lundin mining

Management's Discussion and Analysis
For the year ended December 31, 2012

This management's discussion and analysis ("MD&A") has been prepared as of February 21, 2013 and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 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 base metals mining company with operations in Portugal, Sweden, Spain and Ireland, producing copper, zinc, lead and nickel. In addition, Lundin Mining holds a 24% equity stake in the world-class Tenke Fungurume copper/cobalt mine in the Democratic Republic of Congo.

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's strong and steady performance throughout the year is reflected in the production results which are at the high end of guidance targets.

- Neves-Corvo met its production goals for both zinc and copper. A significant amount of incremental lower grade, but profitable, copper ore was mined, compared to the reserve models, as additional volumes of mineralization on the periphery of stopes was encountered. Near record copper recoveries in the plant were achieved. Cash costs per pound of copper sold were $2.17 for the quarter as a result of the processing of more tonnes of ore at lower grades, and $1.79 for the year.
- Zinkgruvan finished the year with record production of zinc, lead and copper in concentrate and continued to report high recovery performance in the process plant. Zinc, copper and lead grades and plant recoveries met, and in some cases exceeded expectations. Cash costs per pound of zinc sold were $0.12 for the quarter and $0.13 for the year.
- Aguablanca's processing operations were restarted in August, with full production achieved earlier than planned, resulting in higher than expected nickel and copper metal production. Grades mined and plant recoveries for both nickel and copper were slightly better than expected. Cash costs per pound of nickel sold were $6.19 for the quarter, which was the first quarter of full production since mining was suspended in the fourth quarter of 2010.
- Galmoy's mining production from remnant ores exceeded expectations for the year. Although mining ceased in the fourth quarter of 2012, processing of stockpiled ore by a third party processing facility will continue into 2013.

Tenke: Tenke achieved record mining, milling and production rates in 2012 facilitated by the staged commissioning of Phase II expansion facilities. The Phase II expansion is substantially complete, on schedule and on budget.

- By the end of 2012, the expanded facilities were operating near full Phase II design capacity. Fourth quarter production of 44,130 tonnes of copper cathode is 91% of the expanded annual design capacity of 195,000 tonnes per annum copper cathode, on a prorated basis.
- During the year, the Phase II expansion and sustaining capital funding was met almost entirely with cash available from Tenke operations with the exception of a cash call for $15.0 million funded by the Company.
- Attributable operating cash flow related to Tenke for 2012 was $145.9 million.

Production Summary:

Total 2012 production, compared to the latest guidance and prior years, was as follows:

Years ended December 31 (contained tonnes)		**2012 Actual**	*2012 Guidance*	2011 Actual	2010 Actual	2009 Actual
Copper	Neves-Corvo	**58,559**	*55,000 - 60,000*	74,109	74,011	86,462
	Zinkgruvan	**3,059**	*3,000 - 4,000*	1,768	540	nil
	Aguablanca	**2,260**	*1,500 - 2,000*	nil	5,484	6,989
	Wholly-owned	**63,878**	*59,500 - 66,000*	75,877	80,035	93,451
	Tenke(@24%)[a]	**38,105**	*36,200*	31,523	29,767	17,325
	Total attributable	**101,983**	*95,700 - 102,200*	107,400	109,802	110,776
Zinc	Neves-Corvo	**30,006**	*25,000 - 30,000*	4,227	6,422	501
	Zinkgruvan	**83,209**	*77,000 - 83,000*	75,147	72,206	70,968
	Galmoy (in ore)	**8,989**	*8,500 - 9,000*	32,071	11,501	29,932
	Total	**122,204**	*110,500 - 122,000*	111,445	90,129	101,401
Lead	Neves-Corvo	**87**	*nil*	nil	nil	nil
	Zinkgruvan	**37,246**	*34,000 - 39,000*	32,339	36,636	36,183
	Galmoy (in ore)	**1,131**	*1,000 - 1,100*	8,791	2,932	7,669
	Total	**38,464**	*35,000 - 40,100*	41,130	39,568	43,852
Nickel	Aguablanca	**2,398**	*1,500 - 2,000*	nil	6,296	8,029

a - Lundin Mining's attributable share of Tenke 's production was reduced from 24.75% to 24.0% effective March 26, 2012.

- Operating earnings[1] for the year ended December 31, 2012 were $308.7 million, a decrease of $73.2 million from the $381.9 million reported in 2011. The decrease was primarily attributable to a change in sales mix, as less profitable zinc replaced copper sales in 2012 ($48.0 million), lower realized prices and price adjustments from prior period sales ($39.7 million), higher costs ($10.4 million) and lower overall sales volume ($3.2 million) which more than offset the impact of the favourable exchange rates ($22.3 million) and restart of the Aguablanca operation ($5.8 million).

- For the year ended December 31, 2012, sales of $721.1 million decreased $62.7 million from the prior year ($783.8 million) which was mainly as a result of lower net sales volume ($24.8 million) and lower realized metal prices and prior period price adjustments ($39.7 million). Increased volume of metal concentrate sales at Zinkgruvan and the restart of the Aguablanca mine were more than offset by lower copper sales at Neves-Corvo and overall reduced sales at Galmoy.

- Average London Metal Exchange ("LME") metal prices for copper, zinc, lead and nickel for the year ended December 31, 2012 were significantly lower (10% - 23%) than that of the prior year (see page 27 of this MD&A for details).

- Operating costs (excluding depreciation) of $385.0 million in the current year were slightly higher than the prior year of $382.0 million. Excluding increased costs from Aguablanca ($18.2 million) associated with restart of production, costs decreased by $15.2 million which is primarily attributable to:

  - Neves-Corvo ($11.5 million): Favourable foreign exchange rate and lower royalty charge, partially offset by higher per unit costs; and
  - Galmoy ($4.4 million): Lower production and cessation of mining operations.

[1] Operating earnings is a non-GAAP measure defined as sales, less operating costs (excluding depreciation) and general and administrative costs. See page 44 of this MD&A for discussion of non-GAAP measures.

- Net earnings of $123.2 million ($0.21 per share) for the current year were $60.6 million lower than the $183.8 million ($0.32 per share) reported in 2011. Earnings were impacted by:

    - lower operating earnings primarily due to lower sales and lower realized metal prices ($73.2 million)
    - higher impairment loss on write-down of Aguablanca's mineral properties, plant and equipment and goodwill in 2012 compared to 2011 ($31.6 million);
    - higher exploration and business development expenditures ($15.4 million); offset by
    - lower depreciation, depletion and amortization expense ($31.4 million) as a result of lower production at Neves-Corvo and foreign exchange rates; and
    - lower tax expense of $27.6 million, reflecting lower operating earnings and a decrease in Sweden's future tax rate from 26.3% to 22% effective January 1, 2013.

- Cash flow from operations for the year was $194.0 million compared to $308.7 million for 2011. The comparative decrease in the cash flow is mostly attributable to lower operating earnings and changes in working capital.

- Shortly after the restart of production at Aguablanca, the mine encountered pit stability issues on the south wall which restricted access to certain areas of the pit. As the Company continues to assess its options, the mine is operating on a modified mine plan with a mine life of only two years due to restricted access to its ore. This has resulted in a decrease in the value of certain of Aguablanca's assets below their carrying values. Accordingly, the Company has recognized an impairment loss of $39.2 million ($34.0 million after-tax) on mineral properties, plant and equipment and $28.1 million on goodwill.

Tenke Fungurume

- Milling facilities continued to produce above rated capacity, with throughput averaging approximately 13,000 metric tonnes of ore per day during 2012, an estimated 1,900 metric tonnes of ore per day higher than the previous year.

- For the year ended December 31, 2012, Tenke produced 157,671 tonnes of copper and sold 152,355 tonnes at an average realized price of $3.51/lb. In addition, 11,669 tonnes of cobalt in hydroxide was produced and 11,259 tonnes were sold at an average realized price of $7.83/lb of cobalt.

- Cash costs[1] of $1.23/lb of copper for the year were higher than the $1.07/lb reported in the prior year, primarily resulting from lower cobalt credits.

- During the year, $158.9 million was spent on the Company's attributable share of Tenke's capital requirements which was funded by a cash advance of $15.0 million and excess cash flow from operations.

[1] Cash cost per pound is a non-GAAP measure – see page 44 of this MD&A for discussion of Non-GAAP measures.

Corporate Highlights

- On September 4, 2012, the Company reported its Mineral Reserve and Resource estimates as at June 30, 2012. The Company also filed independent NI 43-101 compliant technical reports on the Neves-Corvo mine (including the Semblana deposit) and the Zinkgruvan mine in January 2013. These reports can be found on SEDAR (www.sedar.com).

- In December 2012, the Company executed an amendment to its revolving credit agreement that increases the amount of its credit facility to $350 million from $300 million, reducing the costs of borrowing and extending the term of the facility to December 2015.

- In January 2013, the Company, together with its partners in Tenke Fungurume, entered into a definitive agreement to acquire a large scale cobalt chemical refinery in Finland to provide direct end-market access for Tenke's cobalt hydroxide production. See press release entitled, *"Lundin Mining, together with Tenke partners, to acquire Kokkola cobalt operations in Finland"*, dated January 21, 2013.

Financial Position and Financing

- Net cash[1] position at December 31, 2012 was $265.1 million compared to a net cash position of $236.1 million at December 31, 2011.

- The $29.0 million increase in net cash during the year was primarily attributable to cash inflow from operations of $194.0 million, offset by investment in mineral properties, plant and equipment of $159.4 million, a $15.0 million cash advance to Tenke and a full repayment of the Company's commercial paper program ($19.7 million).

[1] Net cash is a non-GAAP measure defined as available unrestricted cash less long-term debt and finance leases.

Outlook

2013 Production and Cost Guidance

- Production guidance for the three-year period of 2013 through 2015 for wholly-owned operations remains unchanged from the guidance provided on December 6, 2012 (see news release entitled "Lundin Mining Provides Operating Outlook for 2013-2015"). Production and cash cost guidance for 2013 are as follows:

2013 Guidance (contained tonnes)		**Tonnes**	**C1 Cost**[a]
Copper	*Neves-Corvo*	*50,000 – 55,000*	*$ 1.80*
	Zinkgruvan	*2,500 – 3,500*	
	Aguablanca	*4,500 – 5,000*	
	Wholly-owned	*57,000 – 63,500*	
	Tenke(@24%)[b]	*44,650*	*$ 1.03*
	Total attributable	*101,650 – 108,150*	
Zinc	*Neves-Corvo*	*45,000 – 50,000*	
	Zinkgruvan	*73,000 – 78,000*	*$ 0.20*
	Total	*118,000 – 128,000*	
Lead	*Zinkgruvan*	*33,000 – 36,000*	
Nickel	*Aguablanca*	*5,000 – 5,500*	*$ 5.00*

a. Cash costs remain dependent upon exchange rates (forecast at €/USD:1.30, USD/SEK:6.75) and metal prices (forecast at Cu: $3.50, Zn: $0.95, Pb: $1.00,Ni: $8.00, Co: $12.00).

b. Freeport has provided 2013 sales and C1 cash cost guidance. The sales guidance is assumed to approximate Tenke's production.

- **Neves-Corvo:** Copper production is expected to be maintained above 50,000 tonnes per annum with an increasing zinc by-product credit. The zinc plant is expected to operate at full capacity in 2013 processing approximately 1.0 million tonnes per annum ("mtpa") of ore. The production forecast assumes that the zinc plant will be used exclusively to process zinc ore; however this plant has the flexibility to process either zinc or copper ores, to optimize the profitability of the operation.

- **Zinkgruvan:** Production of all metals in 2013 is expected be in line with 2012.

- **Aguablanca:** The mine has continued to experience south pit wall instability and this has resulted in restricted access to certain areas in the pit. The current production guidance reflects a reduction in the mineable reserve to only those areas not affected by the instability and assumes no additional investment to attempt to recover reserves in the affected area. Revised life of mine plan and reserves remain under evaluation.

- **Tenke:** Given the substantial completion of the Phase II expansion in 2012, Freeport McMoRan Copper and Gold Inc. ("Freeport"), the mine's operator, expects sales of copper to increase to 186,000 tonnes of copper cathode in 2013 and 13,600 tonnes of cobalt (contained in cobalt hydroxide product).

2013 Capital Expenditure Guidance

Capital expenditures for 2013 are expected to be $285 million (2012: $318.3 million), an increase of $15 million from our previously released estimate of $270 million on December 6, 2012. This increase is primarily attributable to revised forecasts for 2013 capital investments at Tenke. Major capital investments for 2013 are as follows:

- **Sustaining capital in European operations** - $110 million (2012: $129.5 million), consisting of approximately $70 million for Neves-Corvo and $40 million for Zinkgruvan.

- **New investment capital in European operations -** $60 million (2012: $29.9 million), consisting of:

    - Lombador Phase I ($30 million) - For underground development, improvements to the main surface substation, installation of surface power cables, and other items related to positioning for increased copper and zinc production from the Lombador ore bodies over the next several years.
    - Neves-Corvo industrial water dam ($9 million) - Work was to have commenced in 2012 on this dam but was delayed until 2013 due to drilling on the Monte Branco copper discovery which lies beneath.
    - Zinkgruvan ore dressing plant ($13 million) - During 2012, a pre-feasibility study was completed showing that with an estimated $52 million investment over a 24 month period, replacement of the current crushing, screening and grinding circuits would result in higher plant availability, lower operating costs, improved noise and dust emissions and an increase in mine production. A feasibility study is advancing with expected completion in the first half of 2013. Permitting of the plant modernization and tailings facility expansion is in progress and, subject to positive results, investment in the zinc plant modernization will be fast tracked.
    - Other improvement initiatives ($8 million).

- **New investment in Tenke** - $115 million (2012: $158.9 million), estimated by the Company as its share of the remaining Phase II expansion costs and sustaining capital funding for 2013. All of the capital expenditures are expected to be self-funded by cash flow from Tenke operations. If current metal prices and operating conditions prevail, it is reasonable to expect meaningful amounts of excess operating cash flows from Tenke to come back to the funding partners to repay initial capital investments on a 70/30 basis.

Exploration Investment

- Exploration expenditures are expected to be in the range of $40 million in 2013 (2012: $50.9 million). Approximately $18 million of this will be spent at Neves-Corvo where a large drilling program will advance exploration on various targets including the new copper discovery at Monte Branco. An additional $5 million will be spent on several other copper targets in the Iberian Region.

- The Company continues to seek exploration investment opportunities. In November 2012, Lundin Mining signed an Option Agreement with Southern Hemisphere Mining (ASX:SUH) to earn up to a 75% interest in the Llahuin Project in Chile by investing $35 million in development over a period of 6 years; approximately $7 million is expected to be spent in 2013.

Selected Quarterly and Annual Financial Information

($ millions, except per share amounts)	Years ended December 31 2012	2011 [3]	2010 [3]
Sales	**721.1**	783.8	849.2
Operating costs	**(385.0)**	(382.0)	(367.3)
General and administrative expenses	**(27.4)**	(19.9)	(18.6)
Operating earnings	**308.7**	381.9	463.3
Depreciation, depletion and amortization	**(122.4)**	(153.8)	(121.9)
General exploration and business development	**(66.1)**	(50.7)	(25.2)
Income from equity investment in Tenke Fungurume	**101.5**	94.7	75.9
Finance income and costs, net	**(7.5)**	(13.1)	36.1
Other income and expenses, net	**(0.3)**	11.5	(2.0)
Asset impairment	**(67.3)**	(35.7)	-
Earnings before income taxes	**146.6**	234.8	426.2
Income tax expense	**(23.4)**	(51.0)	(119.9)
Net earnings	**123.2**	183.8	306.3
Shareholders' equity	**3,475.2**	3,297.9	3,153.6
Cash flow from operations	**194.0**	308.7	276.1
Capital expenditures (incl. advances to Tenke)	**174.4**	253.1	160.3
Total assets	**3,990.5**	3,864.3	3,826.3
Net cash	**265.1**	236.1	159.2
Key Financial Data:			
Shareholders' equity per share[1]	**5.95**	5.66	5.43
Basic and diluted earnings per share	**0.21**	0.32	0.53
Equity ratio[2]	**87%**	85%	82%
Shares outstanding:			
Basic weighted average	**582,942,459**	582,074,865	579,924,538
Diluted weighted average	**584,013,588**	582,964,608	580,539,367
End of period	**584,005,006**	582,475,287	580,575,355

($ millions, except per share data)	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11[3,4]	Q3-11[3,4]	Q2-11[3,4]	Q1-11[3]
Sales	**176.4**	159.6	172.3	212.8	242.1	146.2	184.0	211.5
Operating earnings	**51.8**	71.1	80.4	105.4	124.3	53.8	85.4	118.4
Net (loss) earnings	**(17.1)**	37.9	44.1	58.3	36.1	16.4	60.1	71.2
(Loss) earnings per share, basic[5]	**(0.03)**	0.07	0.08	0.10	0.06	0.03	0.10	0.12
(Loss) earnings per share, diluted[5]	**(0.03)**	0.06	0.08	0.10	0.06	0.03	0.10	0.12
Cash flow from operations	**49.4**	(25.7)	119.0	51.3	113.9	(36.6)	99.2	132.2
Capital expenditures (incl. Tenke)	**29.0**	52.3	47.6	45.5	84.3	62.8	60.1	45.9
Net cash	**265.1**	245.0	312.7	242.3	236.1	208.7	308.2	262.0

1. Shareholders' equity per share is a non-GAAP measure defined as shareholders' equity divided by total shares outstanding at the end of the period.
2. Equity ratio is a non-GAAP measure defined as shareholders' equity divided by total assets at the end of the period.
3. 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.
4. 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.
5. 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

	Total 2012	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Copper (tonnes)										
Neves-Corvo	**56,497**	13,024	11,200	15,869	16,404	69,974	26,026	12,671	14,304	16,973
Zinkgruvan	**2,854**	640	865	880	469	2,092	678	680	734	-
Aguablanca[1]	**556**	298	258	-	-	(73)	-	(5)	(15)	(53)
	59,907	13,962	12,323	16,749	16,873	71,993	26,704	13,346	15,023	16,920
Zinc (tonnes)										
Neves-Corvo	**25,591**	9,488	4,617	5,542	5,944	2,619	(43)	1,842	5	815
Zinkgruvan	**71,809**	16,588	17,623	19,580	18,018	61,661	15,981	15,183	13,529	16,968
Galmoy[2]	**11,474**	1,283	3,768	3,827	2,596	16,346	3,106	4,768	4,694	3,778
	108,874	27,359	26,008	28,949	26,558	80,626	19,044	21,793	18,228	21,561
Lead (tonnes)										
Neves-Corvo	**31**	-	31	-	-	-	-	-	-	-
Zinkgruvan	**36,128**	10,080	7,637	8,176	10,235	29,794	7,906	8,570	7,031	6,287
Galmoy[2]	**3,023**	806	1,099	587	531	5,010	769	1,649	1,517	1,075
	39,182	10,886	8,767	8,763	10,766	34,804	8,675	10,219	8,548	7,362
Nickel (tonnes)										
Aguablanca[1]	**915**	508	407	-	-	(48)	-	7	6	(61)

1. Final weight adjustment 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 22).

Sales Analysis

	Year ended December 31				
	2012		2011		Change
($ thousands)	$	%	$	%	$
by Mine					
Neves-Corvo	**466,174**	65	558,044	71	(91,870)
Zinkgruvan	**209,621**	29	188,566	24	21,055
Aguablanca	**22,167**	3	(1,897)	-	24,064
Galmoy	**23,144**	3	39,073	5	(15,929)
	721,106		783,786		(62,680)
by Metal					
Copper	**452,742**	63	563,103	72	(110,361)
Zinc	**164,144**	23	135,078	17	29,066
Lead	**71,029**	10	71,356	9	(327)
Nickel	**15,548**	2	(444)	-	15,992
Other	**17,643**	2	14,693	2	2,950
	721,106		783,786		(62,680)

Sales for the current year were lower compared to the year ended December 31, 2011, reflecting lower realized metal prices of copper and zinc in the current year and lower production and sales of copper at Neves-Corvo which more than offset the impact of increased sales at Zinkgruvan and production startup at Aguablanca.

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

Year to Date Reconciliation of Realized Prices

2012	Twelve months ended December 31, 2012								
($ thousands, except per pound amounts)		Copper		Zinc		Lead		Nickel	Total
Current period sales[1]		477,302		210,941		81,817		15,562	785,622
Prior period provisional adjustments		4,535		444		475		-	5,454
Sales before other metals and TC/RC		481,837		211,385		82,292		15,562	791,076
Other metal sales									17,643
Less: TC/RC									(87,613)
Total Sales									**721,106**
Payable Metal (tonnes)		**59,907**		**108,874**		**39,182**		**915**	
Current period sales ($/lb)[1]	$	3.61	$	0.88	$	0.95	$	7.71	
Prior period provisional adjustments ($/lb)		0.04		-		-		-	
Realized prices ($/lb)	**$**	**3.65**	**$**	**0.88**	**$**	**0.95**	**$**	**7.71**	

2011	Twelve months ended December 31, 2011								
($ thousands, except per pound amounts)		Copper		Zinc		Lead		Nickel	Total
Current period sales[1]		596,647		176,575		81,702		-	854,924
Prior period provisional adjustments		3		(585)		186		(589)	(985)
Sales before other metals and TC/RC		596,650		175,990		81,888		(589)	853,939
Other metal sales									14,693
Less: TC/RC									(84,846)
Total Sales									**783,786**
Payable Metal (tonnes)		**71,993**		**80,626**		**34,804**		**(48)**	
Current period sales ($/lb)[1]	$	3.76	$	0.99	$	1.06		n/a	
Prior period provisional adjustments ($/lb)		-		-		0.01		n/a	
Realized prices ($/lb)	$	**3.76**	**$**	**0.99**	**$**	**1.07**		**n/a**	

1. Includes provisional price adjustments on current period sales.

Provisionally valued sales for the year ended December 31, 2012

Metal	Tonnes Payable	Valued at $ per lb	Valued at $ per tonne
Copper	11,857	3.60	7,932
Zinc	15,573	0.92	2,028
Lead	7,670	1.05	2,318
Nickel	723	7.73	17,032

Annual Financial Results

Operating Costs

Operating costs of $385.0 million for the year ended December 31, 2012 were $3.0 million higher than the year ended December 31, 2011. Costs were lower at Neves-Corvo, Zinkgruvan and Galmoy by $11.5 million, $1.5 million and $4.4 million, respectively, due largely to a stronger US dollar compared to the € and SEK. This was partially offset by increased costs at Aguablanca ($18.2 million) associated with the restart of production in the current year.

General and Administrative Expenses

General and administrative expenses of $27.4 million for the year ended December 31, 2012 were $7.5 million higher than the year ended December 31, 2011, primarily as a result of higher stock-based compensation expense.

Depreciation, Depletion and Amortization

Decrease in depreciation, depletion and amortization expense for the year ended December 31, 2012 compared with the same period in 2011 is primarily due to lower copper production and changes in life of mine estimates at Neves-Corvo, partially offset by higher amortization at Aguablanca on start up of production in the current year.

Depreciation by operation	**Year ended December 31**		
($ thousands)	**2012**	2011	Change
Neves-Corvo	**83,245**	119,418	(36,173)
Zinkgruvan	**26,335**	30,876	(4,541)
Aguablanca	**12,285**	3,067	9,218
Other	**514**	435	79
	122,379	153,796	(31,417)

General Exploration and Business Development

General exploration and business development costs increased from $50.7 million in 2011 to $66.1 million for the year ended December 31, 2012. The increase is a result of incremental exploration costs at Neves-Corvo, primarily from a 90,000 metre drilling program and additional high-resolution 3D seismic in and around the mine, focused on extending mine life for copper production. In addition, business development projects were undertaken in support of the Company's initiative for growth. (*See additional commentary of exploration activities under Exploration Highlights*).

Finance Income and Costs

For the year ended December 31, 2012, net finance costs were $7.5 million, compared to $13.1 million in the prior year. The decrease in net finance costs is attributable to higher revaluation losses on marketable securities in 2011 and lower net interest and accretion expense in 2012.

Other Income and Expense

Net other expenses for the year ended December 31, 2012 were $0.3 million compared to net other income of $11.5 million for the year ended December 31, 2011. The decrease in net other income relates to foreign exchange gains which decreased year over year by $13.3 million. This was offset by insurance proceeds of €6.0 million ($7.9 million) received in 2012 relating to the 2010 slope failure at the Aguablanca mine.

A foreign exchange loss of $5.1 million in the year and a gain of $8.2 million for the year ended December 31, 2011, relates to US$-denominated cash and trade receivables that were held in the European group entities.

Period end exchange rates at December 31, 2012 were $1.32:€1.00 (December 31, 2011 – $1.29:€1.00) and $1.00:SEK6.52 (December 31, 2011 - $1.00:SEK6.92).

Asset Impairment

As required by IFRS, each cash generating unit ("CGU") which has been allocated goodwill must be tested annually for impairment. Management assessed the Aguablanca CGU for impairment using a modified mine plan which has a shortened mine life of approximately two years and is based on restricted ore access due to pit wall instability.

The recoverable value of Aguablanca was calculated using a value-in-use model based on forecast commodity prices (Ni: $8.25/lb - $8.75/lb, Cu: $3.65/lb - $3.80/lb), reserves and resource quantities, operating costs, capital expenditures, reclamation and other closure costs, discount rate (14%) and foreign exchange rate (€/US = 1.32) and the resulting cash flow projections.

In comparing Aguablanca's recoverable amount to its carrying value, a $67.3 million impairment loss ($62.1 million after-tax) was measured. $39.2 million ($34.0 million after-tax) of this loss was recorded as an impairment of mineral properties, plant and equipment with the remaining $28.1 million reported as goodwill impairment during the fourth quarter of 2012.

Current and Deferred Taxes

Current tax expense	**Year ended December 31**		
($ thousands)	**2012**	2011	Change
Neves-Corvo	**38,240**	54,750	(16,510)
Zinkgruvan	**9,632**	6,345	3,287
Aguablanca	**-**	13,920	(13,920)
Other	**4,111**	2,826	1,285
	51,983	77,841	(25,858)

Current income tax expense for 2012 was $52.0 million, $25.8 million lower than the $77.8 million recorded in 2011. Aguablanca recorded a tax expense of €9.1 million ($12.5 million) in the prior year from a Spanish tax assessment for the deductibility of accelerated depreciation expense in fiscal years 2006 and 2007. In addition, the lower tax expense in the current year reflects lower operating earnings and tax credits applied by Neves-Corvo for government approved investments.

Deferred tax recovery	**Year ended December 31**		
($ thousands)	**2012**	2011	Change
Neves-Corvo	**(17,796)**	(17,252)	(544)
Zinkgruvan	**7,184**	9,270	(2,086)
Aguablanca	**(11,145)**	(13,101)	1,956
Other	**(6,776)**	(5,713)	(1,063)
	(28,533)	(26,796)	(1,737)

Deferred income tax recovery for 2012 was $28.5 million compared to $26.8 million in 2011, which reflects final tax return adjustments at both Neves-Corvo and Aguablanca and a decrease in the statutory tax rate in Sweden from 26.3% to 22% effective January 1, 2013 (impact of $3.0 million).

Fourth Quarter Financial Results

Sales

Sales of $176.5 million for the three months ended December 31, 2012 were $65.7 million lower than the comparable period in 2011 due to lower sales volume ($76.2 million), partially offset by the restart of the Aguablanca mine ($11.6 million).

Fourth Quarter Reconciliation of Realized Prices

2012		Three months ended December 31, 2012						
($ thousands, except per pound amounts)		**Copper**		**Zinc**		**Lead**	**Nickel**	**Total**
Current period sales[1]		110,858		54,279		24,980	8,644	198,761
Prior period provisional adjustments		(3,550)		(1,218)		(527)	(532)	(5,827)
Sales before other metals and TC/RC		107,308		53,061		24,453	8,112	192,934
Other metal sales								5,749
Less: TC/RC								(22,224)
Total Sales								**176,459**
Payable Metal (tonnes)		**13,962**		**27,359**		**10,886**	**508**	
Current period sales ($/lb)[1]	$	3.60	$	0.90	$	1.04	7.72	
Prior period provisional adjustments ($/lb)		(0.11)		(0.02)		(0.02)	(0.48)	
Realized prices ($/lb)	**$**	**3.49**	**$**	**0.88**	**$**	**1.02**	**7.24**	

2011		Three months ended December 31, 2011						
($ thousands, except per pound amounts)		**Copper**		**Zinc**		**Lead**	**Nickel**	**Total**
Current period sales[1]		203,712		35,901		17,094	-	256,707
Prior period provisional adjustments		5,538		(811)		94	11	4,832
Sales before other metals and TC/RC		209,250		35,090		17,188	11	261,539
Other metal sales								4,615
Less: TC/RC								(24,023)
Total Sales								**242,131**
Payable Metal (tonnes)		**26,704**		**19,044**		**8,675**	**-**	
Current period sales ($/lb)[1]	$	3.46	$	0.86	$	0.89	n/a	
Prior period provisional adjustments ($/lb)		0.10		(0.02)		0.01	n/a	
Realized prices ($/lb)	$	**3.56**	**$**	**0.84**	**$**	**0.90**	**n/a**	

1. Includes provisional price adjustments on current period sales.

Operating Earnings

For the three months ended December 31, 2012, operating earnings of $51.8 million were $72.5 million lower than the comparable period in 2011 primarily as a result of lower sales of copper and higher per unit production costs at Neves-Corvo.

Net (Loss) Earnings

Net loss for the quarter ended December 31, 2012 was $17.1 million compared to net earnings of $36.1 million in the comparable period ended December 31, 2011. The reduction in net earnings is largely a reflection of lower operating earnings and a higher after-tax impairment loss on Aguablanca's assets (2012: $62.1 million, 2011: $35.7 million).

Cash Flow from Operations

For the three months ended December 31, 2012, cash flow from operations was $49.4 million, compared to $113.9 million for the three months ended December 31, 2011. The decrease of $64.5 million in cash flow is largely the reflection of a comparative decrease in operating earnings ($72.5 million).

Cash Cost Overview

	Cash cost/lb (US dollars)		**Cash cost/lb (local currency)**	
	Three months ended December 31		**Three months ended December 31**	
	2012	2011	**2012**	2011
Neves-Corvo (Local in €)				
Gross cost	**2.69**	1.46	**2.07**	1.08
By-product[1]	**(0.52)**	(0.04)	**(0.40)**	(0.03)
Net Cost - cost/lb Cu	**2.17**	1.42	**1.67**	1.05
Zinkgruvan (Local in SEK)				
Gross cost	**0.87**	0.96	**5.79**	6.49
By-product[1]	**(0.75)**	(0.59)	**(4.99)**	(4.00)
Net Cost - cost/lb Zn	**0.12**	0.37	**0.80**	2.49
Aguablanca (Local in €)[2]				
Gross cost	**9.29**	n/a	**7.24**	n/a
By-product[1]	**(3.10)**	n/a	**(2.39)**	n/a
Net Cost - cost/lb Ni	**6.19**	n/a	**4.85**	n/a

1. By-product is after related TC/RC
2. Net costs were measured over the re-start and ramp-up of operations and are not representative of steady state operating conditions.

Mining Operations

Production Overview

	Total 2012	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Copper (tonnes)										
Neves-Corvo	**58,559**	11,988	14,012	15,950	16,609	74,109	26,866	15,070	13,475	18,698
Zinkgruvan	**3,059**	673	864	986	536	1,768	622	349	356	441
Aguablanca	**2,260**	1,563	697	-	-	-	-	-	-	-
	63,878	14,224	15,573	16,936	17,145	75,877	27,488	15,419	13,831	19,139
Zinc (tonnes)										
Neves-Corvo	**30,006**	9,533	5,834	7,619	7,020	4,227	382	1,874	1,020	951
Zinkgruvan	**83,209**	18,703	20,053	24,022	20,431	75,147	20,337	17,459	17,582	19,769
Galmoy[1]	**8,989**	925	2,565	331	5,168	32,071	6,334	9,458	8,802	7,477
	122,204	29,161	28,452	31,972	32,619	111,445	27,053	28,791	27,404	28,197
Lead (tonnes)										
Neves-Corvo	**87**	39	48	-	-	-	-	-	-	-
Zinkgruvan	**37,246**	8,198	8,953	9,747	10,348	32,339	7,621	7,368	7,829	9,521
Galmoy[1]	**1,131**	116	364	33	618	8,791	1,652	2,709	2,538	1,892
	38,464	8,353	9,365	9,780	10,966	41,130	9,273	10,077	10,367	11,413
Nickel (tonnes)										
Aguablanca	**2,398**	1,705	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 22)

Cash Cost Overview

	Cash cost/lb (US dollars)		Cash cost/lb (local currency)	
	Year ended December 31			
	2012	2011	**2012**	2011
Neves-Corvo (Local in €)				
Gross cost	**2.11**	1.83	**1.64**	1.32
By-product[1]	**(0.32)**	(0.07)	**(0.25)**	(0.05)
Net Cost - cost/lb Cu	**1.79**	1.76	**1.39**	1.27
Zinkgruvan (Local in SEK)				
Gross cost	**0.76**	0.93	**5.16**	6.02
By-product[1]	**(0.63)**	(0.63)	**(4.24)**	(4.05)
Net Cost - cost/lb Zn	**0.13**	0.30	**0.92**	1.97
Aguablanca (Local in €)[2]				
Gross cost	**10.04**	n/a	**7.89**	n/a
By-product[1]	**(3.28)**	n/a	**(2.55)**	n/a
Net Cost - cost/lb Ni	**6.76**	n/a	**5.34**	n/a

1. By-product is after related TC/RC
2. Net costs were measured over the re-start and ramp-up of operations and are not representative of steady state operating conditions.

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

Neves-Corvo Mine

Neves-Corvo is an underground mine, located 100 km north of Faro, Portugal, in the western part of the Iberian Pyrite Belt. The mine has been a significant producer of copper since 1989 and in 2006 commenced treating zinc ores. The facilities include a shaft with a total hoisting capacity of up to 4.5 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	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined, copper (000 tonnes)	**2,507**	648	577	638	644	3,126	899	750	769	708
Ore mined, zinc (000 tonnes)	**530**	178	107	132	113	86	-	9	34	43
Ore milled, copper (000 tonnes)	**2,512**	648	597	634	633	3,198	921	797	736	744
Ore milled, zinc (000 tonnes)	**543**	181	104	135	123	63	-	63	-	-
Grade per tonne										
Copper (%)	**2.6**	2.2	2.7	2.8	2.9	2.7	3.4	2.3	2.2	2.9
Zinc (%)	**7.3**	7.1	7.2	7.2	7.6	6.4	-	6.4	-	-
Recovery										
Copper (%)	**88.2**	85.6	86.0	90.0	91.1	84.5	84.7	83.3	83.3	85.9
Zinc (%)	**71.0**	70.5	78.2	78.5	74.6	46.3	-	46.3	-	-
Concentrate grade										
Copper (%)	**23.9**	23.6	24.2	23.9	24.0	24.4	24.3	24.5	24.2	24.5
Zinc (%)	**47.3**	47.0	46.6	48.1	47.3	47.6	-	47.6	-	-
Production (contained metal)										
Copper (tonnes)	**58,559**	11,988	14,012	15,950	16,609	74,109	26,866	15,070	13,475	18,698
Zinc (tonnes)	**30,006**	9,533	5,834	7,619	7,020	4,227	382	1,874	1,020	951
Lead (tonnes)	**87**	39	48	-	-	-	-	-	-	-
Silver (000 oz)	**961**	282	178	240	261	901	297	201	184	219
Sales ($000s)	**466,174**	108,349	92,640	112,274	152,911	558,044	193,768	84,678	123,036	156,562
Operating earnings ($000s)	**218,564**	33,705	45,602	52,467	86,790	299,053	118,759	21,029	59,817	99,448
Cash cost (€ per pound)	**1.39**	1.67	1.49	1.26	1.23	1.27	1.05	1.67	1.48	1.13
Cash cost ($ per pound)	**1.79**	2.17	1.87	1.61	1.63	1.76	1.42	2.35	2.13	1.55

Operating Earnings

Operating earnings of $218.6 million for the year ended December 31, 2012 were $80.5 million lower than 2011. The decrease is attributable to a change in the mix of sales, to less profitable zinc ($48.0 million), lower sales volume ($14.9 million), increase in unit costs ($17.3 million), and lower realized metal prices and price adjustments from prior period sales ($18.0 million) which more than offset the favourable exchange rates ($17.7 million).

Production

Copper production for 2012 was lower than the prior year by 15,550 tonnes (21%). Although metallurgical recoveries were higher in the current year, throughput and head grades were lower, resulting in lower copper production. A significant percentage of lower grade, but profitable, material was mined during the year benefiting the overall life of mine copper production profile, representing 42% of the total ore tonnes mined and 27% of the total copper produced being derived from mineralization outside the mineral reserve. In the fourth quarter, a lower proportion of ore mined was from higher grade bench and fill stopes, which resulted in lower overall copper head grade.

Ramp-up of the zinc plant continued in the fourth quarter of 2012. Annual zinc production, at 30,006 tonnes of metal in concentrate, represents a new zinc production record for the mine.

Cash Costs

Cash costs of $1.79/lb were higher than guidance ($1.70/lb) as a result of higher mining costs, lower than planned grades and a stronger Euro than forecast in the fourth quarter. Cash costs were slightly higher than the previous year's average of $1.76/lb mainly due to an increase in overall production costs ($0.44/lb) partially offset by favourable foreign exchange ($0.15/lb) and by-product credits ($0.26/lb).

Lombador Zinc/Copper Project and Semblana Copper Project

In 2012, a revised mine development strategy was prepared with an emphasis on achieving early copper production from Lombador Phase I by the third quarter of 2013. Construction of the first phase of the Lombador project remains on track, including a range of supporting surface infrastructure. Significant Lombador zinc production starts in 2013 and ramps up to constitute the majority of zinc plant feed in 2015.

Studies directed at the future mine areas of lower Lombador and the Semblana deposit continue to focus on further low cost options for access, mining, materials handling, and incremental process plant expansions. A range of opportunities are being examined on how these new areas can best be integrated into the existing operations for maximum value. In parallel, development of twin ramps continued from the adjacent Zambujal orebody down to Semblana, initially for the purpose of gaining access for underground exploration drill drives but with sufficient flexibility in their design to readily convert them into production ramps.

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	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined, zinc (000 tonnes)	**954**	251	189	251	263	1,029	228	257	256	288
Ore mined, copper (000 tonnes)	**157**	40	46	44	27	103	5	36	36	26
Ore milled, zinc (000 tonnes)	**998**	254	216	241	287	999	256	236	231	276
Ore milled, copper (000 tonnes)	**145**	29	48	49	19	110	38	22	21	29
Grade per tonne										
Zinc (%)	**9.1**	8.2	10.1	10.7	7.7	8.2	8.5	8.0	8.5	8.0
Lead (%)	**4.4**	3.8	4.7	4.8	4.3	4.0	3.7	3.7	4.1	4.2
Copper (%)	**2.3**	2.5	2.0	2.2	3.0	1.8	1.8	1.7	1.9	1.7
Recovery										
Zinc (%)	**91.7**	89.2	91.9	93.5	91.8	91.5	93.2	93.0	89.9	89.8
Lead (%)	**85.4**	84.8	88.0	85.3	83.8	81.9	79.7	83.3	82.5	82.4
Copper (%)	**91.8**	92.6	90.6	91.6	93.4	90.5	91.1	91.5	90.1	89.1
Concentrate grade										
Zinc (%)	**54.1**	54.5	54.6	54.5	53.0	52.6	52.4	53.0	52.7	52.4
Lead (%)	**74.7**	73.4	74.0	76.2	74.9	74.8	73.7	75.4	75.5	74.7
Copper (%)	**25.1**	24.7	24.3	25.9	25.7	25.2	25.6	24.3	24.4	26.2
Production- tonnes (contained metal)										
Zinc (tonnes)	**83,209**	18,703	20,053	24,022	20,431	75,147	20,337	17,459	17,582	19,769
Lead (tonnes)	**37,246**	8,198	8,953	9,747	10,348	32,339	7,621	7,368	7,829	9,521
Copper (tonnes)	**3,059**	673	864	986	536	1,768	622	349	356	441
Silver (000 oz)	**2,496**	560	621	673	642	1,691	390	379	414	508
Sales ($000s)	**209,621**	52,946	48,699	52,934	55,042	188,566	42,240	48,741	50,000	47,585
Operating earnings ($000s)	**116,143**	27,564	28,706	31,616	28,257	93,588	15,129	28,315	26,178	23,966
Cash cost (SEK per pound)	**0.92**	0.80	0.55	0.82	1.50	1.97	2.49	0.81	1.64	2.76
Cash cost ($ per pound)	**0.13**	0.12	0.08	0.12	0.22	0.30	0.37	0.13	0.26	0.42

Operating Earnings

Operating earnings of $116.1 million were $22.5 million higher than the $93.6 million reported in 2011. Higher sales volumes ($20.4 million), lower unit costs ($16.9 million) and foreign exchange gains ($3.8 million) more than compensated for the decrease in realized metal prices, net of prior period price adjustments ($18.6 million).

Production

Total throughput for the year was similar to that of the prior year, while significant improvements were made to the zinc concentrate grade. Zinc, lead and copper production were at an all-time high for the mine and exceeded 2011 production by 11%, 15% and 73%, respectively, due to higher ore grades and improved metallurgical recoveries.

Cash Costs

2012 cash costs of $0.13/lb have decreased $0.17/lb from the previous year ($0.30/lb) as a result of lower overall production costs, an increase in by-product copper and lead metal sales and higher zinc production. Lower production costs resulted from improved cost controls, the reduced use of contractors and lower electricity charges due to reduced rates and a milder winter.

Projects

A pre-feasibility study was initiated during the fourth quarter of 2012 to study replacement of the existing surface crushing and screening circuit with fully autogenous grinding for each of the copper and zinc ores. Concurrent with the study, tenders have been requested for supply of the new zinc mill which will be evaluated during the first quarter of 2013. The intent of the study is to better define concepts as well as operating and capital costs. The study is expected to be completed by the second quarter of 2013. The new circuit is expected to facilitate lower operating costs, increased system reliability, lower dust and noise emissions and increased throughput towards the achievement of processing 1.5 million tonnes per year combined zinc and copper ores.

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	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011[1]	Q3 2011[1]	Q2 2011[1]	Q1 2011
Ore mined (000s tonnes)	**755**	368	198	148	41	24	23	1	-	-
Ore milled (000s tonnes)	**577**	368	209	-	-	-	-	-	-	-
Grade per tonne										
Nickel (%)	**0.5**	0.5	0.4	-	-	-	-	-	-	-
Copper (%)	**0.4**	0.5	0.4	-	-	-	-	-	-	-
Recovery										
Nickel (%)	**81.3**	82.8	78.1	-	-	-	-	-	-	-
Copper (%)	**91.4**	92.9	87.7	-	-	-	-	-	-	-
Concentrate grade										
Nickel (%)	**6.8**	6.8	6.7	-	-	-	-	-	-	-
Copper (%)	**6.4**	6.3	6.8	-	-	-	-	-	-	-
Production (contained metal)										
Nickel (tonnes)	**2,398**	1,705	693	-	-	-	-	-	-	-
Copper (tonnes)	**2,260**	1,563	697	-	-	-	-	-	-	-
Sales ($000s)	**22,167**	11,582	10,585	-	-	(1,897)	-	(34)	71	(1,934)
Operating loss ($000s)	**(10,879)**	(3,163)	(2,988)	(2,505)	(2,223)	(16,717)	(4,642)	(1,873)	(2,756)	(7,446)
Cash cost (€ per pound)	**5.34**	4.85	5.94	-	-	-	-	-	-	-
Cash cost ($ per pound)	**6.76**	6.19	7.47	-	-	-	-	-	-	-

[1] 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.

Restart of Operations

Pre-stripping activities were accelerated in the year and a coarse ore stockpile of over 200,000 tonnes was built up which, along with ongoing mining, enabled an earlier than planned restart of concentrate production in August 2012. During the fourth quarter, processing operations reached annualized throughput rates equivalent of 1.5 million tonnes.

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

Monitoring and analysis of the mine’s south pit wall instability continued throughout the fourth quarter, while mining of ore and waste remained restricted to the north side of the open pit. A decision regarding the future configuration of the pit is anticipated during the second quarter of 2013. The production guidance for 2013 reflects a reduction in the mineable reserve to only those areas not affected by the instability and assumes no additional investment to attempt to recover reserves in the affected area.

Production

The early restart of processing operations resulted in the production of 2,398 tonnes of nickel and 2,260 tonnes of copper in bulk concentrate during the year. In the fourth quarter, the ramp-up of the processing plant continued with nickel and copper recovery levels and concentrate grades achieving pre-shutdown levels.

Operating Loss

Operating loss of $10.9 million for the year ended December 31, 2012, which includes a $9.1 million write down of concentrate inventory to net realizable value, was lower than 2011 due to significant waste removal costs incurred at the beginning of 2011. During December 2012, insurance proceeds of €6.0 million ($7.9 million) were received for claims made in relation to the December 2010 pit slope failure. The proceeds were recorded in "other income" in the statement of earnings and do not form part of the operating loss.

Galmoy Mine

The Galmoy underground zinc mine is located in south-central Ireland in County Kilkenny. Execution of the approved mine closure plan is currently underway. Milling ceased in May 2009 and the mill has been sold. Mining of remnant high grade ore continued until October 2012. All mined ore has been transported to an adjacent mine and stockpiled for treatment during 2013. Production tonnage is based on a 50% attributable-share to Lundin Mining.

Operating Statistics

	Total 2012	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined (000 tonnes)	**142**	15	43	5	79	302	77	79	77	69
Ore sold (000 tonnes)	**188**	19	61	69	39	193	47	50	54	42
Grade per tonne										
Zinc (%)	**14.0**	13.9	13.1	14.8	14.3	22.6	20.1	24.8	22.5	23.4
Lead (%)	**2.4**	2.5	2.6	2.2	2.4	7.5	5.7	8.9	8.2	7.4
Production (contained metal)										
Zinc (tonnes)	**8,989**	925	2,565	331	5,168	32,071	6,334	9,458	8,802	7,477
Lead (tonnes)	**1,131**	116	364	33	618	8,791	1,652	2,709	2,538	1,892
Sales ($000s)	**23,144**	3,582	7,663	7,057	4,842	39,073	6,122	12,845	10,862	9,244
Operating earnings ($000s)	**15,022**	1,914	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 $15.0 million in the year ended December 31, 2012, lower than the $26.5 million reported in 2011. Sales and operating earnings in the current year were negatively impacted by planned lower grade ore and higher mining and site costs when compared to the prior year.

An amount of $12.1 million is reported as deferred revenue as at December 31, 2012, representing cash received for ore delivered but not yet processed. As at December 31, 2012, approximately 130,000 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). Mining of remnant high grade ore was fully completed in October 2012 and all ore has now been transported to a neighboring mine for processing during 2013. Execution of the approved mine closure plan is currently underway.

Closure Costs

$1.8 million was incurred during the year for mine closure and rehabilitation work. This included expenditures on land/tailing rehabilitation, mine flooding/sealing and replacement water supply activities.

Tenke Fungurume

Tenke Fungurume ("Tenke") is a copper-cobalt mine located in the southern part of Katanga Province, Democratic Republic of Congo ("DRC"). Lundin Mining holds a 24% equity interest in the mine. Freeport is the operating partner and holds a 56% interest in the mine. La Générale des Carrières et des Mines ("Gécamines"), the Congolese state mining company, holds a 20% carried interest in the mine. On completion of the Phase II expansion, the mine will have nameplate annual production capacity of 195,000 tonnes of copper cathode and 15,000 tonnes of cobalt hydroxide.

Operating Statistics

100% Basis	**Total 2012**	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Total 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Ore mined (000 tonnes)	**12,806**	3,909	3,170	2,641	3,086	9,995	2,418	2,720	2,692	2,165
Ore milled (000 tonnes)	**4,748**	1,222	1,248	1,172	1,106	4,046	1,092	1,104	881	969
Grade per tonne										
Copper (%)	**3.6**	3.8	3.6	3.5	3.6	3.4	3.4	3.2	3.7	3.4
Recovery										
Copper (%)	**92.4**	94.8	92.9	90.6	91.2	92.5	93.8	91.4	92.9	91.7
Production (contained metal)										
Copper (tonnes)	**157,671**	44,130	41,446	35,965	36,130	127,367	34,891	32,249	29,891	30,336
Cobalt (tonnes)	**11,669**	2,718	3,356	2,868	2,727	11,182	2,854	2,759	2,776	2,793
Income from equity investment ($000s) [1]	**101,516**	25,785	25,060	25,111	25,560	94,681	20,561	17,233	32,022	24,865
Attributable share of operating cash flows ($000s)	**145,899**	39,156	26,069	49,652	31,022	149,392	37,986	21,397	51,834	38,175
Cash cost ($ per pound) [2]	**1.23**	1.24	1.23	1.22	1.25	1.07	1.30	1.12	0.94	0.86

[1] 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.

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

Income from Equity Investment

Income of $101.5 million was $6.8 million higher than the prior year. Higher copper sales volumes were partially offset by higher costs and lower average realized price on both copper and cobalt sales. Volume of copper cathode sold during the year, on a 100% basis, was 152,355 tonnes compared to 128,284 tonnes in the prior year.

The average price realized for copper sales during the year was $3.51/lb, compared to $3.74/lb in 2011. The average realized price for cobalt sold during 2012 was $7.83/lb (2011: $9.99/lb).

Production

Tenke achieved record mining, milling and copper production rates during the year principally related to the ramp-up of the Phase II expansion. Milling facilities continue to perform well with throughput averaging approximately 13,000 metric tonnes of ore per day for the year. 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 195,000 tonnes per year.

Freeport is expecting annual sales volumes to be approximately 186,000 tonnes of copper and 13,600 tonnes of cobalt in 2013.

Cash Costs

Average cash operating costs, including the cobalt by-product credit, of $1.23/lb of copper for the year was higher than guidance, largely as a result of lower realized cobalt prices. Freeport projects 2013 cash costs to be lower at $1.03/lb.

Phase II Expansion

The Phase II expansion is substantially complete and within budget.

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. The addition of a second sulphuric acid plant is expected to be completed in 2015.

Tenke Funding

The Company funded a $15.0 million cash call during the year (2011: $64.5 million) to cover sustaining capital, on-going concession exploration and expansion initiatives not already funded by surplus cash flows from operations.

Lundin Mining's share of attributable operating cash flow from Tenke for the year was $145.9 million (2011: $149.4 million).

Lundin Mining's share of 2013 capital investment for Tenke has been assumed, for internal planning purposes, to be $115 million to fund remaining Phase II expansion costs, exploration drilling, Phase III and Phase IV testwork and studies, a tailings dam expansion and other sustaining capital items. It is expected that the Company's share of operating cash flows from Tenke will be substantially more than sufficient to fund these capital and non-capital requirements and the Company estimates net cash distributions could be in the range of $130 million in 2013. Final decisions on capital investment levels and the amounts and timing of any cash distributions for 2013 are ultimately made by Freeport, the mine's operator.

Exploration

Portugal

Neves-Corvo Mine Exploration (Copper, Zinc)
The 2012 surface exploration program included a total of 94,439 metres of drilling. At Semblana, an update on the Inferred Mineral Resource was reported in June 2012 in accordance with the definitions in the Canadian National Instrument 43-101. The update included a new zone of high grade copper sulphides discovered approximately 300 metres to the south of the initial resource block, which was not included in the initial resource. Drilling around this new discovery, as well as progressively testing other high priority targets, continued throughout 2012.

The 2012 program also included drill-testing of high priority seismic reflectors and step-out drilling of the resource-grade copper mineralization discovered at Monte Branco just west of the tailings management facility; drilling of these targets will continue during 2013. Additional drilling in 2013 will work towards defining the limits and grade distribution of the Semblana deposit, especially to the west and south, and will focus on delineating a silver-rich polymetallic resource that appears to extend beyond the limits of the currently known copper resource.

Iberian Pyrite Belt Regional Exploration (Copper, Zinc)
Target definition work was undertaken in 2012, focusing on priority areas up to 8 km along strike to the northwest of the Neves-Corvo mine. A total of 2,318 metres was drilled in 2012 to test three of four new targets identified with seismic surveys and mapping. The 2013 program will focus on additional target generation and testing in this area.

Spain
The Company optioned the Touro copper project in northern Spain and a significant drill, testwork and study program advanced through to the third quarter of 2012 on this project. While resource increase targets were achieved, preliminary economic assessments indicated that investment hurdle rates were unlikely to be achieved and the option rights to the property were dropped.

Ireland

Clare Project (Copper, Zinc, Lead, Silver)
The focus of the Clare Project is the development of copper-zinc-lead-silver resources at the Kilbricken Deposit, first discovered in 2009 by Belmore Resources (subsequently acquired by the Company in 2011). The 2012 drill program had two objectives. The first was to increase the size of the known deposit with step-out drilling from the two main zones. The second objective was to investigate the Kilbricken Corridor for further high grade zones. The Kilbricken Corridor is a broadly east-west oriented zone, measuring approximately 10 km by 2.5 km.

The high grade Copper Zone, located approximately 700 metres west of the Discovery Zone, was expanded to the west and south and remains open. Drilling to the south of the Discovery Zone intercepted new zinc-lead-silver mineralization over a strike length of 500 metres. That area remains open to the south, southeast and southwest. A total of 18,100 metres in 28 holes was drilled in the Kilbricken Deposit area in 2012.

A set of seven widely spaced 2D seismic lines was completed to provide structural control for future drill targeting in the Kilbricken Corridor. An airborne magnetic survey was also completed, covering the northern half of the Clare property. Results indicate that the structures controlling mineralization at Kilbricken are continuous for more than 10 km to the east of Kilbricken. The corridor remains highly prospective for

discovering additional copper-zinc-lead-silver resources. A total of 9,800 metres in 19 holes was drilled in the Kilbricken Corridor, outside of the immediate Kilbricken Deposit area, in 2012.

Drilling in 2013 will continue to focus on expanding the current limits of the Discovery and Copper Zones, as well as exploring for additional new zones of high grade copper-zinc-lead-silver mineralization in the vicinity of the Kilbricken Deposit and within the Kilbricken Corridor.

Lakelands Project (Zinc, Lead)

A total of 10,100 metres in 24 holes was drilled at the Reynolds Hill Prospect in Co. Leitrim, in northwest Ireland, to follow-up a zinc-lead mineralised intercept drilled in late 2011. A broad area of disseminated zinc-lead sulphides was discovered but no potentially economic intersections were made. The mineralization is associated with a significant structural feature, more than 15 km long, interpreted from geophysical surveys carried out by the Company and previous operators. The future program will concentrate on defining further drill targets on this structure as well as elsewhere within the property.

***Chile* (Copper, Gold)**

In 2012, Lundin Mining completed an earn-in agreement with Southern Hemisphere Mining on the Llahuin copper-gold-molybdenum project located only 56 km from the coast and 40 km north of the city of Illapel in Chile's Region IV. The Company will continue to focus on Chile in developing additional copper-gold targets in 2013.

***Romania* (Copper, Gold)**

Under an option agreement with a private Romanian company, the Company funded a small exploration program at a greenfield copper-gold porphyry prospect ("Rozalia"), located in an underexplored region of western Romania. This region hosts the same metalliferous belt of rocks as seen further to the south, in Serbia, at the large Bor and Majdanpek copper-gold deposits. The Company has the right to acquire a 100% interest in the project and will recommence exploration on Rozalia late in the second quarter of 2013.

Metal Prices, LME Inventories and Smelter Treatment and Refining Charges

The average metal prices for 2012 were lower than the average prices for 2011. During the first eight months of the year, the metals market continued to be weak based on continued concerns about the Eurozone and a slowdown of Chinese growth. In September, China announced a program for spending on infrastructure which, together with announcements from the European Central Bank on an ease in borrowing costs for indebted countries and from the United States on a third round of quantitative easing, helped to boost metal prices. During the fourth quarter the markets traded sideways, initially because of a US election and a leadership change in China and subsequently because of weak economic data out of Europe and concerns about the US fiscal cliff. However, copper, zinc and lead prices all ended the year higher than the end of 2011, while the price of nickel closed lower than the previous year.

		Three months ended December 31			**Twelve months ended December 31**		
(Average LME Price)		**2012**	2011	Change	**2012**	2011	Change
Copper	US$/pound	3.59	3.40	6%	3.61	4.00	-10%
	US$/tonne	7,909	7,489		7,950	8,811	
Zinc	US$/pound	0.88	0.86	3%	0.88	0.99	-11%
	US$/tonne	1,947	1,897		1,946	2,191	
Lead	US$/pound	1.00	0.90	11%	0.93	1.09	-14%
	US$/tonne	2,199	1,983		2,061	2,398	
Nickel	US$/pound	7.70	8.30	-7%	7.95	10.36	-23%
	US$/tonne	16,967	18,303		17,526	22,831	

The LME inventory for zinc and nickel continued to increase during 2012 and ended the year 49% and 55%, respectively, higher than the closing levels of 2011. The LME inventory for copper and lead decreased during 2012 and ended the year 14% and 9%, respectively, lower than the closing levels of 2011.

Treatment charges (“TC”) and refining charges (“RC”) in the spot market for copper concentrates decreased in the first five months of 2012. In January 2012, the spot TC was $26 per dmt of concentrate and the spot RC was $0.026 per lb of payable copper, in May the spot TC had decreased to $23 per dmt with a spot RC of $0.023 per lb of payable copper. In June, the spot market turned as a result of reduced demand for imported concentrates in China as well as more tonnage of copper concentrates becoming available from the ramp-up of new mines. In August 2012, the spot TC reached $45 per dmt with a RC of $0.045 per lb payable copper and by December the spot market was trading at a TC of $62 per dmt of concentrates with a RC of $0.062 per lb payable copper. In the annual negotiations for copper TC and RC for 2012, the benchmark TC was agreed at $60-63.5 per dmt of concentrates with a RC of $0.06-0.0635 per lb payable copper. In January 2013, the benchmark terms for the year were set at a TC of $70 per dmt of concentrates and a RC of $0.07 per lb of payable copper, a slight increase over terms for 2012.

The spot TC for zinc concentrates increased during 2012 from $55 per dmt of concentrate, flat, in January to $125 per dmt of concentrate, flat, in December. The main reason behind the increase in the spot TC was due to an increase in Chinese domestic mine production of zinc concentrates, reduced demand and high inventories. The TC for annual contracts for 2012 was settled at $191 per dmt based on a zinc price of $2,000 per mt and with escalators of 2%-5% and de-escalators of 2%. The annual negotiations for TC under long term contracts between miners and smelters for 2013 have started, but are not yet finalized.

Although China increased its imports of lead concentrates during 2012 compared to 2011, the spot TC remained relatively stable. The average spot TC for 2012 was $110 per dmt of concentrate, flat, to be compared with $120

per dmt of concentrate, flat, in 2011. However, during the period April to July the spot TC dropped to $70-$90 per dmt of concentrate, flat, as a function of the arbitrage between the lead price of the LME and of the Shanghai Futures Exchange being in favour of imported lead concentrates. The spot TC for lead concentrates at the end of 2012 was $130 per dmt of concentrate, flat. Lead concentrates are less of a homogenous product than copper and zinc concentrates and there is no single benchmark TC. The qualities differ in the content of lead, precious metals and impurities and each quality is priced accordingly. In December 2012 the Company concluded terms for the majority of its long term contracts for Zinkgruvan lead concentrates with 2013 TC approximately 20% lower than 2012.

The Company's nickel concentrates are sold under a long-term contract at market terms. The contract provides for regular monthly delivery and pricing of the concentrates which ensure that nickel realizations correlate more closely with LME averages over the year. Production at Aguablanca resumed in August 2012 after having been stopped since December 2010 due to damages caused by torrential rainfall. During the second half of 2012 the company made two shipments of Aguablanca nickel concentrates.

Liquidity and Financial Condition

Cash Reserves

Cash and cash equivalents increased by $9.7 million to $275.1 million as at December 31, 2012, from $265.4 million at December 31, 2011. Cash inflows for the year ended December 31, 2012 included operating cash flows of $194.0 million. Use of cash was primarily directed towards investments in mineral properties, plant and equipment ($159.4 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 $315.7 million as at December 31, 2012 was relatively unchanged from the $306.6 million reported for December 31, 2011. The increase of $9.1 million reflects a higher balance of cash and inventories, partially offset by lower trade receivables.

Revolving Credit Facility

The Company has a $350 million revolving credit facility which expires in December 2015. No advances are currently outstanding under the credit facility other than a letter of credit in the amount of SEK80 million ($12.3 million).

Shareholders' Equity

Shareholders' equity was $3,475.2 million at December 31, 2012, compared to $3,297.9 million at December 31, 2011. Shareholders' equity increased primarily as a result of net earnings of $123.2 million and translation adjustments of $37.1 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 December 31, 2012 ($US/tonne)	Change	Effect on pre-tax earnings ($millions)
Copper	7,932	+/-10%	+/-$9.4
Zinc	2,028	+/-10%	+/-$3.2
Lead	2,318	+/-10%	+/-$1.8
Nickel	17,032	+/-10%	+/-$1.2

Contractual Obligations and Commitments

	Payments due by period				
US$ thousands	<1 years	1-3 years	4-5 years	> 5 years	Total
Long-term debt	1,083	1,320	1,244	-	3,647
Finance leases	1,954	3,398	733	290	6,375
Reclamation and closure provisions[1]	7,032	19,722	29,196	52,367	108,317
Capital commitments	34,394	2,740	-	-	37,134
Operating leases and other	7,066	7,619	949	319	15,953
	51,529	34,799	32,122	52,976	171,426

[1.] Reclamation and closure provisions are reported on an undiscounted basis and before inflation.

Financial Instruments

Summary of financial instruments:

	Fair value at December 31, 2012 ($000s)	Basis of measurement	Associated risks
Cash and cash equivalents	275,104	Carrying value	Interest/Credit/Exchange
Trade and other receivables	14,484	Carrying value	Credit/Market/Exchange
Other assets	1,478	Carrying value	Credit/Market/Exchange
Reclamation funds	34,838	Carrying value	Interest/Credit
Trade receivables	76,237	Fair value through profit and loss	Credit/Market/Exchange
Marketable securities and reclamation funds	31,392	Fair value through profit and loss	Market/Liquidity
Marketable securities	19,717	Fair value through OCI	Market/Liquidity
Trade and other payables	94,768	Amortized cost	Interest
Long-term debt and finance leases	10,022	Amortized cost	Interest
Other long-term liabilities	3,625	Amortized cost	Interest

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

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

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

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

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

During the year ended December 31, 2012, the Company recognized; additional sales of $5.5 million (2011: reduction in sales of $1.0 million) on final settlement of provisionally priced transactions from the prior year, a revaluation loss on FVPTL securities of $2.3 million (2011: $3.9 million) and a revaluation gain on AFS securities of $4.0 million (2011: nil). In addition, a foreign exchange loss of $5.1 million (2011: $8.2 million gain) was realized in the year on US$-denominated cash and trade receivables that were held in the European group entities.

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 year ended December 31, 2012, the Company advanced $15.0 million to fund its portion of Tenke expenditures. In addition, the Company provides certain letters of credit and guarantees for $1.7 million worth of contracts entered into by Tenke. These letters of credit expire in 2013.

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:

		2012		2011
Wages and salaries	**$**	**6,036**	$	5,992
Pension benefits		**109**		146
Share-based compensation		**2,662**		523
	$	**8,807**	$	6,661

During the year ended December 31, 2012, the Company paid $0.3 million for services provided by a company owned by the Chairman of the Company. The Company also paid $0.5 million for the year ended December 31, 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.

Changes in Accounting Policies

New Accounting Pronouncements

The Company is currently evaluating the impact of the following pronouncements:

- IFRS 7 *Financial instruments – disclosures were* further amended to provide guidelines on the eligibility criteria for offsetting assets and liabilities as a single net amount in the balance sheets. This amendment is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IFRS 10 *Consolidated financial statements* requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—special purpose entities* and parts of IAS 27 *Consolidated and separate financial statements*. This standard is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IFRS 11 *Joint arrangements* requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities—non-monetary contributions by venturers*. This standard is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IFRS 12 *Disclosure of interests in other entities* establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IFRS 13 *Fair value measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IAS 1 *Presentation of financial statements,* was amended to require entities to group items within other comprehensive income that may be reclassified to the statement of earnings. This standard

is effective for annual periods beginning on or after July 1, 2012 and is not expected to have a significant impact on the Company.

- IAS 19 *Post-employment benefits*, was amended to eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans. This amendment is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IAS 28 *Investments in associates,* was amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. This amendment is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IAS 32 *Financial instruments: presentation* was amended to address inconsistencies in current practice when applying the offsetting criteria in IAS 32. Under this amendment, the meaning of "currently has a legally enforceable right of set-off" was clarified as well as providing clarification that some gross settlement systems may be considered equivalent to net settlement. This amendment is effective for annual periods beginning on or after January 1, 2014 and is not expected to have a significant impact on the Company.

- IFRS 9 *Financial instruments*, addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial instruments – Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in the statement of earnings to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

  Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39 except that fair value change due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2015. The Company is still assessing the impact of this standard.

Critical Accounting Estimates and Assumptions

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. These estimates and assumptions are based on management's best knowledge of the relevant facts and circumstances taking into account previous experience, but actual results may differ materially from the amounts included in the financial statements.

Areas where critical accounting estimates and assumptions have the most significant effect on the amounts recognized in the consolidated financial statements include:

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

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

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

Valuation of mineral properties and exploration properties
The Company carries its mineral properties at cost less any provision for impairment. The Company expenses exploration costs, which are related to specific projects, until the commercial feasibility of the project is determinable. The costs of each property and related capitalized development expenditures are depleted over the economic life of the property on a units-of-production basis. Costs are charged to the statement of earnings when a property is abandoned or when there is a recognized impairment in value.

The Company undertakes a review of the carrying values of mining properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable. In undertaking this review, management of the Company is required to make significant estimates of, amongst other things, future production and sale volumes, metal prices, foreign exchange rates, reserves and resource quantities, future operating and capital costs and reclamation costs to the end of the mine's life. These

estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mining properties and related expenditures.

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

Valuation of investment in Tenke Fungurume

The Company carries its investment at cost and adjusts for its share of earnings of the investee. The Company reviews the carrying value of the investment whenever events or changes in circumstances indicate that impairment may be present. In undertaking this review, the Company makes reference to future operating results and cash flows. This requires making significant estimates of, amongst other things, reserves and resources quantities, future production and sale volumes, metal prices, future operating and capital costs to the end of the mine's life. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the investment.

Goodwill

The amount by which the purchase price of a business acquisition exceeds the fair value of identifiable assets and liabilities acquired is recorded as goodwill. Goodwill is allocated to the CGUs acquired based on the assessment of which CGU would be expected to benefit from the synergies of the acquisition. Estimates of recoverable value may be impacted by changes in metal prices, foreign exchange rates, discount rates, level of capital expenditures, operating costs and other factors that may be different from those used in determining fair value. Changes in estimates could have a material impact on the carrying value of the goodwill.

For CGUs that have recorded goodwill, the estimated recoverable amount of the unit is compared to its carrying value at least once each year, or when circumstances indicate that the value may have become impaired.

Reclamation and other closure provisions

The Company has obligations for reclamation and other closure activities related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of closure provisions. The reclamation and other closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording reclamation and other closure provisions is to establish provisions for future mine closure costs based on the present value of the future cash flows required to satisfy the obligations. This provision is updated as the estimate for future closure costs change. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to finance costs.

Pension obligations
The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The principal assumptions used in determining the net cost for pensions include the discount rate and the rate of salary increase. Any changes in these assumptions will impact the carrying amount of pension obligations.

Share-based compensation
The Company grants stock options to employees under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. Option pricing models require the input of highly subjective assumptions including expected volatility and life. Changes in the input assumptions can materially affect the fair value estimate. Assumption details are discussed in the notes to the financial statements.

Critical Accounting Judgments

Management exercises judgment in applying the Company's accounting policies. These judgments are based on management's best estimate. Areas where critical judgments have the most significant effect on the consolidated financial statements include:

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

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is "probable" that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Managing Risks

Risks and Uncertainties

Metal Prices

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

If the market prices for metals fall below the Company's full production costs and remain at such levels for any sustained period of time, the Company may experience losses and may determine to discontinue mining operations or development of a project at one or more of its properties. If the prices drop significantly, the economic prospects of the mines and projects in which the Company has an interest could be significantly reduced or rendered uneconomic. Low metal prices will affect the Company's liquidity, and if they persist for an extended period of time, the Company may have to look for other sources of cash flow to maintain liquidity until metal prices recover. The Company does not currently hedge metal prices.

Foreign Exchange Risk

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

Credit Risk

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

Derivative Instruments

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

Reclamation Funds and Mine Closure Costs

As at December 31, 2012, the Company had $51.6 million in a number of reclamation funds that will be used to fund future site reclamation and mine closure costs at the Company's various mine sites. The Company will continue to contribute to these funds as required, based on an estimate of the future site reclamation and mine closure costs as detailed in the closure plans. Changes in environmental laws and regulations can create uncertainty with regards to future reclamation costs and affect the funding requirements.

The Company has received regulatory approval for closure at its Galmoy mine and closure activities are ongoing. From time to time Galmoy may need to seek regulatory approval for amendments to its mine closure plan for necessary changes. Mining activity at Galmoy ceased in the fourth quarter of 2012 and all remnant high grade ore has been transported to an adjacent mine where it will be treated during 2013.

Rehabilitation programs at the Storliden mine were completed in 2012. The site remains subject to an ongoing monitoring program until 2020. The Company also has ongoing long-term monitoring programs in place associated with legacy mining operations previously carried on in Honduras under the ownership of a subsidiary of Rio Narcea Gold Mines Ltd., which was acquired by the Company in 2007.

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

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

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

Competition

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

Foreign Countries and Regulatory Requirements

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

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

There can be no assurance that industries which are deemed of national or strategic importance in countries in which the Company has operations or assets, including mineral exploration, production and development, will not be nationalized. Risk exists that further government limitations, restrictions or requirements, not presently foreseen, will be implemented. Changes in policy that alter laws regulating the mining industry could have a material adverse effect on the Company. There can be no assurance that the Company's assets in these countries will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by an authority or body.

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

Mining and Processing

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

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

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

Mine Development Risks

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

ownership requirements and other factors. Some of the Company's development projects are also subject to the successful completion of final feasibility studies, issuance of necessary permits and other governmental approvals and receipt of adequate financing. Although the Company's feasibility studies are generally completed with the Company's knowledge of the operating history of similar ore bodies in the region, the actual operating results of its development projects may differ materially from those anticipated, and uncertainties related to operations are even greater in the case of green field development projects. Actual capital costs may be greater than those estimated, driven by factors unknown at the time of the estimate or factors beyond the control of the Company.

Environmental and Other Regulatory Requirements

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

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

Mineral Resource and Reserve Estimates

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

and Mineral Reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades or types, may adversely affect the Company's profitability in any particular accounting period.

Estimation of Asset Carrying Values

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

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

Funding Requirements and Economic Volatility

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

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

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

Uninsurable Risks

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

No Assurance of Titles or Boundaries

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

Partner in the Tenke Fungurume Project

The Company's partner in the Tenke Fungurume copper/cobalt project is Freeport. There may be risks associated with this partner of which the Company is not aware.

Tax

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

Employee Relations

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

Infrastructure

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

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

Acquisition and Integration

The strategic acquisition of a mining Company, property or asset may change the scale of the Company's business and operation, exposing the Company to new geographic, political, operational and financial risks, many of which are inherent in our existing operations (as identified above). In addition, the Company may discover it has acquired a substantial undisclosed liability with little recourse against the seller. Such liabilities could have an adverse impact on the Company's business, financial condition, results of operations and cash flows. The Company's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, complete effective due diligence activities, negotiate acceptable terms and integrate the acquired operations efficiently into the Company.

Key Personnel

The Company has strengthened its human resources in key areas throughout the organisation, but is crucial that it further motivates, retains and attracts highly skilled employees. There can be no assurance that the Company will successfully retain current key personnel or attract additional qualified personnel to manage our current or future needs. The Company does not have key person insurance on these individuals.

Outstanding Share Data

As at February 21, 2013, the Company had 584,206,673 common shares issued and outstanding and 10,032,422 stock options outstanding under its incentive stock option plans.

Non-GAAP Performance Measures

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

- **Operating earnings**

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

- **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 December 31, 2012				Three months ended December 31, 2011			
	Total Tonnes Sold	Pounds (000s)	Cash Cost $/lb	Operating Costs ($000s)	Total Tonnes Sold	Pounds (000s)	Cash Cost $/lb	Operating Costs ($000s)
Operation								
Neves-Corvo (Cu)	13,024	28,713	2.17	62,307	26,026	57,377	1.42	81,475
Zinkgruvan (Zn)	16,588	36,570	0.12	4,388	15,981	35,232	0.37	13,036
Aguablanca (Ni) [1]	508	1,120	6.19	6,933	-	-	-	3,481
Galmoy (Zn) [2]	-	-	-	373	-	-	-	4,687
				74,001				102,679
Add: By-product credits				47,475				24,509
Treatment costs				(13,825)				(21,426)
Royalties and other				9,654				6,502
Total Operating Costs				**117,305**				**112,264**

	Twelve months ended December 31, 2012				Twelve months ended December 31, 2011			
	Total Tonnes Sold	Pounds (000s)	Cash Cost $/lb	Operating Costs ($000s)	Total Tonnes Sold	Pounds (000s)	Cash Cost $/lb	Operating Costs ($000s)
Operation								
Neves-Corvo (Cu)	56,497	124,555	1.79	222,953	69,974	154,266	1.76	271,508
Zinkgruvan (Zn)	71,809	158,312	0.13	20,581	61,661	135,939	0.30	40,782
Aguablanca (Ni) [1,3]	915	2,017	6.76	17,405	-	-	-	14,848
Galmoy (Zn) [2]	-	-	-	6,580	-	-	-	8,360
				267,519				335,498
Add: By-product credits				151,927				105,467
Treatment costs				(61,820)				(72,000)
Royalties and other				27,371				13,055
Total Operating Costs				**384,997**				**382,020**

[1] Pit-slope failure caused suspension of operations in December 2010.
[2] Operating costs for Galmoy include shipment and processing of ore by an adjacent mine.
[3] Pre-production costs are not reflected in Aguablanca's 2012 cash cost per pound.

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 and has evaluated the effectiveness of the Company's disclosure controls and procedures and has concluded that they were effective as at December 31, 2012.

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. Management conducted an evaluation of the effectiveness of internal control over financial reporting and concluded that it was effective as at December 31, 2012.

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 December 31, 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.

Other Supplementary Information

1. *List of directors and officers at February 21, 2013:*

(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 Harrs, *Senior Vice President, Corporate Development*
Paul M. McRae, *Senior Vice President, Projects*
Neil P. M. O'Brien, *Senior Vice President, Exploration and New Business Development*
Stephen T. Gatley, *Vice President, Technical Services*
Susan J. Boxall, *Vice President, Human Resources*
Jinhee Magie, *Vice President, Finance*
J. Mikael Schauman, *Vice President, Marketing*
James A. Ingram, *Corporate Secretary*

2. Financial Information

The report for the first quarter of 2013 is expected to be published on April 24, 2013.

3. Other information

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Canada
Telephone: +1-416-342-5560
Fax: +1-416-348-0303
Website: www.lundinmining.com

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

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

For further information, please contact:

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Consolidated Financial Statements of

Lundin Mining Corporation

December 31, 2012

Management's Report

The accompanying consolidated financial statements of Lundin Mining Corporation (the "Company") and other information contained in the management's discussion and analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as outlined in Part 1 of the Handbook of Canadian Institute of Chartered Accountants, and include some amounts that are based on management's estimates and judgment.

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

(Signed) Paul K. Conibear	*(Signed) Marie Inkster*
President and Chief Executive Officer	Senior Vice President and Chief Financial Officer

Toronto, Ontario, Canada
February 21, 2013

Independent Auditor's Report

To the Shareholders of
Lundin Mining Corporation

We have audited the accompanying consolidated financial statements of Lundin Mining Corporation, which comprise the consolidated balance sheets as at December 31, 2012 and 2011 and the consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for the years then ended December 31, 2012 and 2011 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lundin Mining Corporation as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario, Canada
February 21, 2013

LUNDIN MINING CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands of US dollars)		**December 31, 2012**		December 31, 2011
ASSETS				
Current				
Cash and cash equivalents (Note 3)	**$**	**275,104**	$	265,400
Trade and other receivables (Note 4)		**110,808**		120,066
Income taxes receivable		**6,494**		6,869
Inventories (Note 5)		**48,740**		41,203
		441,146		433,538
Non-Current				
Reclamation funds		**51,617**		54,392
Marketable securities and other assets (Note 6)		**39,052**		19,515
Mineral properties, plant and equipment (Note 7)		**1,270,813**		1,242,126
Investment in Tenke Fungurume (Note 8)		**2,003,053**		1,886,537
Deferred tax assets (Note 9)		**18,893**		37,848
Goodwill (Note 10)		**165,877**		190,369
		3,549,305		3,430,787
	$	**3,990,451**	$	3,864,325
LIABILITIES				
Current				
Trade and other payables (Note 11)	**$**	**119,714**	$	121,733
Income taxes payable		**5,726**		5,211
Current portion of deferred revenue (Note 12)		**17,683**		12,523
Current portion of long-term debt and finance leases (Note 13)		**3,037**		21,740
Current portion of reclamation and other closure provisions (Note 14)		**6,486**		6,581
		152,646		167,788
Non-Current				
Deferred revenue (Note 12)		**59,979**		68,514
Long-term debt and finance leases (Note 13)		**6,985**		7,606
Reclamation and other closure provisions (Note 14)		**124,244**		103,046
Other long-term liabilities (Note 15)		**3,625**		5,745
Provision for pension obligations (Note 16)		**19,131**		18,525
Deferred tax liabilities (Note 9)		**148,677**		195,245
		362,641		398,681
		515,287		566,469
SHAREHOLDERS' EQUITY				
Share capital (Note 17)		**3,505,398**		3,497,006
Contributed surplus		**34,140**		29,450
Accumulated other comprehensive loss		**(75,128)**		(116,174)
Retained earnings (deficit)		**10,754**		(112,426)
		3,475,164		3,297,856
	$	**3,990,451**	$	3,864,325

Commitments and contingencies (Note 22)

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

APPROVED BY THE BOARD

(Signed) Lukas H. Lundin
Director

(Signed) Dale C. Peniuk
Director

LUNDIN MINING CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
For the years ended December 31, 2012 and 2011
(in thousands of US dollars, except for shares and per share amounts)

		2012		2011
Sales	$	721,106	$	783,786
Operating costs (Note 18)		(384,997)		(382,020)
Depreciation, depletion and amortization (Note 7)		(122,379)		(153,796)
General and administrative expenses		(27,445)		(19,881)
General exploration and business development (Note 19)		(66,064)		(50,702)
Income from equity investment in Tenke Fungurume (Note 8)		101,516		94,681
Finance income (Note 20)		2,983		3,602
Finance costs (Note 20)		(10,441)		(16,741)
Other income (Note 21)		9,311		16,845
Other expenses (Note 21)		(9,708)		(5,238)
Asset impairment (Note 7, 10)		(67,252)		(35,726)
Earnings before income taxes		146,630		234,810
Current tax expense (Note 9)		(51,983)		(77,841)
Deferred tax recovery (Note 9)		28,533		26,796
Net earnings	$	123,180	$	183,765

Basic and diluted earnings per share	$	0.21	$	0.32
Weighted average number of shares outstanding (Note 17c)				
Basic		582,942,459		582,074,865
Diluted		584,013,588		582,964,608

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

LUNDIN MINING CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2012 and 2011
(in thousands of US dollars)

		2012		2011
Net earnings	**$**	**123,180**	$	183,765
Other comprehensive income (loss), net of taxes				
Revaluation gain on marketable securities (Note 6)		**3,952**		-
Effects of foreign currency translation		**37,094**		(49,825)
Comprehensive income	**$**	**164,226**	$	133,940

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2012 and 2011
(in thousands of US dollars, except for shares)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive (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	1,529,719	8,392	(2,545)	-	-	5,847
Share-based compensation	-	-	7,235	-	-	7,235
Net earnings	-	-	-	-	123,180	123,180
Revaluation gain on marketable securities	-	-	-	3,952	-	3,952
Effects of foreign currency translation	-	-	-	37,094	-	37,094
Balance, December 31, 2012	**584,005,006**	**$ 3,505,398**	**$ 34,140**	**$ (75,128)**	**$ 10,754**	**$ 3,475,164**
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	(2,986)	-	-	8,206
Share-based compensation	-	-	2,124	-	-	2,124
Net earnings	-	-	-	-	183,765	183,765
Effects of foreign currency translation	-	-	-	(49,825)	-	(49,825)
Balance, December 31, 2011	582,475,287	$ 3,497,006	$ 29,450	$ (116,174)	$ (112,426)	$ 3,297,856

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

LUNDIN MINING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011
(in thousands of US dollars)

	2012	2011
Cash provided by (used in)		
Operating activities		
Net earnings	**$ 123,180**	$ 183,765
Items not involving cash		
Finance income and costs	**5,979**	8,784
Share-based compensation	**7,739**	2,124
Depreciation, depletion and amortization	**122,379**	153,796
Foreign exchange gain	**(581)**	(5,370)
Income from equity investment in Tenke Fungurume	**(101,516)**	(94,681)
Deferred tax recovery	**(28,533)**	(26,796)
Recognition of deferred revenue (Note 12)	**(22,020)**	(24,529)
Reclamation and other closure provisions	**5,027**	(1,342)
Asset impairment	**67,252**	35,726
Other	**2,467**	(4,253)
Reclamation payments	**(3,221)**	(2,700)
Pension payments	**(1,186)**	(1,095)
Prepayments received (Note 12)	**14,514**	30,443
Changes in non-cash working capital items (Note 28)	**2,568**	54,791
	194,048	308,663
Investing activities		
Investment in mineral properties, plant and equipment	**(159,371)**	(188,631)
Investment in Tenke Fungurume (Note 8)	**(15,000)**	(64,508)
Distribution from Tenke Fungurume (Note 8)	**-**	7,800
Reclamation funds withdrawn, net	**5,534**	5,563
(Acquisition of) proceeds from sale of marketable securities	**(18,379)**	7,972
Other	**153**	934
	(187,063)	(230,870)
Financing activities		
Common shares issued	**5,847**	8,206
Long-term debt repayments	**(21,644)**	(28,106)
Proceeds from long-term debt	**-**	17,592
Proceeds from government grants (Note 7)	**15,107**	-
Repayments of government grants (Note 15)	**(3,220)**	(335)
Other	**(1,731)**	-
	(5,641)	(2,643)
Effect of foreign exchange on cash balances	**8,360**	(8,659)
Increase in cash and cash equivalents during the year	**9,704**	66,491
Cash and cash equivalents, beginning of year	**265,400**	198,909
Cash and cash equivalents, end of year	**$ 275,104**	$ 265,400

Supplemental cash flow information (Note 28)

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

1. NATURE OF OPERATIONS

Lundin Mining Corporation (the "Company") is a diversified Canadian base metals mining company. The Company's wholly-owned operating assets include the Neves-Corvo copper/zinc mine located in Portugal, the Zinkgruvan zinc/lead mine located in Sweden, and the Aguablanca nickel/copper mine located in Spain. The Company also has 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of presentation and measurement

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as outlined in Part 1 of the Handbook of Canadian Institute of Chartered Accountants.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value.

The Company's presentation currency is United States ("US") dollars. Reference herein of $ is to US dollars, C$ is to Canadian dollars, SEK is to Swedish Krona and € refers to the Euro.

Balance sheet items are classified as current if receipt or payment is due within twelve months. Otherwise, they are presented as non-current.

These consolidated financial statements were approved by the Board of Directors of the Company for issue on February 21, 2013.

(ii) Significant accounting policies

The Company has consistently applied the accounting policies to all the years presented. The significant accounting policies applied in these consolidated financial statements are set out below.

(a) Basis of consolidation

The financial statements consist of the consolidation of the financial statements of the Company and its subsidiaries.

Subsidiaries are entities over which the Company has control, including the power to govern the financial and operating policies in order obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

Where necessary, adjustments are made to the results of the subsidiaries and entities to bring their accounting policies in line with those used by the Company. Intra-group transactions, balances, income and expenses are eliminated on consolidation.

(b) Investments in associates

An associate is an entity over which the Company has significant influence, but not control, and is neither a subsidiary, nor an interest in a joint venture.

Investments in which the Company has the ability to exercise significant influence are accounted for by the equity method. Under this method, the investment is initially recorded at cost and adjusted thereafter to record the Company's share of post-acquisition earnings or loss of the investee as if the investee had been consolidated. The carrying value of the investment is also increased or decreased to reflect the Company's share of capital transactions, including amounts recognized in other comprehensive income ("OCI"), and for accounting changes that relate to periods subsequent to the date of acquisition.

(c) Translation of foreign currencies

The functional currency of each entity within the Company is the currency of the primary economic environment in which it operates. For many of the Company's entities, this is the currency of the country in which each operates. The Company's presentation currency is US dollars.

Transactions denominated in currencies other than the functional currency are recorded using the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in the statement of earnings in the period in which they arise. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the statement of earnings. However, exchange differences arising on the translation of certain non-monetary items are recognized as a separate component of equity.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into US dollars, which is the presentation currency of the group, at the rate of exchange prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the period where these approximate the rates on the dates of transactions, and where exchange differences arise, they are recognized as a separate component of equity.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit with banks, and highly liquid short-term interest bearing investments with a term to maturity at the date of purchase of 90 days or less which are subject to an insignificant risk of change in value.

(e) Reclamation funds

Reclamation funds include cash that has been pledged for reclamation and closure activities and is not available for immediate disbursement.

(f) Inventories

Ore and concentrate stockpiles are valued at the lower of production cost and net realizable value. Production costs include direct costs of materials and labour related directly to mining and processing activities, including production phase stripping costs, depreciation and amortization of mineral property and plant and equipment directly involved in the related mining and production process, amortization of any stripping costs previously capitalized and directly attributable overhead costs. Materials and supplies inventories are valued at the lower of average cost less allowances for obsolescence or net realizable value. If carrying value exceeds net realizable amount, a write down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

(g) Mineral properties

Mineral properties are carried at cost, less accumulated depletion and any accumulated impairment charges. Expenditures of mineral properties include:

i. Acquisition costs which consist of payments for property rights and leases, including the estimated fair value of exploration properties acquired as part of a business combination or the acquisition of a group of assets.

ii. Exploration, evaluation and project investigation costs incurred on an area of interest once a determination has been made that a property has economically recoverable resources and there is a reasonable expectation that costs can be recovered by future exploitation or sale of the property. Exploration, evaluation and project investigation expenditures made prior to a determination that a property has economically recoverable resources are expensed as incurred.

iii. Development costs incurred on an area of interest once management has determined that, based on a feasibility study, a property is capable of economical commercial production as a result of having established a proven and probable reserve, are capitalized as development expenses. Development costs are directly attributable to the construction of a mine. When additional development expenditures are made on a property after commencement of production, the expenditure is deferred as mineral property expenditures when it is probable that additional economic benefit will be derived from future operations.

iv. Deferred stripping costs represent the cost incurred to remove overburden and other waste materials to access ore in an open pit mine. Stripping costs incurred prior to the production phase of the mine are capitalized and included as part of the carrying value of the mineral property. During the production phase, stripping costs, which provide probable future economic benefits, that provide identifiable improved access to the ore body and which can be measured reliably are capitalized to mineral properties. Capitalized stripping costs are amortized using a unit-of-production basis over the proven and probable reserve to which they relate.

v. Pre-production expenditures net of the proceeds from sales generated, if any, relating to any one area of interest are recognized in the statement of earnings.

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

(h) Plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment charges. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset, or over the estimated remaining life of the mine if shorter. Residual values and useful lives are reviewed annually. Gains and losses on disposals are determined by proceeds received less the carrying amount and are recognized in the statement of earnings.

Useful lives are as follows:

	Years
Buildings	20 - 50
Plant and machinery	5 - 20
Equipment	5

(i) Mining equipment under finance lease

Assets held under finance leases are initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is recognized in the statement of earnings.

(j) Impairment

The Company assesses at each reporting period whether there is an indication that an asset or group of assets may be impaired. When impairment indicators exist, the Company estimates the recoverable amount of the asset and compare against the asset's carrying amount. The recoverable amount is the higher of the fair value less cost to sell and the asset's value in use. If the carrying value exceeds the recoverable amount, an impairment loss is recorded in the statement of earnings during the period.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The cash flows are based on best estimates of expected future cash flows from the continued use of the asset and its eventual disposal.

Fair value less costs to sell is best evidenced if obtained from an active market or binding sale agreement. Where neither exists, the fair value is based on the best estimates available to reflect the amount that could be received from an arm's length transaction.

Reversals of impairment arise from subsequent reviews of the impaired assets where the conditions which gave rise to the original impairments are deemed no longer to apply. The carrying value of the asset is increased to the revised estimate of its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as a gain in the statement of earnings in the period it is determined.

(k) Borrowing costs

Interest and financing costs on debt or other liabilities that are directly attributed to the acquisition, construction and development of a qualifying asset are capitalized to the asset. All other borrowing costs are expensed as incurred.

(l) Business combinations and goodwill

Acquisitions of businesses are accounted for using the purchase method of accounting whereby all identifiable assets and liabilities are recorded at their fair values as at the date of acquisition. Any excess purchase price over the aggregate fair value of net assets is recorded as goodwill. Goodwill is identified and allocated to cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the acquisition. Goodwill is not amortized. Any excess of the aggregate fair value of net assets over the purchase price is recognized in the statement of earnings.

Goodwill is reviewed for impairment at least annually or when events or circumstances indicate that an assessment for impairment will be required. For purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the CGU may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year.

When the recoverable amount of the CGU is less than the carrying amount of that CGU, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to that CGU first, and then to the other assets of that CGU pro rata on the basis of the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognized directly in the statement of earnings. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(m) Derivatives

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

Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless closely related to the host contract. All derivative instruments, including certain embedded derivatives that are separated from their host contracts, are recorded on the balance sheets at fair value and mark-to-market adjustments on these instruments are included in the statements of earnings.

(n) Deferred revenue

Deferred revenue consists of payments received by the Company in consideration for future

commitments. The Company records a portion of the deferred revenue as sales, when substantial risk and rewards have been transferred.

(o) Provision for pension obligations

The Company's Zinkgruvan mine has an unfunded defined benefit pension plan based on employee pensionable remuneration and length of service. The cost of the defined benefit pension plan is determined annually by independent actuaries. The actuarial valuation is based on the projected benefit method pro-rated on service which incorporates management's best estimate of future salary levels, retirement ages of employees and other actuarial factors. Actuarial gains and losses which exceed 10% of the present value of the Company's pension obligations are amortized over the estimated remaining period of services to be received. Actuarial gains and losses which are less than 10% of the present value of the Company's pension obligations are not recognized.

The amount recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

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

(p) Reclamation and other closure provisions

The Company has obligations for reclamation and other closure costs such as site restoration and decommissioning activities related to its mining properties. These costs are a normal consequence of mining, and the majority of these expenditures are incurred at the end of the life of the mine.

The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Since the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

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

The Company records the fair value of its reclamation and other closure provision as a long-term liability as incurred and records an increase in the carrying value of the related asset by a corresponding amount. The provision is discounted using a current market pre-tax discount. Charges for accretion and reclamation expenditures are recorded as operating activities. The related reclamation and other closure provision is recorded as part of the mineral property and depreciated accordingly. In subsequent periods, the carrying amount of the liability is accreted by a charge to the statement of earnings to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows.

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of costs are recognized as an increase or decrease in the reclamation and other closure provision, and a corresponding change in the carrying amount of the related long-lived asset. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, a provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the statement of earnings.

(q) Revenue recognition

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

(r) Share-based compensation

The Company grants share-based awards in the form of share options in exchange for the provision of services from certain employees and officers. The share options are equity-settled awards. The Company determines the fair value of the awards on the date of grant. This fair value is charged to the statement of earnings using a graded vesting attribution method over the vesting period of the options, with a corresponding credit to contributed surplus. When the share options are exercised, the applicable amounts of contributed surplus are transferred to share capital. At the end of the reporting period, the Company updates its estimate of the number of awards that are expected to vest and adjust the total expense to be recognized over the vesting period.

(s) Deferred and current income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable earnings for the year. Taxable profit differs from earnings as reported in the statement of earnings because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable earnings will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable earnings nor the accounting earnings. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and investments, and interests in joint ventures, except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized to the extent that taxable earnings will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to earnings, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Income tax assets and liabilities are offset when there is a legally enforceable right to offset the assets and liabilities and when they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

(t) Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during each reporting period. Diluted earnings per share is calculated assuming the proceeds which would be received upon the exercise of exercisable in-the-money stock options is used to calculate how many common shares could be purchased at the average market price during the period and cancelled. If the calculated result is dilutive, it is included in the diluted earnings per share calculation.

(u) Financial instruments

Financial instruments are recognized on the balance sheet on the trade date, the date on which the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are required to be classified and measured at fair value on initial recognition. Measurement in subsequent periods is dependent upon the classification of the financial instrument. The Company classifies its financial instruments in the following categories:

Financial assets at fair value through profit or loss (“FVTPL”)

A financial asset is classified as FVTPL if it has been acquired principally for the purpose of selling it in the near term or it is a derivative that is not designated and effective as a hedging instrument. A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if the financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis by management.

Subsequent re-measurements of FVTPL assets are re-valued with any gains or losses recognized in the statement of earnings.

Transaction costs for FVTPL assets are expensed.

Available for sale (“AFS”)

A financial asset is classified as AFS if it is a non-derivative financial asset that is designated as AFS or is not classified as loans and receivables, held-to-maturity investment or FVPTL.

AFS assets are measured at fair value with changes in fair values recognized in other comprehensive income. When an AFS asset has sustained a loss in value which is significant or prolonged, the loss is recognized in the statement of earnings.

Loans and receivables

Loans and receivables include financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective

interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

Financial liabilities at amortized cost

Financial liabilities are measured at amortized cost using the effective interest method. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(v) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all the attached conditions. Government grants relating to costs are deferred and recognized in the statement of earnings over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to plant and equipment are credited to the cost of the property for which the grant was received for. The Company only recognizes grants when there is reasonable assurance that the conditions attached would be complied with and the grants would be received.

(iii) **Critical accounting estimates and assumptions**

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. These estimates and assumptions are based on management's best knowledge of the relevant facts and circumstances taking into account previous experience, but actual results may materially differ from the amounts included in the financial statements.

Areas where critical accounting estimates and assumptions have the most significant effect on the amounts recognized in the consolidated financial statements include:

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

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

A change in the original estimate of reserves would result in a change in the rate of depreciation, depletion and amortization of the related mining assets. The effect of a change in the estimates of reserves would have a relatively greater effect on the amortization of the current mining operations at Aguablanca because of the short

mine life of this operation. A short mine life results in a high rate of amortization and depreciation, and mining assets may exist at these sites that have a useful life in excess of the revised life of the related mine. The Neves-Corvo mine and the Zinkgruvan mine have longer mine lives and would be less affected by a change in the reserve estimate.

Valuation of mineral properties and exploration properties - The Company carries its mineral properties at cost less any provision for impairment. The Company expenses exploration costs, which are related to specific projects, until the commercial feasibility of the project is determinable. The costs of each property and related capitalized development expenditures are depleted over the economic life of the property on a units-of-production basis. Costs are charged to the statement of earnings when a property is abandoned or when there is a recognized impairment in value.

The Company undertakes a review of the carrying values of mining properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable. In undertaking this review, management of the Company is required to make significant estimates of, amongst other things, future production and sale volumes, metal prices, foreign exchange rates, reserves and resource quantities, future operating and capital costs and reclamation costs to the end of the mine's life. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mining properties and related expenditures. Refer to Note 7 for sensitivities.

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

Valuation of Investment in Tenke Fungurume – The Company carries its investment at cost and adjusts for its share of earnings of the investee. The Company reviews the carrying value of the investment whenever events or changes in circumstances indicate that impairment may be present. In undertaking this review, the Company makes reference to future operating results and cash flows. This requires making significant estimates of, amongst other things, reserves and resources quantities, future production and sale volumes, metal prices, future operating and capital costs to the end of the mine's life. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the investment.

Goodwill - The amount by which the purchase price of a business acquisition exceeds the fair value of identifiable assets and liabilities acquired is recorded as goodwill. Goodwill is allocated to the CGUs acquired based on the assessment of which CGU would be expected to benefit from the synergies of the acquisition. Estimates of recoverable value may be impacted by changes in metal prices, foreign exchange rates, discount rates, level of capital expenditures, operating costs and other factors that may be different from those used in determining fair value. Changes in estimates could have a material impact on the carrying value of the goodwill. Refer to Note 10 for sensitivities.

For CGUs that have recorded goodwill, the estimated recoverable amount of the unit is compared to its carrying value at least once each year, or when circumstances indicate that the value may have become impaired.

Reclamation and other closure provisions - The Company has obligations for reclamation and other closure activities related to its mining properties. The future obligations for mine closure activities are estimated by the

Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of closure provisions. The reclamation and other closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording reclamation and other closure provisions is to establish provisions for future mine closure costs based on the present value of the future cash flows required to satisfy the obligations. This provision is updated as the estimate for future closure costs change. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to finance costs.

Pension obligations - The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The principal assumptions used in determining the net cost for pensions include the discount rate and the rate of salary increase. Any changes in these assumptions will impact the carrying amount of pension obligations.

Share-based compensation - The Company grants stock options to employees under its incentive stock option plan. The fair value of stock options is estimated using the BlackScholes option pricing model and are expensed over their vesting periods. Option pricing models require the input of highly subjective assumptions including expected price volatility of the underlying shares and life of the options. Changes in the input assumptions can materially affect the fair value estimate. Assumption details are discussed in Note 17.

(iv) **Critical accounting judgments in applying the entity's accounting policies**

Management exercise judgment in applying the Company's accounting policies. These judgments are based on management's best estimate. Areas where critical accounting judgments have the most significant effect on the consolidated financial statements include:

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

The determination of the ability of the Company to utilize tax loss carryforwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is "probable" that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

(v) **New accounting pronouncements**

- IFRS 7 *Financial instruments: disclosures were* further amended to provide guidelines on the eligibility criteria for offsetting assets and liabilities as a single net amount in the balance sheets. This amendment is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IFRS 10 *Consolidated financial statements* requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—special purpose entities* and parts of

IAS 27 *Consolidated and separate financial statements*. This standard is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IFRS 11 *Joint arrangements* requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities—non-monetary contributions by venturers*. This standard is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IFRS 12 *Disclosure of interests in other entities* establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IFRS 13 *Fair value measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IAS 1 *Presentation of financial statements,* was amended to require entities to group items within other comprehensive income that may be reclassified to the statement of earnings. This standard is effective for annual periods beginning on or after July 1, 2012 and is not expected to have a significant impact on the Company.

- IAS 19 *Post-employment benefits*, was amended to eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans. This amendment is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IAS 28 *Investment in associates,* was amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. This amendment is effective for annual periods beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company.

- IAS 32 *Financial instruments: presentation* was amended to address inconsistencies in current practice when applying the offsetting criteria in IAS 32. Under this amendment, the meaning of "currently has a legally enforceable right of set-off" was clarified as well as providing clarification that some gross settlement systems may be considered equivalent to net settlement. This amendment is effective for annual periods beginning on or after January 1, 2014 and is not expected to have a significant impact on the Company.

- IFRS 9 *Financial instruments*, addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial instruments – Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in the statement of earnings to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

  Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39 except that fair value change due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2015. The Company is still assessing the impact of this standard.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

		December 31, 2012		December 31, 2011
Cash	**$**	**243,069**	$	265,339
Short-term deposits		**32,035**		61
	$	**275,104**	$	265,400

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

		December 31, 2012		December 31, 2011
Trade receivables	**$**	**78,114**	$	83,239
Value added tax and other receivables		**29,355**		32,780
Prepaid expenses		**3,339**		4,047
	$	**110,808**	$	120,066

The Company does not have any significant balances that are past due nor any allowance for doubtful accounts. The Company's credit risk is discussed in Note 26.

The fair value of trade and other receivables, including the embedded derivative arising from provisionally priced trade receivables, is disclosed in Note 25.

The carrying amounts of trade and other receivables are denominated as follows: $78.0 million, €22.6 million, SEK13.0 million and C$0.7 million as at December 31, 2012 (2011 - $81.8 million, €24.2 million, SEK 41.8 million, C$0.7 million).

5. INVENTORIES

Inventories are comprised of the following:

		December 31, 2012		December 31, 2011
Ore stockpiles	**$**	**10,933**	$	9,249
Concentrate stockpiles		**18,954**		11,349
Materials and supplies		**18,853**		20,605
	$	**48,740**	$	41,203

The cost of inventories expensed and included in total operating costs for the year was $435.5 million (2011 - $401.8 million). Included in these costs is $9.1 million of concentrate inventory written down at the Aguablanca mine due to production costs being in excess of net realizable value.

6. MARKETABLE SECURITIES AND OTHER ASSETS

Marketable securities and other assets comprise the following:

		2012		2011
Marketable securities (a)	**$**	**34,330**	$	15,067
Other assets		**4,722**		4,448
	$	**39,052**	$	19,515

a) Marketable securities

Investments in marketable securities consist of shares in publicly-traded mining and exploration companies. The Company does not exercise significant influence over any of the companies, which in all cases, amounts to less than a 20% equity interest in any one company.

The changes in marketable securities are as follows:

		FVTPL Investments		**AFS Investments**		**Total**
As at December 31, 2010	$	27,337	$	-	$	27,337
Disposals		(8,168)		-		(8,168)
Revaluation		(3,929)		-		(3,929)
Effect of changes in foreign exchange rates		(173)		-		(173)
As at December 31, 2011		15,067		-		15,067
Additions		4,304		15,875		20,179
Disposals		(2,571)		-		(2,571)
Revaluation		(2,321)		3,952		1,631
Effect of changes in foreign exchange rates		134		(110)		24
As at December 31, 2012	$	14,613	$	19,717	$	34,330

During 2012, the Company acquired $20.2 million of marketable securities of which $15.9 million was related to companies holding exploration projects considered to have development potential of specific interest to the Company. These investments are classified as AFS investments and the revaluations related to these investments are recorded in OCI.

Revaluation on marketable securities designated as FVTPL was recorded in finance income and costs (see Note 20). During 2011, the Company received cash proceeds of $8.0 million as a result of disposals.

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Mineral properties, plant and equipment comprise 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	89,343	3,784	9,532	87,546	190,205
Disposals and transfers	2,747	159,045	-	(172,649)	(10,857)
Effects of changes in foreign exchange rates	(51,935)	(24,771)	(1,641)	704	(77,643)
As at December 31, 2011	1,504,273	617,288	59,746	12,127	2,193,434
Additions	115,559	14,966	-	43,939	174,464
Grants recognized	-	(18,828)	-	-	(18,828)
Impairment	(27,977)	(9,356)	-	(1,835)	(39,168)
Disposals and transfers	2,803	30,249	-	(35,304)	(2,252)
Effects of changes in foreign exchange rates	51,773	20,559	844	1,493	74,669
As at December 31, 2012	**$ 1,646,431**	**$ 654,878**	**$ 60,590**	**$ 20,420**	**$ 2,382,319**

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	102,835	50,961	-	-	153,796
Disposals and transfers	-	(9,478)	-	-	(9,478)
Effects of changes in foreign exchange rates	(26,294)	(9,106)	-	-	(35,400)
As at December 31, 2011	723,500	227,808	-	-	951,308
Depreciation	79,149	43,230	-	-	122,379
Disposals and transfers	286	(1,339)	-	-	(1,053)
Effects of changes in foreign exchange rates	28,759	10,113	-	-	38,872
As at December 31, 2012	**$ 831,694**	**$ 279,812**	**$ -**	**$ -**	**$ 1,111,506**

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
As at December 31, 2012	**$ 814,737**	**$ 375,066**	**$ 60,590**	**$ 20,420**	**$ 1,270,813**

In late-2010, a slope failure occurred at the Company's Aguablanca mine affecting the main open-pit access ramp. Refined technical plans implemented during 2011 allowed for the recommencement of production in the third quarter of 2012. In late-2012, the mine experienced continued pit instability which restricted access to some of the ore reserves of the mineral property. As a result of these events, the Company conducted an impairment assessment related to these assets. The Company used a value-in-use model to determine the recoverable amount. This model

was based on forecasted discounted cashflows. The assumptions made in the determination of the cashflows are detailed in Note 10. The impairment review identified an excess of the carrying values over the recoverable amount. Accordingly, the Company recognized a mineral property and plant and equipment impairment of $39.2 million ($34.0 million after-tax) related to its Aguablanca mine.

The Company performed sensitivity analysis on assumptions that would have the most significant effect on the valuation. A 5% change in the metal prices or foreign exchange rate used in the model would have an impact on the impairment by approximately $5.4 million. Due to the short mine life, the valuation is not sensitive to changes in the discount rate used.

The net carrying amount of equipment under finance leases is $5.7 million (2011 - $6.8 million).

During 2012, the Company recorded $18.8 million of government grants as a reduction in plant and equipment. Of this amount, $15.1 million was received as proceeds during the year.

Depreciation, depletion and amortization is comprised of:

		2012		2011
Operating costs	**$**	**121,977**	$	153,433
General and administrative expenses		**402**		363
Depreciation, depletion and amortization	**$**	**122,379**	$	153,796

8. INVESTMENT IN TENKE FUNGURUME

As at December 31, 2010	$	1,735,148
Advances		64,508
Cash distribution		(7,800)
Share of equity income		94,681
As at December 31, 2011		1,886,537
Advances		15,000
Share of equity income		101,516
As at December 31, 2012	**$**	**2,003,053**

On March 26, 2012, the President and Prime Minister of the DRC signed a decree approving the changes to Tenke Fungurume Mining Corp S.A.R.L (“TFM”) by-laws that reflect the agreements reached in October 2010 following the mining contract review. With the approval of the by-law changes, the Company’s effective ownership in TFM decreased from 24.75% to 24%. This change did not have a significant impact on the Company's consolidated statement of earnings nor on its consolidated balance sheet position.

The Company holds a 30% interest in TF Holdings Limited (“TFH”), a Bermuda company, which in turn holds an 80% interest in a Congolese subsidiary company, TFM. Freeport McMoRan Copper & Gold Inc. (“FCX”) holds the remaining 70% interest in TFH. TFM holds a 100% interest in the Tenke Fungurume copper/cobalt mine. The Company’s and FCX’s effective interest in TFM is 24% and 56%, respectively. La Générale des Carrières et des Mines (“Gécamines”), a DRC Government-owned corporation, owns a free-carried 20% interest.

FCX is the operator of the Tenke Fungurume mine. The Company exercises significant influence over TFM and accordingly, the Company uses the equity method to account for this investment.

During the year ended December 31, 2012, the Company made cash advances of $15.0 million (2011 - $64.5 million)

to fund its portion of TFM expenditures. The Company received its first cash distribution of $7.8 million in 2011. Other commitments relating to Tenke Fungurume are disclosed in Note 22.

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

	December 31, 2012	December 31, 2011
Total assets	**$ 3,605,880**	$ 2,846,798
Total liabilities	**$ 1,151,221**	$ 869,608

	2012	2011
Total sales	**$ 1,384,024**	$ 1,312,947
Total net earnings	**$ 372,917**	$ 347,446

9. CURRENT AND DEFERRED INCOME TAXES

	2012	2011
Current tax expense:		
Current tax on net earnings	**$ 51,878**	$ 63,323
Adjustments in respect of prior years	**105**	14,518
	51,983	77,841
Deferred tax (recovery) expense:		
Origination and reversal of temporary differences	**(39,871)**	(23,882)
Change in tax rates	**(2,177)**	1,709
Utilization of previously unrecognized tax losses	**(4,536)**	(8,071)
Tax losses for which no deferred income tax asset was recognized	**18,051**	3,448
	(28,533)	(26,796)
Total tax expense	**$ 23,450**	$ 51,045

Included in 2011 current tax expense is an adjustment in respect of prior years for a Spanish tax assessment of $12.5 million relating to deductibility of accelerated depreciation in fiscal years 2006 and 2007.

The tax on the Company's earnings before income tax differs from the amount that would arise using the weighted average rate applicable to consolidated earnings as follows:

	2012	2011
Earnings before income tax	**$ 146,630**	$ 234,810
Combined basis federal and provincial rates	**26.5%**	28.2%
Income taxes based on statutory income tax rates	**$ 38,857**	$ 66,329
Effect of lower tax rates in foreign jurisdictions	**(30,003)**	(32,763)
Tax calculated at domestic tax rates applicable to earnings in the respective countries	**8,854**	33,566
Tax effects of:		
Non-deductible and non-taxable items	**12,159**	8,558
Change in tax rates	**(2,177)**	1,709
Adjustments in respect of prior years	**(1,898)**	9,934
Tax losses for which no deferred income tax asset was recognized	**18,051**	3,448
Utilization of previously unrecognized tax losses	**(4,536)**	(8,071)
Tax recovery associated with government grants and other tax credits	**(7,576)**	-
Other	**573**	1,901
Total tax expense	**$ 23,450**	$ 51,045

The weighted average applicable tax rate for 2012 was 6.0% (2011 – 14.3%). The decrease in the tax rate is related to an increase in the ratio of income from the equity investment in Tenke Fungurume (held by a subsidiary with a zero tax rate) to consolidated net earnings and also due to the change of profitability of the Company's subsidiaries in the respective countries that have tax rates ranging from 26.3% to 31.5%.

During 2012, Sweden reduced its statutory tax rate from 26.3% to 22% commencing in 2013, resulting in a deferred tax recovery of $3.0 million. Due to the effects of further slope instability issues at the Aguablanca mine, a deferred tax expense of $6.6 million was recorded for unrecoverable deferred tax assets as a result of the revised life of mine plan and projected lower taxable income.

During 2011, the statutory tax rate in Portugal changed from 29% to 31.5% for 2012 and 2013. As a result, an additional $1.7 million deferred tax expense was recorded.

Deferred tax assets (liabilities), net

	December 31, 2012	December 31, 2011
Deferred tax liabilities:		
Deferred tax liabilities to be settled after more than 12 months	**(127,905)**	(145,246)
Deferred tax liabilities to be settled within 12 months	**(1,879)**	(12,151)
Deferred tax liabilities, net	**$ (129,784)**	$ (157,397)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	As at December 31, 2011	Expensed/ (recovered)	Effect of changes in foreign exchange rates	As at December 31, 2012
Deferred tax assets:				
Loss carryforwards	$ 5,146	$ 3,361	$ 238	$ 8,745
Reclamation and other closure provisions	19,695	1,660	446	21,801
Pension obligations	3,420	(841)	181	2,760
Other	2,726	2,437	117	5,280
Deferred tax liabilities:				
Mineral properties, plant & equipment	(173,855)	25,955	(3,517)	(151,417)
Reserves	(14,529)	(1,760)	(664)	(16,953)
	$ (157,397)	$ 30,812	$ (3,199)	$ (129,784)

	As at December 31, 2010	Expensed/ (recovered)	Effect of changes in foreign exchange rates	As at December 31, 2011
Deferred tax assets:				
Loss carryforwards	$ 8,731	$ (3,504)	$ (81)	$ 5,146
Reclamation and other closure provisions	21,053	(746)	(612)	19,695
Pension obligations	3,852	(334)	(98)	3,420
Other	1,013	2,073	(360)	2,726
Deferred tax liabilities:				
Mineral properties, plant & equipment	(202,213)	24,433	3,925	(173,855)
Reserves	(19,751)	4,874	348	(14,529)
	$ (187,315)	$ 26,796	$ 3,122	$ (157,397)

The Company did not recognize deferred tax assets of $21.4 million (2011 - $9.4 million) in respect of mineral properties, plant and equipment, marketable securities and other assets.

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. During 2012, the Spanish subsidiary incurred additional non-capital losses of $13.8 million (2011 - $12.7 million) to which a deferred tax asset of $4.1 million (2011 - $3.8 million) has been recognized. Based on the Company's approved budget, it is anticipated that the operations at Aguablanca will generate sufficient taxable profits in 2013 to fully utilize these tax losses.

The Company did not recognize deferred tax assets of $65.9 million (2011 - $68.4 million) in respect of tax losses amounting to $252.4 million (2011 - $273.5 million) that can be carried forward against future taxable income, as indicated below:

Year of expiry	Canada	Ireland	Total
2013	$ 2,034	$ -	$ 2,034
2014	4,364	-	4,364
2015	7,456	-	7,456
2016	-	-	-
2017 and thereafter	171,652	66,849	238,501
	$ 185,506	$ 66,849	$ 252,355

The non-capital losses for Ireland have an indefinite life.

The aggregate amount of temporary differences related to investments in subsidiaries and associates for which deferred tax liabilities have not been recognized is $316.1 million as at December 31, 2012 (2011 - $214.3 million).

10. GOODWILL

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

Goodwill is allocated to the CGUs as follows:

	Neves-Corvo	Aguablanca	Total
Balance at December 31, 2010	$ 167,988	$ 64,825	$ 232,813
Impairment	-	(35,726)	(35,726)
Effect of changes in foreign exchange rates	(5,318)	(1,400)	(6,718)
Balance at December 31, 2011	162,670	27,699	190,369
Impairment	-	(28,084)	(28,084)
Effect of changes in foreign exchange rates	3,207	385	3,592
Balance at December 31, 2012	**$ 165,877**	**$ -**	**$ 165,877**

Impairment

The Company performs an impairment assessment annually or more frequently if there are impairment indicators for the carrying amount of its CGU's where goodwill is allocated.

The Company did not make any significant changes to the valuation methodology used to assess CGU impairment since the last annual test. The recoverable value of a CGU was determined using cash flow projections based on approved life-of-mine financial plans. The key assumptions used in cash flow projections consist of forecasted commodity prices, treatment and refining charges, reserve and resource quantities, operating costs, capital expenditures, reclamation and other closure costs, discount rates and foreign exchange rates.

Commodity prices used in the cash flow projections are within the range of current market consensus observed during the fourth quarter of 2012. The valuation for the recoverable amount is most sensitive to long-term copper prices and short-term nickel prices, as well as Euro and US dollar exchange rates.

The reserves and resources were based on the Company's last published statement dated June 30, 2012.

Operating costs and capital expenditures included in the cash flow projections are based on approved long-term operating plans which consider past and estimated future performance.

Neves-Corvo

For the Neves-Corvo CGU impairment review, the Company used a fair value less cost to sell ("FVLCS") model and assumed an after-tax discount rate of 9% per annum (2011 – 9%) on copper and zinc price ranges of $3.00/lb to $3.80/lb (2011 - $2.75/lb to $4.00/lb) and $1.00/lb to $1.20/lb (2011 - $1.00/lb to $1.20/lb), respectively, to calculate the present values of cash flows over the economic years of the Company's life-of-mine plan. Foreign exchange assumptions applied to the impairment test for €/$ was forecasted at 1.30 (2011 – 1.41). Incorporated in the FVLCS, the Company developed fair value estimates for resources not captured in the cash flow model. These estimates were benchmarked using third-party market information. Since the recoverable amount of the CGU was determined to be higher than the carrying value, no impairment was recognized.

Sensitivities which had the most significant impact were performed for the cash flow model. Several scenarios were reviewed where key inputs were changed: metal prices (+/-5%), the foreign exchange (+/-5%) and the discount rate (+/-1%). These changes did not have any impact on the goodwill impairment assessment.

Aguablanca

During 2012, the Company continued to experience pit wall instability at its Aguablanca mine and determined that the instability would result in a reduced mine life. The shortened mine life had a significant impact on the projected cashflows which resulted in the recoverable amount being lower than the carrying value of the CGU. The goodwill impairment recognized was $28.1 million (2011 - $35.7 million).

Management assessed this CGU for impairment based on a modified mine plan which has a shortened mine life of approximately 2 years. The current production plan reflects a reduction in the mineable reserve to only those areas not affected by the instability. The Company used a value-in-use cash flow model and applied a pre-tax discount rate of 14% (2011 - 18%). The discount rate was reduced due to the recommencement of operations during 2012. The model is not sensitive to discount rate changes because of the short mine life. Nickel and copper price ranges of $8.25/lb to $8.75/lb (2011 - $8.75/lb to $9.00/lb) and $3.65/lb to $3.80/lb (2011 - $2.75/lb to $4.00/lb), respectively, were used in the model to assess impairment. The foreign exchange assumptions applied to the impairment test for €/$ was the closing rate of 1.32 (2011 – 1.30).

Sensitivities which had the most significant impact were performed for the cash flow models. Several scenarios were reviewed where key inputs were changed: metal prices (+/-5%), the foreign exchange (+/-5%) and the discount rate (+/-1%). These changes did not have any impact on the goodwill impairment assessment.

11. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

		December 31, 2012		December 31, 2011
Trade payables	$	71,572	$	72,192
Unbilled goods and services		12,844		16,373
Payroll obligations		24,947		18,441
Royalty payable		10,351		14,727
	$	119,714	$	121,733

12. DEFERRED REVENUE

The following table summarizes the changes in deferred revenue:

As at December 31, 2010	$	77,676
Prepayment received		30,443
Recognition of revenue		(24,529)
Effects of changes in foreign exchange rates		(2,553)
As at December 31, 2011		81,037
Prepayment received		14,514
Recognition of revenue		(22,020)
Effects of changes in foreign exchange rates		4,131
		77,662
Less: current portion		17,683
As at December 31, 2012	**$**	**59,979**

a) Neves-Corvo mine

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

b) Zinkgruvan mine

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

c) Galmoy mine

The Company received customer prepayments related to the sale of ore. Deferred revenue of $12.1 million will be recognized in sales during 2013.

13. LONG-TERM DEBT AND FINANCE LEASES

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

	December 31, 2012	December 31, 2011
Somincor commercial paper program (b)	**$ -**	$ 19,350
Finance lease obligations (c)	**6,375**	5,915
Rio Narcea debt (d)	**3,647**	4,081
	10,022	29,346
Less: current portion	**3,037**	21,740
	$ 6,985	$ 7,606

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

As at December 31, 2010	$ 39,664
Additions	19,772
Payments	(28,106)
Revaluations	558
Effects of changes in foreign exchange rates	(2,542)
As at December 31, 2011	29,346
Additions	1,443
Payments	(21,644)
Revaluations	160
Effects of changes in foreign exchange rates	717
As at December 31, 2012	**$ 10,022**

a) In December 2012, the Company executed an amendment to its revolving credit facility. The Company has a $350 million (2011 - $300 million) credit facility which carries a current interest rate of LIBOR+2.5% (2011 - LIBOR+3%). The facility is secured by charges against the Company's mining assets and has covenants customarily required for such debt facilities, including minimum tangible net worth and interest coverage. The credit facility expires in December 2015. No advances are currently outstanding under the credit facility other than a letter of credit in the amount of $12.3 million (SEK 80 million).

b) The Sociedade Mineira de Neves-Corvo, S.A. ("Somincor"), a subsidiary of the Company which owns the Neves-Corvo mine, completed a new commercial paper program replacing the previous program which expired in December 2012. The new €30 million program bears interest at EURIBOR plus 3.6%. The program matures in December 2015.

c) Finance lease obligations relate to leases on mining equipment which have remaining lease terms of three to six years and interest rates of approximately 8% over the term of the leases.

d) The Rio Narcea debt is an interest free loan extended by the Spanish Department of Trade, Industry and Commerce. The debt is recorded using an imputed interest rate of 0.8% (2011 – 2.0%) and is repayable annually until 2017.

The schedule of principal repayment obligations are as follows:

	Debt	Finance Leases	Total
2013	$ 1,083	$ 1,954	$ 3,037
2014	660	1,935	2,595
2015	660	1,463	2,123
2016	660	495	1,155
2017 and therafter	584	528	1,112
Total	**$ 3,647**	**$ 6,375**	**$ 10,022**

14. RECLAMATION AND OTHER CLOSURE PROVISIONS

Reclamation and other closure provisions relating to the Company's wholly-owned mining operations are as follows:

	Reclamation provisions	Other closure provisions	Total
Balance, December 31 2010	$ 101,401	$ 15,992	$ 117,393
Accretion	3,261	-	3,261
Accruals for services	-	(1,342)	(1,342)
Changes in estimates	(2,444)	-	(2,444)
Payments	(2,700)	-	(2,700)
Effect of changes in foreign exchange rates	(3,201)	(1,340)	(4,541)
Balance, December 31, 2011	96,317	13,310	109,627
Accretion	1,832	-	1,832
Accruals for services	-	5,027	5,027
Changes in estimates	14,190	-	14,190
Payments	(2,988)	(233)	(3,221)
Effect of changes in foreign exchange rates	2,743	532	3,275
Balance, December 31, 2012	112,094	18,636	130,730
Less: current portion	5,299	1,187	6,486
	$ 106,795	$ 17,449	$ 124,244

At December 31, 2012, the reclamation and other closure provision for the Neves-Corvo mine was $85.2 million (2011 - $70.1 million). The Company expects the payments for site restoration costs at Neves-Corvo to be incurred between 2013 to 2029. A change in estimate of $11.8 million was recorded during 2012 due to an increase of the provision and a revision in the timing of payments.

The reclamation provision at the Zinkgruvan mine at December 31, 2012 was $12.0 million (2011 - $9.5 million). This provision is based on future reclamation costs being paid primarily during 2017. The Company has posted environmental bonds related to its site restoration provision (Note 22c).

The reclamation and other closure provision, including severance, for the Aguablanca mine at December 31, 2012 totaled $25.2 million (2011 - $20.8 million). The payments are expected to be settled between 2013 and 2016. There was a $3.1 million increase in the other closure provisions related to severance costs during 2012.

The reclamation and other closure obligation at the Galmoy mine as at December 31, 2012 was $6.4 million (2011 - $6.6 million). It is expected that $3.9 million will be settled in 2013.

15. OTHER LONG-TERM LIABILITIES

Included in other long-term liabilities are government grants received that are expected to be repaid between 2013 and 2017 if certain conditions are not met. During 2012, the Company made repayments of $3.2 million (2011 - $0.3 million).

16. EMPLOYEE BENEFITS

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

	2012	2011
Operating costs		
Wages and benefits	**$ 112,463**	$ 108,597
Pension benefits	**2,324**	3,672
Share-based compensation	**2,543**	593
	117,330	112,862
General and administrative expenses		
Wages and benefits	**12,052**	10,157
Pension benefits	**320**	466
Share-based compensation	**4,920**	1,338
	17,292	11,961
General exploration and business development		
Wages and benefits	**4,414**	4,708
Pension benefits	**44**	39
Share-based compensation	**276**	193
	4,734	4,940
Total employee benefits	**$ 139,356**	$ 129,763

Provision for pension obligations

The Company has calculated its liability relating to the defined benefit plan at the Zinkgruvan mine using the accrued benefit pro-rated on services method. Actuarial assumptions, based on the most recent actuarial valuation dated December 31, 2012, used to determine benefit obligations as at December 31, 2012 and 2011 were as follows:

	2012	2011
Discount rate	**3.7%**	3.7%
Rate of salary increase	**2.5%**	2.5%

Discount rates used reflect high quality bond rates matching the currency and maturity of the obligation.

Information about Zinkgruvan's pension obligations is as follow:

	2012	2011	2010
Accrued benefit obligation			
Balance, beginning of the year	**$ 13,797**	$ 14,781	$ 12,237
Current service costs	**385**	534	492
Interest costs	**548**	615	546
Actuarial losses	**1,644**	599	537
Benefits paid	**(1,186)**	(1,095)	(858)
Effects of changes in foreign exchange rates	**767**	(1,637)	1,827
Balance, end of the year	**15,955**	13,797	14,781
Unrecognized actuarial gains	**(1,644)**	(599)	(537)
Accrued benefit obligation	**14,311**	13,198	14,244
Other pension accruals	**4,820**	5,327	4,572
Total provision for pension obligations	**$ 19,131**	$ 18,525	$ 18,816

The defined benefit plan is unfunded and, accordingly, there are no plan assets and the Company made no contributions to the plan. The Company's pension expense recorded within operating costs related to the defined benefit plan is as follows:

	2012	2011
Current service costs	**$ 385**	$ 534
Interest costs	**548**	615
Payroll taxes	**529**	279
Pension expense	**$ 1,462**	$ 1,428

A 1% change in the discount rate assumption would have an insignificant impact to the pension obligation or the pension expense for 2012.

The Company expects to make payments of $1.8 million under the defined benefit plan during the next financial year.

Defined contribution plans

In addition, the Company recorded a pension expense in operating costs in the amount of $0.9 million (2011 - $2.3 million) and in general and administrative expenses in the amount of $0.4 million (2011 - $0.5 million) relating to defined contribution plans.

In accordance with the transitional provisions set out in the amendment to IFRS 1, disclosures are presented prospectively from the date of transition.

17. SHARE CAPITAL

(a) Authorized and issued shares

Authorized share capital consists of an unlimited number of voting common shares with no par value and one special non-voting share with no par value. As at December 31, 2012, there were 584,005,006 fully paid voting common shares issued (2011 - 582,475,287).

(b) Stock options

The Company has an incentive stock option plan (the "Plan") available for certain employees and officers to acquire shares in the Company. The term of any options granted are approved by the Board of Directors and may not exceed ten years from the date of grant. The total number of options that are issuable under the plan is 21,000,000. The vesting requirements for the options include the passage of a specified time period, as well as continued employment.

The Company uses the fair value method of accounting for the recording of stock option grants to employees and officers. Under this method, the Company recorded a share-based compensation expense of $7.2 million for 2012 (2011 - $2.1 million) with a corresponding credit to contributed surplus.

During the year ended December 31, 2012, the Company granted 4,303,000 incentive stock options to employees and officers that expire in 2017. The fair value of the stock options at the date of the grant using the Black-Scholes pricing model assumes risk-free interest rate of 1.1% to 1.6% (2011 - 1.0% to 1.6%), no dividend yield, expected life of 3.5 years (2011 - 1.6 to 3.6 years) with an expected price volatility of 54% to 79% (2011 - 56% to 79%). Volatility is determined using daily volatility over the expected life of the options. A forfeiture rate of 18% is applied (2011 - 18%). The weighted average fair value per option granted during 2012 was $2.05 (2011 - $2.13). As at December 31, 2012, there was $9.6 million of unamortized stock compensation expense (2011 - $8.9 million).

During the year ended December 31, 2012, 1,529,719 common shares (2011 - 1,899,932) were issued as a result of options being exercised.

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

	Number of options	Weighted average exercise price (C$)
Outstanding, January 1, 2011	7,065,545	$ 6.55
Granted during the period	5,814,999	$ 4.16
Forfeited during the period	(1,252,574)	$ 6.70
Expired during the period	(643,566)	$ 7.81
Exercised during the period	(1,899,932)	$ 4.25
Outstanding, December 31, 2011	9,084,472	$ 5.39
Granted during the period	4,303,000	$ 4.93
Cancelled during the period	(45,000)	$ 3.89
Forfeited during the period	(178,332)	$ 5.65
Expired during the period	(1,485,332)	$ 11.93
Exercised during the period	(1,529,719)	$ 3.79
Outstanding, December 31, 2012	**10,149,089**	**$ 4.48**

The following table summarizes options outstanding as at December 31, 2012, as follows:

	Outstanding Options			Exercisable Options		
Range of exercise prices (C$)	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (C$)	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (C$)
$3.89 to $3.99	4,891,666	3.8	$ 3.90	1,415,553	3.8	$ 3.90
$4.00 to $4.47	925,836	2.1	$ 4.35	391,942	0.9	$ 4.43
$4.48 to $5.01	3,943,000	4.9	$ 4.99	-	-	-
$5.02 to $7.92	388,587	1.4	$ 6.98	254,690	0.8	$ 7.33
	10,149,089	4.0	$ 4.48	2,062,185	2.9	$ 4.42

(c) Diluted weighted average number of shares

The basic weighted average number of common shares outstanding for the year ended December 31, 2012 was 582,942,459 (2011 – 582,074,865).

The total incremental shares added to the basic weighted average number of common shares to arrive at the fully diluted number of shares for the period ended December 31, 2012 is comprised of 1,071,129 shares (2011 – 889,743 shares) which relate to exercisable “in-the-money” outstanding stock options.

18. OPERATING COSTS

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

		2012		2011
Direct mine and mill costs	**$**	**354,771**	$	350,074
Transportation		**19,979**		18,165
Royalties		**10,247**		13,781
		384,997		382,020
Depreciation, depletion and amortization (Note 7)		**121,977**		153,433
Total operating costs	**$**	**506,974**	$	535,453

19. GENERAL EXPLORATION AND BUSINESS DEVELOPMENT

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

		2012		2011
General exploration	**$**	**50,851**	$	42,575
Corporate development		**7,239**		8,127
Project development		**7,974**		-
	$	**66,064**	$	50,702

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.

20. FINANCE INCOME AND COSTS

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

		2012		2011
Interest income	$	2,070	$	3,602
Interest expense and bank fees		(6,288)		(9,011)
Accretion expense on reclamation provisions		(1,832)		(3,261)
Unrealized loss on revaluation of marketable securities		(2,321)		(3,929)
Other		913		(540)
Total finance costs, net	$	(7,458)	$	(13,139)

Finance income	$	2,983	$	3,602
Finance costs		(10,441)		(16,741)
Total finance costs, net	$	(7,458)	$	(13,139)

21. OTHER INCOME AND EXPENSES

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

		2012		2011
Foreign exchange (loss) gain	$	(5,067)	$	8,187
(Loss) gain on sale of non-core assets		(684)		2,230
Other income		9,311		6,428
Other expenses		(3,957)		(5,238)
Total other (expense) income, net	$	(397)	$	11,607

Other income	$	9,311	$	16,845
Other expenses		(9,708)		(5,238)
Total other (expense) income, net	$	(397)	$	11,607

During 2012, the Company received an initial payment of $7.9 million for insurance proceeds related to the Aguablanca ramp failure which occurred in late-2010. The Company expects to finalize the claim and receive the remaining settlement in 2013.

22. COMMITMENTS AND CONTINGENCIES

a) The Company's wholly-owned subsidiary, Somincor, has entered into the following commitments:

   i. Royalty payments under a fifty year concession agreement to pay the greater of 10% of net earnings or 1% of mine-gate production revenue with the Portuguese government. Royalty costs for the year ended December 31, 2012 in the amount of $9.4 million (2011 - $13.1 million) were included in operating costs; and

   ii. Use of the railways under a railway transport agreement that expires in January 2014. The estimated annual cost is $5 million per year.

b) Royalty payments relating to the Aguablanca mine are 2% of net sales. Royalty costs for the year ended December 31, 2012 was $0.4 million (2011 - $nil).

c) A Swedish bank has issued a bank guarantee to the Swedish authorities in the amount of $12.3 million (SEK 80.0 million) relating to the future reclamation costs at the Zinkgruvan mine. Additional bonds of $2.5 million (SEK 16.2 million) and $1.5 million (SEK 10.0 million) are to be provided in 2016 and 2024, respectively. The Company has agreed to indemnify the Swedish bank for this guarantee.

d) Under agreement with Silver Wheaton, the Company has agreed to deliver all future production of silver contained in concentrate produced from the Zinkgruvan mine. The Silver Wheaton agreement with the Zinkgruvan mine includes a guaranteed minimum delivery of 40 million ounces of silver over an initial 25 year term. If at the end of the initial term the Company has not met its minimum obligation, it must pay Silver Wheaton $1.00 for each ounce of silver not delivered. An aggregate total of approximately 14.8 million ounces has been delivered since the inception of the contract in 2004.

e) The Company provides certain letters of credit and guarantees for $1.7 million worth of contracts entered into by Tenke Fungurume Mining. These letters of credit expire in 2013.

f) The Company is a party to certain contracts relating to operating leases, office rent and capital commitments. Future minimum payments under these agreements as at December 31, 2012 are as follows:

2013	$	41,460
2014		7,016
2015		3,342
2016		482
2017		467
2018 and thereafter		319
Total commitments	**$**	**53,086**

23. 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.

For the year ended December 31, 2012

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	DRC		
Sales	$ 466,174	$ 209,621	$ 22,167	$ 23,144	$ -	$ -	$ 721,106
Operating costs	(247,610)	(93,478)	(33,046)	(8,122)	-	(2,741)	(384,997)
General and administrative expenses	-	-	-	-	-	(27,445)	(27,445)
Operating earnings (loss) *	218,564	116,143	(10,879)	15,022	-	(30,186)	308,664
Depreciation, depletion and amortization	(83,245)	(26,335)	(12,285)	-	-	(514)	(122,379)
General exploration and business development	(40,452)	(3,120)	(1,018)	-	-	(21,474)	(66,064)
Income from equity investment in Tenke Fungurume	-	-	-	-	101,516	-	101,516
Finance income and costs	672	(2,478)	(391)	180	-	(5,441)	(7,458)
Asset impairment	-	-	(67,252)	-	-	-	(67,252)
Other income and expenses	102	(4,496)	8,631	(1,340)	-	(3,294)	(397)
Income tax (expense) recovery	(20,444)	(16,816)	11,145	(412)	-	3,077	(23,450)
Net earnings (loss)	$ 75,197	$ 62,898	$ (72,049)	$ 13,450	$ 101,516	$ (57,832)	$ 123,180
Capital expenditures	$ 88,278	$ 30,517	$ 40,121	$ 24	$ 15,000	$ 431	$ 174,371
Total non-current assets**	$ 1,132,267	$ 242,353	$ 44,634	$ 6,394	$ 2,003,053	$ 11,042	$ 3,439,743

For the year ended December 31, 2011

	Neves-Corvo	Zinkgruvan	Aguablanca	Galmoy	Tenke Fungurume	Other	Total
	Portugal	Sweden	Spain	Ireland	DRC		
Sales	$ 558,044	$ 188,566	$ (1,897)	$ 39,073	$ -	$ -	$ 783,786
Operating costs	(258,991)	(94,978)	(14,820)	(12,570)	-	(661)	(382,020)
General and administrative expenses	-	-	-	-	-	(19,881)	(19,881)
Operating earnings (loss) *	299,053	93,588	(16,717)	26,503	-	(20,542)	381,885
Depreciation, depletion and amortization	(119,418)	(30,876)	(3,067)	-	-	(435)	(153,796)
General exploration and business development	(29,590)	(651)	(1,404)	-	-	(19,057)	(50,702)
Income from equity investment in Tenke Fungurume	-	-	-	-	94,681	-	94,681
Finance income and costs	(2,117)	(562)	(3,901)	460	-	(7,019)	(13,139)
Asset impairment	-	-	(35,726)	-	-	-	(35,726)
Other income and expenses	(3,834)	2,019	1,863	1,014	-	10,545	11,607
Income tax (expense) recovery	(37,498)	(15,615)	(819)	(549)	-	3,436	(51,045)
Net earnings (loss)	$ 106,596	$ 47,903	$ (59,771)	$ 27,428	$ 94,681	$ (33,072)	$ 183,765
Capital expenditures	$ 117,727	$ 41,506	$ 19,321	$ 34	$ 64,508	$ 10,043	$ 253,139
Total non-current assets**	$ 1,110,803	$ 223,660	$ 81,472	$ 6,311	$ 1,886,537	$ 10,249	$ 3,319,032

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

** Non-current assets include mineral properties, plant and equipment, investment in Tenke Fungurume and goodwill.

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

		2012		2011
Copper	**$**	**452,742**	$	563,103
Zinc		**164,144**		135,078
Lead		**71,029**		71,356
Nickel		**15,548**		(444)
Other		**17,643**		14,693
	$	**721,106**	$	783,786

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

		2012		2011
Europe	**$**	**670,781**	$	732,031
Asia		**22,167**		51,473
South America		**28,158**		282
	$	**721,106**	$	783,786

24. RELATED PARTY TRANSACTIONS

a) **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 (Note 8).

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

		2012		2011
Wages and salaries	**$**	**6,036**	$	5,992
Pension benefits		**109**		146
Share-based compensation		**2,662**		523
	$	**8,807**	$	6,661

c) **Other related parties** - During the twelve months ended December 31, 2012, the Company paid $0.3 million (2011 - $0.3 million) for services provided by a company owned by the Chairman of the Company. The Company also paid $0.5 million for the twelve months ended December 31, 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.

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial assets and financial liabilities have been classified into categories that determine their basis of measurement. The following table shows the carrying values, fair values and fair value hierarchy of the Company's financial instruments as at December 31, 2012 and December 31, 2011:

		December 31, 2012		December 31, 2011	
	Level	Carrying value	Fair value	Carrying value	Fair value
Financial assets					
Loans and receivables					
Cash and cash equivalents		$ 275,104	$ 275,104	$ 265,400	$ 265,400
Trade and other receivables		14,484	14,484	34,499	34,499
Other assets		1,478	1,478	1,455	1,455
Reclamation funds		34,838	34,838	48,446	48,446
		$ 325,904	$ 325,904	$ 349,800	$ 349,800
FVTPL					
Trade receivables	2	$ 76,237	$ 76,237	$ 81,520	$ 81,520
Marketable securities - shares	1	14,463	14,463	14,624	14,624
Marketable securities - warrants	2	150	150	443	443
Reclamation funds - shares	1	16,779	16,779	5,946	5,946
		$ 107,629	$ 107,629	$ 102,533	$ 102,533
AFS					
Marketable securities - shares	1	$ 18,506	$ 18,506	-	-
Marketable securities - warrants	2	1,211	1,211	-	-
		$ 19,717	$ 19,717	-	-
Financial liabilities					
Amortized cost					
Trade and other payables		$ 94,768	$ 94,768	$ 103,292	$ 103,292
Long-term debt and finance leases		10,022	10,022	29,346	29,346
Other long-term liabilities		3,625	3,625	5,745	5,745
		$ 108,415	$ 108,415	$ 138,383	$ 138,383

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

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

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

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

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

Trade receivables – The fair value of the embedded derivatives on provisional sales are valued using quoted market prices based on forward London Metals Exchange price. During the year, the Company recognized positive pricing adjustments of $4.5 million (2011 - $29.6 million negative adjustment) related to current and prior year sales;

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

Long-term debt and other long-term liabilities – The fair value of the Company's long-term debt approximates its carrying value as the interest rates are comparable to current market rates.

The carrying values of certain financial instruments maturing in the short-term approximate their fair values. These financial instruments include cash and cash equivalents, other receivables, trade and other payables.

26. MANAGEMENT OF FINANCIAL RISK

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

a) Credit risk

The exposure to credit risk arises through the failure of a customer or another third party to meet its contractual obligations to the Company. The Company believes that its maximum exposure to credit risk as at December 31, 2012 is the carrying value of its trade receivables.

Concentrate produced at the Company's Neves-Corvo and Zinkgruvan mines and ore produced at the Galmoy mine is sold to a small number of strategic customers with whom the Company has established long-term relationships. Limited amounts are occasionally sold to metals traders on an ad hoc basis. Production from the Aguablanca mine is sold to a trading company under a long-term contract. The payment terms vary and provisional payments are normally received within one to four weeks of shipment, in accordance with industry practice, with final settlement up to four months following the date of shipment. Sales to metals traders are made on a cash up-front basis. Credit worthiness of customers are reviewed by the Company on an annual basis or more frequently, if warranted, and those not meeting certain credit criteria are required to make 100% provisional payment up-front or by an acceptable payment instrument such as a letter of credit. The failure of any of the Company's strategic customers could have a material adverse effect on the Company's financial position. For the year ended December 31, 2012, the Company has three customers that individually account for more than 10% of the Company's total sales. These customers represent approximately 43%, 13% and 11% of total sales and relate primarily to the Neves-Corvo and Zinkgruvan mines.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company limits material counterparty credit risk on these assets by dealing with financial institutions with long-term credit ratings with Standard & Poor's of at least A, or the equivalent thereof with Moody's, or those which have been otherwise approved.

b) Liquidity risk

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

The maturities of the Company's non-current liabilities are disclosed in (Note 13 and 15). All current liabilities are settled within one year.

c) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily with respect to the €, SEK and C$.

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

As at December 31, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars but held by group companies that have functional currencies in € or SEK:

		US Dollar
Cash and cash equivalents	$	184,091
Other working capital items	$	77,449

The impact of a US dollar change against the EUR by 10% at December 31, 2012 would have a $8.7 million impact on pre-tax earnings. The impact of a US dollar change against the SEK by 10% would have a $15.0 million impact on pre-tax earnings, with all other variables held constant.

d) Commodity price risk

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

The Company may, at its election, use forward or derivative contracts to manage its exposure to changes in commodity prices, the use of which is subject to appropriate approval procedures. The Company is also subject to price risk on the final settlement of its provisionally priced trade receivables.

The sensitivity of the Company's financial instruments recorded as at December 31, 2012 excluding the effect of the changes in metal prices on smelter treatment charges is as follows:

	Price on December 31, 2012 ($/tonne)	Change	Effect on pre-tax earnings ($ millions)
Copper	7,932	+/- 10%	+/-$9.4
Zinc	2,028	+/- 10%	+/-$3.2
Lead	2,318	+/- 10%	+/-$1.8
Nickel	17,032	+/- 10%	+/-$1.2

e) Interest rate risk

The Company's exposure to interest rate risk arises from the both interest rate impact on its cash and cash equivalents as well as on its debt facilities. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any short-term investments included in cash and cash equivalents as they are generally held to maturity with large financial institutions.

27. MANAGEMENT OF CAPITAL RISK

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

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

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

The Company manages its capital by review of the following measures:

		2012		2011
Cash and cash equivalents	**$**	**275,104**	$	265,400
Long-term debt and finance leases		**(10,022)**		(29,346)
Net cash	**$**	**265,082**	$	236,054

		2012		2011
Shareholders' equity	**$**	**3,475,164**	$	3,297,856
Number of shares outstanding		**584,005,006**		582,475,287
Shareholders' equity per share	**$**	**5.95**	$	5.66

28. SUPPLEMENTARY CASH FLOW INFORMATION

		2012		2011
Changes in non-cash working capital items consist of:				
Trade receivables, inventories and other current assets	**$**	**6,139**	$	114,136
Trade payables and other current liabilities		**(3,571)**		(59,345)
	$	**2,568**	$	54,791
Operating activities included the following cash payments:				
Interest received	**$**	**2,070**	$	3,602
Interest paid	**$**	**2,724**	$	6,470
Income taxes paid	**$**	**52,076**	$	125,825

29. SUBSEQUENT EVENT

In January 2013, the Company announced that together with FCX, it has entered into a definitive agreement to acquire an effective 24% interest in a large scale cobalt chemical refinery located in Finland, as well as the related sales and manufacturing business to provide direct end market access for Tenke's cobalt production. The Company's 30% share of the initial consideration is $97.5 million (100% basis - $325 million) at closing, subject to customary working capital adjustments, expected to occur in 2013. The Company will potentially contribute an additional $33 million (100% basis - $110 million) over a three year period, contingent upon the achievement of revenue-based performance targets.