

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR AND FOURTH QUARTER ENDED DECEMBER 31, 2014**

(Expressed in millions of U.S. dollars, except where indicated)

	Three months ended December 31			Year ended December 31		
	2014	2013	Change	2014	2013	Change
FINANCIAL HIGHLIGHTS						
Net revenues ⁽¹⁾	169	253	-33%	701	1,063	-34%
(Loss) income from mining operations	(18)	(25)	27%	(12)	72	-117%
Adjusted EBITDA ⁽²⁾	34	69	-51%	123	259	-52%
Earnings (loss) for the period	4	(21)	118%	17	9	90%
Cash	62	140	-55%	62	140	-55%
Working capital	140	437	-68%	140	437	-68%

(1) Net of treatment and refining charges

(2) See " Non-IFRS Financial Measures "

⁽¹⁾ Net of treatment and refining charges

⁽²⁾ See "Non-IFRS Financial Measures"

2014 ANNUAL AND RECENT ACTIVITIES:

- In Q3 2014, the Sierra Gorda mine produced the first filtered concentrate. The first shipment of concentrate was shipped in October 2014. In December, the Sierra Gorda mine achieved an average of 52% out of the design throughput of 110 ktpd and a peak throughput of 118 ktpd, subsequent to the year end.
- The Victoria Project completed site preparation activities at the end of 2014. The Company plans to conclude the Basic Engineering Study by April 2015.
- The Sierra Gorda Oxide Project is expected to complete the Basic Engineering Study in 2015. Column and leach testing continues to yield excellent results.
- Total net revenues for 2014 decreased by 34% compared to 2013 due to the decrease in copper sales (decreased production and increased inventories) by 20%, decline in contract mining revenues at DMC and an 8% decline in average realized copper prices. The Company sold 177 million pounds of copper in 2014.
- Total production for the year was 190 million pounds of copper and 70 thousand ounces of total precious metals (TPMs) compared to 222 million pounds of copper and 98 thousand ounces of TPMs in 2013 (see **Review of Operations and Projects**). Closing inventory increased by 13 million pounds of copper in 2014 compared to 2013 due to timing of shipments.
- The decrease in copper production in 2014 is mainly due to the lower tonnage, grades and recoveries encountered at the Robinson mine in Q1 from the Kimbley pit. In order to eliminate ore gaps in 2014, The Kimbley pit provided a temporary ore source while Robinson developed the Ruth pit in 2014. For the remainder of the year, Robinson completed mining from the Kimbley pit and improved production in the second half of 2014 as the operations began mining from the Ruth pit (see **Review of Operations and Projects**).
- Despite the overall decrease in copper production, the Carlota mine saw a slight improvement in copper production as the mine extended its operating life by initiating the sub surface leaching program in the second half of 2014 (see **Review of Operations and Projects**).
- A loss from mining operations of \$12 million was recorded in 2014 compared to income generated from mining operations of \$72 million in 2013. The decrease is primarily due to a decrease in sales and production and the decline of average realized copper prices from \$3.29/lb in 2013 to \$3.01/lb in 2014 (see **Revenues**). As a result, adjusted EBITDA decreased by 52% from \$259 million in 2013 to \$123 million in 2014.

This Management Discussion and Analysis ("MD&A") of KGHM International Ltd. (formerly Quadra FNX Mining Ltd.) and its subsidiaries ("KGHMI" or the "Company") has been prepared as at March 13, 2015 and is intended to be read in conjunction with the accompanying audited consolidated financial statements for the year ended December 31, 2014. This MD&A contains 'forward looking information' and reference to the cautionary statement at the end of this MD&A is advised. All financial information in this MD&A is prepared in accordance with the International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in millions of United States dollars unless otherwise indicated.

- Earnings improved by \$8 million to \$17 million in 2014 compared to \$9 million in 2013 due to an increase in finance income on the subordinate loans to Sierra Gorda JV (see **Financial Performance**).
- During the second quarter of 2014, the Company entered into a \$100 million cash pooling arrangement with KGHM. The limit was increased to \$150 million by Q4 2014. As at December 31, 2014 the Company had utilized \$70 million under the cash pooling arrangement. The Company entered into a \$200 million Corporate Facility in Q2 2013, which was fully drawn down at December 31, 2014 (see **Liquidity and Capital Resources**). On January 28, 2015, the Corporate Facility was refinanced by a term loan from the shareholder.

FOURTH QUARTER

- Despite improved production at Robinson and Morrison compared to Q3 2014, net revenues decreased 33% compared to Q4 2013 due to decreased sales volumes (as a result of timing of shipments) and a decline in realized metal prices.
- The Company recorded a loss from mining operations of \$18 million in Q4 2014 compared to a loss of \$25 million for the same period of 2013. The loss in the current quarter is due to a decrease in revenues from a decline in metal prices and reduced sales volumes. The loss in Q4 2013 was mainly resulted from the impairment of non-current asset at Carlota.
- Adjusted EBITDA decreased 51% compared to Q4 2013 mainly due to decreased sales and a decline in average realized copper price.
- Earnings improved by \$25 million to \$4 million compared to a loss of \$21 million in 2013 primarily due to interest earned by the subordinated loans to Sierra Gorda JV.
- Total production for the quarter was 49 million pounds of copper and 19 thousand ounces of TPMs compared to 54 million pounds of copper and 24 thousand ounces of TPMs in the same period of 2013. Copper cash costs were \$2.11 per pound in Q4 2014 compared with \$1.97 per pound for Q4 2013. The increase in cash cost per pound sold primarily relates to increased cash costs at Robinson due to a decrease in recovery rates in the mill (see **Review of Operations and Projects**).
- The Carlota mine completed mining of ore from the pit during Q4 2014. The sub surface leaching program commenced in Q3 2014, and is anticipated to significantly extend the leach pad life.

FINANCIAL PERFORMANCE

Earnings

The Company recorded earnings of \$17 million for 2014 compared to \$9 million for 2013. Despite a loss from mining operations recorded for the year due to a decline in revenues (see **Revenues**), earnings were higher in 2014 compared to 2013 as 2013 earnings were impacted by the impairment of marketable securities of \$35 million and a foreign exchange loss of \$16 million. The Company recorded a foreign exchange loss of \$5 million in 2014 from less cash held during the year. Finance income increased by \$25 million in 2014 due the increase in subordinated loans to Sierra Gorda JV. The decrease in general and administrative expense was offset by an increase in finance expenses for 2014 related to the corporate facility entered into 2013 (see **General & administrative and other expenses**). The Company recorded an income tax recovery of \$16 million in 2014 compared to a tax expense of \$8 million for 2013. The tax recovery in the current year resulted from the realization of the tax benefit on operating losses in the U.S operations.

During 2014, the Company sold 176.7 million pounds of copper at an average effective price of \$3.01/lb and 66.5 thousand ounces of TPMs compared to 222.2 million pounds of copper in 2013 at an average effective price of \$3.29/lb and 99.6 thousand ounces of TPMs.

Revenues

Year ended December 31, 2014

	McCreedy						Total
	Robinson	Morrison	Franke	Carlota	West	DMC	
Copper sales (million lbs)	75.2	34.5	41.3	22.8	2.9	-	176.6
(in millions of U.S. dollars)							
Copper	220.6	104.2	129.1	69.8	8.9	-	532.6
Nickel	-	47.8	-	-	7.9	-	55.7
Other by product ⁽¹⁾	34.9	30.5	-	-	4.1	-	69.5
Contract mining	-	-	-	-	-	107.1	107.1
Treatment and refining charges	(24.6)	(36.0)	-	-	(3.0)	-	(63.6)
Total net revenues	230.9	146.5	129.1	69.8	17.9	107.1	701.3

Year ended December 31, 2013

	McCreedy						Total	
	Robinson	Morrison	Franke	Carlota	Podolsky	West		
Copper sales (million lbs)	108.0	41.4	43.5	21.6	4.7	3.0	222.2	
(in millions of U.S. dollars)								
Copper	353.5	135.0	145.0	72.0	15.9	10.5	-	731.9
Nickel	-	40.9	-	-	1.9	23.8	-	66.6
Other by product ⁽¹⁾	78.3	33.5	-	-	3.6	6.1	-	121.5
Contract mining	-	-	-	-	-	-	215.3	215.3
Treatment and refining charges	(24.7)	(41.3)	-	-	(4.6)	(1.9)	-	(72.5)
Total net revenues	407.1	168.1	145.0	72.0	16.8	38.5	215.3	1,062.8

⁽¹⁾ *Mainly from precious metals (gold, platinum and palladium)*

Revenues, other than contract mining, are generated by the sale of copper concentrate, copper cathodes and copper and nickel ore. For the sale of copper concentrate and copper and nickel ore, revenues are generally recognized at the time of delivery to a customer based on metal prices at that time; however, under current sales contracts, final pricing for copper sold in concentrate and copper and nickel ore is generally fixed, up to six months after the time of arrival of a shipment at the customer's port of delivery. As a result, the Company's revenues include estimated prices for sales, based on forward copper prices at year end, as well as pricing adjustments for sales that occurred in the previous year based on the difference between the actual price received and the price at year end for sales from the previous years that were not settled in that year. The pricing of copper cathode sales is generally set in the month of shipment or one month after the time of shipment and therefore pricing adjustments in subsequent periods are minimal. Revenues from sales of Sudbury copper and nickel ores are recognized based on the payable metals that are estimates based on metallurgical testing and interim payment terms, neither of which is binding and, as such, final payment terms could differ from those reported. Contract mining revenues are generated from services performed.

2014 net revenues decreased by \$362 million or 34% compared to 2013. The decrease in net revenues is primarily due to a decrease in production at Robinson in the first half of 2014, lower contract mining revenues from DMC, and an 8% decline in realized copper price. Total precious metal and nickel revenues also decreased due to lower sales volumes at Robinson and reduced nickel shipments at McCreedy West. The effective copper price for 2014 was \$3.01/lb compared to \$3.29/lb in 2013.

2014 revenues at Morrison and McCreedy West included non-cash revenue of \$11.5 million representing the amortization of a deferred revenue liability related to the Company's obligation to sell to Franco-Nevada 50% of the gold, platinum and palladium contained in ore mined and shipped from certain deposits.

Mine operating expenses and operating income

	Year Ended December 31, 2014							Total
	McCreedy							
	Robinson	Morrison	Franke	Carlota	West	DMC	Other	
Net revenues	230.9	146.5	129.1	69.8	17.9	107.1	-	701.3
Depreciation and amortization	81.8	57.4	10.3	-	4.2	4.7	-	158.4
Employee benefits expense	38.4	24.4	24.0	14.7	4.7	47.1	0.9	154.2
Raw materials, other consumables and energy	89.3	25.0	63.6	27.7	4.1	4.7	1.8	216.2
Office expenses	12.0	6.4	10.0	3.9	0.9	3.2	0.3	36.7
External services	25.7	17.2	14.9	3.8	4.6	53.0	0.7	119.9
Royalties	6.7	-	1.0	2.1	-	-	-	9.8
Reversal of leach pad inventory impairment	-	-	-	(11.5)	-	-	-	(11.5)
Changes in Inventories	(9.1)	0.2	(4.4)	5.0	0.4	-	(1.2)	(9.1)
Distribution costs	32.4	3.1	2.3	-	1.1	-	-	38.9
Cost of Sales	277.2	133.7	121.7	45.7	20.0	112.7	2.5	713.5
Operating income (loss)	(46.3)	12.8	7.4	24.1	(2.1)	(5.6)	(2.5)	(12.2)

	Year Ended December 31, 2013							Total
	McCreedy							
	Robinson	Morrison	Franke	Carlota	Podolsky	West	DMC	
Net revenues	407.1	168.1	145.0	72.0	16.8	38.5	215.3	1,062.8
Depreciation and amortization	56.4	69.9	22.2	-	1.9	9.8	4.5	164.7
Employee benefits expense	44.7	24.6	27.1	15.8	4.0	11.8	65.9	193.9
Raw materials, other consumables and energy	105.1	27.0	74.6	36.9	3.4	10.7	-	257.7
Office expenses	18.1	7.7	8.4	3.7	1.5	1.9	3.7	45.0
External services	42.4	20.7	17.3	6.3	4.2	9.1	121.3	221.3
Impairment of non-current assets	-	-	-	55.4	-	-	-	55.4
Royalties	12.0	-	-	2.9	-	-	-	14.9
Changes in Inventories	(8.3)	(0.2)	9.3	(9.4)	0.2	(0.2)	-	(8.6)
Distribution costs	35.3	4.6	1.7	-	1.4	3.5	-	46.5
Cost of Sales	305.7	154.3	160.6	111.6	16.6	46.6	195.4	990.8
Operating income (loss)	101.4	13.8	(15.6)	(39.6)	0.2	(8.1)	19.9	72.0

Cost of sales decreased by \$277 million or 28% in 2014 compared to 2013 primarily due to the lower cost of sales at DMC, Carlota, and Franke. Cost of sales at DMC were lower in 2014 as contract mining activities decreased compared to 2013 from the change in project phases, completion of projects in 2013 that are non-recurring, and less favourable market conditions (“**Review of Operations and Projects**”). Carlota cost of sales in 2014 was positively impacted by the partial reversal of a previous leach pad inventory write down as a result of the initiation of sub surface leaching program while 2013 cost of sales was negatively impacted by \$55 million pre-tax impairment of non-current assets. Cost of sales decreased at Franke primarily due to a reduction in operating costs from a favourable foreign exchange rate and lower acid consumption as a result of the ore blending strategy.

General & administrative and other expenses

General and administrative expenses for Q4 2014 were \$8.2 compared to \$11.0 million for Q4 2013. General and administrative expenses for 2014 were \$37.8 million compared to \$47.6 million in 2013. Lower general and administrative expenses in 2014 were primarily due to cost saving initiatives and the weaker Canadian dollar.

The Company recognized finance income of \$25.3 million for Q4 2014 and \$94.2 million for 2014 compared to \$8.5 million and \$69.1 million for the same periods in 2013. The increase in finance income in 2014 was primarily due to the interest earned from the loans to Sierra Gorda JV, which increased substantially in the year.

Finance expenses for 2014 of \$58.9 million was higher than the same period in 2013 of \$49.4 million mainly due to financing expense on the corporate facility entered into in 2013.

Other income of \$25.1 million for 2014 was lower than the \$31.5 million recognized in 2013 due to a gain on sale of marketable securities recognized in 2013.

In 2013 an impairment loss of \$35.1 million was recognized on marketable securities due to sustained declines in market values.

The depreciation of the Chilean peso and Canadian dollar helped operating costs but not cash balances. The Company recorded a foreign exchange loss of \$5.4 million in 2014 compared to \$16.2 million for 2013. The foreign exchange loss was derived from foreign cash held. To mitigate the risks related to costs incurred in those currencies, the Company no longer holds large foreign currency balances.

The Company recorded an income tax recovery of \$16.2 million in 2014 compared to income tax expense of \$8.2 million in 2013. The tax recovery in 2014 is mainly due to tax net operating losses carried back to previous years in the US.

FOURTH QUARTER FINANCIAL PERFORMANCE

The following table summarizes the financial results of the most recent eight quarters (unaudited):

SUMMARY OF QUARTERLY FINANCIAL RESULTS								
	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net revenues *								
Robinson	54	81	65	30	85	72	151	100
Carlota	17	18	19	17	19	15	18	20
Franke	27	43	24	35	45	44	29	28
Morrison	38	38	40	31	58	40	36	33
Podolsky	0	0	0	0	0	2	0	15
McCreedy West	3	2	5	8	9	7	10	13
DMC	29	25	27	27	37	44	71	63
Net revenues - Total	169	207	179	148	253	224	314	272
Income (loss) from operations	(18.2)	5.4	23.3	(22.7)	(25.0)	6.2	26.9	63.9
Earnings (loss) before income taxes	(14.3)	12.8	26.8	(24.4)	(44.9)	20.2	12.6	29.7
Earnings (loss)	3.7	11.6	22.4	(20.6)	(20.7)	13.6	1.7	14.8
Basic and diluted earnings (loss) per share	\$0.05	\$0.03	\$0.08	(\$0.10)	(\$0.10)	\$0.07	\$0.01	\$0.07

* See “**Financial Performance – Revenues**” section for description of payments process. Net revenues are net of treatment and refining charges.

Earnings

The Company recorded earnings of \$3.7 million or \$0.05 per share (basic) for Q4 2014, compared to a loss of \$20.7 million or \$0.10 per share (basic) for Q4 2013. Q4 2013 earnings were negatively impacted by the pre-tax impairment of non-current assets at Carlota of \$55.4 million.

Net revenues

Net revenues in Q4 2014 decreased compared to the same quarter of 2013 mainly due to a reduction in sales volumes from the decrease in production and timing of sales shipments. The decline in copper price also contributed to the decrease in net revenues. Average realized copper price for Q4 2014 was \$2.83/lb compared to \$3.33/lb for Q4 2013. Q4 2014 revenues at Morrison and McCreedy West also included non-cash revenue of \$4.2 million for the amortization of a deferred revenue liability related to Franco Nevada.

At December 31, 2014, receivables at the Robinson mine and Sudbury operations include 36.5 million pounds of copper which has been provisionally valued at \$2.86/lb.

Cost of sales and operating income

Cost of sales in Q4 2014 were \$186.8 million compared to \$277.8 million in the same period of 2013. Higher cost of sales in Q4 2013 was due primarily to the impairment of non-current asset of \$55.4 million at Carlota (see “**Review of Operations and Projects**”). The remainder of the decrease in cost of sales in Q4 2014 is due to lower operating cost at Franke (favourable foreign exchange) and reduced production at Robinson.

The Company recorded an operating loss of \$18.2 million in Q4 2014 compared to \$25.0 million in the same period of 2013. Excluding the Carlota impairment recognized in Q4 2013 of \$55.4 million, operating income would have decreased by \$48.5 million compared to the same quarter of 2013. The decrease in operating income is attributed to a combination of a decline in average realized copper prices, timing of sales shipments and decrease in ore sold at Morrison and McCreedy West (see “**Review of Operations and Projects**”).

REVIEW OF OPERATIONS AND PROJECTS

PRODUCTION SUMMARY

Production for the quarter and year ended December 31, 2014 from the Company's operating mines is summarized as follows:

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Copper production (Mlbs)				
Robinson ⁽²⁾	23.0	21.9	86.6	107.9
Morrison deposit ⁽⁴⁾	9.4	13.7	34.5	41.4
Franke ⁽³⁾	10.4	11.8	42.5	43.9
Carlota ⁽³⁾	5.8	5.5	23.0	21.3
Podolsky ⁽⁴⁾	0.0	0.0	0.0	4.7
McCreedy West ⁽⁴⁾	0.7	0.8	2.9	3.0
	49.3	53.7	189.5	222.2
Nickel production (Mlbs)				
Morrison deposit ⁽⁴⁾	1.7	2.1	6.2	6.3
Podolsky ⁽⁴⁾	0.0	0.0	0.0	0.2
McCreedy West ⁽⁴⁾	0.2	0.9	0.9	3.7
	1.9	3.0	7.1	10.3
TPM ⁽¹⁾ (kzs)				
Robinson ⁽²⁾	7.4	7.2	24.9	45.1
Morrison deposit ⁽⁴⁾	10.6	15.9	41.0	44.5
Podolsky ⁽⁴⁾	0.0	0.0	0.0	4.7
McCreedy West ⁽⁴⁾	1.2	0.7	4.1	4.0
	19.2	23.8	70.0	98.3
Total copper equivalent (Mlbs) ⁽⁵⁾	61.1	68.6	234.3	283.3

⁽¹⁾ Total precious metal, including gold, platinum and palladium

⁽²⁾ Payable metals produced in concentrate

⁽³⁾ Produced in cathode

⁽⁴⁾ Shipped payable metal

⁽⁵⁾ Copper equivalent amounts are based on average realized settlement commodity LME prices and excludes the impact of the Franco Nevada Agreement.

Robinson (Nevada, U.S.)

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Copper production payable (Mlbs)	23.0	21.9	86.6	107.8
Gold production payable (kozs)	7.4	7.2	24.9	45.1
Ore mined (Mt)	3.3	4.1	12.7	16.2
Waste mined (Mt)	20.2	22.8	76.9	73.1
Ore milled (Mt)	3.3	3.4	13.7	14.8
Copper grade (%)	0.45	0.39	0.41	0.43
Gold grade (g/t)	0.16	0.16	0.15	0.20
Copper recovery (%)	73.7	76.9	73.7	81.0
Gold recovery (%)	39.6	42.0	37.3	46.4
Cash cost per pound of copper sold	\$2.24	\$1.68	\$2.52	\$1.83
Capital expenditure	\$30.7	\$54.0	\$121.5	\$113.0
Cost of goods sold*	\$44.9	\$48.1	\$199.5	\$251.7
Operating income (loss)	(\$25.3)	\$15.3	(\$46.3)	\$101.4

* Including royalties but excluding treatment and refining charges and depreciation, depletion and amortization

Payable copper production in 2014 decreased by nearly 20% compared to 2013. The major variance was caused by the very substantial production in the first half of 2013 of 67 million pounds of copper. In the first half of 2014, ore deliveries originated from the Liberty pit and Kimbley pit, which were characterized with lower head grade and recovery rates, compared to the higher quality cleaner ores processed in the first half of 2013 from the Ruth pit. Ore tonnes milled in 2014 were impacted by a 26-day mill shutdown in Q3 2014 to replace the mill SAG gear. 2014 total tonnes mined were in line with 2013 with a 5% increase in waste mined in 2014.

Production in the second half of 2014 improved over the first half of 2014 (and the second half of 2013) due to blending synergies and higher grades material mined from the bottom of the Ruth East pit in September, compared to lower quality material mined from the Kimbley pit in the first half of 2014. Production in Q4 2014 was higher than Q4 2013 due to an increase in head grade. In Q4 2013, ore deliveries were from the Liberty pit, which was a lower quality ore than the ore delivered from the Ruth complex in Q4 2014.

Robinson production costs and capital expenditures

Cost of goods sold in Q4 and in 2014 was lower than the same periods of 2013 primarily due to a decline in sales volumes, lower production costs after the capitalization of waste removal costs related to future ore production, and aggressive cost cutting measures that were implemented in 2014. Q4 2014 sales volumes were in line with the same period of 2013 but total sales volumes for 2014 decreased by 24% compared to 2013 due to a decrease in production and copper concentrate grade.

The cash cost per pound of copper sold is a non-IFRS term and consists of the cash portion of cost of sales, less by-product revenue, divided by the pounds of payable copper sold in the period (see "Non-IFRS Financial Measures"). The cash cost per pound of copper sold increased from \$1.83 to \$2.52 and from \$1.68 to \$2.24 for 2014 and Q4 2014 compared to the same periods in 2013, respectively. The increase in cash costs for the year was primarily affected by less by-product revenue and a decrease in the quantity of copper sold compared to the previous periods.

Capital expenditures at Robinson in 2014 were primarily related to capital stripping, dewatering and infrastructure for the Ruth pits, tailings storage facility developments and environmental compliance projects. Capitalized stripping costs for 2014 and Q4 2014 totaled \$109 million and \$39 million respectively.

Robinson Outlook

Mining in 2015 is planned to come entirely from the Ruth pit. Capital expenditures for 2015 will primarily relate to stripping of waste, environmental compliance projects, dewatering and geotechnical engineering.

Morrison deposit (Ontario, Canada)

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Copper ore sold (kt)	64.7	78.6	237.8	260.8
Copper grade (%)	7.5	9.3	7.5	8.3
Copper sold - payable (Mlbs)	9.4	13.7	34.5	41.4
Nickel sold - payable (Mlbs)	1.7	2.1	6.2	6.3
Gold sold - payable (kozs)	2.1	2.0	6.4	6.3
Platinum sold - payable (kozs)	2.2	3.8	9.5	10.5
Palladium sold - payable (kozs)	6.3	10.0	25.1	27.7
Cash cost per pound of copper sold (\$/lb)	\$1.15	\$1.08	\$1.29	\$1.50
Capital expenditure	\$7.1	\$9.2	\$30.8	\$33.2
Cost of goods sold*	\$18.1	\$22.5	\$76.3	\$84.6
Operating income (loss)	\$3.5	\$13.4	\$12.8	\$13.8

*Excluding treatment and refining charges and depreciation, depletion and amortization

Copper ore produced and sold in 2014 was 9% lower than 2013 due to increased seismic activity resulting in limited access to certain affected workplaces and the change in longhole production. Copper grade in 2014 was 8% lower than in 2013 due to sequence driven mining of more peripheral veins. Payable copper production and sales in 2014 decreased 17% from 2013 due to the reduced throughput and grade.

Ore production in Q4 2014 increased by 20% compared to Q3 2014 but decrease by 18% compared to the same period of 2013. In Q4 2013, Morrison produced at record levels due to higher grade ore from the Craig pillar. Despite successfully executing another Craig pillar stope in December 2014, the volume and grades were lower than the stope mined in 2013 resulting in 31% lower payable copper production than Q4 2013.

Morrison production costs and capital expenditures

Cost of goods sold in 2014 were 9% lower than in 2013 due primarily to savings on contract labour through workforce integration from McCreedy, improved maintenance reliability with the Craig infrastructure and a favourable Canadian dollar exchange rate. Cash cost per pound of copper sold in 2014 decreased by 14% from 2013 as a result of the overall lower operating costs and higher by-product revenues.

The cost of goods sold in Q4 2014 was 18% less than the same period in 2013 due to lower production volumes and favourable Canadian dollar exchange rate. However, the cash cost per pound of copper sold was 6% higher in Q4 of 2014, primarily due to the decreased production of all metals compared to the record quarter in 2013.

Capital expenditures in 2014 primarily related to lateral development and diamond drilling. Development continued on both the 5040 ramp and the Morrison down ramp.

Morrison deposit outlook

Production in 2015 is expected to be similar to 2014 production levels. A planned increase in longhole production and expectations of continued seismic delays will impact production volume. Development will continue to the extent of the 5040 level, and the Morrison ramp will continue to advance. Diamond drilling of the Morrison down dip extension will continue throughout 2015.

Other Mining Operations*

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Copper production (Mlbs)	16.9	18.1	68.4	73.1
Nickel production (Mlbs)	0.2	0.9	0.9	3.9
TPM ⁽¹⁾ (kozs)	1.2	0.7	4.1	8.7
Cash cost per pound of copper sold (\$/lb)	\$2.50	\$2.80	\$2.47	\$2.98
Capital expenditure	\$0.6	\$3.8	\$4.8	\$9.3
Cost of goods sold ⁽²⁾	\$40.7	\$64.3	\$173.3	\$244.4
Operating income (loss)	\$3.6	(\$56.3)	\$26.9	(\$63.1)

* Other Mining Operations consist of Franke, Carlota, McCreedy West and Podolsky

⁽¹⁾ Total precious metal, including gold, platinum and palladium

⁽²⁾ Including royalties and excluding depreciation, depletion and amortization

Copper production for the year and Q4 2014 decreased from the same periods in 2013 primarily due to the completion of production at the Podolsky mine and a slight decrease at the Franke mine. The economic resource was depleted at Podolsky and mine production came to a close at the end of Q1 2013.

2014 copper production at Franke decreased by 3% or 1.4 million pounds primarily due to a decline in copper ore grade from 0.70% in 2013 to 0.66% in 2014. Production levels in the quarter and for 2014 continued with the favourable China:Franke pit ore blend.

2014 copper production at Carlota increased by 8% or 1.7 million pounds from 21.3 million pounds in 2013. Total tonnes mined and ore placed in Q4 2014 were significantly lower than the same period of 2013 due to the planned reduction in the overall mining rate. Carlota completed mining ore from the pit during Q4 2014. The Sub surface leaching program commenced in Q3 2014 with leaching throughout Q4 2014. The sub surface leaching program is expected to extend the operating life of the mine.

Production costs and capital expenditures

Cost of goods sold for the year decreased by 29% compared to 2013 due to a decline in costs at Podolsky and Carlota as a result of decreased mining activities at these mines.

Cash cost per pound of copper sold in 2014 decreased by 17% compared to 2013 due to a reduction in cash cost per pound sold at Franke from \$3.17 in 2013 to \$2.67 in 2014. Carlota cash cost per pound of copper sold decreased from \$2.53 in 2013 to \$1.98 in 2014 primarily due to the reversal of the leach pad inventory impairment in Q2 2014 as a result of the planned introduction of sub surface leaching program. Franke recorded an overall decrease in costs primarily due to the positive impact of exchange rates.

Capital expenditures significantly decreased in 2014 from 2013 due to minimal capital expenditures at McCreedy West from suspended Nickel Ore mining. 2014 capital expenditures were comprised mainly of sustaining capital projects at Franke. There were no capital expenditures during the year for Carlota and limited activity at McCreedy West.

Other operations recorded an operating income of \$26.9 million in 2014 compared to an operating loss of \$63.1 million due to the reversal of the leach pad inventory at Carlota in Q2 2014 and the impairment of non-current asset at Carlota in Q4 2013 for \$55.4 million.

Other Operations Outlook

At Franke blending of the 2:1 China:Franke pit ore will continue in 2015. Copper production is expected to be slightly lower than 2014 due to lower expected recovery of copper from a lower ore grade. Exploration work is planned for the Pelusa area in 2015 as the Company plans to invest in near mine exploration activities.

Carlota is focusing on optimizing cash flow while advancing activities related to the winding down of mining operations. Based on the 2015 mine plan, surface and sub-surface leaching will continue in 2015, followed by

residual leaching. Concurrent reclamation activities will continue using existing manpower and equipment to minimize long term environmental risk of the property.

McCreedy West 2015 production is expected to continue only from the 700 Copper zone. Current expectations are to continue producing at a rate similar with Q4 2014 results, while further reducing operating expenditures to remain cash flow positive.

DMC Mining Services

In Q4 2014, DMC recorded revenue of \$28.8 million compared to \$37.2 million in the same period in 2013. Revenue was lower than the same quarter in 2013 mainly due to slower pace of work on a large Canadian project. Fewer projects in the United States resulting from less favourable market conditions also contributed to a decrease in revenue for the current quarter. Operating income for Q4 2014 was nil compared to \$2.6 million in the same period in 2013.

DMC recorded revenue of \$107.1 million in 2014 compared to \$215.3 million in 2013. An operating loss of \$5.6 million was recorded in 2014 compared to income of \$19.9 million in 2013 due to slower pace of work at ongoing projects and a number of large contracts that were completed in 2013 but were not replaced in the current year. DMC also carries out work for the Company, where revenue and profit is eliminated from the financial results.

DMC Outlook

The contract mining market is impacted by lower commodity prices in the near term. DMC expects the pace of work on existing contracts to increase in 2015, which will provide stable revenues for the business.

JOINT VENTURE OPERATIONS AND PROJECTS UNDER DEVELOPMENT

Sierra Gorda Joint Venture

The following information is reported on a full 100% project basis. The Company is responsible for 55% of these amounts.

The following table summarizes selected production information of the Sierra Gorda JV:

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Copper production payable (Mlbs)	23.6	-	27.8	-
Copper grade (%)	0.44	-	0.47	-
Copper recovery (%)	54.1	-	50.7	-
Ore mined (Mt)	4.9	-	7.6	-
Waste mined (Mt)	30.3	-	91.9	-
Ore milled (Mt)	4.1	-	4.8	-
Copper sold - payable (Mlbs)	12.8	-	14.4	-
Silver sold - payable (kozs)	47.9	-	57.8	-
Gold sold - payable (kozs)	2.6	-	2.6	-

Sierra Gorda activities and outlook

By the end of Q3 2014 the Sierra Gorda project construction had been substantially completed. The operational ramp up continued throughout Q4 2014. In December, the Sierra Gorda mine achieved an average of 52% out of the designed throughput of 110 ktpd and a peak throughput of 118 ktpd, subsequent to the year end. Pre-stripping activities were completed by the end of Q1 2014 and an additional 99.5 million tonnes of material was extracted and 4.8 million tonnes of ore milled by the end of Q4 2014.

On August 2014, the grinding circuit was officially started and the first filtered concentrate was produced. The first shipment of concentrate was sold on October 2014. On December 14, 2014, this shipment with approximately 6 thousand tonnes of copper concentrate reached the port in Niihama, Japan. As of December 31, 2014 the JV had

realized sales proceeds of \$19 million, which have been offset against capitalized costs during the pre-operating phase.

The construction of the Moly plant was substantially completed by the end of the year and the commissioning and first production of moly concentrate is expected in the first quarter of 2015.

By the end of Q4 2014, the Sierra Gorda mine produced 28 million pounds of payable copper,

Operational ramp up is expected to continue in the first half of 2015 with commercial production achieved by the beginning of Q2 2015. In addition, engineering studies are ongoing to progress the options for the phase two plant expansion and additional SXEW plant

Operation ramp up is expected to continue in the first half of 2015 with commercial production achieved by the beginning of Q2 2015.

The following table summarizes the financial information of the Sierra Gorda JV:

	December 31, 2014	December 31, 2013
	100%	100%
Current Assets	449.3	549.9
Cash and cash equivalents	279.7	285.8
Other	169.6	264.1
Non-Current Assets	5,773.2	3,905.5
Mineral property, plant and equipment	5,743.0	3,891.5
Other	30.2	14.0
Total Assets	6,222.5	4,455.4
Current Liabilities	419.0	383.4
Non-Current Liabilities	4,586.3	3,134.8
Subordinated sponsors' loans	3,230.2	2,039.2
Senior project loans	910.0	1,000.0
Other	446.1	95.6
Total Liabilities	5,005.3	3,518.2

In 2013, the JV entered into lease agreements to lease various mining equipment with minimum lease payments of \$62 million. These lease agreements have been accounted for as finance leases with a term of 84 months, and the interest rate varies based on the specific lease agreement. The total of the equipment was sold for \$185 million. The leases are based on a term of 72 months for electric shovels with a fixed rate of interest and 84 months for the rest of the equipment with the 6 month Libor rate plus a margin. In addition, the JV has recognized embedded leases of \$80 million based on a term of 252 months within the Abengoa transmission line construction contracts. months.

In January 2014, some citizens of Antofagasta filed two Constitutional legal actions before the Court of Appeals of Antofagasta to stop the construction of the ATI concentrate warehouse at the port of Antofagasta. The intention of the legal action was to obtain annulment of the permits to transport and store of the Sierra Gorda JV's copper concentrate. On February 26, 2014, the Court of Appeals of Antofagasta ruled in favour of the plaintiffs and annulled all permits, requesting the Sierra Gorda JV to re-enter the environmental evaluation system including all activities. The Sierra Gorda JV appealed to the Supreme Court of Chile. On August 4, 2014, the Supreme Court of Chile reversed the judgment of the Court of Appeals of Antofagasta made in February 2014. Due to the reversals of such annulments, the construction of the warehouse at the port of Antofagasta restarted in late August but the delay has caused concentrate shipments to temporarily be transported by truck. Construction completion and commissioning of the concentrate storage and loading facilities in Antofagasta are scheduled for the second quarter of 2015. The JV continues to use the public port facilities in Antofagasta and Arica to ship concentrates.

Sierra Gorda Oxide Ore

The Sierra Gorda Oxide deposit is part of the Sierra Gorda mineral property. The Company is evaluating the opportunity for copper production from Oxide ore mined at the Sierra Gorda project. In 2012, a Pre-Feasibility study indicated that processing of the Oxide ore, which are being mined as part of the pre-stripping and normal mine development activities, was feasible.

Column leach testing continues to yield excellent results. Heap leach testing at the pilot plant continues.

Under the terms and conditions of the JV agreement Sumitomo has the option to participate in the Oxide project, or the Company can develop the resource independently of the JV. When completed, the Feasibility Study and leach testing data will be presented to Sumitomo (the JV partner) for review and consideration for participation.

Victoria Project

In December, development of tendering packages was initiated for EPCM services, Shaft Sinking, Subcollar & Pre-Sink Preparation, and surface construction packages.

Site preparation activities were completed with the site being put into a care and maintenance mode until the end of Q1 2015. Detailed engineering was initiated with various engineering firms. A team of third party subject matter experts conducted a technical review of the sinking and raising methods and sequencing. The recommended scope and sequencing was incorporated into the project execution plan. The project took receipt of water treatment equipment, hoist ropes and parts of the hoisting system. Procurement focused on selecting power infrastructure suppliers and establishing orders for the equipment.

The Company established Impact Benefit Agreements (IBA) Implementation committees with both Atikameksheng Anishnawbek and Sagamok Anishnawbek. Discussions regarding the process to achieve IBAs are for Full Production, and attain consultation on the Full Production Closure Plan and required permits were initiated with both First Nations in at the end of 2014.

The Company submitted the application for Amendments to the Closure Plan. The Project is anticipating that the permit relating to project power generation during the next stage of construction is expected to be issued in January 2015.

Victoria Project Outlook

The Company will conclude the Basic Engineering Study by April 2015.

During Q1 2015, tendering packages will be prepared and issued to secure primary contractors for pre-sink preparations, shaft sinking and surface infrastructure construction. Site activities will focus on initiating construction for power infrastructure, hoisting plant construction, utility distribution and preparation for shaft sinking. Engineering and procurement efforts will concentrate on preparation for critical path infrastructure, construction and shaft development. Project services will continue to advance training, systems and procedures to achieve a state of readiness for full project execution.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2014, the Company had cash and cash equivalents of \$62.4 million. These amounts are comprised of cash deposits and highly liquid investments that are readily convertible to cash. The counter parties include banks, governments and government agencies.

The Company generated cash from operating activities of \$94.7 million for 2014 compared to \$234.6 million for 2013. The decrease in operating cash flow is largely driven by lower income from operations (see **“Mine operating expenses and operating income”**).

At December 31, 2014, the Company had working capital of \$140.1 million as compared to \$437.2 million at December 31, 2013. The decrease in working capital in 2014 is primarily a result of the increased investment in Sierra Gorda which was funded by a decrease in cash position, receipt of funds from cash pooling in the year, as

well as receipts from accounts receivable and notes receivable from December 31, 2013. At December 31, 2014, accounts receivable and revenues include approximately 36.5 million pounds of copper that has been provisionally valued at \$2.86/lb. The final pricing for these provisionally priced sales is expected to occur between January and April 2015. Changes in the price of copper from the amounts used to calculate the provisional values will impact the Company's revenues and working capital position in the first and second quarters of 2015.

Capital spending in 2014 was \$238.1 million for operations and projects. In 2014, the Company advanced as subordinated debt \$512.3 million and as equity contribution \$154.0 million to the Sierra Gorda JV for the construction and commissioning of the Sierra Gorda mine. The expenditure of Sierra Gorda and Victoria was partially funded by \$357.0 million received in common share issuances.

To provide funds for general corporate purposes the Company entered into a \$200.0 million Corporate Facility dated for reference June 19, 2013. In Q1 2014, KGHM provided a letter of credit in the amount of \$137.5 million on behalf of the Company for the Sierra Gorda joint venture power purchase agreement ("PPA obligation") thereby releasing \$137.5 million of capacity in the Corporate Facility which was being utilized at December 31, 2013. The Company had total draws of \$200.0 million in cash under the Corporate Facility at December 31, 2014. In January 2015, the entire outstanding balance and interest under the Corporate Facility was fully repaid. Funds for the repayment were provided by a \$200.0 million term loan due December 31, 2019 from Bidco. As at December 31, 2014, \$77.5 million of letters of credit was being financed by KGHM on behalf of the Company in addition to the PPA obligation.

During the second quarter of 2014, the Company entered into a \$100 million cash pooling arrangement with KGHM ("Cash Pooling") that was increased to \$150 million by Q4 2014. The Cash Pooling bears interest at LIBOR plus margin. The Cash Pooling is unsecured and is subordinated and postponed to the Corporate Facility; in addition repayments of advances are subject to limitations governed by the Corporate Facility and there are no fixed terms of repayment. As of December 31, 2014 the Company had utilized \$70.0 million under the Cash Pooling.

During 2014, the Company issued 399,885,900 common shares to KGHM for total proceeds of \$357.0 million, of which 168,759,900 common shares were issued for proceeds of \$147.0 million during Q4 2014.

Liquidity Outlook

The Company's future profitability and cash position are highly dependent on the price of copper and to a lesser extent, precious metals and nickel. Future changes in the price of copper will also impact the final settlement price of provisionally priced sales. The Company expects to spend approximately \$558 million on capital, largely for development projects, for 2015 including funding of ramp up costs to the Sierra Gorda JV. At projected metal prices, the Company expects that it will be able to meet these capital requirements from a combination of direct funding from the parent KGHM, available facilities and internally generated funds.

Commitments and contractual obligations

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Reclamation liabilities	21.5	3.3	3.5	3.4	13.7	155.5	200.9
Franke mine supply contracts	9.6	11.5	12.2	10.6	10.7	25.2	79.8
Purchase contracts	25.0	7.8	7.0	6.9	1.9	-	48.6
Senior notes	38.8	38.8	38.8	38.8	519.4	-	674.6
Minimum lease payments	8.0	6.4	6.4	4.6	4.0	10.2	39.6
Corporate Facility	-	-	200.0	-	-	-	200.0
Total	102.9	67.8	267.9	64.3	549.7	190.9	1,243.5

In addition, as at December 31, 2014, the Company's proportionate 55% share of the contractual commitments at Sierra Gorda for capital expenditures and commercial operations totalled \$1,151.4 million.

Reclamation liabilities

The Company has estimated total future reclamation costs of \$200.9 million as at December 31, 2014 compared to \$171.3 million at December 31, 2013 (undiscounted nominal dollar), which primarily relate to the US, Canada and Chile operations. The accounting carrying value of this liability is \$159.8 million at December 31, 2014 and \$148.8 million at December 31, 2013 based on the estimated discounted future payments. The increase in the reclamation liability during 2014 is primarily due to closure plan updates at the US mines.

To secure a portion of the closure costs related to Robinson, Carlota and Sudbury operations, the Company has posted environmental bonds and held cash in a reclamation trust totalling \$43.0 million as at December 31, 2014. In 2014, \$11.1 million of new Letters of Credit for environmental bonding were being financed directly by KGHM, in addition, \$5.4 million of Letters of Credit for environmental bonding previously financed by the Company were being financed by KGHM, thus reducing the environmental bond balance from \$48.1 million at December 31, 2013.

The Company revises the reclamation plan and cost estimate for Robinson annually as required by the US Bureau of Land Management and adjusts the amount of the bond accordingly. The reclamation plan and cost estimate for Carlota is updated every five years as required by the regulator and the amount of the bond is adjusted accordingly. There is currently no environmental bonding in place at Franke. A closure plan for Podolsky is finalized. Closure plans for the McCreedy West and Levack operations are governed by arrangements between the Ontario Government and Vale and between Vale and the Company.

Franke Mine supply contracts

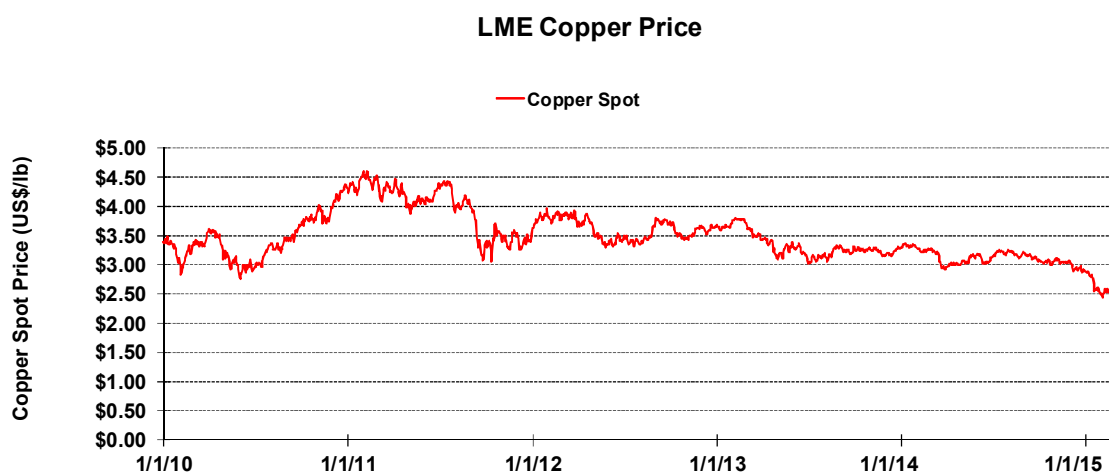
The Company has a long-term supply contract for sulphuric acid for use in the copper extraction process at Franke, which expires in 2022. The Company is committed to purchase 150,000 tonnes of sulfuric acid per annum at a base price of \$27/tonne. The base price for acid in the contract is increased by \$2.50/tonne for each \$0.10/lb that the copper price exceeds \$1.10/lb.

Franke also has a long-term supply contract for industrial water which expires in 2020. The copper price adjustment requires, on an annualized basis, that approximately an additional \$120 be paid for each \$0.15/lb that the copper price exceeds a base price of \$1.50/lb. The Company has also entered into various supply and other contracts for operation and development of Franke.

MARKET TRENDS AND FUNDAMENTALS

Copper prices averaged \$3.18/lb in Q4 2013 and averaged \$3.32/lb in 2013, as compared with 2012 annual average of \$3.61/lb. The market continues to be supported by solid Chinese demand, tight scrap availability, smelter bottlenecks and improving economic circumstances in Europe. Looking forward, the company believes copper market fundamentals will remain strong over the long term. Long term supply will be challenged because of project delays due to CAPEX and OPEX overruns environmental, political, sovereignty and taxation issues in many regions where proposed projects are being developed. Long term demand will continue to benefit from urbanization of emerging market countries such as China and an acceleration of growth in OECD economies will also provide a positive backdrop for copper demand.

The following graph shows the spot price of copper from 2010 to February 27, 2015 as published by the London Metal Exchange (LME).



At December 31, 2014, the closing spot price was \$2.88/lb. At February 27, 2015, the closing spot price was \$2.67/lb. The reference price of copper metal is determined by trading on the LME, where the price is set in U.S. dollars at the end of each business day.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's revenues and cash flows are subject to fluctuations in the market price of copper and gold. In addition, there is a time lag between the time of initial payment on shipment and final pricing, and changes in the price of copper and gold during this period impact the Company's revenues and working capital position.

The following table summarizes the impact of the changes in copper price on the Company's after tax earnings for 2015:

Copper price	Impact on the after tax earnings (excluding derivatives)
+ \$0.20/lb	41.6
- \$0.20/lb	(41.6)

A proportion of the spending in the Sierra Gorda project (the project) is denominated in Chilean Pesos (CLP). To manage this risk during the peak construction period, the Company and the project purchased and held CLP investments which have been drawn.

In January 2014, the Company purchased puts for the equivalent of \$200.0 million in CLP with a strike price of 525 CLP per USD which expired between January and March 2014 unexercised. The puts provided the Company with downside protection in the event of CLP strengthening against the USD while allowing upside participation.

In addition, in August 2014, the Company purchased USD puts/CAD calls for a cost of \$0.9 million for the equivalent of \$62.5 million in CAD with a strike price of 1.10 CAD per USD for the period August to December 2014. These put/calls provide the Company with protection from the downside risk in the event of CAD strengthening against the USD. The majority of these instruments expired out of the money.

CONTINGENCIES

(a) In the normal course of business DMC enters into agreements that contain indemnification commitments and may contain features that meet the expanded definition of guarantees. The terms of these indemnification agreements will vary based on the contract and typically do not provide for a limit on the maximum potential liability. The Company has not made any payments under such indemnifications and no amounts have been accrued in the financial statements with respect to these indemnification commitments.

(b) DMC is involved in a dispute about certain design issues around the shaft sinking for one of its customers. The Company has been advised by counsel that it has a reasonably strong case but the issue is technically complex and there can be no certainty that a liability may not materialize in the future.

(c) The Company is subject to lawsuits from time to time, existing litigation is not considered to be likely to have a material impact on the financial statements.

TRANSACTIONS WITH RELATED PARTIES

Upon formation of the Sierra Gorda JV, the joint venture became a related party with the Company. The net amount due from the Sierra Gorda JV is \$7.9 at December 31, 2014 (December 31, 2013- \$9.5) and is repayable in the normal course of business. Service fees currently payable to the Company at December 31, 2014 is \$3.1 (December 31, 2013- \$3.1). It was agreed that 50% of the payment of the service fees earned from July 1 to December 31, 2013, 100% of the service fees earned from January 1, 2014 onwards and 100% of the letter of credit guarantee fees payable to the Company be deferred until financial completion. As at December 31 2014, \$31.3 (December 31, 2013- \$6.3) of the service fee and \$7.1 (December 31, 2013- \$2.9) of a letter of credit guarantee fee have been deferred. The outstanding amounts bear an interest rate of 0.75% per annum.

On March 5, 2012, the Company loaned \$110.9 to Bidco for the purchase and exercise of FNX Warrants in conjunction with the Plan of Arrangement. The obligation with respect to the loan was evidenced by a promissory note payable to the Company. In Q1 2013, the maturity date was extended to March 5, 2014. Interest on the outstanding principal was calculated at 3.75% per annum payable in arrears on the maturity date, or on the date which the principal amount is paid by Bidco. Bidco repaid \$13.2 of the above principal and interest on February 28, 2013 and on March 10, 2014, Bidco repaid \$105.6.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing financial statements management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ materially from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting policies and estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

Mineral Properties

Mineral property acquisition and development costs, including exploration and evaluation assets transferred, mine construction costs, and overburden and waste removal costs, are capitalized until production is achieved, or the property is sold, abandoned or impaired. Such capitalized costs are then amortized over the remaining life of the mine based on proven and probable reserves. The determination of the extent of reserves is a complex task in which a number of estimates and assumptions are made. These involve the use of geological sampling and models as well as estimates of future costs. New knowledge derived from further exploration and development of the ore body may also affect reserve estimates. In addition the determination of economic reserves depends on assumptions on long-term commodity prices and in some cases exchange rates.

The carrying value of mineral properties is reviewed regularly and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized for a mineral property if its carrying value exceeds the higher of total discounted cash flows expected from its use and disposal (value in use) or fair value less costs to sell. Discounted cash flows for mineral properties are estimated based on a number of assumptions including management's view of long-term commodity prices, proven and probable reserves, estimated value beyond proven and probable reserves, and estimates of future operating, capital, reclamation costs, residual values of assets and discount rate. Based on management's view of future metal prices and cost assumptions, the carrying value of the Company's mineral properties was not impaired at December 31, 2014.

Goodwill

The acquisition method is applied to all business combinations whereby the identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. The fair value of the consideration transferred for the acquisition of a business is the fair value of the assets transferred, the liabilities assumed, and the equity interests issued by the Company at the date of exchange. Goodwill is initially measured at fair value being the excess of the fair value of the consideration transferred over the fair value of the acquiree's net identifiable assets acquired.

Goodwill is not amortized; instead it is tested annually for impairment at year end. In addition, at each reporting period the Company assesses whether there is an indication that goodwill is impaired and, if there is such an indication, the Company would test for goodwill impairment at that time. Goodwill is allocated to an individual cash generating unit (CGU).

The recoverable amount of the CGU is the higher of value-in-use and fair value less costs to sell. Goodwill impairment is recognized for any excess of the carrying amount of the segment over its recoverable amount. Any goodwill impairment is recognized in income in the reporting period in which it occurs. Goodwill impairment charges are not reversed.

Leach Pad Inventory

Leach pad inventory is comprised of ore that has been extracted from the mine and placed on the heap leach pad for further processing. Costs are removed from leach pad inventory as cathode copper is produced, based on the average cost per recoverable pound of copper in process. The quantity of recoverable copper in process is an engineering estimate which is based on the expected grade and recovery of copper from the ore placed on the leach pad. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. However, the estimate of recoverable copper placed on the leach pad is reconciled to actual copper production, and the engineering estimates will be refined based on actual results over time.

Revenue Recognition

Sales are recognized and revenues are recorded at market prices when title transfers and the rights and obligations of ownership pass to the customer. The majority of the Company's product is sold under-pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. For sales of Robinson's concentrates and Sudbury's copper and nickel ores, final pricing is generally determined three to six months after the date of sale. For the sales of copper cathode, final pricing is generally determined in the month or the subsequent month after the date of sale. The Company estimates provisional pricing for its product based on forward prices for the expected date of the final settlement. Subsequent variations in price are recognized as revenue adjustments as they occur until the price is finalized. As a result, revenues include estimated prices for sales in that

period as well as pricing adjustments for sales that occurred in the previous period. These types of adjustments can have a material impact on revenues.

Site Closure and Reclamation Provision

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. In previous years the Company has revised its estimate of the timing and amount of closure costs at its mines, which resulted in adjustments to the liability recorded in the Company's financial statements. The estimate of the total liability for future site restoration costs is subject to change based on risk free interest rates, amendments to laws and regulations and may also change as new information concerning the Company's operations becomes available. The Company is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future.

Financial Instruments

Financial instruments are designated as loans and receivables, available for sale and fair value through profit and loss. Financial instruments are recorded in the balance sheet as either an asset or liability with changes in fair value recognized in the consolidated comprehensive income. Financial assets designated as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are comprised of cash and cash equivalents, restricted cash, environmental bonds, and trade and other receivables, except for provisionally priced receivables which are designated as derivatives, and are initially measured at fair value and subsequently at amortized cost less any impairment losses. The estimate of fair value of available for sale and fair value through profit and loss financial instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

Deferred Stripping

The Company adopted IFRIC-20, Stripping cost in the production phase of a surface mine (IFRIC 20). IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity: useable ore and improved access to other ore bodies that can be mined in future periods. In 2014, the Company capitalized \$113.6 million in deferred stripping, of which, \$4.7 million related to capitalized amortization.

Deferred Income Tax Assets

Management believes that uncertainty exists regarding the realization of certain deferred tax assets and therefore a valuation allowance has been recorded as of December 31, 2014. At December 31, 2014 the Company had available U.S. Alternative Minimum Tax Credits of \$27.0 million, which have not been recognized due to the uncertainty of realization. The Company also has not recognized the benefit of certain non-capital losses. However, the Company has recognized a net current deferred income tax asset for other temporary differences created between the tax and accounting basis of assets and liabilities in the United States and the Company's Sudbury operations. Management estimates that, using long term copper prices in line with its mine plan estimates, the future taxable income will be sufficient to utilize the deferred tax assets which have been recognized.

OUTSTANDING SHARE DATA

On March 5, 2012, KGHM acquired 100% of the issued and outstanding shares of the Company (193,334,154) and exercised 6,502,162 warrants. As at December 31, 2014, there were 599,722,216 shares issued and outstanding. As at March 13, 2015, the total number of issued and outstanding shares of the Company was 636,826,196.

SUMMARY OF QUARTERLY OPERATING RESULTS

The following table summarizes the operating results of the most recent eight quarters (unaudited):

SUMMARY OF QUARTERLY OPERATING RESULTS								
	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Robinson								
Cu produced payable (Mlbs)	23.0	21.9	24.6	17.1	21.9	18.6	30.8	36.5
Ore milled (Mt)	3.3	3.1	4.0	3.3	3.4	3.4	3.9	4.1
Au production payable (kozs)	7.4	5.5	6.2	5.9	7.2	7.5	15.0	15.4
Cu grade (%)	0.45	0.44	0.40	0.36	0.39	0.37	0.45	0.47
Au grade (g/t)	0.16	0.16	0.13	0.16	0.16	0.20	0.24	0.21
Cu recovery (%)	73.7	75.7	74.9	69.8	76.9	71.4	81.9	89.2
Au recovery (%)	39.6	33.2	35.4	34.6	42.0	33.5	55.5	50.0
Cu sales (Mlbs)	19.3	26.1	19.1	10.7	22.1	17.8	43.4	24.8
Average realized price (\$/lb)	\$2.73	\$3.08	\$3.22	\$2.41	\$3.39	\$3.39	\$3.05	\$3.49
Cash cost per pound of copper sold (\$/lb)	\$2.24	\$2.37	\$2.50	\$3.39	\$1.68	\$2.52	\$1.84	\$1.47
Carlota								
Cu production (Mlbs)	5.8	5.8	5.7	5.8	5.5	4.5	5.8	5.6
Ore placed (Mt)	0.7	0.7	0.9	0.7	0.9	1.0	0.9	1.2
Total Cu grade (%)	0.47	0.75	0.62	0.68	0.58	0.57	0.58	0.61
Cu sales (Mlbs)	5.9	5.8	5.8	5.4	5.7	4.7	5.6	5.7
Average realized price (\$/lb)	\$2.86	\$3.08	\$3.20	\$3.11	\$3.22	\$3.22	\$3.23	\$3.57
Cash cost per pound of copper sold (\$/lb)	\$2.17	\$2.28	\$0.69	\$2.83	\$2.70	\$2.55	\$2.41	\$2.46
Franke								
Cu production (Mlbs)	10.4	11.7	9.5	10.9	11.8	12.7	8.8	10.6
Ore placed (Mt)	1.1	1.1	1.0	1.0	1.1	1.1	0.9	1.0
Total Cu grade (%)	0.65	0.68	0.65	0.66	0.70	0.71	0.72	0.67
Cu sales (Mlbs)	9.3	13.3	7.7	11.0	13.7	13.7	8.6	11.7
Average realized price (\$/lb)	2.96	\$3.20	\$3.16	\$3.17	\$3.22	\$3.22	\$3.31	\$3.74
Cash cost per pound of copper sold (\$/lb)	\$2.69	\$2.60	\$2.78	\$2.66	\$2.71	\$2.70	\$4.18	\$3.70
Morrison								
Cu ore sold (kt) ⁽¹⁾	64.7	53.9	59.0	60.2	78.6	63.0	70.7	48.5
Cu grade (%)	7.5	8.3	7.7	6.7	9.3	8.2	7.3	8.5
Payable Cu sold (Mlbs)	9.4	8.7	8.7	7.7	13.7	10.4	10.0	7.3
Payable Ni sold (Mlbs)	1.7	1.5	1.4	1.5	2.1	1.6	1.6	1.1
Payable TPM sold (kozs) ⁽²⁾	10.6	10.6	10.5	9.3	15.8	12.9	8.1	7.6
Average realized price (\$/lb)	\$2.86	\$3.11	\$3.17	\$2.94	\$3.18	\$3.18	\$3.02	\$3.51
Cash cost per pound of copper sold (\$/lb)	\$1.15	\$1.15	\$1.13	\$1.78	\$1.08	\$1.48	\$1.91	\$1.74
Podolsky								
Cu ore sold (kt) ⁽¹⁾	0.0	0.0	0.0	0.0	0.0	1.5	0.0	88.0
Cu grade (%)	0.0	0.0	0.0	0.0	0.0	4.0	0.0	2.7
Payable Cu sold (Mlbs)	0.0	0.0	0.0	0.0	0.0	0.5	0.1	4.1
Payable Ni sold (Mlbs)	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Payable TPM sold (kozs) ⁽²⁾	0.0	0.0	0.0	0.0	0.0	0.5	0.3	3.9
Average realized price (\$/lb)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$3.49
Cash cost per pound of copper sold (\$/lb)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$2.34
McCreedy West								
Cu ore sold (kt) ⁽¹⁾	12.7	12.1	11.6	9.1	6.7	4.2	6.7	5.8
Cu grade (%)	3.0	3.5	3.5	3.3	5.0	3.6	4.8	3.6
Ni ore sold (kt) ⁽¹⁾	-	(4.8)	0.0	49.2	79.2	80.9	91.7	84.1
Ni grade (%)	-	2.9	0.0	1.2	1.0	1.0	1.2	1.3
Payable Cu sold (Mlbs)	0.7	0.8	0.7	0.7	0.8	0.3	0.9	1.0
Payable Ni sold (Mlbs)	0.2	0.0	0.1	0.7	0.9	0.6	1.1	1.1
Payable TPM sold (kozs) ⁽²⁾	1.2	1.1	1.1	0.7	0.7	0.6	1.4	1.4
Average realized price (\$/lb)	\$2.94	\$2.99	\$3.23	\$2.91	\$3.36	\$5.50	\$2.87	\$3.57
Cash cost per pound of copper sold (\$/lb) ⁽³⁾	\$2.70	\$3.85	\$2.24	\$1.28	\$5.18	\$8.66	\$2.84	(\$0.18)

⁽¹⁾ Converted into metric tonne from original short ton

⁽²⁾ Total precious metal, including gold, platinum and palladium

The quarterly performance of Robinson varies as a result of changes in head grade, metal recovery and waste stripping requirements. Due to the complex nature of the Robinson ore body, volatility in metal prices, and industry cost pressures the results have varied from quarter to quarter and this is expected to continue in the future.

SELECTED ANNUAL INFORMATION

	2014	2013	2012
Statement of operations			
Net Revenues	701	1,063	1,385
Earnings	17	9	104
Basic earnings per share	\$0.05	\$0.05	\$0.52
Diluted earnings per share	\$0.05	\$0.05	\$0.52
Financial positions			
Total assets	4,384	3,742	3,690
Total long-term financial liabilities	1,234	1,038	1,009

NON-IFRS FINANCIAL MEASURES

The cash cost per pound of copper, and onsite costs and offsite costs are non-IFRS financial measures that do not have a standardized meaning under IFRS, and as a result may not be comparable to similar measures presented by other companies. Management uses these statistics to monitor operating costs and profitability. Onsite costs include mining costs, equipment operating lease costs, mill costs, mine site general and administration costs, environmental costs and royalties. Offsite costs include the costs of transportation, smelting and refining of concentrate, and treatment costs for ores. By-product revenues from the Sudbury Operations reflect the actual cash price earned from sales of precious metals to Gold Wheaton. The following table shows a reconciliation of these non-IFRS financial measures to the consolidated statements of operations:

Three months ended December 31, 2014							
	Robinson	Carlota	Franke	Morrison	McCreedy	Other	Total
	West						
Production costs of goods sold	43.1	12.4	24.4	18.1	2.9	0.1	101.1
Treatment and refining charges	5.7			9.6	0.7	0.0	15.9
Royalties	1.6	0.3	0.5		-	0.0	2.4
Total cash cost	50.4	12.7	24.9	27.6	3.5	0.1	119.3
By-product revenues	(7.1)	-	-	(16.8)	(1.4)	0.0	(25.3)
	43.3	12.7	24.9	10.8	2.1	0.1	94.0
Copper sold (million lbs)	19.3	5.9	9.3	9.4	0.8	-	44.6
Cash cost per pound of copper sold (US\$/lb)	\$2.24	\$2.17	\$2.69	\$1.15	\$2.70	-	\$2.11

Three months ended December 31, 2013							
	Robinson	Carlota	Franke	Morrison	McCreedy	Other	Total
	West						
Production costs of goods sold	45.6	14.7	37.1	22.5	10.2	1.5	131.7
Treatment and refining charges	4.6	-	-	14.6	0.5	0.0	19.8
Royalties	2.5	0.8	-	-	-		3.2
Total cash cost	52.6	15.5	37.1	37.1	10.8	1.5	154.7
By-product revenues	(15.6)	-	-	(22.3)	(6.7)	-	(44.6)
	37.0	15.5	37.1	14.8	4.1	1.5	110.1
Copper sold (million lbs)	22.1	5.7	13.7	13.7	0.8	-	56.0
Cash cost per pound of copper sold (US\$/lb)	\$1.68	\$2.70	\$2.71	\$1.08	\$5.18	-	\$1.97

	Twelve months ended December 31, 2014						
	Robinson	Carlota	Franke	Morrison	McCreedy West	Other	Total
Production costs of goods sold	192.9	43.0	109.1	76.3	15.6	2.4	439.3
Treatment and refining charges	24.6	-	-	36.0	3.0	-	63.6
Royalties	6.7	2.1	1.0	-	-	-	9.8
Total cash cost	224.2	45.1	110.1	112.2	18.6	2.4	512.7
By-product revenues	(34.9)	-	-	(67.8)	(11.0)	-	(113.7)
	189.3	45.1	110.1	44.4	7.6	2.4	399.0
Copper sold (million lbs)	75.2	22.8	41.3	34.5	2.9	-	176.7
Cash cost per pound of copper sold (US\$/lb)	\$2.52	\$1.98	\$2.67	\$1.29	\$2.59	-	\$2.26

	Twelve months ended December 31, 2013						
	Robinson	Carlota ¹	Franke	Morrison	Podolsky	McCreedy West	Total
Production costs of goods sold	239.7	51.9	137.9	84.6	14.7	37.0	565.8
Treatment and refining charges	24.7	-	-	41.3	4.6	1.9	72.5
Royalties	12.0	2.9	-	-	-	-	14.8
Total cash cost	276.4	54.8	137.9	125.9	19.3	38.9	653.2
By-product revenues	(78.3)	-	-	(63.9)	(4.3)	(29.5)	(176.0)
	198.1	54.8	137.9	62.0	15.1	9.4	477.2
Copper sold (million lbs)	108.0	21.6	43.5	41.4	4.7	3.0	222.3
Cash cost per pound of copper sold (US\$/lb)	\$1.83	\$2.53	\$3.17	\$1.50	\$3.20	\$3.13	\$2.15

¹⁾ Carlota cash cost per pound of copper sold does not include the impairment of the reclamation asset.

Cash flow from operating activities (before working capital changes) is also not a defined term under IFRS, and consists of cash provided from operating activities less net changes in non-cash working capital.

Adjusted EBITDA is a non-IFRS measure which is calculated as income from mining operations plus amortization, depreciation and depletion, inventory write down, impairment of non-current assets, and service fee from Sierra Gorda JV, minus general and administrative and other loss. Management believes that these measures provide investors with ability to better evaluate underlying performance. The following table provides a reconciliation of earnings to adjusted earnings for the periods presented:

	Three months ended December 31, 2014	Three months ended December 31, 2013	Twelve months ended December 31, 2014	Twelve months ended December 31, 2013
(All amounts in millions of United States dollars except per share amounts)				
Income (loss) from mining operations	(18.2)	(25.0)	(12.2)	72.0
Adjusting items:				
Amortization, depreciation and depletion	56.1	53.9	158.2	164.9
General and administrative	(8.2)	(11.0)	(37.8)	(47.6)
Other loss	0.0	(0.7)	(0.9)	(1.2)
Service fee from Sierra Gorda JV	4.3	(3.4)	15.8	15.4
Impairment of non-current assets	-	55.4	-	55.4
	52.2	94.3	135.3	187.0
Adjusted EBITDA	34.0	69.3	123.1	259.0

FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" that is based on the Company's expectations, estimates and projections as of the dates as of the information. This forward-looking information may include, among other things, statements with respect to the Company's business, strategy, plans, outlook, financial stability, financing plans, cash flow, earnings per share, projections, targets and expectations as to reserves, resources, results of exploration (including targets) and related expenses, property acquisitions, mine development, mine operations, mine production costs, drilling activity, sampling and other data, estimating grade levels, future recovery levels, future production levels, capital costs, costs savings, cash and total costs of production of copper, gold and other minerals, expenditures for environmental matters, projected life of the Company's mines, reclamation and other post closure obligations and estimated future expenditures for those matters, completion dates for the various development stages of mines, availability of water for milling and mining, future copper, gold, molybdenum and other mineral prices (including the long-term estimated prices used in calculating the Company's mineral reserves), end-use demand for copper, currency exchange rates, debt reductions, use of future tax assets, timing of expected sales and final pricing of concentrate sales, the percentage of anticipated production covered by option contracts or agreements, and the anticipated outcomes of litigation. Generally, this forward-looking information can be identified by the use of forward-looking terminology such as "outlook", "anticipate", "project", "target", "believe", "estimate", "expect", "intend", "should", "scheduled", "will", "plan" and similar expressions. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the Company's actual cash flow, results, performance, achievements or financial position to be materially different from those expressed or implied by such forward-looking information. These risks, uncertainties and other factors about which the Company has made numerous assumption, which may prove inaccurate, include, without limitation, those concerning:

- ❖ Global financial conditions including fluctuations in metal prices and demand;
- ❖ The ability to expand or replace depleted reserves and the possible recalculation or reduction of the reserves and resources;
- ❖ Actual capital costs, operating costs and expenditures, production schedules and economic returns from the Company's mining projects;
- ❖ The integration with KGHM Polska Mied S.A.
- ❖ The need to attract and retain qualified personnel;
- ❖ The successful operation and continued development of the Sierra Gorda Project, a large joint venture project with significant capital expenditure, permitting and infrastructure requirements;
- ❖ Inherent risks associated with joint ventures;
- ❖ Production estimates, which may be materially different from actual mining performance and mineral recoveries;
- ❖ Underground mining at the Morrison deposit, including reserves replacement, and risks associated with the use of the Craig shaft and other facilities;
- ❖ Geotechnical issues at all properties; specifically pit slope stability at open pit operations and structural issues at the underground mines;
- ❖ Construction contract issues at DMC;
- ❖ The development of the Victoria Project;
- ❖ The mineralogy and block model assumptions at all mines and projects;
- ❖ The leaching rate and recoveries achievable at the Franke and Carlota Mines;
- ❖ Potential challenges to title to the properties;
- ❖ The dependence on transportation facilities and infrastructure;
- ❖ Labour relations;
- ❖ The potential need for a temporary shutdown of any of our operations, such as related to unplanned maintenance or extreme climatic conditions;
- ❖ The actual costs of reclamation;
- ❖ The impact of the availability and cost of key operating supplies and services;
- ❖ Energy prices and power availability;
- ❖ Accuracy of the closure cost estimates specific to Robinson, Carlota and Podolsky;
- ❖ The acquisition and integration of businesses and assets;
- ❖ Inherent hazards and risks associated with mining operations;
- ❖ Inherent uncertainties associated with mineral exploration;
- ❖ The mining industry is competitive for resources and sales market;
- ❖ Being subject to government regulation, including changes in regulation;

- ❖ Being subject to extensive environmental laws and regulations, including change in possible regulation;
- ❖ Need for governmental licenses and permits;
- ❖ First Nation and community relations;
- ❖ Derivative contracts and exposure to the credit risk of counter-parties;
- ❖ Satisfaction of credit facility covenants;
- ❖ Taxation in multiple jurisdictions;
- ❖ Political and country risk;
- ❖ Conflicts of interest; and
- ❖ Fluctuations in foreign currency exchange rates.

Forward-looking statements are based on assumptions management believes to be reasonable, including but not limited to the continued operation of the Company's mining operations, no material adverse change in the market price of commodities, that the mining operations will operate in accordance with the Company's public statements and achieve their stated production outcomes, and such other assumptions and factors as are described above or set out elsewhere herein. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate. Accordingly, readers should not place undue reliance on forward-looking statements. The Company disclaims any intent or obligation to update or revise publicly any forward-looking statements whether as a result of new information, estimates or options, future events or results or otherwise, unless required to do so by law.