectively. Lead prices over the same period remained substantially unchanged. The price for copper decreased during the quarter due to concerns over the Chinese economy and Chinese credit, while the price of zinc increased in January and February because of tightness connected with a major short position on the London Metal Exchange (“LME”). However, once the tightness alleviated in mid-March, zinc prices returned to the levels at the beginning of the year. While lead prices remained stable during the quarter, the price of nickel increased by 13% due to the export ban of nickel ores from Indonesia and the related negative impact on the production of nickel pig iron in China.

(Average LME Price)		Three months ended March 31		
		2014	2013	Change
Copper	US\$/pound	<b>3.19</b>	3.60	-11%
	US\$/tonne	<b>7,041</b>	7,931	
Zinc	US\$/pound	<b>0.92</b>	0.92	nil
	US\$/tonne	<b>2,029</b>	2,033	
Lead	US\$/pound	<b>0.96</b>	1.04	-8%
	US\$/tonne	<b>2,106</b>	2,301	
Nickel	US\$/pound	<b>6.64</b>	7.85	-15%
	US\$/tonne	<b>14,643</b>	17,314	

LME inventory for copper, zinc and lead decreased during the first quarter of 2014 by 28%, 16% and 7% respectively, while the LME inventory for nickel increased by 9% during the quarter.

The treatment charges (“TC”) and refining charges (“RC”) in the spot market for copper concentrates decreased during the first quarter of 2014. In January, the spot TC was \$100 per dmt of concentrate and the spot RC was \$0.10 per lb of payable copper, but had dropped to a spot TC of \$88 per dmt of concentrate and a RC of \$0.088 per payable lb of copper in March. The main reason for the drop in TC and RC is the introduction of an export tax on copper concentrates in Indonesia. The main copper miners in Indonesia are contesting the export tax and as a result, have stopped exports of copper concentrates from the country in the first quarter of 2014. The terms for the 2014 annual contracts for copper concentrates were set in November 2013 at a TC of \$92 per dmt of concentrate with a RC of \$0.092 per lb payable copper, higher than 2013 rates (TC of \$70 per dmt of concentrate and RC of \$0.07 per lb payable copper).

The spot TC for zinc concentrates in China increased during the first quarter of 2014 from \$133 per dmt, flat, in January to \$150 per dmt, flat, in March. The increase in the LME price for zinc turned the arbitrage between the LME and the Shanghai Futures Exchange (“SHFE”) negative, resulting in less spot demand for zinc concentrates in China. During the first quarter of 2014, the benchmark TC between miners and smelters for annual contracts for zinc concentrates was agreed to at \$223 per dmt of concentrate based on a zinc price of \$2,000 per mt and with slightly higher escalators than for 2013. The agreed terms represent an improvement in favour of the smelters of approximately \$11 per dmt of concentrates, at the base price, compared to last year.

During the first quarter of 2014, the spot TC for lead concentrates increased from \$130 per dmt, flat, in January to \$140 per dmt, flat, in March. The negative arbitrage between the lead price on the LME and the SHFE has reduced demand for imported lead concentrates in China. The lead concentrate market is not as homogenous as the markets for copper and zinc concentrates and there is no clear benchmark. The TC is based on the individual quality and varies with the content of lead, silver and deleterious elements. In general, there has been a decrease in TC in favour of the miners under annual contracts for all grades of lead concentrates. The Company has settled all its annual contracts for lead concentrates with a decrease in the TC compared to the prior year and no change to the refining charge for silver.

Given approval of Aguablanca’s underground mine project and the extension of the life of mine, the long term contract for the nickel concentrate production has been extended at terms which are in line with recent market conditions. The contract provides for regular monthly delivery and pricing of the concentrates which ensures that nickel realizations correlate closely with LME averages over the year.

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

## Liquidity and Financial Condition

### Cash Reserves

Cash and cash equivalents were \$102.2 million as at March 31, 2014, a decrease of \$14.4 million from \$116.6 million at December 31, 2013.

Cash inflows for the three months ended March 31, 2014 included operating cash flows of \$27.5 million, receipt of distributions from Tenke of \$16.7 million, proceeds from the credit facility of \$22.0 million and withdrawals from restricted funds of \$10.8 million. Use of cash was primarily directed towards investments in mineral properties, plant and equipment (\$92.4 million), most notably in support of the Eagle project.

### Working Capital

Working capital was \$128.3 million as at March 31, 2014, compared to \$143.0 million at December 31, 2013. The decrease in working capital is primarily the result of lower cash and trade receivables, partially offset by higher ore and concentrate stockpiles.

### Long-Term Debt

The Company has a \$350 million revolving credit facility and a term loan of \$250 million (together, the “credit facilities”), which expire in October 2017.

\$250.0 million was drawn on the credit facilities as at March 31, 2014. A letter of credit issued in the amount of SEK 80 million (\$12.3 million) also remains outstanding.

Subject to various risks and uncertainties (see Managing Risk section, page 23), the Company believes it will generate sufficient cash flow and has adequate cash and debt facilities to finance on-going operations and planned capital and exploration investment programs.

### Commitments

The company has the following capital commitments as at March 31, 2014:

2014	\$ 157,983
2015	1,103
<b>Total</b>	<b>\$ 159,086</b>

Included in the above are capital commitments of \$116.3 million to complete the Eagle project in 2014.

### Shareholders’ Equity

Shareholders’ equity was \$3,686.3 million at March 31, 2014, compared to \$3,669.6 million at December 31, 2013. The increase in shareholders’ equity is primarily a reflection of current quarter’s net earnings of \$13.3 million.

## Sensitivities

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

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

Metal	Tonnes Payable	Provisional price on March 31, 2014 (\$US/tonne)	Change	Effect on pre-tax earnings (\$millions)
Copper	13,108	6,649	+/-10%	+/- \$8.7
Zinc	11,272	1,982	+/-10%	+/- \$2.2
Lead	3,903	2,045	+/-10%	+/- \$0.8
Nickel	1,272	15,900	+/-10%	+/- \$2.0

## Financial Instruments

Summary of financial instruments:

	Fair value at March 31, 2014 (\$000s)	Basis of measurement	Associated risks
Trade and other receivables	41,897	Carrying value	Credit/Market/Exchange
Trade receivables	58,838	Fair value through profit and loss	Credit/Market/Exchange
Marketable securities and restricted funds	26,864	Fair value through profit and loss	Market/Liquidity
Marketable securities	9,476	Fair value through OCI	Market/Liquidity
Trade and other payables	128,694	Amortized cost	Interest
Long-term debt and finance leases	250,439	Amortized cost	Interest
Other long-term liabilities	3,227	Amortized cost	Interest

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

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

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

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

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

During the quarter ended March 31, 2014, the Company recognized reduced sales of \$3.6 million (2013: increased sales of \$0.6 million) on final settlement of provisionally priced transactions from the prior year, a revaluation gain on FVTPL securities of \$0.9 million (2013: loss of \$1.0 million), and no revaluation loss on AFS securities (2013: \$2.5 million).

## Related Party Transactions

### Tenke Fungurume

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

During the quarter ended March 31, 2014, the Company made no cash advances to fund its portion of Tenke expenditures and received \$16.7 million in cash distributions.

### Freeport Cobalt

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

The Company received no cash distributions from Freeport Cobalt during the quarter ended March 31, 2014.

### Key Management Personnel

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

	Three months ended March 31,	
	2014	2013
Wages and salaries	\$ 1,541	\$ 1,490
Pension benefits	34	34
Share-based compensation	562	206
	<u>\$ 2,137</u>	<u>\$ 1,730</u>

During the three months ended March 31, 2014, the Company paid \$0.1 million (2013: \$0.1 million) for management services provided by a company owned by the Chairman of the Company and paid \$0.2 million (2013: \$0.2 million) to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company. The Company expects to continue these services into the foreseeable future.

## Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

*IFRIC 21, Accounting for Levies Imposed by Governments*, clarifies the obligating event giving rise to a liability to pay a levy. The obligating event is the activity described in the relevant legislation that triggers payment of the levy. This standard is effective for annual periods beginning on or after January 1, 2014. The Company has concluded there was no significant impact of adopting this standard.

## Critical Accounting Estimates and Judgments

The application of certain accounting policies requires the Company to make estimates and judgments based on assumptions. For a complete discussion of accounting estimates and judgments deemed most critical by the Company, refer to the Company's annual 2013 Management's Discussion and Analysis.



## Managing Risks

### Risks and Uncertainties

The operations of Lundin Mining involve certain significant risks, including but not limited to credit risk, foreign exchange risk and derivative risk. For a complete discussion of the risks, refer to the Company's 2013 Annual Information Form, available on the SEDAR website, [www.sedar.com](http://www.sedar.com).

### Outstanding Share Data

As at April 29, 2014, the Company has 585,309,841 common shares issued and outstanding and 11,119,366 stock options outstanding under its incentive stock option plans.

### Non-GAAP Performance Measures

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

#### Operating Earnings

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

#### Operating Cash Flow per Share

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

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

(\$000s, except share and per share amounts)	Three months ended March 31	
	2014	2013
Cash provided by (used in) operating activities	27,488	45,757
Add: Changes in non-cash working capital items	3,163	8,686
Operating cash flow before changes in non-cash working capital items	30,651	54,443
Weighted average common shares outstanding	584,974,826	584,150,358
<b>Operating cash flow per share</b>	<b>0.05</b>	<b>0.09</b>

## Cash Cost per Pound

Copper, zinc and nickel cash costs per pound are key performance measures that management uses to monitor performance. Management uses these statistics to assess how well the Company's producing mines are performing compared to plan and to assess overall efficiency and effectiveness of the mining operations. Lundin provides cash cost information as it is a key performance indicator required by users of the Company's financial information in order to assess the Company's earnings potential and performance relative to its peers. Cash cost is not an IFRS measure and, although it is calculated according to accepted industry practice, the Company's disclosed cash costs may not be directly comparable to other base metal producers.

- **Cash cost per pound, gross** - Total cash costs directly attributable to mining operations are divided by the sales volume of the primary metal to arrive at gross cash cost per pound. As this measure is not impacted by fluctuations in sales of by-product metals, it is generally more consistent across periods.
- **Cash cost per pound, net of by-products** – Credits for by-products sales are deducted from total cash costs directly attributable to mining operations. The net cash costs are divided by the sales volume of the primary metal to arrive at net cash cost per pound. The inclusion of by-product credits provides a broader economic measurement, incorporating the benefit of other metals extracted in the production of the primary metal.

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

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

	Three months ended March 31, 2014				Three months ended March 31, 2013			
	Total Tonnes Sold	Pounds (000s)	Cash Cost \$/lb	Operating Costs (\$000s)	Total Tonnes Sold	Pounds (000s)	Cash Cost \$/lb	Operating Costs (\$000s)
<b>Operation</b>								
Neves-Corvo (Cu)	10,335	22,785	2.10	47,849	13,626	30,040	1.83	54,973
Zinkgruvan (Zn)	16,349	36,043	0.45	16,219	12,547	27,661	0.42	11,618
Aguablanca (Ni) <sup>1</sup>	1,242	2,738	2.98	8,159	1,789	3,944	4.66	13,252
Galmoy (Zn) <sup>2</sup>				-				1,113
				72,227				80,956
Add: By-product credits				43,101				40,387
Treatment costs				(14,842)				(13,283)
Royalties and other				(336)				5,390
<b>Total Operating Costs</b>				<b>100,150</b>				<b>113,450</b>

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

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

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

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

Disclosure controls and procedures ("DCP") have been designed to provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis. Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operation of disclosure controls and procedures.

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

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

### ***Control Framework***

Management has used the Internal Control - Integrated Framework (2013) from the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') in order to assess the effectiveness of the Company's internal control over financial reporting.

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

In the second quarter of 2013, the Company acquired the Eagle project. However, the Company has not had sufficient time to fully assess the design of DCP and ICFR inherent in this organization and accordingly has limited the scope of the above assessment on the design of DCP and ICFR to exclude the Eagle project.

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

There have been no changes in the Company's internal control over financial reporting during the three month period ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### ***Other Information***

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

## Other Supplementary Information

### 1. *List of directors and officers at April 29, 2014:*

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

Donald K. Charter  
Paul K. Conibear  
John H. Craig  
Brian D. Edgar  
Peter C. Jones  
Lukas H. Lundin  
Dale C. Peniuk  
William A. Rand

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

Lukas H. Lundin, *Chairman*  
Paul K. Conibear, *President and Chief Executive Officer*  
Marie Inkster, *Senior Vice President and Chief Financial Officer*  
Julie A. Lee Harris, *Senior Vice President, Corporate Development*  
Paul M. McRae, *Senior Vice President, Projects*  
Neil P. M. O'Brien, *Senior Vice President, Exploration and New Business Development*  
Stephen T. Gatley, *Vice President, Technical Services*  
Susan J. Boxall, *Vice President, Human Resources*  
Jinhee Magie, *Vice President, Finance*  
J. Mikael Schauman, *Vice President, Marketing*  
James A. Ingram, *Corporate Secretary*

### 2. **Financial Information**

The report for the second quarter of 2014 is expected to be published by July 30, 2014.

### 3. **Other information**

Address (Corporate head office):  
Lundin Mining Corporation  
Suite 1500, 150 King Street West  
P.O. Box 38  
Toronto, Ontario M5H 1J9  
Canada  
Telephone: +1-416-342-5560  
Fax: +1-416-348-0303  
Website: [www.lundinmining.com](http://www.lundinmining.com)

Address (UK office):  
Lundin Mining UK Limited  
Hayworthe House, 2 Market Place  
Haywards Heath, West Sussex  
RH16 1DB  
United Kingdom  
Telephone: +44-1-444-411-900  
Fax: +44-1-444-456-901

The Canadian federal corporation number for the Company is 443736-5.

#### **For further information, please contact:**

Sophia Shane, *Investor Relations, North America*: +1-604-689-7842: [sophias@namdo.com](mailto:sophias@namdo.com)

Robert Eriksson, *Investor Relations, Sweden*: +46-8-545-015-50, [robert.eriksson@vostoknafta.com](mailto:robert.eriksson@vostoknafta.com)

John Miniotis, *Senior Manager, Corporate Development and Investor Relations*: +1-416-342-5560, [john.miniotis@lundinmining.com](mailto:john.miniotis@lundinmining.com)

Condensed Interim Consolidated Financial Statements of

**Lundin Mining Corporation**

March 31, 2014  
(Unaudited)

**LUNDIN MINING CORPORATION**

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited - in thousands of US dollars)	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 3)	\$ 102,186	\$ 116,640
Trade and other receivables (Note 4)	100,735	114,196
Income taxes receivable	24,982	24,909
Inventories (Note 5)	57,738	44,651
	<b>285,641</b>	<b>300,396</b>
Non-Current		
Restricted funds	53,167	63,869
Marketable securities and other assets	22,491	21,617
Mineral properties, plant and equipment (Note 6)	1,840,850	1,784,868
Investment in associates (Note 7)	2,065,217	2,063,846
Deferred tax assets	23,457	24,031
Goodwill	173,344	173,383
	<b>4,178,526</b>	<b>4,131,614</b>
	<b>\$ 4,464,167</b>	<b>\$ 4,432,010</b>
<b>LIABILITIES</b>		
Current		
Trade and other payables	\$ 155,446	\$ 155,500
Income taxes payable	1,874	1,903
Current portion of deferred revenue	4,687	4,849
Current portion of long-term debt and finance leases (Note 9)	3,220	3,341
Current portion of reclamation and other closure provisions	8,212	8,712
	<b>173,439</b>	<b>174,305</b>
Non-Current		
Deferred revenue	55,161	56,163
Long-term debt and finance leases (Note 9)	247,219	225,435
Reclamation and other closure provisions	142,967	142,958
Other long-term liabilities	3,227	3,234
Provision for pension obligations	20,084	20,752
Deferred tax liabilities	135,793	139,558
	<b>604,451</b>	<b>588,100</b>
	<b>777,890</b>	<b>762,405</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	3,512,156	3,509,343
Contributed surplus	41,144	40,379
Accumulated other comprehensive loss	(27,873)	(27,620)
Retained earnings	160,850	147,503
	<b>3,686,277</b>	<b>3,669,605</b>
	<b>\$ 4,464,167</b>	<b>\$ 4,432,010</b>

Commitments (Note 16)

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

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

**LUNDIN MINING CORPORATION**

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

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

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Sales	\$ 149,903	\$ 188,173
Operating costs (Note 11)	<b>(100,150)</b>	(113,450)
Depreciation, depletion and amortization (Note 6)	<b>(37,753)</b>	(40,234)
General and administrative expenses	<b>(6,647)</b>	(6,672)
General exploration and business development (Note 13)	<b>(11,582)</b>	(12,569)
Income from equity investment in associates (Note 7)	<b>18,081</b>	31,883
Finance income (Note 14)	<b>1,516</b>	596
Finance costs (Note 14)	<b>(1,848)</b>	(2,824)
Other income (Note 15)	<b>358</b>	16,880
Other expenses (Note 15)	<b>(277)</b>	(979)
Earnings before income taxes	<b>11,601</b>	60,804
Current tax expense (Note 8)	<b>(1,406)</b>	(9,597)
Deferred tax recovery (expense) (Note 8)	<b>3,152</b>	(1,152)
<b>Net earnings</b>	<b>\$ 13,347</b>	<b>\$ 50,055</b>
Basic and diluted earnings per share	\$ 0.02	\$ 0.09
Weighted average number of shares outstanding (Note 10)		
Basic	<b>584,974,826</b>	584,150,358
Diluted	<b>585,803,622</b>	585,280,925

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

## LUNDIN MINING CORPORATION

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited - in thousands of US dollars)

	Three months ended March 31,	
	2014	2013
Net earnings	\$ 13,347	\$ 50,055
<b>Other comprehensive loss, net of taxes</b>		
Items that may be reclassified subsequently to net earnings:		
Unrealized loss on marketable securities	-	(2,471)
Effects of foreign currency translation	(253)	(30,014)
<b>Other comprehensive loss</b>	<b>(253)</b>	<b>(32,485)</b>
<b>Comprehensive income</b>	<b>\$ 13,094</b>	<b>\$ 17,570</b>

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance, December 31, 2013	584,643,063	\$ 3,509,343	\$ 40,379	\$ (27,620)	\$ 147,503	\$ 3,669,605
Net earnings	-	-	-	-	13,347	13,347
Other comprehensive loss	-	-	-	(253)	-	(253)
Total comprehensive income	-	-	-	(253)	13,347	13,094
Exercise of stock options	538,778	2,813	(843)	-	-	1,970
Share-based compensation	-	-	1,608	-	-	1,608
<b>Balance, March 31, 2014</b>	<b>585,181,841</b>	<b>\$ 3,512,156</b>	<b>\$ 41,144</b>	<b>\$ (27,873)</b>	<b>\$ 160,850</b>	<b>\$ 3,686,277</b>
Balance, December 31, 2012	584,005,006	\$ 3,505,398	\$ 34,140	\$ (77,213)	\$ 10,754	\$ 3,473,079
Net earnings	-	-	-	-	50,055	50,055
Other comprehensive loss	-	-	-	(32,485)	-	(32,485)
Total comprehensive income	-	-	-	(32,485)	50,055	17,570
Exercise of stock options	151,667	905	(301)	-	-	604
Share issuance	50,000	261	-	-	-	261
Share-based compensation	-	-	1,895	-	-	1,895
Balance, March 31, 2013	584,206,673	\$ 3,506,564	\$ 35,734	\$ (109,698)	\$ 60,809	\$ 3,493,409

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



**LUNDIN MINING CORPORATION**

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - in thousands of US dollars)

	Three months ended March 31,	
	2014	2013
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings	\$ 13,347	\$ 50,055
Items not involving cash		
Depreciation, depletion and amortization	37,753	40,234
Share-based compensation	1,825	1,668
Income from equity investment in associates	(18,081)	(31,883)
Foreign exchange loss (gain)	1,138	(4,362)
Deferred tax (recovery) expense	(3,152)	1,152
Recognition of deferred revenue	(1,242)	(2,820)
Finance income and costs	(13)	1,757
Other	771	734
Reclamation payments	(1,274)	(1,685)
Pension payments	(421)	(407)
Changes in non-cash working capital items (Note 20)	(3,163)	(8,686)
	<b>27,488</b>	<b>45,757</b>
<b>Investing activities</b>		
Investment in mineral properties, plant and equipment	(92,396)	(36,641)
Acquisition of Freeport Cobalt (Note 7)	-	(116,253)
Distributions from associates	16,710	45,000
Restricted funds withdrawal (contribution), net	10,800	(6,711)
Proceeds from sale of marketable securities, net	-	1,178
Other	53	(240)
	<b>(64,833)</b>	<b>(113,667)</b>
<b>Financing activities</b>		
Proceeds from long-term debt	22,000	85,000
Common shares issued	1,970	604
Long-term debt repayments	(744)	(497)
Financing fees paid	(89)	-
	<b>23,137</b>	<b>85,107</b>
Effect of foreign exchange on cash balances	(246)	(152)
(Decrease) increase in cash and cash equivalents during the period	(14,454)	17,045
Cash and cash equivalents, beginning of period	116,640	275,104
Cash and cash equivalents, end of period	\$ 102,186	\$ 292,149

Supplemental cash flow information (Note 20)

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

# LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three months ended March 31, 2014 and 2013

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

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## 1. NATURE OF OPERATIONS

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

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

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### (i) Basis of presentation and measurement

The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting including IAS 34 *Interim financial reporting*. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013.

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

These condensed interim consolidated financial statements were approved by the board of directors for issue on April 29, 2014.

### (ii) Critical accounting estimates and judgments

Areas of judgment that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2013.

### (iii) Accounting principles

The accounting policies followed in these condensed interim financial statements are consistent with those disclosed in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2013, except as described below.

#### *Changes in Accounting Policies*

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

*IFRIC 21, Accounting for Levies Imposed by Governments*, clarifies the obligating event giving rise to a liability to pay a levy. This obligating event is the activity described in the relevant legislation that triggers

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three months ended March 31, 2014 and 2013

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

payment of the levy. This standard is effective for annual periods beginning on or after January 1, 2014. The Company has concluded there was no significant impact of adopting this standard.

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	<b>March 31, 2014</b>	December 31, 2013
Cash	\$ 87,149	\$ 116,603
Short-term deposits	15,037	37
	<b>\$ 102,186</b>	<b>\$ 116,640</b>

### 4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	<b>March 31, 2014</b>	December 31, 2013
Trade receivables	\$ 72,122	\$ 85,435
Value added tax	13,311	15,432
Other receivables	7,605	9,246
Prepaid expenses	7,697	4,083
	<b>\$ 100,735</b>	<b>\$ 114,196</b>

The Company does not have any significant balances that are past due nor does it have an allowance for doubtful accounts.

### 5. INVENTORIES

Inventories are comprised of the following:

	<b>March 31, 2014</b>	December 31, 2013
Ore stockpiles	\$ 16,027	\$ 12,227
Concentrate stockpiles	23,624	14,470
Materials and supplies	18,087	17,954
	<b>\$ 57,738</b>	<b>\$ 44,651</b>

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three months ended March 31, 2014 and 2013

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

### 6. MINERAL PROPERTIES, PLANT AND EQUIPMENT

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

Cost	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2012	\$ 1,646,431	\$ 654,878	\$ 60,590	\$ 20,420	\$ 2,382,319
Additions	18,461	190	501	10,660	29,812
Disposals and transfers	1,294	2,340	(721)	(3,845)	(932)
Effects of foreign exchange	(35,996)	(15,587)	(1,823)	(611)	(54,017)
As at March 31, 2013	1,630,190	641,821	58,547	26,624	2,357,182
Acquisition of Eagle project	10,369	15,397	-	316,063	341,829
Additions	45,299	3,248	-	198,614	247,161
Disposals and transfers	597	55,533	-	(68,971)	(12,841)
Effects of foreign exchange	92,549	42,468	4,683	2,485	142,185
As at December 31, 2013	1,779,004	758,467	63,230	474,815	3,075,516
Additions	11,470	406	-	82,789	94,665
Disposals and transfers	5,148	7,401	(501)	(15,345)	(3,297)
Effects of foreign exchange	(154)	(108)	(13)	96	(179)
<b>As at March 31, 2014</b>	<b>\$ 1,795,468</b>	<b>\$ 766,166</b>	<b>\$ 62,716</b>	<b>\$ 542,355</b>	<b>\$ 3,166,705</b>

Accumulated depreciation, depletion and amortization	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2012	\$ 831,694	\$ 279,812	\$ -	\$ -	\$ 1,111,506
Depreciation	29,143	11,091	-	-	40,234
Disposals and transfers	-	(288)	-	-	(288)
Effects of foreign exchange	(17,250)	(7,117)	-	-	(24,367)
As at March 31, 2013	843,587	283,498	-	-	1,127,085
Depreciation	74,679	33,236	-	-	107,915
Disposals and transfers	(2,810)	(8,036)	-	-	(10,846)
Effects of foreign exchange	45,900	20,594	-	-	66,494
As at December 31, 2013	961,356	329,292	-	-	1,290,648
Depreciation	23,741	14,012	-	-	37,753
Disposals and transfers	-	(2,679)	-	-	(2,679)
Effects of foreign exchange	79	54	-	-	133
<b>As at March 31, 2014</b>	<b>\$ 985,176</b>	<b>\$ 340,679</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,325,855</b>

Net book value	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2013	\$ 817,648	\$ 429,175	\$ 63,230	\$ 474,815	\$ 1,784,868
<b>As at March 31, 2014</b>	<b>\$ 810,292</b>	<b>\$ 425,487</b>	<b>\$ 62,716</b>	<b>\$ 542,355</b>	<b>\$ 1,840,850</b>

During the three months ended March 31, 2014, the Company capitalized \$2.0 million of borrowing costs related to the Eagle project.

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Notes to condensed interim consolidated financial statements

For the three months ended March 31, 2014 and 2013

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

Depreciation, depletion and amortization is comprised of:

	Three months ended March 31,	
	2014	2013
Operating costs	\$ 37,665	\$ 40,153
General and administrative expenses	88	81
<b>Depreciation, depletion and amortization</b>	<b>\$ 37,753</b>	<b>\$ 40,234</b>

### 7. INVESTMENT IN ASSOCIATES

	Tenke		Freeport	
	Fungurume	Cobalt		Total
As at December 31, 2012	\$ 2,003,053	\$ -	\$ -	\$ 2,003,053
Distributions	(45,000)	-	-	(45,000)
Share of equity income	31,883	-	-	31,883
As at March 31, 2013	1,989,936	-	-	1,989,936
Acquisition	-	116,253	-	116,253
Distributions	(96,810)	(7,617)	-	(104,427)
Share of equity income (loss)	65,886	(3,802)	-	62,084
As at December 31, 2013	1,959,012	104,834	-	2,063,846
Distributions	(16,710)	-	-	(16,710)
Share of equity income (loss)	18,987	(906)	-	18,081
<b>As at March 31, 2014</b>	<b>\$ 1,961,289</b>	<b>\$ 103,928</b>	<b>\$ -</b>	<b>\$ 2,065,217</b>

The following is a summary of the consolidated financial information of TF Holdings Limited on a 100% basis:

	March 31,	December 31,
	2014	2013
Total current assets	\$ 693,173	\$ 648,488
Total non-current assets	\$ 2,957,065	\$ 2,937,118
Total current liabilities	\$ 116,984	\$ 99,144
Total non-current liabilities	\$ 509,063	\$ 559,085

	Three months ended March 31,	
	2014	2013
Total sales	\$ 333,111	\$ 446,398
Total earnings	\$ 84,468	\$ 121,531

### 8. INCOME TAXES

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

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three months ended March 31, 2014 and 2013

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

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

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

	March 31, 2014	December 31, 2013
Credit facilities	\$ 243,213	\$ 220,818
Finance lease obligations	4,529	5,267
Other	2,697	2,691
	250,439	228,776
Less: current portion	3,220	3,341
	\$ 247,219	\$ 225,435

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

As at December 31, 2012	\$ 10,022
Additions	83,348
Payments	(527)
Revaluations	5
Effects of foreign exchange	(88)
As at March 31, 2013	92,760
Additions	223,624
Payments	(86,963)
Revaluations	11
Effects of foreign exchange	(656)
As at December 31, 2013	228,776
Additions	22,000
Payments	(744)
Revaluations	5
Effects of foreign exchange	402
<b>As at March 31, 2014</b>	<b>\$ 250,439</b>

For the three months ended March 31, 2014, the Company drew down \$22 million on its credit facilities for the construction of the Eagle project.

### 10. DILUTED WEIGHTED AVERAGE NUMBER OF SHARES

The total incremental shares added to the basic weighted average number of common shares outstanding to arrive at the fully diluted number of shares is comprised of 828,796 shares for the three months ended March 31, 2014 (2013 - 1,130,567 shares). The incremental shares relate to in-the-money outstanding stock options.

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For the three months ended March 31, 2014 and 2013

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

### 11. OPERATING COSTS

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

	Three months ended March 31,	
	2014	2013
Direct mine and mill costs	\$ 92,631	\$ 104,899
Transportation	6,226	5,515
Royalties	1,293	3,036
	<b>100,150</b>	113,450
Depreciation, depletion and amortization (Note 6)	37,665	40,153
<b>Total operating costs</b>	<b>\$ 137,815</b>	<b>\$ 153,603</b>

### 12. EMPLOYEE BENEFITS

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

	Three months ended March 31,	
	2014	2013
Operating costs		
Wages and benefits	\$ 31,210	\$ 29,210
Pension benefits	429	407
Share-based compensation	763	731
	<b>32,402</b>	30,348
General and administrative expenses		
Wages and benefits	2,962	2,687
Pension benefits	119	85
Share-based compensation	1,023	891
	<b>4,104</b>	3,663
General exploration and business development		
Wages and benefits	2,101	1,326
Pension benefits	12	13
Share-based compensation	39	46
	<b>2,152</b>	1,385
<b>Total employee benefits</b>	<b>\$ 38,658</b>	<b>\$ 35,396</b>

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### 13. GENERAL EXPLORATION AND BUSINESS DEVELOPMENT

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

	Three months ended March 31,	
	2014	2013
General exploration	\$ 8,066	\$ 7,950
Corporate development	95	519
Project development	3,421	4,100
	<b>\$ 11,582</b>	<b>\$ 12,569</b>

Project development expenses include pre-feasibility costs and indirect costs for the Eagle project. In 2013, these costs also included expenditures to develop an exploration ramp at the Neves-Corvo mine.

### 14. FINANCE INCOME AND COSTS

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

	Three months ended March 31,	
	2014	2013
Interest income	\$ 394	\$ 476
Interest expense and bank fees	(1,247)	(1,124)
Accretion expense on reclamation provisions	(601)	(750)
Revaluation gains (losses) on marketable securities	888	(950)
Other	234	120
<b>Total finance costs, net</b>	<b>\$ (332)</b>	<b>\$ (2,228)</b>

  

Finance income	\$ 1,516	\$ 596
Finance costs	(1,848)	(2,824)
<b>Total finance costs, net</b>	<b>\$ (332)</b>	<b>\$ (2,228)</b>



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### 15. OTHER INCOME AND EXPENSES

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

	Three months ended March 31,	
	2014	2013
Foreign exchange (loss) gain	\$ (29)	\$ 1,351
Other income	358	15,529
Other expenses	(248)	(979)
<b>Total other income, net</b>	<b>\$ 81</b>	<b>\$ 15,901</b>

Other income	\$ 358	\$ 16,880
Other expenses	(277)	(979)
<b>Total other income, net</b>	<b>\$ 81</b>	<b>\$ 15,901</b>

During the three months ended March 31, 2013, the Company recorded \$15.1 million in other income related to insurance proceeds for business interruption at the Aguablanca mine from the ramp failure, which occurred in late-2010.

### 16. COMMITMENTS

The Company has the following capital commitments as at March 31, 2014:

2014	\$ 157,983
2015	1,103
<b>Total</b>	<b>\$ 159,086</b>

Included in the above are capital commitments of \$116.3 million to complete the Eagle project in 2014.

### 17. SEGMENTED INFORMATION

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

# LUNDIN MINING CORPORATION

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For the three months ended March 31, 2014 and 2013

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

## For the three months ended March 31, 2014

	Tenke						Total
	Neves-Corvo Portugal	Zinkgruvan Sweden	Aguablanca Spain	Eagle USA	Fungurume DRC	Other	
Sales	\$ 76,272	\$ 43,078	\$ 29,289	\$ -	\$ -	\$ 1,264	\$ 149,903
Operating costs	(56,293)	(26,539)	(16,279)	-	-	(1,039)	(100,150)
General and administrative expenses	-	-	-	-	-	(6,647)	(6,647)
Operating earnings (loss)*	19,979	16,539	13,010	-	-	(6,422)	43,106
Depreciation, depletion and amortization	(26,789)	(6,992)	(2,963)	(905)	-	(104)	(37,753)
General exploration and business development	(3,101)	(2,055)	-	(3,725)	-	(2,701)	(11,582)
Income from equity investment in associates	-	-	-	-	18,987	(906)	18,081
Finance income and costs, net	(237)	166	(66)	-	-	(195)	(332)
Other income and expenses, net	(92)	242	(2)	-	-	(67)	81
Income tax recovery (expense)	3,450	(1,617)	(2,732)	2,489	-	156	1,746
Net (loss) earnings	\$ (6,790)	\$ 6,283	\$ 7,247	\$ (2,141)	\$ 18,987	\$ (10,239)	\$ 13,347
Capital expenditures	\$ 18,925	\$ 5,138	\$ 4,680	\$ 63,480	\$ -	\$ 173	\$ 92,396

## For the three months ended March 31, 2013

	Tenke						Total
	Neves-Corvo Portugal	Zinkgruvan Sweden	Aguablanca Spain	Fungurume DRC	Other		
Sales	\$ 108,007	\$ 35,862	\$ 42,800	\$ -	\$ 1,504	\$ 188,173	
Operating costs	(60,149)	(21,492)	(29,954)	-	(1,855)	(113,450)	
General and administrative expenses	-	-	-	-	(6,672)	(6,672)	
Operating earnings (loss)*	47,858	14,370	12,846	-	(7,023)	68,051	
Depreciation, depletion and amortization	(25,434)	(6,814)	(7,887)	-	(99)	(40,234)	
General exploration and business development	(6,302)	(3,074)	(385)	-	(2,808)	(12,569)	
Income from equity investment in associates	-	-	-	31,883	-	31,883	
Finance income and costs, net	(238)	(61)	(138)	-	(1,791)	(2,228)	
Other income and expenses, net	3,374	(495)	15,603	-	(2,581)	15,901	
Income tax (expense) recovery	(5,286)	(636)	(4,477)	-	(350)	(10,749)	
Net earnings (loss)	\$ 13,972	\$ 3,290	\$ 15,562	\$ 31,883	\$ (14,652)	\$ 50,055	
Capital expenditures	\$ 26,872	\$ 7,479	\$ 2,154	\$ -	\$ 136	\$ 36,641	

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

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three months ended March 31, 2014 and 2013

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

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

	Three months ended March 31,	
	2014	2013
Copper	\$ 67,805	\$ 109,582
Zinc	39,588	30,557
Lead	13,864	9,398
Nickel	21,792	30,179
Other	6,854	8,457
	\$ 149,903	\$ 188,173

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

	Three months ended March 31,	
	2014	2013
Europe	\$ 121,850	\$ 123,425
South America	(2,836)	21,948
Asia	30,889	42,800
	\$ 149,903	\$ 188,173

## 18. RELATED PARTY TRANSACTIONS

- a) **Transactions with associates** - The Company enters into transactions related to its investment in associates. These transactions are entered into in the normal course of business and on an arm's length basis (Note 7).
- b) **Key management personnel** - The Company has identified its directors and certain senior officers as its key management personnel. The employee benefits for key management personnel are as follows:

	Three months ended March 31,	
	2014	2013
Wages and salaries	\$ 1,541	\$ 1,490
Pension benefits	34	34
Share-based compensation	562	206
	\$ 2,137	\$ 1,730

- c) **Other related parties** - During the three months ended March 31, 2014, the Company paid \$0.1 million (2013 - \$0.1 million) for services provided by a company owned by the Chairman of the Company. The Company also paid \$0.2 million for the three months ended March 31, 2014 (2013 - \$0.2 million) to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company.

## LUNDIN MINING CORPORATION

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For the three months ended March 31, 2014 and 2013

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### 19. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial assets and financial liabilities have been classified into categories that determine their basis of measurement. The following table shows the carrying values, fair values and fair value hierarchy of the Company's financial instruments as at March 31, 2014 and December 31, 2013:

	Level	March 31, 2014		December 31, 2013	
		Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>					
Fair value through profit or loss					
Trade receivables	2	\$ 58,838	\$ 58,838	\$ 62,945	\$ 62,945
Marketable securities - shares	1	8,740	8,740	7,406	7,406
Marketable securities - warrants	2	26	26	12	12
Restricted funds - shares	1	18,098	18,098	18,183	18,183
		\$ 85,702	\$ 85,702	\$ 88,546	\$ 88,546
Available for sale					
Marketable securities - shares	1	\$ 9,438	\$ 9,438	\$ 9,778	\$ 9,778
Marketable securities - warrants	2	38	38	151	151
		\$ 9,476	\$ 9,476	\$ 9,929	\$ 9,929
<b>Financial liabilities</b>					
Amortized cost					
Long-term debt and finance leases	2	\$ 250,439	\$ 250,439	\$ 228,776	\$ 228,776
Other long-term liabilities	2	3,227	3,227	3,234	3,234
		\$ 253,666	\$ 253,666	\$ 232,010	\$ 232,010

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

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

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

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

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

Trade receivables – The fair value of the embedded derivatives on provisional sales are valued using quoted market prices based on the forward London Metals Exchange price. The Company recognized a negative pricing adjustments of \$7.2 million in sales during the three months ended March 31, 2014 (2013 - \$8.3 million negative price adjustment).

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

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

## LUNDIN MINING CORPORATION

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

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

### 20. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended March 31,	
	2014	2013
Changes in non-cash working capital items consist of:		
Trade receivable, inventories and other current assets	\$ (858)	\$ (4,099)
Trade payables and other current liabilities	(2,305)	(4,587)
	<b>\$ (3,163)</b>	<b>\$ (8,686)</b>
Operating activities included the following cash payments:		
Interest received	\$ 394	\$ 476
Interest paid	\$ 2,456	\$ 623
Income taxes paid	\$ 1,512	\$ 2,015