

# lundin mining

## Management's Discussion and Analysis For the three and nine months ended September 30, 2012

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This management's discussion and analysis has been prepared as of October 24, 2012 and should be read in conjunction with the Company's condensed interim consolidated financial statements for the three and nine months ended September 30, 2012. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company's presentation currency is United States ("US") dollars. Reference herein of \$ is to United States dollars. Reference of C\$ is to Canadian dollars, reference to SEK is to Swedish krona and € refers to the Euro.

### **About Lundin Mining**

Lundin Mining Corporation ("Lundin", "Lundin Mining" or the "Company") is a diversified Canadian base metals mining company with operations in Portugal, Sweden, Spain and Ireland, producing copper, zinc, lead and nickel. In addition, Lundin Mining holds a development project pipeline which includes an expansion project at its Neves-Corvo mine along with a 24% equity stake in the world class Tenke Fungurume copper/cobalt mine in the Democratic Republic of Congo ("DRC"), which is undergoing expansion to 195,000 tonnes per annum of copper cathode production.

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

*Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of 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; and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the Company's Annual Information Form and in each management's discussion and analysis. Forward-looking information is, in addition, based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long-term price of copper, 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 forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.*

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## Highlights

### Operational and Financial Performance

**Wholly-owned operations:** The Company continued to perform well in the third quarter with production and operational results that were in line with expectations. Financial results for the quarter were affected by labour action by dock workers in Portugal and Sweden. This resulted in a disruption to concentrate shipments in the latter part of September and some of the quarter's sales were pushed into the fourth quarter.

- Operational improvements, on target grades, good copper recoveries and out of reserve mining continued to assist Neves-Corvo metal production.
- Zinkgruvan experienced another quarter of high zinc and lead head grades resulting in higher metal production than last year; grades are expected to return to historical levels in the fourth quarter.
- Aguablanca recommenced production in August 2012, ahead of schedule, with ramp up towards full production expected in the fourth quarter. The Company continues to monitor new south pit wall stability issues and is taking additional measures to secure areas deemed to be higher risk.

**Tenke:** The mine and mill continue to perform very well, achieving record mining, milling and copper production rates. Construction activities on the Phase II expansion are expected to be on budget and substantially completed by the end of 2012; currently, the expansion is approximately 90% complete. The addition of a second sulphuric acid plant is expected to be completed in 2015.

- A combination of the higher mining rate due to additional mine equipment and the increase in mill throughput from the ramp-up of parts of the Phase II expanded facilities (including the new jaw crusher which was completed ahead of schedule), resulted in production being higher than expected.
- Cobalt production was in line with expectations.
- A cash call for \$15.0 million was funded by the Company during the quarter to cover sustaining capital, on-going concession exploration and expansion initiatives. If copper prices remain strong, surplus cash from Tenke operations should be sufficient to cover the Company's share of capital and non-capital requirements for the remainder of the year.

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

	YTD	Q3	Q2	Q1	FY	Q4	Q3	Q2	Q1
(tonnes)	2012	2012	2012	2012	2011	2011	2011	2011	2011
Copper	49,654	15,573	16,936	17,145	75,877	27,488	15,419	13,831	19,139
Zinc	93,043	28,452	31,972	32,619	111,445	27,053	28,791	27,404	28,197
Lead	30,111	9,365	9,780	10,966	41,130	9,273	10,077	10,367	11,413
Nickel	693	693	-	-	-	-	-	-	-
<i>Tenke attributable<sup>a</sup></i>									
Copper	27,503	9,947	8,632	8,924	31,523	8,635	7,982	7,398	7,508

a - Lundin Mining's attributable share of Tenke's production was reduced from 24.75% to 24.0% effective March 26, 2012, when changes to bylaws of Tenke Fungurume Mining ("TFM") were signed.

- Operating earnings<sup>1</sup> for the third quarter of 2012 were \$71.1 million, an increase of \$17.3 million from the \$53.8 million reported in the comparable quarter of 2011. The increase was largely attributable to lower per unit production costs (\$10.4 million) and favourable foreign exchange rates (\$6.0 million).

On a year-to-date basis, operating earnings of \$256.9 million were in line with the \$257.6 million reported for the first nine months of 2011. The \$0.7 million decrease in operating earnings was mainly attributable to lower realized metal prices for current period sales (\$62.4 million), partially offset by prior period price adjustments (\$14.9 million), lower costs (\$21.4 million) and favourable effects of foreign exchange (\$20.3 million).

- For the quarter ended September 30, 2012, sales of \$159.6 million increased \$13.4 million over the prior year (\$146.2 million) which was mainly as a result of higher sales volume (\$5.9 million), higher realized metal prices for current quarter sales (\$5.4 million) and positive prior period price adjustments (\$2.1 million). The increase in volume from the restart of the Aguablanca mine was partially offset by a stevedore strike in Portugal which prevented the loading and shipment of concentrate, leaving approximately 11,000 dry metric tonnes (“dmt”) of copper concentrate in inventory at the end of the period.

Sales of \$544.6 million for the nine months ended September 30, 2012 were in line with the comparable period in 2011 (\$541.7 million). Lower realized metal prices (\$62.4 million) were more than offset by the effects of higher sales volume (\$50.4 million) and prior period price adjustments (\$14.9 million).

- Average metal prices for copper, zinc and lead for the three and nine months ended September 30, 2012 were significantly lower (14% - 27%) than the same periods in the prior year.
- Operating costs (excluding depreciation) of \$82.3 million in the current quarter were slightly lower than the prior year comparative quarter of \$88.2 million as a result of lower per unit production costs and positive foreign exchange impacts at both Neves-Corvo and Zinkgruvan.

On a year-to-date basis, operating costs (excluding depreciation) for the nine months ended September 30, 2012 of \$267.7 million were marginally lower than the \$269.8 million reported for the first half of 2011.

- Net earnings of \$37.9 million (\$0.07 per share) in the current quarter were \$21.5 million higher than the \$16.4 million (\$0.03 per share) reported in 2011. Earnings were impacted by:
  - higher equity earnings from investment in Tenke (\$7.8 million);
  - lower unrealized loss on revaluation of marketable securities (\$8.6 million);
  - lower depreciation, depletion and amortization expense (\$6.7 million);
  - lower tax expense of \$14.1 million, \$12.5 million (€9.1 million) of which relates to a Spanish tax assessment recorded in 2011 for deductibility of accelerated depreciation; offset by
  - lower other income (\$25.3 million) arising mostly from reduced foreign exchange gains.
- Cash outflow from operations for the current quarter was \$25.7 million compared to \$36.6 million for 2011. The comparative decrease in the cash outflow is mostly attributable to higher net earnings in the current quarter.

For the nine months ended September 30, 2012, cash flow from operations was \$144.6 million compared to \$194.8 million for 2011 primarily as a result of changes in non-cash working capital.

<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 25 of this MD&A for discussion of non-IFRS measures.

## Tenke Fungurume

- Milling facilities continued to produce above rated capacity, with throughput averaging 13,600 metric tonnes of ore per day in the third quarter of 2012, approximately 700 metric tonnes of ore per day higher than the previous quarter in 2012.
- For the quarter ended September 30, 2012, Tenke produced 41,446 tonnes of copper and sold 39,790 tonnes at an average realized price of \$3.53/lb. In addition, 3,356 tonnes of cobalt in hydroxide was produced and 3,519 tonnes were sold at an average realized price of \$8.29/lb of cobalt.
- Cash costs<sup>1</sup> of \$1.23/lb of copper in the third quarter of 2012 were higher than the \$1.12/lb in the prior year comparable quarter, reflecting lower cobalt credits and higher consumable costs.
- Cash advances of \$15.0 million were made to Tenke in the quarter ended September 30, 2012. During the quarter, \$38.4 million was spent on our attributable share of capital requirements, which was funded by the above noted cash call and excess cash flow from operations.
- Attributable operating cash flow related to Tenke for the third quarter of 2012 was \$26.1 million and now totals \$106.7 million year-to-date.

## Corporate Highlights

- On September 4, 2012 the Company reported its Mineral Reserve and Resource estimates as at June 30, 2012. The full press release can be found on the Company's website at [www.lundinmining.com](http://www.lundinmining.com).
- The Company announced its intention not to exercise its option under the purchase option agreement to acquire a controlling interest in the Touro copper project located in northern Spain. See press release entitled "*Lundin Mining update on Touro Copper Project Option*", dated September 25, 2012.

## Financial Position and Financing

- Net cash<sup>2</sup> position at September 30, 2012 was \$245.0 million compared to \$236.1 million at December 31, 2011, \$312.7 million at June 30, 2012 and \$208.7 million at September 30, 2011.
- The \$67.7 million decrease in net cash during the quarter was primarily attributable to cash outflow from operations of \$25.7 million (including a \$61.7 million outflow for working capital), investment in mineral properties, plant and equipment of \$37.3 million and a \$15.0 million cash advance to Tenke.
- Year-to-date, net cash remained relatively unchanged as cash flow from operations was offset by investment in mineral properties, plant and equipment (\$130.4 million) and a \$15.0 million advance to Tenke.
- Cash balance at October 22, 2012 was approximately \$290 million.

<sup>1</sup> Cash cost per pound is a Non-GAAP measure – see page 25 of this MD&A for discussion of Non-GAAP measures.

<sup>2</sup> Net cash is a non-GAAP measure defined as available unrestricted cash less long-term debt and finance leases.

## Outlook

### 2012 Capital Expenditure Guidance

Capital expenditures for 2012 are expected to be \$380 million, \$30 million lower than previous guidance as a result of reduced estimated Tenke requirements. Estimated capital investment for the year is as follows:

- **Sustaining capital in European operations** - \$130 million: Primarily in support of pre-stripping costs at Aguablanca and development costs at our Zinkgruvan and Neves-Corvo operations.
- **New investment capital expenditures in European operations** - \$70 million: Consisting largely of Lombador Phase I and Neves-Corvo water dam improvements.
- **New investment in Tenke** - \$180 million: Estimated total capital expenditures for the year have been reduced by \$30 million from previous guidance to reflect on budget performance of the Phase II expansion, the deferral of some costs to 2013 and overall lower sustaining and expansion capital requirements this year. Year-to-date there has been one cash call for \$15.0 million made by TFM from Lundin as surplus cash from operations has covered substantially all Phase II expansion costs incurred during the period. No other cash calls for 2012 are expected to Lundin.

### 2012 Production and Cost Guidance

- Cash cost guidance for Zinkgruvan has been improved, reflecting overall better mine performance.
- Production guidance for Aguablanca has been increased to reflect earlier than planned restart of production at the mine. Despite stability issues on the south pit wall, no disruptions to planned concentrate production prior to year end are expected as there is a significant amount of ore that has been stockpiled which will be supplemented with ongoing mining of ore from the north side of the pit.
- Guidance for Galmoy has also been updated to reflect better zinc production estimates prior to closure.
- Revised guidance from Freeport on Tenke's copper sales, from 140,600 to 149,700 tonnes (100% basis) has been reflected in the revised guidance below and is based on the assumption that production volumes will approximate sales. Freeport has also increased its guidance on full year cash cost as a result of lower average cobalt prices.

2012 Guidance (contained tonnes)		Prior Guidance		Revised Guidance	
		Tonnes	C1 Cost <sup>a</sup>	Tonnes	C1 Cost <sup>a</sup>
<b>Neves-Corvo</b>	<i>Cu</i>	55,000 – 60,000	\$ 1.70	55,000 - 60,000	\$ 1.70
	<i>Zn</i>	25,000 – 30,000		25,000 - 30,000	
<b>Zinkgruvan</b>	<i>Zn</i>	77,000 – 83,000	\$ 0.20	77,000 - 83,000	\$ 0.15
	<i>Pb</i>	34,000 – 39,000		34,000 - 39,000	
	<i>Cu</i>	3,000 – 4,000		3,000 - 4,000	
<b>Galmoy<sup>b</sup></b> (in ore)	<i>Zn</i>	7,000 – 8,000		8,500 - 9,000	
	<i>Pb</i>	1,500 – 2,000		1,000 - 1,100	
<b>Aguablanca</b>	<i>Ni</i>	1,000 – 1,500		1,500 - 2,000	
	<i>Cu</i>	1,000 – 1,500		1,500 - 2,000	
<b>Total: Wholly-owned operations</b>	<i>Cu</i>	59,000 – 65,500		59,500 - 66,000	
	<i>Zn</i>	109,000 – 121,000		110,500 - 122,000	
	<i>Pb</i>	35,500 – 41,000		35,000 - 40,100	
	<i>Ni</i>	1,000 - 1,500		1,500 - 2,000	
<b>Tenke: 24.0% attributable share<sup>c</sup></b>	<i>Cu</i>	34,000	\$ 1.16	36,200	\$ 1.25

a. Cash costs remain dependent upon exchange rates (forecast at €/USD:1.28, USD/SEK:6.80) and metal prices (forecast at Cu: \$3.50, Zn: \$0.85).

b. Galmoy production tonnage is based on a 50% attributable-share to Lundin Mining.

c. Lundin Mining's attributable share was reduced from 24.75% to 24.0% in March 2012, after approval of changes to TFM's bylaws.

## Selected Quarterly Financial Information

(\$ millions, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2012	2011 <sup>3,4</sup>	2012	2011 <sup>3,4</sup>
<b>Sales</b>	<b>159.6</b>	146.2	<b>544.6</b>	541.7
Operating costs	<b>(82.3)</b>	(88.2)	<b>(267.7)</b>	(269.8)
General and administrative expenses	<b>(6.2)</b>	(4.2)	<b>(20.0)</b>	(14.3)
<b>Operating earnings</b>	<b>71.1</b>	53.8	<b>256.9</b>	257.6
Depreciation, depletion and amortization	<b>(27.6)</b>	(34.3)	<b>(86.1)</b>	(107.4)
General exploration and business development	<b>(20.8)</b>	(13.6)	<b>(52.2)</b>	(40.7)
Income from investment in Tenke Fungurume	<b>25.1</b>	17.2	<b>75.7</b>	74.1
Finance income and costs, net	<b>0.8</b>	(10.6)	<b>(8.9)</b>	(12.7)
Other income and expenses, net	<b>(7.2)</b>	21.4	<b>(1.3)</b>	2.2
<b>Earnings before income taxes</b>	<b>41.4</b>	33.9	<b>184.1</b>	173.1
Income tax expense	<b>(3.5)</b>	(17.5)	<b>(43.8)</b>	(25.5)
<b>Net earnings</b>	<b>37.9</b>	16.4	<b>140.3</b>	147.6
<b>Shareholders' equity</b>	<b>3,458.8</b>	3,310.5	<b>3,458.8</b>	3,310.5
<b>Cash flow from operations</b>	<b>(25.7)</b>	(36.6)	<b>144.6</b>	194.8
<b>Capital expenditures (incl. advances to Tenke)</b>	<b>52.3</b>	62.8	<b>145.4</b>	168.7
<b>Total assets</b>	<b>4,021.8</b>	3,912.2	<b>4,021.8</b>	3,912.2
<b>Net cash</b>	<b>245.0</b>	208.7	<b>245.0</b>	208.7
<b>Key Financial Data:</b>				
Shareholders' equity per share <sup>1</sup>	<b>5.93</b>	5.68	<b>5.93</b>	5.68
Earnings per share	<b>0.07</b>	0.03	<b>0.24</b>	0.25
Diluted earnings per share	<b>0.06</b>	0.03	<b>0.24</b>	0.25
Dividends	-	-	-	-
Equity ratio <sup>2</sup>	<b>86%</b>	85%	<b>86%</b>	85%
<b>Shares outstanding:</b>				
Basic weighted average	<b>582,944,893</b>	582,320,503	<b>582,716,888</b>	581,939,918
Diluted weighted average	<b>583,761,868</b>	582,999,753	<b>583,636,073</b>	583,122,001
End of period	<b>583,237,511</b>	582,475,287	<b>583,237,511</b>	582,475,287

(\$ millions, except per share data)	Q3-12	Q2-12	Q1-12	Q4-11 <sup>3,4</sup>	Q3-11 <sup>3,4</sup>	Q2-11 <sup>3,4</sup>	Q1-11 <sup>3</sup>	Q4-10 <sup>3</sup>
<b>Sales</b>	<b>159.6</b>	172.3	212.8	242.1	146.2	184.0	211.5	309.3
<b>Operating earnings</b>	<b>71.1</b>	80.4	105.4	124.3	53.8	85.4	118.4	193.8
<b>Net earnings</b>	<b>37.9</b>	44.1	58.3	36.1	16.4	60.1	71.2	146.1
<b>Earnings per share, basic<sup>5</sup></b>	<b>0.07</b>	0.08	0.10	0.06	0.03	0.10	0.12	0.25
<b>Earnings per share, diluted<sup>5</sup></b>	<b>0.06</b>	0.08	0.10	0.06	0.03	0.10	0.12	0.25
<b>Cash flow from operations</b>	<b>(25.7)</b>	119.0	51.3	113.9	(36.6)	99.2	132.2	67.9
<b>Capital expenditures (incl. Tenke)</b>	<b>52.3</b>	47.6	45.5	84.3	62.8	60.1	45.9	42.9
<b>Net cash</b>	<b>245.0</b>	312.7	242.3	236.1	208.7	308.2	262.0	159.2

- Shareholders' equity per share is a non-GAAP measure defined as shareholders' equity divided by total shares outstanding at the end of the period.
- Equity ratio is a non-GAAP measure defined as shareholders' equity divided by total assets at the end of the period.
- Certain transaction costs related to corporate development activity in prior years have been reclassified from general and administrative expenses to general exploration and business development.
- Adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, in the fourth quarter of 2011 allowed for the capitalization of certain stripping costs, which had previously been expensed, at the Aguablanca mine.
- 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

	YTD 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
<b>Copper (tonnes)</b>									
Neves-Corvo	43,473	11,200	15,869	16,404	69,974	26,026	12,671	14,304	16,973
Zinkgruvan	2,214	865	880	469	2,092	678	680	734	-
Aguablanca <sup>1</sup>	258	258	-	-	(73)	-	(5)	(15)	(53)
	45,945	12,323	16,749	16,873	71,993	26,704	13,346	15,023	16,920
<b>Zinc (tonnes)</b>									
Neves-Corvo	16,103	4,617	5,542	5,944	2,619	(43)	1,842	5	815
Zinkgruvan	55,221	17,623	19,580	18,018	61,661	15,981	15,183	13,529	16,968
Galmoy <sup>2</sup>	10,191	3,768	3,827	2,596	16,346	3,106	4,768	4,694	3,778
	81,515	26,008	28,949	26,558	80,626	19,044	21,793	18,228	21,561
<b>Lead (tonnes)</b>									
Neves-Corvo	31	31	-	-	-	-	-	-	-
Zinkgruvan	26,048	7,637	8,176	10,235	29,794	7,906	8,570	7,031	6,287
Galmoy <sup>2</sup>	2,217	1,099	587	531	5,010	769	1,649	1,517	1,075
	28,296	8,767	8,763	10,766	34,804	8,675	10,219	8,548	7,362
<b>Nickel (tonnes)</b>									
Aguablanca <sup>1</sup>	407	407	-	-	(48)	-	7	6	(61)

1. Final weight adjustments in 2011 related to provisional sales recognized.

2. 50% of metal is attributable to Galmoy on sale of ore to third party processing facility (see MD&A page 17).

### Sales Analysis

(\$ thousands)	Three months ended September 30					Nine months ended September 30				
	2012		2011		Change	2012		2011		Change
	\$	%	\$	%		\$	%	\$	%	
<b>by Mine</b>										
Neves-Corvo	92,640	58	84,678	58	7,962	357,825	66	364,276	67	(6,451)
Zinkgruvan	48,699	31	48,741	33	(42)	156,675	29	146,326	27	10,349
Aguablanca	10,585	7	(35)	-	10,620	10,585	2	(1,898)	-	12,483
Galmoy	7,663	4	12,845	9	(5,182)	19,562	3	32,951	6	(13,389)
	159,587		146,229		13,358	544,647		541,655		2,992
<b>by Metal</b>										
Copper	94,857	59	85,536	58	9,321	352,402	65	366,369	68	(13,967)
Zinc	37,189	23	37,223	25	(34)	123,100	23	109,189	20	13,911
Lead	15,736	10	20,493	14	(4,757)	49,816	9	56,463	10	(6,647)
Nickel	7,436	5	(47)	-	7,483	7,436	1	(444)	-	7,880
Other	4,369	3	3,024	3	1,345	11,893	2	10,078	2	1,815
	159,587		146,229		13,358	544,647		541,655		2,992



Sales for the three and nine months ended September 30, 2012 were marginally higher than the comparable period in the prior year. Sales were aided by prior period price adjustments and the restart of the Aguablanca mine. This was partially offset by lower realized metal prices in the current year and delayed sales stemming from the stevedores strike in Portugal.

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

### Quarterly Reconciliation of Realized Prices

2012 (\$ thousands, except per pound amounts)	Quarter ended September 30, 2012				
	Copper	Zinc	Lead	Nickel	Total
Current period sales <sup>1</sup>	100,274	49,637	18,559	7,450	175,920
Prior period provisional adjustments	824	(1,369)	(362)	-	(907)
Sales before other metals and TC/RC	101,098	48,268	18,197	7,450	175,013
Other metal sales					4,369
Less: TC/RC					(19,795)
<b>Total Sales</b>					<b>159,587</b>
<b>Payable Metal (tonnes)</b>	<b>12,323</b>	<b>26,008</b>	<b>8,767</b>	<b>407</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.69	\$ 0.87	\$ 0.96	\$ 8.30	
Prior period provisional adjustments (\$/lb)	0.03	(0.03)	(0.02)	-	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.72</b>	<b>\$ 0.84</b>	<b>\$ 0.94</b>	<b>\$ 8.30</b>	

2011 (\$ thousands, except per pound amounts)	Quarter ended September 30, 2011				
	Copper	Zinc	Lead	Nickel	Total
Current period sales <sup>1</sup>	95,800	46,610	24,078	-	166,488
Prior period provisional adjustments	(4,095)	357	(742)	(34)	(4,514)
Sales before other metals and TC/RC	91,705	46,967	23,336	(34)	161,974
Other metal sales					3,024
Less: TC/RC					(18,769)
<b>Total Sales</b>					<b>146,229</b>
<b>Payable Metal (tonnes)</b>	<b>13,346</b>	<b>21,793</b>	<b>10,219</b>	<b>7</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.26	\$ 0.97	\$ 1.07	n/a	
Prior period provisional adjustments (\$/lb)	(0.14)	0.01	(0.04)	n/a	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.12</b>	<b>\$ 0.98</b>	<b>\$ 1.03</b>	<b>n/a</b>	

1. Includes provisional price adjustments on current period sales.

## Year to Date Reconciliation of Realized Prices

<b>2012</b> (\$ thousands, except per pound amounts)	<b>Nine months ended September 30, 2012</b>				
	<b>Copper</b>	<b>Zinc</b>	<b>Lead</b>	<b>Nickel</b>	<b>Total</b>
Current period sales <sup>1</sup>	371,503	157,869	57,367	7,450	594,189
Prior period provisional adjustments	3,026	456	471	-	3,953
Sales before other metals and TC/RC	374,529	158,325	57,838	7,450	598,142
Other metal sales					11,893
Less: TC/RC					(65,388)
<b>Total Sales</b>					<b>544,647</b>
<b>Payable Metal (tonnes)</b>	<b>45,945</b>	<b>81,515</b>	<b>28,296</b>	<b>407</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.67	\$ 0.88	\$ 0.92	\$ 8.30	
Prior period provisional adjustments (\$/lb)	0.03	-	0.01	-	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.70</b>	<b>\$ 0.88</b>	<b>\$ 0.93</b>	<b>\$ 8.30</b>	

<b>2011</b> (\$ thousands, except per pound amounts)	<b>Nine months ended September 30, 2011</b>				
	<b>Copper</b>	<b>Zinc</b>	<b>Lead</b>	<b>Nickel</b>	<b>Total</b>
Current period sales <sup>1</sup>	397,441	141,637	64,529	-	603,607
Prior period provisional adjustments	(9,956)	(743)	189	(589)	(11,099)
Sales before other metals and TC/RC	387,485	140,894	64,718	(589)	592,508
Other metal sales					(60,931)
Less: TC/RC					10,078
<b>Total Sales</b>					<b>541,655</b>
<b>Payable Metal (tonnes)</b>	<b>45,289</b>	<b>61,582</b>	<b>(48)</b>	<b>26,129</b>	
Current period sales (\$/lb) <sup>1</sup>	\$ 3.98	\$ 1.04	\$ 1.12	n/a	
Prior period provisional adjustments (\$/lb)	(0.10)	-	-	n/a	
<b>Realized prices (\$/lb)</b>	<b>\$ 3.88</b>	<b>\$ 1.04</b>	<b>\$ 1.12</b>	<b>n/a</b>	

1. Includes provisional price adjustments on current period sales.

## Provisionally valued sales as of September 30, 2012

<b>Metal</b>	<b>Tonnes Payable</b>	<b>Value at \$ per lb</b>	<b>Valued at \$ per tonne</b>
Copper	11,564	3.73	8,220
Zinc	21,840	0.92	2,019
Lead	7,863	0.96	2,118
Nickel	407	8.30	18,305

## Financial Results

### Operating Costs

Operating costs of \$82.3 million for the three months ended September 30, 2012 were \$5.8 million lower than the three months ended September 30, 2011. Costs were lower at Neves-Corvo by \$16.6 million mainly due to lower per unit production costs and a stronger US dollar compared to the €. This was partially offset by increased costs at Aguablanca (\$11.7 million) on start up of production in the current quarter and future severance provisions.

For the nine months ended September 30, 2012, operating costs of \$267.7 million were slightly lower than the comparable period in the prior year. Additional costs related to higher sales and adjustments to severance provisions, primarily at Aguablanca, were more than offset by lower per unit production costs and positive foreign exchange impacts.

These costs are discussed under each mine's operating performance discussion.

### General and Administrative Expenses

For the quarter ended September 30, 2012 and year-to-date, general and administrative expenses were higher than the comparable periods in 2011 primarily as a result of higher stock-based compensation expense.

### Depreciation, Depletion and Amortization

Decrease in depreciation, depletion and amortization expense for the three and nine months ended September 30, 2012 compared with the same period in 2011 is primarily due to lower copper production and sales at Neves-Corvo and the impact of a stronger US dollar.

Depreciation by operation (\$ thousands)	Three months ended September 30			Nine months ended September 30		
	2012	2011	Change	2012	2011	Change
Neves-Corvo	18,889	27,075	(8,186)	61,992	85,406	(23,414)
Zinkgruvan	6,644	6,246	398	21,428	19,306	2,122
Aguablanca	1,920	876	1,044	2,303	2,361	(58)
Other	127	108	19	375	295	80
	27,580	34,305	(6,725)	86,098	107,368	(21,270)

### General Exploration and Business Development

General exploration and business development costs increased from \$13.6 million in the third quarter of 2011 to \$20.8 million for the three months ended September 30, 2012. The increase is primarily attributable to expanded project and corporate development costs (\$6.3 million) associated with the Company's initiatives for growth.

For the nine months ended September 30, 2012, costs incurred of \$52.2 million were \$11.5 million higher than the same period in the prior year (\$40.7 million) primarily as a result of incremental exploration costs at the Neves-Corvo mine resulting from an expanded drilling program (2012- \$31.6 million, 2011- \$23.6 million).

In 2012, exploration costs include a 90,000 metre drilling program and additional high-resolution 3D seismic in and around the Neves-Corvo mine, focused on extending mine life for copper production. (See *additional commentary under Exploration Highlights*).

## Finance Income and Costs

For the three months ended September 30, 2012, net finance income was \$0.8 million, compared to net finance costs of \$10.6 million in the prior year. Year-to-date, net finance costs were \$8.9 million compared to \$12.7 million for the nine months ended September 30, 2011. The decrease in net finance costs, for both comparable periods, is primarily attributable to higher revaluation losses on marketable securities in 2011.

## Other Income and Expense

Net other income and expense is comprised mainly of foreign exchange gains and losses.

A foreign exchange loss of \$7.5 million in the current quarter and \$1.6 million year-to-date, relates to US\$-denominated cash and trade receivables that were held in the European group entities. Period end exchange rates at September 30, 2012 were \$1.29:€1.00 (June 30, 2012 – \$1.26:€1.00; December 31, 2011 – \$1.29:€1.00) and \$1.00:SEK6.53 (June 30, 2012 – \$1.00:SEK6.96; December 31, 2011 – \$1.00:SEK6.92).

## Current and Deferred Taxes

Current tax expense (\$ thousands)	Three months ended September 30			Nine months ended September 30		
	2012	2011	Change	2012	2011	Change
Neves-Corvo	4,543	1,356	3,187	35,871	29,379	6,492
Zinkgruvan	4,576	7,187	(2,611)	16,312	15,859	453
Aguablanca	-	12,492	(12,492)	6,104	14,806	(8,702)
Other	(50)	(1,871)	1,821	(1,739)	(7,756)	6,017
	9,069	19,164	(10,095)	56,548	52,288	4,260

The decrease in current income tax expense of \$10.1 million for the three months ended September 30, 2012 compared to the same period in 2011 is due to a Spanish tax assessment of €9.1 million (\$12.5 million) related to deductibility of accelerated depreciation in fiscal years 2004 and 2005 recorded in 2011.

The increase in current income tax expense of \$4.3 million for the nine months ended September 30, 2012 compared with the nine month period ended September 30, 2011 is due to higher taxable earnings and a 2.5% increase in the corporate tax rate in Portugal.

Deferred tax recovery (\$ thousands)	Three months ended September 30			Nine months ended September 30		
	2012	2011	Change	2012	2011	Change
Neves-Corvo	(3,151)	(2,635)	(516)	(8,436)	(13,667)	5,231
Zinkgruvan	(187)	(351)	164	(1,178)	(1,116)	(62)
Aguablanca	(3,530)	1,291	(4,821)	(4,356)	(17,517)	13,161
Other	1,269	63	1,206	1,174	5,478	(4,304)
	(5,599)	(1,632)	(3,967)	(12,796)	(26,822)	14,026

The increase in deferred income tax recovery of \$4.0 million for the three months ended September 30, 2012, compared to the same period in 2011, is primarily attributable to an increase in taxable loss at Aguablanca.

For the nine months ended September 30, 2012, deferred income tax recovery decreased by \$14.0 million, compared to the nine months ended September 30, 2011, as a result of a higher taxable loss at Aguablanca in 2011 and final tax return adjustments at both Neves-Corvo and Aguablanca.

## Mining Operations

### Production Overview

	YTD 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
<b>Copper (tonnes)</b>									
Neves-Corvo	46,571	14,012	15,950	16,609	74,109	26,866	15,070	13,475	18,698
Zinkgruvan	2,386	864	986	536	1,768	622	349	356	441
Aguablanca	697	697	-	-	-	-	-	-	-
	<b>49,654</b>	<b>15,573</b>	16,936	17,145	75,877	27,488	15,419	13,831	19,139
<b>Zinc (tonnes)</b>									
Neves-Corvo	20,473	5,834	7,619	7,020	4,227	382	1,874	1,020	951
Zinkgruvan	64,506	20,053	24,022	20,431	75,147	20,337	17,459	17,582	19,769
Galmoy <sup>1</sup>	8,064	2,565	331	5,168	32,071	6,334	9,458	8,802	7,477
	<b>93,043</b>	<b>28,452</b>	31,972	32,619	111,445	27,053	28,791	27,404	28,197
<b>Lead (tonnes)</b>									
Neves-Corvo	48	48	-	-	-	-	-	-	-
Zinkgruvan	29,048	8,953	9,747	10,348	32,339	7,621	7,368	7,829	9,521
Galmoy <sup>1</sup>	1,015	364	33	618	8,791	1,652	2,709	2,538	1,892
	<b>30,111</b>	<b>9,365</b>	9,780	10,966	41,130	9,273	10,077	10,367	11,413
<b>Nickel (tonnes)</b>									
Aguablanca	693	693	-	-	-	-	-	-	-

1. represents 50% of contained metal attributable to Galmoy on delivery of ore to a third party processing facility (Galmoy - see MD&A page 17)

### Cash Cost Overview

	Three months ended September 30			
	2012		2011	
	Cash cost/lb (US dollars)		Cash cost/lb (local currency)	
<b>Neves-Corvo (Local in €)</b>				
Gross cost	2.15	2.50	1.71	1.77
By-product*	(0.28)	(0.15)	(0.22)	(0.10)
<b>Net Cost - cost/lb Cu</b>	<b>1.87</b>	2.35	<b>1.49</b>	1.67
<b>Zinkgruvan (Local in SEK)</b>				
Gross cost	0.69	0.83	4.63	5.33
By-product*	(0.61)	(0.70)	(4.08)	(4.52)
<b>Net Cost - cost/lb Zn</b>	<b>0.08</b>	0.13	<b>0.55</b>	0.81
	Nine months ended September 30			
	2012		2011	
	Cash cost/lb (US dollars)		Cash cost/lb (local currency)	
<b>Neves-Corvo (Local in €)</b>				
Gross cost	1.95	2.06	1.52	1.46
By-product*	(0.27)	(0.09)	(0.21)	(0.06)
<b>Net Cost - cost/lb Cu</b>	<b>1.68</b>	1.97	<b>1.31</b>	1.40
<b>Zinkgruvan (Local in SEK)</b>				
Gross cost	0.73	0.91	4.97	5.86
By-product*	(0.59)	(0.64)	(4.02)	(4.08)
<b>Net Cost - cost/lb Zn</b>	<b>0.14</b>	0.27	<b>0.95</b>	1.78

\* By-product is after related TC/RC

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

## Neves-Corvo Mine

Neves-Corvo is an underground mine, 100 km north of Faro, Portugal, in the western part of the Iberian Pyrite Belt. The mine has been a significant producer of copper since 1989 and in 2006 commenced treating zinc ores. The facilities include a shaft with a total hoisting capacity of up to 4.5 mtpa, a copper plant with 2.5 mtpa processing capacity and a newly expanded zinc plant with 1.0 mtpa processing capacity. The zinc plant has the flexibility to process zinc or copper ores.

### Operating Statistics

	Total 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined, copper (000 tonnes)	1,859	577	638	644	3,126	899	750	769	708
Ore mined, zinc (000 tonnes)	352	107	132	113	86	-	9	34	43
Ore milled, copper (000 tonnes)	1,864	597	634	633	3,198	921	797	736	744
Ore milled, zinc (000 tonnes)	362	104	135	123	63	-	63	-	-
Grade per tonne									
Copper (%)	2.8	2.7	2.8	2.9	2.7	3.4	2.3	2.2	2.9
Zinc (%)	7.4	7.2	7.2	7.6	6.4	-	6.4	-	-
Recovery									
Copper (%)	89.2	86.0	90.0	91.1	84.5	84.7	83.3	83.3	85.9
Zinc (%)	77.0	78.2	78.5	74.6	46.3	-	46.3	-	-
Concentrate grade									
Copper (%)	24.0	24.2	23.9	24.0	24.4	24.3	24.5	24.2	24.5
Zinc (%)	47.4	46.6	48.1	47.3	47.6	-	47.6	-	-
Production (contained metal)									
Copper (tonnes)	46,571	14,012	15,950	16,609	74,109	26,866	15,070	13,475	18,698
Zinc (tonnes)	20,473	5,834	7,619	7,020	4,227	382	1,874	1,020	951
Lead (tonnes)	48	48	-	-	-	-	-	-	-
Silver (000 oz)	679	178	240	261	901	297	201	184	219
Sales (\$000)	357,825	92,640	112,274	152,911	558,044	193,768	84,678	123,036	156,562
Operating earnings (\$000)	184,859	45,602	52,467	86,790	299,053	118,759	21,029	59,817	99,448
Cash cost (€ per pound)	1.31	1.49	1.26	1.23	1.27	1.05	1.67	1.48	1.13
Cash cost (\$ per pound)	1.68	1.87	1.61	1.63	1.76	1.42	2.35	2.13	1.55

### Operating Earnings

Operating earnings of \$45.6 million in the current quarter ended September 30, 2012 were \$24.6 million higher than the same period of 2011. Higher realized metal prices in the current year's quarter (\$10.7 million) and comparative price adjustments on prior period sales (\$3.7 million) generated a net positive impact of \$14.4 million. The balance of the increase in operating earnings resulted from lower production costs (\$10.9 million) and a positive foreign exchange impact (\$5.1 million), partially offset by lower sales volumes (\$5.8 million). In the prior year there were 25% more tonnes of lower grade material treated, resulting in higher mining and treatment costs. Sales in the current quarter were negatively impacted by a brief stevedores strike in Portugal preventing the loading and shipment of concentrates leaving approximately 11,000 dmt of copper concentrate in inventory at the end of the period.

For the nine months ended September 30, 2012 operating earnings of \$184.9 million were \$4.6 million higher than the same period in the prior year. Lower unit production costs (\$20.2 million) and a positive exchange rate impact (\$15.2 million), were almost entirely offset by lower realized metal prices, net of price adjustments from prior period sales (\$21.3 million) and lower sales volume (\$9.5 million).

## **Production**

Copper production for the quarter, as well as year-to-date, is slightly lower than the comparable periods in the prior year. Although head grades and recoveries are higher in the current year than last year, throughput is lower, ultimately resulting in lower copper production. In the previous year, a significant volume of lower grade "out of reserve" material was mined and milled, resulting in higher throughput, but at a much higher cost. Out of reserve material is economically mineable mineralization that is encountered and extending sometimes significantly past the edges of modeled areas but is not in the proven/probable ore reserves due to lack of close spacing exploration drilling. A significant percentage of out of reserve material was again encountered and mined during the third quarter benefiting the overall annual 2012 copper production profile. During the quarter, 254,000 tonnes of out of reserve material (year-to-date: 727,000 tonnes) at 1.8% copper grade were mined and processed.

Zinc production in the current quarter and year-to-date are significantly higher than the prior year. Ramp up activities continued in the zinc plant, and recoveries are steadily improving as throughput increases and the process feed rate is stabilized.

## **Cash Costs**

Cash costs of \$1.87/lb for the quarter ended September 30, 2012 were higher than the previous quarter, but were in line with expectations when allowing for sales disruptions and planned summer maintenance shut downs of the shaft and mill. However, cash costs were significantly lower than the previous corresponding period in 2011 of \$2.35/lb due mainly to increases in by-product credits (\$0.14/lb) as a result of increased zinc production, a decrease in mining, milling and administrative costs (\$0.40/lb) through reduced use of contractors, partially offset by an unfavourable exchange rate (\$0.07/lb).

For the nine months ended September 30, 2012 cash costs of \$1.68/lb were consistent with guidance. The decrease in cash costs, from \$1.97/lb in the previous corresponding period, was due mainly to an increase in by-product credits of \$0.18/lb (net of treatment charges) as a result of higher zinc production and a stronger US dollar.

## **Lombador Zinc/Copper Project**

A revised mine development strategy was prepared in the quarter, focusing on opportunities for early copper production for better margins in preference to zinc from Lombador for 2013.

Studies with external consultants also continued including optimization of the new shaft vs inclined ramp options, sub-sets to these approaches such as a partial shaft accessing lower Lombador mineralization and low cost alternatives which have shorter schedules albeit resulting in lower tonnage scenarios. A high priority is a minimum capital case being advanced that looks at developing Semblana on its own, accessed by a ramp from the adjacent Zambujal ore body.

All of these studies are expected to be substantially completed by year end to support 2013 budgeting and 5 year planning.

## 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

	Total 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined, zinc (000 tonnes)	703	189	251	263	1,029	228	257	256	288
Ore mined, copper (000 tonnes)	117	46	44	27	103	5	36	36	26
Ore milled, zinc (000 tonnes)	744	216	241	287	999	256	236	231	276
Ore milled, copper (000 tonnes)	116	48	49	19	110	38	22	21	29
Grade per tonne									
Zinc (%)	9.4	10.1	10.7	7.7	8.2	8.5	8.0	8.5	8.0
Lead (%)	4.6	4.7	4.8	4.3	4.0	3.7	3.7	4.1	4.2
Copper (%)	2.2	2.0	2.2	3.0	1.8	1.8	1.7	1.9	1.7
Recovery									
Zinc (%)	92.5	91.9	93.5	91.8	91.5	93.2	93.0	89.9	89.8
Lead (%)	85.6	88.0	85.3	83.8	81.9	79.7	83.3	82.5	82.4
Copper (%)	91.6	90.6	91.6	93.4	90.5	91.1	91.5	90.1	89.1
Concentrate grade									
Zinc (%)	54.0	54.6	54.5	53.0	52.6	52.4	53.0	52.7	52.4
Lead (%)	75.0	74.0	76.2	74.9	74.8	73.7	75.4	75.5	74.7
Copper (%)	25.3	24.3	25.9	25.7	25.2	25.6	24.3	24.4	26.2
Production (contained metal)									
Zinc (tonnes)	64,506	20,053	24,022	20,431	75,147	20,337	17,459	17,582	19,769
Lead (tonnes)	29,048	8,953	9,747	10,348	32,339	7,621	7,368	7,829	9,521
Copper (tonnes)	2,386	864	986	536	1,768	622	349	356	441
Silver (000 oz)	1,936	621	673	642	1,691	390	379	414	508
Sales (\$000)	156,675	48,699	52,934	55,042	188,566	42,240	48,741	50,000	47,585
Operating earnings (\$000)	88,579	28,706	31,616	28,257	93,588	15,129	28,315	26,178	23,966
Cash cost (SEK per pound)	0.95	0.55	0.82	1.50	1.97	2.49	0.81	1.64	2.76
Cash cost (\$ per pound)	0.14	0.08	0.12	0.22	0.30	0.37	0.13	0.26	0.42

### Operating Earnings

Operating earnings of \$28.7 million were \$0.4 million higher than the \$28.3 million reported in the third quarter of 2011. The marginal increase in earnings is attributable to higher sales volumes (\$3.1 million), lower unit costs (\$1.6 million) and a favourable exchange rate (\$0.7 million), which more than offset lower realized metal prices, net of price adjustments from prior period sales (\$5.0 million). Threat of a stevedores strike in Sweden resulted in the rescheduling of shipments to avoid the period that could potentially be impacted. As a result, an additional 4,000 tonnes of zinc concentrate remained in inventory at end of the current quarter.

For the nine months ended September 30, 2012 operating earnings of \$88.6 million were \$10.1 million higher than the same period last year. Higher sales volumes (\$19.7 million), decreased unit costs (\$10.3 million) and foreign exchange gains (\$4.5 million) more than compensated for a decrease in realized metal prices, net of prior period price adjustments (\$24.4 million).



## **Production**

Metal production in the third quarter remained strong due to high zinc and lead head grades. Zinc, lead and copper production exceeded the prior corresponding quarter by 15%, 22% and 148%, respectively. Good recoveries for lead contributed to the high metal production. Total throughput in the third quarter was slightly higher than the same period in 2011.

Year-to-date, zinc, lead and copper production were at an all-time high and exceeded the first nine months of 2011 by 18%, 18% and 108%, respectively, due to high ore grades and good recoveries. Total throughput, year-to-date, was 5.5% higher than 2011. It is expected that zinc and lead grades will return to normal levels in the fourth quarter of 2012.

## **Projects**

Prefeasibility level studies were completed during the quarter assessing the merits of replacing the front end crushing and grinding circuits at Zinkgruvan. Preliminary indications are that with a capital investment in the range of \$50 million over 24 months, modernization of the front end of the plant will be economically attractive, facilitate noise and dust mitigation, significantly lower operating costs, increase system reliability and enable increased throughput towards 1.5 million tonnes per year combined zinc and copper plant throughput. Feasibility level assessment is advancing to better define potential costs and schedule. This study is expected to be completed in the first quarter of 2013.

## **Cash Costs**

Cash costs for zinc in the current quarter were \$0.08/lb. Compared to last year, third quarter 2012 cash costs decreased by \$0.05/lb as a result of lower production costs (\$0.09/lb), favourable foreign exchange (\$0.02/lb) and lower treatment charges (\$0.03/lb), partially offset by lower by-product credits (\$0.09/lb). Production costs per pound have decreased benefiting from the high zinc ore grades.

Year-to-date, cash costs of \$0.14/lb have decreased \$0.13/lb from the comparable period in the previous year (\$0.27/lb). Decreases in overall production costs (\$0.09/lb) and favourable exchange rates (\$0.04/lb) contributed to this decrease. Production costs per pound have decreased through a combination of higher metal sales and cost controls, mainly through the reduced use of contractors. Electricity charges were lower in the current year due to reduced rates and a milder winter.

## Aguablanca Mine

The Aguablanca nickel-copper mine is located in the province of Badajoz, 80 km by road to Seville, Spain, and 140 km from a major seaport at Huelva. The operations consist of an open pit mine and an on-site processing facility (milling and flotation) with a production capacity of 1.9 million tonnes per annum. Production activities were suspended in December 2010 following a pit-slope failure. Operations restarted during the third quarter of 2011 in the pit to reinstate the main ore haulage ramp and concentrate production recommenced in August 2012.

### Operating Statistics

	Total 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011 <sup>1</sup>	Q3 2011 <sup>1</sup>	Q2 2011 <sup>1</sup>	Q1 2011
Ore mined (000s tonnes)	387	198	148	41	24	23	1	-	-
Ore milled (000s tonnes)	209	209	-	-	-	-	-	-	-
Production (contained metal)									
Nickel (tonnes)	693	693	-	-	-	-	-	-	-
Copper (tonnes)	697	697	-	-	-	-	-	-	-
Sales (\$000)	10,585	10,585	-	-	(1,897)	-	(34)	71	(1,934)
Operating loss (\$000)	(7,716)	(2,988)	(2,505)	(2,223)	(16,717)	(4,642)	(1,873)	(2,756)	(7,446)

### Restart of Operations

Pre-stripping activities were accelerated during the second and third quarter and a coarse ore stockpile of over 200,000 tonnes was built which, along with ongoing mining, enabled an earlier than planned restart of concentrate production in August 2012.

The total investment required to recommence concentrate production was €44 million, slightly below expectations. The stream lining and fresh water dam lining programs were completed ahead of the production restart.

The rainy season has commenced and some slope movement has been recorded on a portion of the south pit wall. This is being monitored carefully and mining activities have been re-focused on the northern side of the mine while stabilizing measures are being taken. No disruptions to planned concentrate production prior to year end are expected as there is a significant amount of ore that has been stockpiled which will be supplemented with ongoing mining of ore from the north side of the pit. However, it should be noted that it is likely that pit re-design is required to ensure south wall stability and this will take some time and may reduce 2013 production compared to what was planned.

### Production

The restart of processing operations resulted in the production of 693 tonnes of nickel and 697 tonnes of copper in bulk concentrate. Recoveries and concentrate grades are expected to improve in the fourth quarter as plant restart ramp up is completed.

### Operating Loss

The operating loss of \$3.0 million for the quarter ended September 30, 2012 was higher than the comparable period in 2011, primarily as a result of incremental costs associated with the restart of operations in the current period. The Company ceased capitalizing waste stripping costs upon commencement of production.

For the nine months ended September 30, 2012 operating losses of \$7.7 million were lower than the comparable period in 2011 due to significant waste removal costs incurred at the beginning of 2011.

<sup>1</sup> Adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, in the fourth quarter of 2011 allowed for the capitalization of certain stripping costs, which had previously been expensed, at the Aguablanca mine.

## Galmoy Mine

The Galmoy underground zinc mine is located in south-central Ireland in County Kilkenny. Mining was originally planned to cease in May 2009 and the mill has since been sold, but due to positive market factors, the mining of remnant high grade ore has continued on a reduced basis. Ore is being shipped to an adjacent mine for processing. Production tonnage is based on a 50% attributable-share to Lundin Mining.

### Operating Statistics

	Total 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined (000 tonnes)	127	43	5	79	302	77	79	77	69
Ore sold (000 tonnes)	169	61	69	39	193	47	50	54	42
Grade per tonne									
Zinc (%)	13.9	13.1	14.8	14.3	22.6	20.1	24.8	22.5	23.4
Lead (%)	2.5	2.6	2.2	2.4	7.5	5.7	8.9	8.2	7.4
Production (contained metal)									
Zinc (tonnes)	8,064	2,565	331	5,168	32,071	6,334	9,458	8,802	7,477
Lead (tonnes)	1,015	364	33	618	8,791	1,652	2,709	2,538	1,892
Sales (\$000)	19,562	7,663	7,057	4,842	39,073	6,122	12,845	10,862	9,244
Operating earnings (\$000)	13,108	6,607	5,692	809	26,503	1,000	10,649	7,030	7,824

### Operating Earnings

Mining of high-grade ore for processing by a third party yielded operating earnings of \$6.6 million in the third quarter of 2012, lower than the \$10.6 million reported in 2011. For the nine months ended September 30, 2012, operating earnings of \$13.1 million was \$12.4 million lower than the same period in 2011. Sales and operating earnings in the current year were negatively impacted by lower grade ore and higher mining and site costs when compared to the prior year.

An amount of \$10.9 million is reported as deferred revenue as at September 30, 2012, representing cash received for ore delivered but not yet processed. As at September 30, 2012, approximately 124,000 dmt of ore were held in inventory at the processing facility, for which final revenue settlement will be recognized as it is milled.

### Production

Production is reported based on a 50% attributable-share of the metal contained in ore delivered (after accounting for expected plant recoveries) to a third party processing facility. Mining was reduced in the second quarter of this year pending completion of a commercial review, which resulted in reconfirming that additional mineralized material could be mined to add value. Mining of remnant ore ramped up again in July but was fully completed in October 2012.

### Closure Costs

Only nominal expenditure on mine closure and rehabilitation work was incurred during the third quarter of 2012. Expenditures on land/tailing rehabilitation, mine flooding/sealing and replacement water supply activities are expected to increase over the remainder of the year as closure activities are completed.

## Tenke Fungurume

Tenke Fungurume (“Tenke”) is a world-class copper-cobalt mine located in the southern part of Katanga Province, Democratic Republic of Congo (“DRC”). Freeport-McMoRan Copper & Gold Inc. (“Freeport”) is the operating partner. La Générale des Carrières et des Mines (“Gécamines”), the Congolese state mining company, holds a repayable carried interest in the project. Owing to Gécamines carried interest, capital funding is provided by Freeport and the Company as to 70% and 30%, respectively.

Lundin Mining holds an effective 24% interest in the Tenke Fungurume copper and cobalt concessions in the DRC.

### Operating Statistics

	YTD	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
100% Basis	2012	2012	2012	2012	2011	2011	2011	2011	2011
Ore mined (000 tonnes)	8,897	3,170	2,641	3,086	9,995	2,418	2,720	2,692	2,165
Ore milled (000 tonnes)	3,526	1,248	1,172	1,106	4,046	1,092	1,104	881	969
Grade per tonne									
Copper (%)	3.6	3.6	3.5	3.6	3.4	3.4	3.2	3.7	3.4
Recovery									
Copper (%)	91.6	92.9	90.6	91.2	92.5	93.8	91.4	92.9	91.7
Production (contained metal)									
Copper (tonnes)	113,541	41,446	35,965	36,130	127,367	34,891	32,249	29,891	30,336
Cobalt (tonnes)	8,951	3,356	2,868	2,727	11,182	2,854	2,759	2,776	2,793
Income from equity investment (\$000)	75,731	25,060	25,111	25,560	94,681	20,561	17,233	32,022	24,865
Attributable share of operating cash flow (\$000)	106,743	26,069	49,652	31,022	149,392	37,986	21,397	51,834	38,175
Cash cost (\$ per pound) <sup>1</sup>	1.23	1.23	1.22	1.25	1.07	1.30	1.12	0.94	0.86

### Income from Equity Investment

Income of \$25.1 million in the current quarter was higher than the \$17.2 million recorded in the third quarter of last year. Higher copper sales volumes were partially offset by higher costs and lower average realized price on cobalt sales. Volume of copper cathode sold during the quarter, on a 100% basis, was 39,790 tonnes compared to 29,702 tonnes in the prior year.

The average price realized for copper sales during the current quarter was \$3.55/lb, compared to \$3.46/lb in the third quarter of 2011. The average realized price for cobalt sold was \$8.24/lb (third quarter 2011: \$10.05/lb).

The Company recognized a 24.75% interest in the earnings of Tenke up to March 25, 2012 and 24% thereafter. Lundin Mining’s share of equity earnings includes adjustments for GAAP harmonization differences and purchase price allocations.

### Production

Tenke achieved record mining, milling and copper production rates during the quarter. Milling facilities at Tenke continue to perform well with throughput averaging 13,600 metric tonnes of ore per day for the current quarter and 12,900 metric tonnes of ore per day year-to-date facilitated by early commissioning of Phase II projects and plant debottlenecking. Mining rates have been increased to enable additional copper cathode production from the initial project capacity of 115,000 tonnes per year to in excess of 140,000 tonnes per year.

Freeport is expecting annual sales volumes to be approximately 149,700 tonnes of copper and 11,300 tonnes of cobalt in 2012.

<sup>1</sup> Cash costs are as calculated and reported by Freeport as operator. Unit costs attributable to Lundin Mining’s share of production may vary slightly from time to time due to marginal differences in the basis of calculation.

## **Cash Costs**

Average cash operating costs, including the cobalt by-product credit, of \$1.23/lb of copper for the quarter and \$1.23/lb year-to-date were higher than guidance, largely as a result of lower realized cobalt prices partially offset by higher copper volumes. Freeport projects 2012 cash costs of \$1.25/lb.

## **Expansion**

Freeport is constructing a second phase of the project, which includes optimizing the current plant and increasing capacity. As part of the second phase, Freeport is expanding the mill rate to 14,000 metric tonnes of ore per day and is constructing related processing facilities that would target the addition of approximately 68,000 tonnes of copper per year in 2013. The Phase II project includes mill upgrades, additional mining equipment, a new tankhouse and sulphuric acid plant expansion. The addition of a second sulphuric acid plant is expected to be completed in 2015.

First copper was produced from partial start-up of the expanded tankhouse in June 2012 - a significant milestone completed ahead of schedule. Construction activities are progressing well and are expected to be on budget and substantially completed by the end of 2012. Improved performance and the second phase expansion are expected to enable copper production to exceed 400 million pounds in 2013, compared with initial design capacity of 250 million pounds per year.

Freeport continues to engage in drilling activities, exploration analyses, metallurgical testing and piloting heap leaching on low grade material to evaluate the full potential of the highly prospective minerals district at Tenke. These analyses are being incorporated in the evaluation of opportunities for several further phases of expansion.

## **Tenke Funding**

The Company funded a \$15.0 million cash call during the current quarter (third quarter 2011 - \$14.2 million) to cover sustaining capital, on-going concession exploration and expansion initiatives.

Attributable operating cash flow at Tenke for the third quarter of 2012 was \$26.1 million and now totals \$106.7 million year-to-date.

Lundin Mining's 2012 capital investment for Tenke has been revised downward to \$180.0 million for internal planning purposes. This assumption has been reforecast to reflect a better understanding of our funding needs for the remainder of the year based on the deferral of some costs to 2013 and overall lower sustaining and expansion capital requirements this year. During the quarter, \$38.4 million was spent on our attributable share of capital requirements, which was funded by the above noted cash call and excess cash flow from operations.

## Exploration

### *Portugal*

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

The 2012 resource exploration program includes a budgeted 90,000 metres of drilling and additional high-resolution 3D seismic surveying, which has been completed. A total of 28,143 metres was drilled using six rigs during the third quarter; a total of 81,450 metres has been drilled year-to-date.

Delineation drilling at Semblana continued over a new zone of high-grade copper sulphides (the “Semblana South Extension”), located approximately 300 metres south of the initial Semblana resource and on a zone of silver-rich polymetallic massive sulphides that extends beyond the high-grade copper sulphides. Drilling has also been focused on delineating an additional new copper zone at Monte Branco located approximately 1.2 km south of Semblana, just west of the Tailings Management Facility (“TMF”). Drill testing of high-priority seismic reflectors has been completed in the Lapa target area, northwest of the TMF and on a new reflector identified immediately northeast of the TMF, based on the 2012 high-resolution seismic survey.

The remainder of the 2012 program includes delineation drilling of the polymetallic mineralization at Semblana and the new copper discovery at Monte Branco. Drill-testing of other targets including those generated by the 3D seismic survey, under the TMF and the area between Semblana and Monte Branco is also planned.

#### **Iberian Pyrite Belt Regional Exploration (Copper, Zinc)**

In Portugal, target definition work continued during the third quarter, focusing on priority areas along strike to the northwest of the Neves-Corvo mine. Data acquisition for all 2012 seismic surveys was completed in July with final interpretation pending.

### *Ireland*

#### **Clare Project (Zinc, Lead, Silver, Copper)**

The 2012 drilling program at the Clare Project was completed in September with 20 holes completed during the third quarter for a total of 12,741 metres. The total drilling for the year was 28,845 metres compared to a budgeted program of 25,500 metres.

Significant copper mineralization continues to be intercepted in step-out drilling around the zinc-lead-copper zone southwest of the Kilbricken Discovery Zone and this copper rich zone remains open to the south and west. Borehole TEM, gradient IP and soil surveys were completed in this quarter.

Next quarter, a review and full integration of all of the exploration data will be done for the Clare Project to better understand the structure and mineralization.

#### **Other Ireland Properties (Zinc-Lead)**

A total of 23 drill holes were drilled at the Lakelands property in 2012. A review of all data will be completed next quarter with recommendations for the program next year. Targeting work was also carried out from results of a recent aeromagnetic survey on the Limerick Project.

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

Average metal prices decreased slightly over the three months ended September 30, 2012, from the previous quarter, with copper and zinc prices decreasing by 2%, nickel by 5% and lead unchanged. During July and August, prices moved sideways due to the summer lull caused by annual vacations. In September, metal prices increased initially on the announcement by the European Central Bank of its bond purchase program, followed by China's announcement of increased infrastructure spending and finally the US Federal Reserve's announcement of a launch of third round quantitative easing (QEIII). However, the metal prices remain significantly lower than the comparable period in the prior year.

(Average LME Price)		Three months ended September 30			Nine months ended September 30		
		2012	2011	Change	2012	2011	Change
Copper	US\$/pound	3.50	4.07	-14%	3.61	4.20	-14%
	US\$/tonne	7,706	8,982		7,964	9,254	
Zinc	US\$/pound	0.86	1.01	-15%	0.88	1.04	-15%
	US\$/tonne	1,885	2,224		1,946	2,289	
Lead	US\$/pound	0.90	1.12	-20%	0.91	1.15	-21%
	US\$/tonne	1,975	2,459		2,015	2,537	
Nickel	US\$/pound	7.40	10.00	-26%	8.04	11.04	-27%
	US\$/tonne	16,317	22,043		17,716	24,348	

The London Metal Exchange ("LME") inventory for copper and lead decreased during the third quarter of 2012 by 15% for copper and 24% for lead, while the LME inventory for nickel increased by 19% during the same period. The LME inventory for zinc remained more or less unchanged.

The demand for copper concentrates in the spot market slowed down during the third quarter of 2012 with treatment charges ("TC") and refining charges ("RC") increasing during the quarter from \$29 per dmt of concentrate in July to \$48 per dmt of concentrate at the end of September (TC) and \$0.029 per payable lb of copper in July to \$0.048 per payable lb of copper at the end of September (RC). For 2012 the terms for annual copper concentrate contracts were agreed at a TC of \$63.50 per dmt of concentrate and a RC of \$0.0635 per payable lb of copper. However, there were also settlements of terms between some mining companies and smelters at slightly lower rates, with a TC of \$60 per dmt and a RC of \$0.06 per payable lb of copper. For the mid-year contracts, running from July 1<sup>st</sup> to June 30<sup>th</sup>, terms have been settled at the same level as the annual benchmark, with a TC of \$63.50 per dmt of concentrate and a RC of \$0.0635 per payable lb of copper.

During the third quarter 2012, the spot TC for zinc concentrates increased from \$105 per dmt of concentrate, flat, i.e. without any escalation, in July to \$120 per dmt, flat, in September. The increase in TC is primarily due to higher domestic mine production in China and reduced Chinese zinc concentrate imports. The benchmark TC between miners and smelters for annual contracts for zinc concentrates for 2012 was agreed at \$191 per dmt of concentrate based on a zinc price of \$2,000 per mt and with lower escalators and de-escalators than for 2011. The agreed terms represents an improvement in favour of the mines of approximately \$18 per dmt of concentrate at the base price compared to last year.

The spot TC for lead concentrates also increased during the quarter from \$70 per dmt of concentrates, flat, in July to \$80 per dmt of concentrate, flat, at the end of September 2012. The increase in the TC for lead concentrates is partly attributable to the increase in the lead price and the TC as a percentage of the lead price has actually been falling. During the second quarter of 2012, the Chinese lead smelters restocked, taking advantage of the low lead price, which reduced the number of new contracts entered into during the third quarter. 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. The Company has settled all its annual contracts for lead concentrates with a modest increase in the TC compared to 2011 and with no change to the RC for silver.

In August, the Company resumed production at its Aguablanca nickel/copper mine in Spain and the first nickel concentrates were delivered at the end of August. The Company's nickel concentrates are sold under a long-term contract at terms which are in-line with the recent market conditions. The contract provides for regular monthly delivery and pricing of concentrates, which ensure that nickel realizations correlate more closely with LME averages over the year.

## Liquidity and Financial Condition

### Cash Reserves

Cash and cash equivalents decreased by \$9.5 million to \$255.9 million as at September 30, 2012, from \$265.4 million at December 31, 2011. Cash inflows for the nine months ended September 30, 2012 included operating cash flows of \$144.6 million. Use of cash was primarily directed towards investments in mineral properties, plant and equipment (\$130.4 million), full repayment of the Company's commercial paper program (\$19.7 million) and a cash advance to Tenke (\$15.0 million).

### Working Capital

Working capital of \$303.9 million as at September 30, 2012 is largely unchanged from the \$306.6 million at December 31, 2011.

### Revolving Credit Facility

The Company has a \$300 million facility which expires in September 2013. Aside from a letter of credit issued in the amount of SEK 80 million (\$12.3 million), there are no amounts outstanding on the facility.

### Shareholders' Equity

Shareholders' equity was \$3,458.8 million at September 30, 2012, compared to \$3,297.9 million at December 31, 2011. Shareholders' equity increased as a result of net earnings of \$140.3 million, partially offset by translation adjustments in other comprehensive income of \$12.9 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	Provisional price on September 30, 2012 (\$US/tonne)	Change	Effect on pre-tax earnings (\$millions)
Copper	8,220	+/-10%	+/- \$9.5
Zinc	2,019	+/-10%	+/- \$4.4
Lead	2,118	+/-10%	+/- \$1.7
Nickel	18,305	+/-10%	+/- \$0.7



## Financial Instruments

Summary of financial instruments:

	<b>Fair value as at September 30, 2012 (\$000s)</b>	<b>Basis of measurement</b>	<b>Associated risks</b>
Cash and cash equivalents	255,949	Carrying value	Interest/Credit/Exchange
Trade and other receivables	24,198	Carrying value	Credit/Market
Trade receivables	88,728	Fair value through profit and loss	Credit/Market/Exchange
Reclamation funds	48,732	Carrying value	Interest/Credit
Marketable securities	14,175	Fair value through profit and loss	Market/Liquidity
Trade payables and accrued liabilities	96,676	Amortized cost	Interest
Long-term debt and finance leases	10,956	Amortized cost	Interest
Other long-term liabilities	5,468	Amortized cost	Interest

Carrying value – Cash and cash equivalents, certain trade and other receivables and reclamation funds mature in the short-term and approximate their fair values.

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

Fair value through profit and loss (marketable 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, the historical prices of the shares of which the warrants can be exchanged for and the expiry date of the warrants.

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

## Related Party Transactions

### Tenke

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 three and nine months ended September 30, 2012, the Company advanced \$15.0 million to fund its portion of Tenke expenditures.

### 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:

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Wages and salaries	1,494	1,110	4,649	5,079
Pension and benefits	32	24	72	88
Share-based compensation	588	27	2,086	395
	<b>2,114</b>	1,161	<b>6,807</b>	5,562

During the nine month period ended September 30, 2012, the Company paid \$0.2 million for services provided by a company owned by the Chairman of the Company. The Company also paid \$0.5 million for the nine months ended September 30, 2012, to a charitable foundation directed by members of the Company's key management personnel to carry out social programs on behalf of the Company.

## 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 2011 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 2011 Annual Information Form, available on the SEDAR website, [www.sedar.com](http://www.sedar.com).

## Outstanding Share Data

As at October 24, 2012, the Company had 583,546,399 common shares issued and outstanding and 7,431,360 stock options outstanding under its stock-based incentive plans.

## Non-GAAP Performance Measures

The Company uses certain performance measures in its analysis. These performance measures have no meaning within 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.

- **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 profit potential and performance relative to its peers. The cash cost figure represents the total of all cash costs directly attributable to the related mining operations after the deduction of credits in respect of by-product sales and royalties. Cash cost is not 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. By-product credits are an important factor in determining the cash costs. The cost per pound experienced by the Company will be positively affected by rising prices for by-products and adversely affected when prices for these metals are falling.

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

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

Three months ended September 30, 2012					Three months ended September 30, 2011			
	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (\$000s)	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (\$000s)
<b>Operation</b>								
Neves-Corvo (Cu)	11,200	24,692	1.87	46,174	12,671	27,935	2.35	65,647
Zinkgruvan (Zn)	17,623	38,852	0.08	3,108	15,183	33,473	0.13	4,351
Aguablanca (Ni) <sup>1</sup>	-	-	-	6,288	-	-	-	1,644
Galmoy (Zn) <sup>2</sup>	-	-	-	703	-	-	-	(353)
				56,273				71,289
Add: By-product credits				35,917				31,163
Treatment costs				(14,446)				(14,621)
Royalties and other				4,580				341
<b>Total Operating Costs</b>				<b>82,324</b>				<b>88,172</b>

Nine months ended September 30, 2012					Nine months ended September 30, 2011			
	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (\$000s)	Total Tonnes Sold	Pounds (000s)	Cost \$/lb	Cash Operating Costs (\$000s)
<b>Operation</b>								
Neves-Corvo (Cu)	43,473	95,842	1.68	161,015	43,948	96,889	1.97	190,871
Zinkgruvan (Zn)	55,221	121,741	0.14	17,044	45,680	100,707	0.27	27,191
Aguablanca (Ni) <sup>1</sup>	-	-	-	11,016	-	-	-	11,415
Galmoy (Zn) <sup>2</sup>	-	-	-	6,207	-	-	-	3,673
				195,282				233,150
Add: By-product credits				104,452				80,958
Treatment costs				(47,995)				(50,574)
Royalties and other				15,953				6,222
<b>Total Operating Costs</b>				<b>267,692</b>				<b>269,756</b>

<sup>1</sup> Pit-slope failure caused suspension of operations in December 2010.

<sup>2</sup> 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 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 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.

Management has used the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') framework in order to assess the effectiveness of the Company's internal control over financial reporting.

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

There have been no changes in the Company's internal control over financial reporting during the three month period ended September 30, 2012, 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 October 24, 2012:*

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

Colin K. Benner  
Donald K. Charter  
Paul K. Conibear  
John H. Craig  
Brian D. Edgar  
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*  
Sue Boxall, *Vice President, Human Resources*  
Jinhee Magie, *Vice President, Finance*  
Peter G. Nicoll, *Vice President, Health, Safety, Environment and Community*  
J. Mikael Schauman, *Vice President, Marketing*  
James A. Ingram, *Corporate Secretary*

### 2. **Financial Information**

The report for the year ending December 31, 2012 is expected to be published on February 28, 2013.

### 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  
70 Oathall Road  
Haywards Heath, West Sussex  
RH16 3EL  
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:**

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Condensed Interim Consolidated Financial Statements of

# **Lundin Mining Corporation**

September 30, 2012  
(Unaudited)

**LUNDIN MINING CORPORATION**

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited - in thousands of US dollars)	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 3)	\$ 255,949	\$ 265,400
Trade and other receivables (Note 4)	132,184	116,019
Income taxes receivable	1,803	6,869
Inventories (Note 5)	50,418	41,203
Prepaid expenses	5,544	4,047
	<b>445,898</b>	433,538
Non-Current		
Reclamation funds	48,732	54,392
Mineral properties, plant and equipment (Note 6)	1,298,132	1,242,126
Investment in Tenke Fungurume (Note 7)	1,977,268	1,886,537
Marketable securities and other assets	17,483	19,515
Deferred tax assets	44,035	37,848
Goodwill	190,236	190,369
	<b>3,575,886</b>	3,430,787
	<b>\$ 4,021,784</b>	<b>\$ 3,864,325</b>
<b>LIABILITIES</b>		
Current		
Trade and other accounts payable	\$ 55,267	\$ 72,192
Accrued and other liabilities (Note 8)	63,895	49,541
Income taxes payable	22,806	5,211
Current portion of long-term debt and finance leases (Note 10)	3,017	21,740
Current portion of reclamation and closure provisions	6,344	6,581
Current portion of deferred revenue (Note 9)	15,585	12,523
	<b>166,914</b>	167,788
Non-Current		
Long-term debt and finance leases (Note 10)	7,939	7,606
Other long-term liabilities	5,468	5,745
Deferred revenue (Note 9)	61,147	68,514
Provision for pension obligations	19,510	18,525
Reclamation and closure provisions	112,957	103,046
Deferred tax liabilities	189,019	195,245
	<b>396,040</b>	398,681
	<b>562,954</b>	566,469
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	3,500,774	3,497,006
Contributed surplus	33,460	29,450
Accumulated other comprehensive loss	(103,298)	(116,174)
Retained earnings (deficit)	27,894	(112,426)
	<b>3,458,830</b>	3,297,856
	<b>\$ 4,021,784</b>	<b>\$ 3,864,325</b>

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)

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Sales	\$ 159,587	\$ 146,229	\$ 544,647	\$ 541,655
Operating costs (Note 12)	(82,324)	(88,172)	(267,692)	(269,756)
Depreciation, depletion and amortization (Note 6)	(27,580)	(34,305)	(86,098)	(107,368)
General and administrative expenses	(6,124)	(4,250)	(20,066)	(14,293)
General exploration and business development (Note 14)	(20,773)	(13,574)	(52,195)	(40,695)
Income from equity investment in Tenke Fungurume (Note 7)	25,060	17,233	75,731	74,120
Finance income (Note 15)	2,972	665	1,422	2,820
Finance costs (Note 15)	(2,138)	(11,279)	(10,283)	(15,490)
Other income (Note 16)	609	25,909	1,755	10,724
Other expenses (Note 16)	(7,914)	(4,539)	(3,149)	(8,625)
Earnings before income taxes	41,375	33,917	184,072	173,092
Current tax expense (Note 17)	(9,069)	(19,164)	(56,548)	(52,288)
Deferred tax recovery	5,599	1,632	12,796	26,822
<b>Net earnings</b>	<b>\$ 37,905</b>	<b>\$ 16,385</b>	<b>\$ 140,320</b>	<b>\$ 147,626</b>
Basic earnings per share	\$ 0.07	\$ 0.03	\$ 0.24	\$ 0.25
Diluted earnings per share	\$ 0.06	\$ 0.03	\$ 0.24	\$ 0.25
Weighted average number of shares outstanding				
Basic	582,944,893	582,320,503	582,716,888	581,939,918
Diluted (Note 11)	583,761,868	582,999,753	583,636,073	583,122,001

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

## LUNDIN MINING CORPORATION

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

(Unaudited - in thousands of US dollars)

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Net earnings	\$ 37,905	\$ 16,385	\$ 140,320	\$ 147,626
Other comprehensive income (loss), net of taxes				
Effects of foreign currency translation	44,286	(104,442)	12,876	(217)
Comprehensive income (loss)	\$ 82,191	\$ (88,057)	\$ 153,196	\$ 147,409

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

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of US dollars, except for shares)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total
Balance, December 31, 2011	582,475,287	\$ 3,497,006	\$ 29,450	\$ (116,174)	\$ (112,426)	\$ 3,297,856
Exercise of stock options	762,224	3,768	(1,153)	-	-	2,615
Share-based compensation	-	-	5,163	-	-	5,163
Net earnings	-	-	-	-	140,320	140,320
Effects of foreign currency translation	-	-	-	12,876	-	12,876
<b>Balance, September 30, 2012</b>	<b>583,237,511</b>	<b>\$ 3,500,774</b>	<b>\$ 33,460</b>	<b>\$ (103,298)</b>	<b>\$ 27,894</b>	<b>\$ 3,458,830</b>
Balance, December 31, 2010	580,575,355	\$ 3,485,814	\$ 30,312	\$ (66,349)	\$ (296,191)	\$ 3,153,586
Exercise of stock options	1,899,932	11,192	(2,988)	-	-	8,204
Share-based compensation	-	-	1,288	-	-	1,288
Net earnings	-	-	-	-	147,626	147,626
Effects of foreign currency translation	-	-	-	(217)	-	(217)
Balance, September 30, 2011	582,475,287	\$ 3,497,006	\$ 28,612	\$ (66,566)	\$ (148,565)	\$ 3,310,487

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

## LUNDIN MINING CORPORATION

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited - in thousands of US dollars)

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings	\$ 37,905	\$ 16,385	\$ 140,320	\$ 147,626
Items not involving cash				
Finance income and costs	(1,029)	7,088	4,568	8,319
Share-based compensation	1,730	223	5,598	1,288
Depreciation, depletion and amortization	27,580	34,305	86,098	107,368
Foreign exchange loss (gain)	2,104	(8,383)	(2,155)	(4,637)
Income from equity investment in Tenke Fungurume	(25,060)	(17,233)	(75,731)	(74,120)
Deferred tax recovery	(5,599)	(1,632)	(12,796)	(26,822)
Recognition of deferred revenue	(6,454)	(7,462)	(18,731)	(21,433)
Reclamation and closure provisions	4,113	634	4,233	634
Other	158	(1,763)	2,599	(1,381)
Reclamation payments	(386)	(895)	(1,208)	(2,522)
Pension payments	(318)	(343)	(913)	(954)
Prepayments received (Note 9)	1,211	7,709	11,819	22,542
Changes in non-cash working capital items (Note 21)	(61,663)	(65,238)	927	38,843
	(25,708)	(36,605)	144,628	194,751
<b>Investing activities</b>				
Investment in mineral properties, plant and equipment	(37,303)	(39,054)	(130,439)	(129,187)
Investment in Tenke Fungurume	(15,000)	(14,189)	(15,000)	(30,008)
Cash distribution from Tenke Fungurume	-	7,800	-	7,800
Changes in reclamation funds	900	(54)	7,127	2,797
Proceeds from sale (purchase) of marketable securities	-	5,252	(2,504)	7,973
Acquisition of exploration properties	-	(9,532)	-	(9,532)
Other	145	-	73	165
	(51,258)	(49,777)	(140,743)	(149,992)
<b>Financing activities</b>				
Common shares issued	1,457	1,360	2,616	8,204
Long-term debt repayments	(569)	(453)	(21,159)	(11,197)
Proceeds from long-term debt	-	17,592	-	17,592
Other	-	-	(214)	-
	888	18,499	(18,757)	14,599
Effect of foreign exchange on cash balances	8,459	(18,063)	5,421	(2,049)
Increase in cash and cash equivalents during the period	(67,619)	(85,946)	(9,451)	57,309
Cash and cash equivalents, beginning of period	323,568	342,164	265,400	198,909
Cash and cash equivalents, end of period	\$ 255,949	\$ 256,218	\$ 255,949	\$ 256,218

Supplemental cash flow information (Note 21)

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

## **LUNDIN MINING CORPORATION**

Notes to condensed interim consolidated financial statements

For the three and nine months ended September 30, 2012 and 2011

(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 principal wholly-owned operating mine assets include the Neves-Corvo copper/zinc mine located in Portugal, the Zinkgruvan zinc/lead mine located in Sweden, the Aguablanca nickel/copper mine located in Spain, and a 24% equity accounted interest in the Tenke Fungurume copper/cobalt mine located in the Democratic Republic of Congo ("DRC").

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") 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, 2011, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies and methods of application adopted are consistent with those disclosed in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2011.

The Company's presentation currency is United States ("US") dollars. Reference herein of \$ is to United States 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 October 24, 2012.

#### **(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, 2011.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and nine months ended September 30, 2012 and 2011

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

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	September 30, 2012	December 31, 2011
Cash	\$ 235,914	\$ 265,339
Short-term deposits	20,035	61
	<b>\$ 255,949</b>	<b>\$ 265,400</b>

### 4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	September 30, 2012	December 31, 2011
Trade receivables	\$ 101,193	\$ 83,239
Value added tax and other receivables	30,991	32,780
	<b>\$ 132,184</b>	<b>\$ 116,019</b>

The Company does not have any significant balances that are past due and the Company does not have an allowance for doubtful accounts. The fair value of the embedded derivative arising from provisionally priced trade receivables is valued using quoted forward London Metals Exchange ("LME") prices. The Company recognized a positive price adjustment of \$9.1 million in sales during the three months ended September 30, 2012 (2011 - \$30.0 million negative price adjustment) and a positive price adjustment of \$10.3 million in sales for the nine months ended September 30, 2012 (2011 - \$38.3 million negative price adjustment).

### 5. INVENTORIES

Inventories are comprised of the following:

	September 30, 2012	December 31, 2011
Ore stockpiles	\$ 13,457	\$ 9,249
Concentrate stockpiles	18,643	11,349
Materials and supplies	18,318	20,605
	<b>\$ 50,418</b>	<b>\$ 41,203</b>

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and nine months ended September 30, 2012 and 2011

(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, 2010	\$ 1,464,118	\$ 479,230	\$ 51,855	\$ 96,526	\$ 2,091,729
Additions	63,385	3,578	9,586	69,599	146,148
Disposals and transfers	306	122,498	-	(123,812)	(1,008)
Effects of changes in foreign exchange rates	(857)	171	532	1,222	1,068
As at September 30, 2011	1,526,952	605,477	61,973	43,535	2,237,937
Additions	25,958	206	-	17,947	44,111
Disposals and transfers	2,441	36,547	-	(48,837)	(9,849)
Effects of changes in foreign exchange rates	(51,078)	(24,942)	(2,227)	(518)	(78,765)
As at December 31, 2011	1,504,273	617,288	59,746	12,127	2,193,434
Additions	88,561	508	-	39,102	128,171
Disposals and transfers	491	6,358	-	(6,621)	228
Effects of changes in foreign exchange rates	25,187	8,917	721	1,068	35,893
<b>As at September 30, 2012</b>	<b>\$ 1,618,512</b>	<b>\$ 633,071</b>	<b>\$ 60,467</b>	<b>\$ 45,676</b>	<b>\$ 2,357,726</b>

Accumulated depreciation, depletion and amortization	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2010	\$ 646,959	\$ 195,431	\$ -	\$ -	\$ 842,390
Depreciation	68,178	39,190	-	-	107,368
Disposals and transfers	(1,830)	(749)	-	-	(2,579)
Effects of changes in foreign exchange rates	(2,765)	1,432	-	-	(1,333)
As at September 30, 2011	710,542	235,304	-	-	945,846
Depreciation	34,657	11,771	-	-	46,428
Disposals and transfers	1,830	(8,729)	-	-	(6,899)
Effects of changes in foreign exchange rates	(23,529)	(10,538)	-	-	(34,067)
As at December 31, 2011	723,500	227,808	-	-	951,308
Depreciation	54,516	31,582	-	-	86,098
Disposals and transfers	286	1,146	-	-	1,432
Effects of changes in foreign exchange rates	17,121	3,635	-	-	20,756
<b>As at September 30, 2012</b>	<b>\$ 795,423</b>	<b>\$ 264,171</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,059,594</b>

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and nine months ended September 30, 2012 and 2011

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

Net book value	Mineral properties	Plant and equipment	Exploration properties	Assets under construction	Total
As at December 31, 2011	\$ 780,773	\$ 389,480	\$ 59,746	\$ 12,127	\$ 1,242,126
<b>As at September 30, 2012</b>	<b>\$ 823,089</b>	<b>\$ 368,900</b>	<b>\$ 60,467</b>	<b>\$ 45,676</b>	<b>\$ 1,298,132</b>

During the nine months ended September 30, 2012, the Company capitalized \$30.8 million (2011 - \$6.3 million) of deferred stripping costs recorded in mineral properties. In the fourth quarter of 2011, the Company adopted IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which allowed for the capitalization of certain costs which had previously been expensed. As a result of the accounting policy change, mineral properties increased by \$6.3 million for the nine months ended September 30, 2011.

Depreciation, depletion and amortization is comprised of:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Operating costs	\$ 27,475	\$ 34,216	\$ 85,801	\$ 107,128
General and administrative expenses	105	89	297	240
Depreciation, depletion and amortization	\$ 27,580	\$ 34,305	\$ 86,098	\$ 107,368

## 7. INVESTMENT IN TENKE FUNGURUME

As at December 31, 2010	\$ 1,735,148
Advances	30,008
Distribution	(7,800)
Share of equity income	74,120
As at September 30, 2011	1,831,476
Advances	34,500
Share of equity income	20,561
As at December 31, 2011	1,886,537
Advances	15,000
Share of equity income	75,731
<b>As at September 30, 2012</b>	<b>\$ 1,977,268</b>

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

	September 30, 2012	December 31, 2011
Total assets	\$ 3,464,799	\$ 2,846,798
Total liabilities	\$ 1,117,612	\$ 869,608

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Total sales	\$ 373,801	\$ 280,407	\$ 1,012,327	\$ 980,742
Total earnings	\$ 99,489	\$ 65,321	\$ 279,146	\$ 270,405

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and nine months ended September 30, 2012 and 2011

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

### 8. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities are comprised of the following:

	September 30, 2012	December 31, 2011
Unbilled goods and services	\$ 18,680	\$ 16,373
Payroll obligations	22,466	18,441
Royalty payable	22,749	14,727
	<b>\$ 63,895</b>	<b>\$ 49,541</b>

### 9. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

As at December 31, 2010	\$ 77,676
Prepayment received	22,542
Recognition of revenue	(21,432)
Effects of changes in foreign exchange rates	(219)
As at September 30, 2011	78,567
Prepayment received	7,902
Recognition of revenue	(3,097)
Effects of changes in foreign exchange rates	(2,335)
As at December 31, 2011	81,037
Prepayment received	11,819
Recognition of revenue	(18,731)
Effects of changes in foreign exchange rates	2,607
	76,732
Less: current portion	15,585
<b>As at September 30, 2012</b>	<b>\$ 61,147</b>



## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and nine months ended September 30, 2012 and 2011

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

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

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

	<b>September 30,</b>	December 31,
	<b>2012</b>	2011
Somincor commercial paper program	\$ -	\$ 19,350
Finance lease obligations	<b>6,848</b>	5,915
Rio Narcea debt	<b>4,108</b>	4,081
	<b>10,956</b>	29,346
Less: current portion	<b>3,017</b>	21,740
	<b>\$ 7,939</b>	\$ 7,606

### 11. 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 816,975 shares for the three months ended September 30, 2012 (2011 - 679,250 shares) and 919,185 shares for the nine months ended September 30, 2012 (2011 - 1,182,083 shares). The incremental shares relate to in-the-money outstanding stock options.

### 12. OPERATING COSTS

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
Direct mine and mill costs	\$ 76,583	\$ 84,085	\$ 244,307	\$ 250,927
Transportation	<b>4,444</b>	3,887	<b>15,026</b>	12,215
Royalties	<b>1,297</b>	200	<b>8,359</b>	6,614
	<b>82,324</b>	88,172	<b>267,692</b>	269,756
Depreciation, depletion and amortization (Note 6)	<b>27,475</b>	34,216	<b>85,801</b>	107,128
Total operating costs	<b>\$ 109,799</b>	\$ 122,388	<b>\$ 353,493</b>	\$ 376,884

During 2011, the Company adopted IFRIC 20 (Note 6). As a result of this accounting policy change, operating costs decreased by \$4.0 million for the three months ended September 30, 2011 and \$6.3 million for the nine months ended September 30, 2011.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and nine months ended September 30, 2012 and 2011

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

### 13. EMPLOYEE BENEFITS

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Operating costs				
Wages and benefits	\$ 25,102	\$ 24,622	\$ 82,055	\$ 80,003
Pension benefits	318	400	913	954
Share-based compensation	600	66	1,737	360
	<b>26,020</b>	25,088	<b>84,705</b>	81,317
General and administrative expenses				
Wages and benefits	3,224	3,502	8,470	8,242
Pension benefits	62	67	137	214
Share-based compensation	1,067	139	3,673	792
	<b>4,353</b>	3,708	<b>12,280</b>	9,248
General exploration and business development				
Wages and benefits	999	1,293	3,341	3,549
Share-based compensation	63	18	188	136
	<b>1,062</b>	1,311	<b>3,529</b>	3,685
<b>Total employee benefits</b>	<b>\$ 31,435</b>	\$ 30,107	<b>\$ 100,514</b>	\$ 94,250

### 14. GENERAL EXPLORATION AND BUSINESS DEVELOPMENT

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
General exploration	\$ 13,336	\$ 12,460	\$ 40,238	\$ 33,879
Corporate development	2,493	1,114	7,013	6,816
Project development	4,944	-	4,944	-
	<b>\$ 20,773</b>	\$ 13,574	<b>\$ 52,195</b>	\$ 40,695

The Company has revised its presentation of corporate development costs in the statement of earnings. These costs were previously included in general and administrative expenses. This presentation has been applied for comparative periods.

## LUNDIN MINING CORPORATION

Notes to condensed interim consolidated financial statements

For the three and nine months ended September 30, 2012 and 2011

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

### 15. FINANCE INCOME AND COSTS

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Interest income	\$ 466	\$ 665	\$ 1,422	\$ 2,820
Interest expense and bank fees	(845)	(4,191)	(6,440)	(7,171)
Accretion expense on reclamation provisions	(522)	(829)	(1,594)	(2,478)
Unrealized gain (loss) on revaluation of marketable securities	2,506	(6,057)	(1,478)	(5,630)
Other	(771)	(202)	(771)	(211)
<b>Total finance income (costs), net</b>	<b>\$ 834</b>	<b>\$ (10,614)</b>	<b>\$ (8,861)</b>	<b>\$ (12,670)</b>

  

Finance income	\$ 2,972	665	\$ 1,422	2,820
Finance costs	(2,138)	(11,279)	(10,283)	(15,490)
<b>Total finance income (costs), net</b>	<b>\$ 834</b>	<b>\$ (10,614)</b>	<b>\$ (8,861)</b>	<b>\$ (12,670)</b>

### 16. OTHER INCOME AND EXPENSES

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Foreign exchange (loss) gain	\$ (7,471)	\$ 19,546	\$ (1,590)	\$ 3,338
Gain on sale of non-core assets	-	2,021	-	2,156
Other income	609	4,342	1,755	5,230
Other expenses	(443)	(4,539)	(1,559)	(8,625)
<b>Total other income (expenses), net</b>	<b>\$ (7,305)</b>	<b>\$ 21,370</b>	<b>\$ (1,394)</b>	<b>\$ 2,099</b>

  

Other income	\$ 609	\$ 25,909	\$ 1,755	\$ 10,724
Other expenses	(7,914)	(4,539)	(3,149)	(8,625)
<b>Total other income (expenses), net</b>	<b>\$ (7,305)</b>	<b>\$ 21,370</b>	<b>\$ (1,394)</b>	<b>\$ 2,099</b>

## LUNDIN MINING CORPORATION

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For the three and nine months ended September 30, 2012 and 2011

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

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### 17. 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.

### 18. COMMITMENTS

The Company has capital commitments as at September 30, 2012 as follows:

2012	\$	35,169
2013		12,750
2014		2,634
<b>Total</b>	<b>\$</b>	<b>50,553</b>

### 19. SEGMENTED INFORMATION

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

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## Segmented information

### For the three months ended September 30, 2012

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	DRC		
Sales	\$ 92,640	\$ 48,699	\$ 10,585	\$ 7,663	\$ -	\$ -	\$ 159,587
Operating costs	(47,038)	(19,993)	(13,573)	(1,056)	-	(664)	(82,324)
General and administrative expenses	-	-	-	-	-	(6,124)	(6,124)
Operating earnings (loss) *	45,602	28,706	(2,988)	6,607	-	(6,788)	71,139
Depreciation, depletion and amortization	(18,889)	(6,644)	(1,920)	(11)	-	(116)	(27,580)
General exploration and business development	(15,393)	(705)	(152)	-	-	(4,523)	(20,773)
Income from equity investment in Tenke Fungurume	-	-	-	-	25,060	-	25,060
Finance income and costs	623	(165)	(324)	25	-	675	834
Other income and expenses	(2,661)	(3,668)	164	(738)	-	(402)	(7,305)
Income tax (expense) recovery	(1,392)	(4,389)	3,530	(90)	-	(1,129)	(3,470)
Net earnings (loss)	\$ 7,890	\$ 13,135	\$ (1,690)	\$ 5,793	\$ 25,060	\$ (12,283)	\$ 37,905
Capital expenditures	\$ 23,335	\$ 7,216	\$ 6,703	\$ -	\$ 15,000	\$ 49	\$ 52,303

### For the nine months ended September 30, 2012

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	DRC		
Sales	\$ 357,825	\$ 156,675	\$ 10,585	\$ 19,562	\$ -	\$ -	\$ 544,647
Operating costs	(172,966)	(68,096)	(18,301)	(6,454)	-	(1,875)	(267,692)
General and administrative expenses	-	-	-	-	-	(20,066)	(20,066)
Operating earnings (loss) *	184,859	88,579	(7,716)	13,108	-	(21,941)	256,889
Depreciation, depletion and amortization	(61,992)	(21,428)	(2,303)	(45)	-	(330)	(86,098)
General exploration and business development	(32,507)	(2,216)	(751)	-	-	(16,721)	(52,195)
Income from equity investment in Tenke Fungurume	-	-	-	-	75,731	-	75,731
Finance income and costs	588	(2,355)	(1,796)	157	-	(5,455)	(8,861)
Other income and expenses	3,043	(2,463)	637	(704)	-	(1,907)	(1,394)
Income tax (expense) recovery	(27,435)	(15,134)	(1,748)	(328)	-	893	(43,752)
Net earnings (loss)	\$ 66,556	\$ 44,983	\$ (13,677)	\$ 12,188	\$ 75,731	\$ (45,461)	\$ 140,320
Capital expenditures	\$ 71,277	\$ 21,078	\$ 37,685	\$ 24	\$ 15,000	\$ 375	\$ 145,439

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

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For the three and nine months ended September 30, 2012 and 2011

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## Segmented information

### For the three months ended September 30, 2011

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke	Other	Total
	Portugal	Sweden	Spain	Ireland	Fungurume DRC		
Sales	\$ 84,678	\$ 48,741	\$ (35)	\$ 12,845	\$ -	\$ -	\$ 146,229
Operating costs	(63,649)	(20,426)	(1,838)	(2,196)	-	(63)	(88,172)
General and administrative expenses	-	-	-	-	-	(4,250)	(4,250)
Operating earnings (loss) *	21,029	28,315	(1,873)	10,649	-	(4,313)	53,807
Depreciation, depletion and amortization	(27,075)	(6,246)	(876)	(19)	-	(89)	(34,305)
General exploration and business development	(7,327)	(199)	(156)	-	-	(5,892)	(13,574)
Income from equity investment in Tenke Fungurume	-	-	-	-	17,233	-	17,233
Finance income and costs	(2,277)	(160)	(3,026)	106	-	(5,257)	(10,614)
Other income and expenses	7,958	5,515	2,015	509	-	5,373	21,370
Income tax recovery (expense)	1,279	(6,836)	(13,783)	(144)	-	1,952	(17,532)
Net (loss) earnings	\$ (6,413)	\$ 20,389	\$ (17,699)	\$ 11,101	\$ 17,233	\$ (8,226)	\$ 16,385
Capital expenditures	\$ 28,027	\$ 6,596	\$ 4,137	\$ -	\$ 14,189	\$ 9,826	\$ 62,775

### For the nine months ended September 30, 2011

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke	Other	Total
	Portugal	Sweden	Spain	Ireland	Fungurume DRC		
Sales	\$ 364,276	\$ 146,326	\$ (1,898)	\$ 32,951	\$ -	\$ -	\$ 541,655
Operating costs	(183,982)	(67,867)	(10,177)	(7,448)	-	(282)	(269,756)
General and administrative expenses	-	-	-	-	-	(14,293)	(14,293)
Operating earnings (loss) *	180,294	78,459	(12,075)	25,503	-	(14,575)	257,606
Depreciation, depletion and amortization	(85,406)	(19,306)	(2,361)	(55)	-	(240)	(107,368)
General exploration and business development	(22,508)	(557)	(978)	-	-	(16,652)	(40,695)
Income from equity investment in Tenke Fungurume	-	-	-	-	74,120	-	74,120
Finance income and costs	(1,993)	(441)	(3,516)	359	-	(7,079)	(12,670)
Other income and expenses	(9,279)	1,393	174	(610)	-	10,421	2,099
Income tax (expense) recovery	(15,712)	(14,743)	2,711	(393)	-	2,671	(25,466)
Net earnings (loss)	\$ 45,396	\$ 44,805	\$ (16,045)	\$ 24,804	\$ 74,120	\$ (25,454)	\$ 147,626
Capital expenditures	\$ 89,439	\$ 30,059	\$ 9,295	\$ 34	\$ 30,008	\$ 9,892	\$ 168,727

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

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Copper	\$ 94,857	\$ 85,536	\$ 352,402	\$ 366,369
Zinc	37,189	37,223	123,100	109,189
Lead	15,736	20,493	49,816	56,463
Nickel	7,436	(47)	7,436	(444)
Other	4,369	3,024	11,893	10,078
	<b>\$ 159,587</b>	<b>\$ 146,229</b>	<b>\$ 544,647</b>	<b>\$ 541,655</b>

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Europe	\$ 143,540	\$ 145,180	\$ 525,878	\$ 513,796
South America	5,462	1,084	8,184	27,577
Other	10,585	(35)	10,585	282
	<b>\$ 159,587</b>	<b>\$ 146,229</b>	<b>\$ 544,647</b>	<b>\$ 541,655</b>

## 20. RELATED PARTY TRANSACTIONS

- Transactions with associates - 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 nine months ended September 30, 2012, the Company advanced \$15.0 million to fund its portion of Tenke expenditures.
- 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 September 30		Nine months ended September 30	
	2012	2011	2012	2011
Wages and salaries	\$ 1,494	\$ 1,110	\$ 4,649	\$ 5,079
Pension benefits	32	24	72	88
Share-based compensation	588	27	2,086	395
	<b>\$ 2,114</b>	<b>\$ 1,161</b>	<b>\$ 6,807</b>	<b>\$ 5,562</b>

- Other related parties - During the nine months ended September 30, 2012, the Company paid \$0.2 million (2011 - \$0.2 million) for services provided by a company owned by the Chairman of the Company. The Company also paid \$0.5 million for the nine months ended September 30, 2012 (2011 - \$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

Notes to condensed interim consolidated financial statements

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### 21. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
Changes in non-cash working capital items consist of:				
Accounts receivable, inventories and other current assets	\$ (46,960)	\$ (4,860)	\$ (18,517)	\$ 105,346
Accounts payable and other current liabilities	(14,703)	(60,378)	19,444	(66,503)
	\$ (61,663)	\$ (65,238)	\$ 927	\$ 38,843

Operating activities included the following cash payments:

Interest received	\$ 495	\$ 924	\$ 1,422	\$ 2,155
Interest paid	\$ 540	\$ 3,988	\$ 2,158	\$ 5,486
Income taxes paid	\$ 26,364	\$ 57,538	\$ 33,708	\$ 104,867

The Company has revised its presentation for changes in reclamation funds in the consolidated statements of cash flow from operating activities to investing activities.