



KGHM INTERNATIONAL LTD.
Condensed Interim Consolidated Financial Statements
March 31, 2015
(Expressed in millions of U.S. dollars, except where indicated)
(Unaudited)

KGHM International Ltd.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

(US Dollars in Millions)

(Unaudited)

	<i>Notes</i>	March 31, 2015	December 31, 2014
ASSETS			
Current			
Cash and cash equivalents		44.2	62.4
Trade and other receivables	6	127.5	124.4
Marketable securities		0.7	0.6
Inventory	5	177.6	176.1
Current corporate tax receivables		23.3	23.1
Total Current Assets		373.3	386.6
Mineral properties, property, plant and equipment	8	923.5	963.3
Intangible assets	9	469.7	449.3
Sierra Gorda JV - investment	4(a)	624.2	584.9
Sierra Gorda JV - subordinated loans	4(b)	1,812.0	1,776.6
Environmental trust and bonds		36.0	43.0
Other non-current assets	7	82.4	81.8
Deferred income tax assets		117.1	98.5
Total Non-Current Assets		4,064.9	3,997.4
Total Assets		4,438.2	4,384.0
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	10	114.7	119.5
Current provisions	14	26.0	27.0
Other current liabilities		15.4	4.2
KGHM Cash Pooling	13	61.8	70.6
Derivative liabilities	15	6.9	7.3
Current portion of deferred revenue	11	17.2	13.2
Current corporate tax liabilities		6.0	4.7
Total Current Liabilities		248.0	246.5
Borrowings and finance lease liabilities	12	697.2	697.4
Deferred revenue	11	134.1	141.6
Provisions	14	140.6	140.5
Derivative liabilities	15	35.8	39.6
Deferred income tax liabilities		218.9	215.1
Total Non-Current Liabilities		1,226.6	1,234.2
Total Liabilities		1,474.6	1,480.7
Shareholders' Equity			
Share capital	16	2,293.3	2,208.5
Accumulated other comprehensive gain		0.4	0.2
Retained earnings		669.9	694.6
Total Shareholders' Equity		2,963.6	2,903.3
Total Liabilities and Shareholders' Equity		4,438.2	4,384.0

Commitments (Note 23), Contingencies (Note 24), Subsequent events (Note 13 (a))

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

KGHM International Ltd.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE LOSS**

(US Dollars in Millions)

(Unaudited)

	<i>Notes</i>	Three months ended March 31, 2015	Three months ended March 31, 2014
Net revenues	17	161.5	147.7
Cost of sales	17	200.1	170.4
Loss from mining operations		(38.6)	(22.7)
General and administrative	19	8.4	11.7
Finance income	20(a)	(23.2)	(20.5)
Finance expense	20(b)	17.4	13.9
Other income	20(c)	(8.3)	(7.5)
Other expense		1.8	1.5
Impairment of marketable securities		0.1	-
Foreign exchange loss		3.7	2.6
Loss before income taxes		(38.5)	(24.4)
Income tax recovery	18	13.8	3.8
Loss for the period		(24.7)	(20.6)
Other comprehensive income			
Unrealized gain on marketable securities		0.2	0.2
Total comprehensive loss		(24.5)	(20.4)
Loss per share			
Basic and diluted		\$ (0.04)	\$ (0.10)
Weighted average shares outstanding - basic and diluted		635.0	199.8

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

KGHM International Ltd.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY**

(US Dollars in Millions)
(Unaudited)

	<i>Notes</i>	Share capital	Accu. other comp. income	Retained earnings	Total
Balances, January 1, 2015		2,208.5	0.2	694.6	2,903.3
Issue of common shares	<i>16</i>	84.8	-	-	84.8
Unrealized gain on marketable securities		-	0.2	-	0.2
Loss for the period		-	-	(24.7)	(24.7)
Balances, March 31, 2015		2,293.3	0.4	669.9	2,963.6

	<i>Notes</i>	Share capital	Accu. other comp. income	Retained earnings	Total
Balances, January 1, 2014		1,851.5	0.1	677.5	2,529.1
Unrealized loss on marketable securities		-	0.2	-	0.2
Loss for the period		-	-	(20.6)	(20.6)
Balances, March 31, 2014		1,851.5	0.3	656.9	2,508.7

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

KGHM International Ltd.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF
CASH FLOWS**

(US Dollars in Millions)
(Unaudited)

	<i>Notes</i>	Three months ended March 31, 2015	Three months ended March 31, 2014
OPERATING ACTIVITIES			
Loss for the period		(24.7)	(20.6)
Adjustment for:			
Amortization, depletion and depreciation		73.6	35.7
Depreciation capitalized to deferred stripping asset		(1.1)	(1.1)
Impairment of marketable securities		0.1	-
Non-cash gain on derivatives	<i>15</i>	(4.2)	(2.5)
Amortization of deferred revenue	<i>11</i>	(3.5)	(2.1)
Foreign exchange loss		0.7	1.4
Income tax recovery	<i>18</i>	(13.8)	(3.8)
Finance income		(23.1)	(20.2)
Finance expense		16.4	12.7
Other expense		4.1	2.4
		<hr/>	<hr/>
Net changes in non-cash working capital	<i>22</i>	(13.8)	9.7
Interest paid on borrowings and finance lease		(2.0)	(2.3)
Income tax refund received (paid)		0.1	(11.8)
Cash provided from operating activities		<hr/> 8.8	<hr/> (2.5)
INVESTING ACTIVITIES			
Additions to mineral properties, plant and equipment		(52.8)	(48.3)
Proceeds from disposal of mineral properties, plant and equipment		0.1	0.1
Cash released from environmental trust and bonds		6.2	0.3
Increase in Sierra Gorda JV- investments	<i>4(a)</i>	(55.0)	-
Increase in Sierra Gorda JV-subordinated loans	<i>4(b)</i>	-	(132.0)
Notes receivable repaid	<i>21</i>	-	105.6
Cash used in investing activities		<hr/> (101.5)	<hr/> (74.3)
FINANCING ACTIVITIES			
Repayments to KGHM Cash Pooling	<i>13</i>	(9.0)	-
Finance lease payments		(0.6)	(0.6)
Repayment of Corporate Facility	<i>12(b)</i>	(200.0)	95.0
Loan from Bidco	<i>12(b)</i>	200.0	-
Proceeds from issue of common shares	<i>16</i>	84.8	-
Cash provided from financing activities		<hr/> 75.2	<hr/> 94.4
Effect of foreign exchange rate changes on cash and cash equivalents		<hr/> (0.7)	<hr/> (1.4)
Net (decrease) increase in cash and cash equivalents during the period		<hr/> (18.2)	<hr/> 16.2
Cash and cash equivalents, beginning of the period		<hr/> 62.4	<hr/> 140.0
Cash and cash equivalents, end of period		<hr/> 44.2	<hr/> 156.2

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

KGHM International Ltd.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)

Three months ended March 31, 2015

(Unaudited)

1. NATURE OF OPERATIONS

KGHM International Ltd. (“KGHMI” or the “Group”) (formerly Quadra FNX Mining Ltd) (“Quadra FNX”) was incorporated in Canada on May 15, 2002 under the British Columbia Company Act. KGHMI is a subsidiary of KGHM Polska Miedź S.A (“KGHM”), a company based in Poland that operates three mines and two smelters/refineries in Poland. KGHM acquired the Group through a court-approved Plan of Arrangement that closed on March 5, 2012.

The Group is in the business of developing and operating mines, with a focus on base metals, particularly copper. The Group’s principal place of business is Canada. KGHMI’s head office is located at Suite 500-200 Burrard Street, Vancouver, British Columbia, V6C 3L6. The Group has five operating mines: the Robinson mine in Nevada; the Morrison mine, in Ontario; the Franke mine in Chile; the Carlota mine in Arizona; and the McCreedy West mine in Ontario. The Podolsky mine in Ontario substantially ceased operations during the first quarter of 2013 and is currently under care and maintenance, pending environmental closure. The Group also owns an advanced exploration project (“Victoria”) in Sudbury, Ontario. On September 14, 2011, the Group formed a joint venture (“Sierra Gorda JV”) with Sumitomo Metal Mining Co. Ltd. and Sumitomo Corporation (collectively “Sumitomo”) to develop the Sierra Gorda copper-molybdenum project in Chile (Note 4).

The Robinson, Franke and Carlota mines are open pit copper mines, with some byproduct gold and molybdenum at Robinson, and Morrison and McCreedy West (collectively “the Sudbury Operations”) are underground mines producing copper with byproduct nickel, platinum, palladium and gold. The Sudbury Operations, the Victoria project and a mining services business (“DMC”), were acquired on May 20, 2010, when the Group completed a merger with FNX Mining Company Ltd. (“FNX”).

2. BASIS OF PRESENTATION

a) Basis of presentation and measurement

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The policies applied in these consolidated financial statements are based on IFRS issued and effective as at December 31, 2014.

The Board of Directors (“BoD”) approved these financial statements for issue on May 7, 2015.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Group and its controlled subsidiaries. Control is achieved when the Group has the rights to variable returns, rights to affect those returns from its involvement with its subsidiaries and the ability to use its powers to affect the variable returns. All subsidiaries are wholly-owned. Sierra Gorda JV of which the Group owns 55%, is accounted for using the equity method. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective date of acquisition or to the date of disposal. Intergroup balances and transactions are eliminated on consolidation.

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Three months ended March 31, 2015
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c) Use of estimates and judgments

Areas of critical accounting estimates and judgments that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 2(c) of the Group's consolidated financial statements as at and for the year ended December 31, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using the same accounting policies as those disclosed in Note 3 to the Group's annual audited consolidated financial statements for the year ended December 31, 2014.

New standards and interpretations not yet adopted

In May 2014, IFRS 15 Revenue from Contracts with Customers ("IFRS 15") was issued, which is applicable for annual reporting periods beginning on or after January 1, 2017, with an option for early adoption. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Group is in the process of analyzing the impact of IFRS 15 and determining the effect on the condensed interim consolidated financial statement.

Financial instruments

In July 2014 IFRS 9, Financial Instruments ("IFRS 9") was issued. The completed standard provides revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. This final version of IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group is in the process of analyzing the impact of IFRS 9 and determining the effect on the condensed interim consolidated financial statements.

Consolidated financial statements and Investments in associates

On September 11, 2014, the IASB issued narrow-scope amendments to IFRS 10, Consolidated Financial Statements ("IFRS 10"), and Investments in Associates and Joint Ventures (2011) ("IAS 28"). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments will be effective from annual periods commencing on or after January 1, 2016. The Group is in the process of analyzing the impact of the amendments to IFRS 10 and IAS 28 and determining the effect on the condensed interim consolidated financial statement.

**NOTES TO CONDENSED INTERIM CONSOLIDATED
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(US Dollars in Millions)
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(Unaudited)

4. SIERRA GORDA JV

(a) Sierra Gorda JV- investment

The Group and Sumitomo formed a joint venture on September 14, 2011 to develop the Sierra Gorda copper-molybdenum project in Chile. The joint venture operates through a jointly-controlled entity owned 55% by the Group and 45% by Sumitomo and is being accounted for using the equity method. During the period ended March 31, 2015, the Group contributed equity of \$55.0 (December 31, 2014 - \$154.0) to the joint venture.

During the period ended March 31, 2015, the Group eliminated 55% of inter-group profits with the Sierra Gorda JV related to the interest income on subordinated loans (Note 4(b)) and service fee income (Note 21) amounting to \$13.3 and \$2.4 respectively (During the year ended December 31, 2014 - \$54.1 and \$9.2 respectively). This elimination adjustment decreases the investment in Sierra Gorda JV.

The Group's investment in the Sierra Gorda JV at March 31, 2015 was \$624.2 (December 31, 2014 - \$584.9).

(b) Sierra Gorda JV- subordinated loans

As of March 31, 2015 the Group had funded \$1,536.7 (December 31, 2014 - \$1,536.7) to the Sierra Gorda JV through subordinated loan agreements. Accrued interest on this balance as at March 31, 2015 was \$275.3 (December 31, 2014 - \$239.9). For the period ended March 31, 2015, the Group recorded interest income of \$22.1 (March 31, 2014 - \$19.6) (Note 20(a)). Subject to subordination conditions to the Senior Project loans, interest and principal of the subordinated loans are payable on demand and in any event any interest and principal remaining on December 15, 2024 is due and payable. The subordinated loans form part of the security arrangement under the Senior Project loans.

(c) Contractual commitments

At March 31, 2015, the Group's proportionate 55% share of the contractual commitments with respect to the Sierra Gorda JV related to the construction and operation of the mine were as follows: \$177.2 in 2015, \$54.1 in 2016 and \$855.9 for periods 2017 and beyond.

During the year ended December 31, 2013, the Sierra Gorda JV entered into lease agreements to lease certain mine equipment. The Group's proportionate share of the minimum lease payments totaled \$241.8 as at March 31, 2015 (December 31, 2014 - \$245.8). These leases are accounted for as finance leases with a term of 84 months and most bear an interest rate of 90-day LIBOR plus a spread.

During the year ended December 31, 2014, the Sierra Gorda JV has recognized embedded leases of \$80 million within the Abengoa transmission line construction contracts due to a right to purchase option on the transmission line and system. These leases have been accounted for as finance leases based on a term of 252 months.

As at March 31, 2015, the Sierra Gorda JV had cash and cash equivalents of \$152.7 (December 31, 2014 - \$279).

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**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Three months ended March 31, 2015
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5. INVENTORY

	March 31, 2015	December 31, 2014
Robinson copper concentrate	18.7	29.2
Carlota leach pad inventory	61.7	66.1
Franke leach pad inventory	16.2	17.1
Copper cathode	4.7	7.8
Supplies	50.2	50.8
Robinson ore stockpile	26.0	5.1
Sudbury crushed ore inventory	0.1	-
	<u>177.6</u>	<u>176.1</u>

At March 31, 2015, the inventory at Franke was carried at net realizable value and resulted in an adjustment of \$1.9. (March 31, 2014, the inventory at Robinson was carried at net realizable value and resulted in an adjustment of \$14.6).

6. TRADE AND OTHER RECEIVABLES

	March 31, 2015	December 31, 2014
Trade receivables	110.8	100.3
Receivable from Sierra Gorda JV (Note 21)	4.9	9.2
Receivable from Bidco	0.3	0.3
Receivable from KGHM and other related parties	0.4	0.5
Prepaid expenses and advances to suppliers	8.6	10.9
Other receivables	2.5	3.2
	<u>127.5</u>	<u>124.4</u>

Trade receivables as at March 31, 2015 include receivables that pertain to construction contracts of \$19.9 (December 31, 2014 - \$18.5) and retention on construction contracts of \$7.3 (December 31, 2014 - \$14.9).

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**NOTES TO CONDENSED INTERIM CONSOLIDATED
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(Unaudited)

7. OTHER NON-CURRENT ASSETS

	March 31, 2015	December 31, 2014
Security deposits for equipment	1.3	1.3
Receivable from Sierra Gorda JV (Note 21)	45.6	38.3
Prepaid on long term contracts	5.3	5.6
Restricted cash	26.4	31.2
Other	3.8	5.4
	82.4	81.8

Restricted cash relates to various cash backed letters of credit including letters of credit to BHP Billiton Canada Inc. for the work being performed by DMC Mining Services.

During the three months ended March 31, 2015, the group released \$3.0 of restricted cash at FNX and replaced it with letters of credit supported by KGHM.

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Three months ended March 31, 2015
(Unaudited)

8. MINERAL PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mineral property acquisition and development	Machinery and equipment	Assets under construction	Total
At January 1, 2015					
Cost	70.8	1,638.3	620.0	45.9	2,375.0
Accumulated depletion, depreciation and amortization	(26.7)	(494.0)	(295.8)	(3.1)	(819.6)
Accumulated impairment	(20.8)	(421.6)	(149.7)	-	(592.1)
Net book value	23.3	722.7	174.5	42.8	963.3
Period ended March 31, 2015					
Change in Cost					
Additions	0.1	35.6	0.2	3.8	39.7
Disposal	-	-	(2.1)	-	(2.1)
Increase in site closure and reclamation asset	-	1.6	-	-	1.6
Transfers	-	-	6.3	(14.2)	(7.9)
Subtotal	0.1	37.2	4.4	(10.4)	31.3
Change in Accumulated Amortization					
Reversal of accumulated depletion, depreciation and amortization on disposal	-	-	2.0	-	2.0
Depletion, depreciation and amortization charge	(1.1)	(63.2)	(8.8)	-	(73.1)
Subtotal	(1.1)	(63.2)	(6.8)	-	(71.1)
At March 31, 2015					
Cost	70.9	1,675.5	624.4	35.5	2,406.3
Accumulated depletion, depreciation and amortization	(27.8)	(557.2)	(302.6)	(3.1)	(890.7)
Accumulated impairment	(20.8)	(421.6)	(149.7)	-	(592.1)
Net book value	22.3	696.7	172.1	32.4	923.5

Machinery and equipment includes \$11.8 related to two finance leases agreements entered into during the year ended December 31, 2013. Finance lease obligations are \$2.3 due within one year, \$4.7 due within one to three years.

Additions to mineral property include deferred stripping cost at Robinson of \$28.1 (December 31, 2014 - 113.6).

As at March 31, 2015, assets under construction include cumulative cost of \$25.0 incurred at Victoria (December 31, 2014 - \$36.2).

KGHM International Ltd.**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**(US Dollars in Millions)
Three months ended March 31, 2015
(Unaudited)**9. INTANGIBLE ASSETS**

	Exploration and evaluation assets	Water rights	Other intangible assets	Software	Goodwill	Total
At January 1, 2015						
Cost	201.1	62.2	2.4	11.0	180.6	457.3
Accumulated depletion, depreciation and amortization	-	-	(0.7)	(7.3)	-	(8.0)
Net book value	201.1	62.2	1.7	3.7	180.6	449.3
Period ended March 31, 2015						
Change in Cost						
Additions	12.9	-	-	0.1	-	13.0
Transfers	7.9	-	-	-	-	7.9
Subtotal	20.8	-	-	0.1	-	20.9
Change in Accumulated Amortization						
Depletion, depreciation and amortization charge	-	-	(0.1)	(0.4)	-	(0.5)
Subtotal	-	-	(0.1)	(0.4)	-	(0.5)
At March 31, 2015						
Cost	221.9	62.2	2.4	11.1	180.6	478.2
Accumulated depletion, depreciation and amortization	-	-	(0.8)	(7.7)	-	(8.5)
Net book value	221.9	62.2	1.6	3.4	180.6	469.7

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2015	December 31, 2014
Deliveries and services	43.1	45.6
Payables to Sierra Gorda JV (Note 21)	1.6	1.3
Payables to KGHM	3.0	2.3
Employee taxes and social security	6.3	3.8
Wages	1.3	2.2
Other	1.0	2.5
Accrued expenses	58.4	61.8
	114.7	119.5

KGHM International Ltd.

**NOTES TO CONDENSED INTERIM CONSOLIDATED
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(US Dollars in Millions)
Three months ended March 31, 2015
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11. DEFERRED REVENUE

The Group has recognized as deferred revenue a prepayment received previously by FNX from Franco-Nevada Corporation for the delivery of 50% of the contained gold, platinum and palladium in ore mined and shipped from certain deposits at the existing Sudbury Operations.

Balance - January 1, 2015	154.8
Recognized into revenue	(3.5)
Balance - March 31, 2015	151.3
Current	17.2
Non-Current	134.1
Total Deferred Revenue	151.3

12. BORROWINGS AND FINANCE LEASE LIABILITIES

	March 31, 2015	December 31, 2014
Borrowings	692.5	692.1
Finance lease	4.7	5.3
	697.2	697.4

Borrowings are made up of the following:

	March 31, 2015	December 31, 2014
Senior notes	500.0	500.0
Senior note issue costs	(12.3)	(12.3)
Cumulative amortization of senior note issue costs	4.8	4.4
Corporate Facility	-	200.0
Loan from Bidco	200.0	-
	692.5	692.1

a) Borrowings

In June 2011, the Group issued \$500.0 aggregate principal amount of 7.75% senior unsecured notes ("Notes") due 2019 in a private placement. The Notes are carried at amortized cost. The fair market value of the face value of the Notes at March 31, 2015 is \$511.0 (December 31, 2014 - \$520.6) based on a trading price of 102.2 (December 31, 2014 - 104.1) per 100.

These Notes contain certain covenants that limit the Group's ability and the ability of certain subsidiaries to, incur additional indebtedness, issue preferred stock, create liens, make restricted payments, create or permit certain

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**NOTES TO CONDENSED INTERIM CONSOLIDATED
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payments and distributions, engage in amalgamations, mergers or consolidations, make certain dispositions and transfers of assets, or engage in transactions with affiliates.

The Group may redeem the Notes prior to June 15, 2015 in whole or in part at 100.0% of their principal amount, plus accrued interest plus the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the June 15, 2015 redemption price plus required interest payments through June 15, 2015 over the principal amount of the note.

The Group may redeem the Notes at any time on or after June 15, 2015 at the redemption prices and periods set forth below, plus accrued and unpaid interest:

June 15, 2015.....	103.875%
June 15, 2016.....	101.938%
June 15, 2017 and thereafter	100.000%

Upon specified change of control events, each holder of a note will have the right to require the Group to purchase all or a portion of the Notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

On April 24, 2015 the Group gave notice to the bondholders of the intention to redeem all the Notes at 103.875% plus accrued and unpaid interest on June 15, 2015, subject to KGHM providing by that date, directly or indirectly to the Group, the funds for redemption.

b) Corporate Facility and loan from Bidco

During 2013, the Group entered into a \$200.0 senior secured revolving corporate credit facility (“the Corporate Facility”) with a syndicate of banks dated for reference June 19, 2013. The Corporate Facility was due to mature on June 19, 2017.

The below table summarizes the usage of the Corporate Facility:

	Letters of Credit	Loans	Total
Balance at January 1, 2014	198.5	-	198.5
Issued for reclamation bonding during the period	11.1	-	11.1
Replaced by KGHM for Sierra Gorda JV	(137.5)	-	(137.5)
Replaced by KGHM for reclamation bonding	(72.1)	-	(72.1)
Draw down of the Corporate Facility	-	200.0	200.0
Balance at January 1, 2015	-	200.0	200.0
Refinanced from a loan from Bidco	-	(200.0)	(200.0)
Balance at March 31, 2015	-	-	-

On January 28, 2015, the Group refinanced the Corporate Facility with a \$200.0 term loan due December 31, 2019 from its shareholder 0929260 B.C. Unlimited Liability Company (“Bidco”).

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c) Letters of credit

KGHM provides support for letters of credit for the Group. As at December 31, 2014, the KGHM guaranteed a total \$215.0 letters of credit.

During the first quarter of 2015, the Group redeemed \$6.2 of environmental bonds and \$3.0 of restricted cash at FNX with letters of credit supported by KGHM. As at March 31, 2015 KGHM held \$224.2 of letters of credit on behalf of the Group.

The following table summarizes the letters of credit supported by KGHM as at March 31, 2015.

Issued to Sierra Gorda JV for power purchase agreement	137.5
Issued to Robinson for reclamation bonding	77.5
Issued to FNX for reclamation bonding	6.2
Issued to FNX for usage of Craig mine infrastructure at Sudbury	3.0
	<u>224.2</u>

13. KGHM Cash Pooling

During the second quarter of 2014, the Group entered into a \$150.0 cash pooling agreement with KGHM (“Cash Pooling”). 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 at March 31, 2015, the Group had utilized \$61.0 (December 31, 2014 - \$70.0) under the Cash Pooling facility and accrued \$0.8 interest (December 31, 2014 - \$0.6). During the three months ended March 31, 2015, the group repaid \$9.0 of the cash pooling and recorded an interest expense of \$0.2 (March 31, 2014 - \$Nil).

14. PROVISIONS

Provisions consist of the following:

	March 31, 2015	December 31, 2014
Site closure and reclamation provision	159.7	159.8
Carlota termination benefits and other	6.9	7.7
Total provisions	166.6	167.5
Current	26.0	27.0
Long term	140.6	140.5
Total provisions	166.6	167.5

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Site closure and reclamation provisions are as follows:

Balance at January 1, 2014	148.8
Change in estimated timing and amount of closure cost	8.0
Increase in provision due to change in discount rate	2.6
Reclamation work done to reduce liability	(2.9)
Unwinding of discount	3.3
Balance at January 1, 2015	159.8
Change in estimated timing and amount of closure cost	1.1
Increase in provision due to change in discount rate	2.3
Reclamation work done to reduce liability	(4.3)
Unwinding of discount	0.8
Balance at March 31, 2015	159.7
Current	20.9
Non Current	138.8
Total Site closure and reclamation provisions	159.7

Discount rates used in the estimation of the provision at March 31, 2015 were 1.5% - 2.3% for US operations, 1.4% for Chile operations and 1.0% - 2.0% for Canadian operations (for December 31, 2014 the discount rates used were 1.8% - 2.5%, 1.9% and 2.3% - 2.9% respectively).

The reclamation cost estimates are discounted at a pre-tax risk free rate specific to each liability.

The closure cost estimates are subject to change based on amendments to laws and regulations. The Group 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.

15. DERIVATIVE INSTRUMENTS

As at March 31, 2015 the Group's derivative instruments comprised of long-term supply contracts as noted in 15(a) below.

a) Long-term supply contracts

The Group has long-term supply contracts for sulphuric acid and water with contracted prices that are subject to adjustment based on prevailing copper prices. The acid contract has a low base price, but requires an additional \$2.50/tonne to be paid for each \$0.10/lb that the copper price exceeds \$1.10/lb. Similarly, the water contract requires that an additional \$0.08/cubic metre be paid for each \$0.15/lb that copper price exceeds \$1.50/lb. The minimum commitment under the contracts is estimated to be \$4.1 per annum for acid and \$1.1 per annum for water.

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These copper price escalation clauses create embedded derivatives in the acid and water supply contracts. As of March 31, 2015, the fair value of the embedded derivative liabilities was \$42.7 (December 31, 2014 - \$46.9) and for the period ended March 31, 2015 a gain of \$4.2 (March 31, 2014- \$2.5) (Note 20(c)) was recognized in other income. The following significant assumptions were used:

- Copper price in the range of \$2.72/lb to \$3.24/lb from 2015 to 2022.
- Discount rate: 11%

b) Foreign currency contracts

Chilean Pesos (CLP)

In the first quarter of 2014, the Group purchased puts for the equivalent of \$200.0 in CLP with a strike price of 525 CLP per USD at a cost of \$1.4 which expired between January and March 2014 unexercised.

16. SHARE CAPITAL

Common Shares

The Group has authorized share capital of 1,000,000,000 common shares (“Shares”) with no par value.

	Number of Shares	Amount
Balance at January 1, 2015	599,722,216	2,208.5
Capital Stock issued	107,195,980	84.8
Balance at March 31, 2015	706,918,196	2,293.3

During the period ended March 31, 2014, the Group issued 107,195,980 (December 31, 2014- 399,885,900) common shares to its shareholder Bidco for total proceeds of \$84.8 (December 31, 2014 - \$357.0).

17. SEGMENTED INFORMATION

The Group’s reportable operating segments are individual mine operations and development projects, being Robinson, Carlota, Franke, Sudbury Operations, DMC, other mineral properties and Corporate. The corporate segment is responsible for the oversight of the Group’s mineral properties and corporate administration. The Sudbury operations of the Group are assigned the goodwill established during the merger with FNX Mining Ltd. on May 20, 2010.

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	Robinson (USA) ^(a)	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda) ^(a)	DMC	Corporate & Other	Total
Copper revenues	72.6	12.9	27.0	16.0	-	-	128.5
Nickel revenues	-	-	-	6.3	-	-	6.3
Other by-product revenues	15.1	-	-	7.8	-	-	22.9
Contract mining revenues	-	-	-	-	20.5	-	20.5
Treatment charges	(10.4)	-	-	(6.3)	-	-	(16.7)
Net revenues	77.3	12.9	27.0	23.8	20.5	-	161.5
Depreciation and amortization	49.7	-	2.2	18.7	1.2	-	71.8
Employee benefits expense	11.2	2.1	6.3	6.4	10.2	-	36.2
Raw materials, other consumables and energy	23.4	3.4	14.5	5.9	-	-	47.2
Office expenses	3.9	0.7	2.1	1.7	0.9	-	9.3
External services	7.3	0.3	3.5	4.9	11.2	-	27.2
Royalties and mineral taxes	2.0	0.5	0.2	-	-	-	2.7
Changes in inventories	(10.4)	4.9	3.5	(0.3)	-	-	(2.3)
Distribution costs	6.5	-	0.5	1.0	-	-	8.0
Income (loss) from operations	(16.3)	1.0	(5.8)	(14.5)	(3.0)	-	(38.6)
General and administrative	-	-	-	-	-	8.4	8.4
Finance income	-	-	-	-	-	(23.2)	(23.2)
Finance expense	-	-	-	-	-	17.4	17.4
Other income	-	-	-	-	-	(8.3)	(8.3)
Other expense	-	-	-	-	-	1.8	1.8
Impairment of marketable securities	-	-	-	-	-	0.1	0.1
Foreign exchange loss	-	-	-	-	-	3.7	3.7
Segment earnings (loss) before tax	(16.3)	1.0	(5.8)	(14.5)	(3.0)	0.1	(38.5)
Capital expenditures	28.6	-	0.3	8.0	0.1	14.7	51.7
Segment non-current assets as at March 31, 2015	348.7	88.1	109.2	694.8	34.5	2,789.6	4,064.9
Segment assets as at March 31, 2015	466.1	157.8	159.0	751.7	85.8	2,817.8	4,438.2

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	Robinson (USA)	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda)	DMC	Corporate & Other	Total
Copper revenues	25.8	16.7	34.8	24.6	-	-	101.9
Nickel revenues	-	-	-	16.2	-	-	16.2
Other by-product revenues	7.9	-	-	7.4	-	-	15.3
Contract mining revenues	-	-	-	-	26.6	-	26.6
Treatment charges	(3.1)	-	-	(9.2)	-	-	(12.3)
Net revenues	30.6	16.7	34.8	39.0	26.6	-	147.7
Depreciation and amortization	13.0	-	5.2	15.0	1.1	-	34.3
Employee benefits expense	12.2	4.3	5.9	8.2	10.2	-	40.8
Raw materials, other consumables and energy	24.5	6.9	16.3	10.0	-	-	57.7
Office expenses	3.7	1.1	2.5	2.0	0.6	-	9.9
External services	5.7	1.2	3.5	6.8	13.9	-	31.1
Royalties and mineral taxes	1.1	0.6	-	-	-	-	1.7
Changes in inventories	(14.8)	1.3	0.3	0.5	-	-	(12.7)
Distribution costs	5.5	-	0.7	1.4	-	-	7.6
Income (loss) from operations	(20.3)	1.3	0.4	(4.9)	0.8	-	(22.7)
General and administrative	-	-	-	-	-	11.7	11.7
Finance income	-	-	-	-	-	(20.5)	(20.5)
Finance expense	-	-	-	-	-	13.9	13.9
Other income	-	-	-	-	-	(7.5)	(7.5)
Other expense	-	-	-	-	-	1.5	1.5
Foreign exchange loss	-	-	-	-	-	2.6	2.6
Segment earnings (loss) before tax	(20.3)	1.3	0.4	(4.9)	0.8	(1.7)	(24.4)
Capital expenditures	20.3	-	3.5	8.1	0.8	12.4	45.1
Segment non-current assets as at March 31, 2014	312.7	74.0	114.1	735.9	40.2	2,013.0	3,289.9
Segment assets as at March 31, 2014	420.5	147.2	175.2	828.1	108.4	2,109.5	3,788.9

- (a) Revenues at Robinson and Sudbury Operations are from concentrate and ore sales and are recorded provisionally at the time of sale 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. At March 31, 2015, 34.0 million pounds of copper have been provisionally valued at an average price of \$2.70 per pound. The final pricing for these provisionally priced sales is expected to occur between April and August 2015.

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18. INCOME TAXES

For the three month period ended March 31, 2015, the Group recognized a current income tax expense of \$0.9 and a deferred income tax recovery of \$14.7 (March 31, 2014 - \$4.5 current income tax recovery and \$0.7 deferred income tax expense). The income tax expense for the three months ended March 31, 2015 has been recorded based on a forecasted effective income tax rate of 22.6% (March 31, 2014 - 18%). The forecast of the annual effective income tax rate includes assumptions regarding metal prices, mine production and costs.

Management believes that uncertainty exists regarding the realization of certain deferred tax assets and therefore the economic benefit of the available tax deduction has not been recognized. The Group has not recognized the benefit of U.S. Alternative Minimum Tax credits, the tax basis of Carlota in excess of the acquisition price and certain non-capital losses.

The Group has foreign subsidiaries that have undistributed earnings. The Group can control the timing of the repatriation of undistributed earnings, and it is probable that these earnings will not be repatriated in the foreseeable future. Therefore, deferred income taxes have not been provided in respect of these earnings

19. GENERAL AND ADMINISTRATIVE

	Three months ended March 31, 2015	Three months ended March 31, 2014
Employee benefits expenses	5.3	6.6
Legal and professional services	0.7	1.5
Office and communication expenses	2.5	3.6
	<u>8.4</u>	<u>11.7</u>

20. FINANCE INCOME AND EXPENSE

(a) Finance Income

Finance income for the period ended March 31, 2015 of \$23.2 (March 31, 2014 - \$20.5) is primarily related to interest earned on short-term investments of \$0.1 (March 31, 2014 - \$0.2), interest on subordinate loans to Sierra Gorda JV of \$22.1 (March 31, 2014 - \$19.6) and interest on notes receivable of \$Nil (March 31, 2014 - \$0.7) (Note 21) and letter of credit fees from Sierra Gorda JV of \$1.0 (March 31, 2014 - \$Nil) (Note 21).

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(b) Finance Expenses

Finance expense for the period ended March 31, 2015 of \$17.4 (March 31, 2014 - \$13.9) is primarily comprised of \$9.7 interest expense related to senior notes (March 31, 2014 - \$9.7), interest expense on the Corporate Facility of \$0.5 (March 31, 2014 - \$1.1) (Note 12), accretion of \$0.8 (March 31, 2014 - \$0.9), guarantee fees to Sumitomo on Sierra Gorda financing \$1.0 (March 31, 2014 - \$1.0), letters of credit fees to KGHM of \$1.1 (March 31, 2014 - \$0.7) (Note 14) amortization on the deferred financing fees of \$2.1 (March 31, 2014 - \$0.5) and interest to Bidco \$1.8 (March 3, 2014 - \$Nil).

(c) Other Income

Other income for the period ended December 31, 2015 of \$8.3 (March 31, 2014 - \$7.5) is primarily comprised of net service fees from Sierra Gorda JV of \$3.9 (March 31, 2014 - \$3.8) (Note 21), gain on derivatives of \$4.2 (March 31, 2014 - \$2.5) (Note 15).

21. RELATED PARTY TRANSACTIONS AND BALANCES

Upon formation of the Sierra Gorda JV, the joint venture became a related party with the Group. The net amount due from the Sierra Gorda JV is \$3.3 at March 31, 2015 (December 31, 2014 - \$7.9) (Note 6) (Note 10) and is repayable in the normal course of business. Service fees currently payable to the Group at March 31, 2015 is \$Nil (December 31, 2014 - \$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 Group be deferred until financial completion. As at March 31 2015, \$37.5 (December 31, 2014 - \$31.3) of the service fee and \$8.1 (December 31, 2014 - \$7.1) of a letter of credit guarantee fee have been deferred (Note 7). The outstanding amounts bear an interest rate of 0.75% per annum.

On March 5, 2012, the Group loaned \$110.9 to Bidco for the purchase and exercise of FNX Warrants in conjunction with the Plan of Arrangement. Bidco repaid \$13.2 of the above principal and interest on February 28, 2013 and on March 10, 2014, Bidco repaid \$105.6.

The consolidated financial statements include those of KGHM International and its subsidiaries. Related parties include relationships involving direct or indirect control, including common control; it also includes joint control and significant influence. These relationships are not restricted to entities, but also include individuals and key management personnel.

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22. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital consisted of the following:

	Three months ended March 31, 2015	Three months ended March 31, 2014
(Increase) decrease in receivables	(3.1)	49.5
Increase in inventory	(1.5)	(14.5)
Increase in other non-current asset	(1.2)	(3.9)
Decrease in accounts payable and accrued liabilities	(3.2)	(21.4)
Increase in provisions	(4.8)	-
	<u>(13.8)</u>	<u>9.7</u>
Non-cash investing activities:		
Decrease in mineral properties, plant and equipment purchases in accruals	(1.1)	(3.2)

23. COMMITMENTS

As at March 31, 2015 the commitments of the Group excluding Sierra Gorda were \$154.8 in relation to capital projects, rent and contractual obligations. Commitments of \$49.5 are due within one year, \$78.7 are due within one to five years and \$30.2 are due after five years. Commitments include undiscounted derivative liabilities related to the acid and water long-term supply contracts.

Commitments that pertain to Sierra Gorda are disclosed in Note 4(c).

24. 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 Group has not made any payments under such indemnifications and no amounts have been accrued in the consolidated 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 Group 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 Group 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.

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25. FINANCIAL INSTRUMENTS

Financial instruments are classified as held for trading, held to maturity, loans and receivables, available for sale or other financial liabilities. Financial instruments carried at fair value on the consolidated balance sheet are classified within a fair value hierarchy that prioritizes the inputs to fair value measurements. The three levels of the fair value hierarchy are:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

At March 31, 2015 and at December 31, 2014, the carrying value of financial instruments were approximately their fair value except for the senior note with a carrying value of \$492.5 (December 31, 2014 - \$492.1) and a fair value of the face value of \$511.0 (December 31, 2014 - \$520.6) (Note 12). The fair value hierarchy for the Group's financial instruments at March 31, 2015 and December 31, 2014 was as follows:

- Level 1: Marketable securities.
- Level 2: Receivables for provisionally priced metal sales, derivative assets, derivatives and embedded derivatives liabilities

Level 1 – Quoted prices in active markets for identical assets or liabilities

Marketable equity securities are valued using quoted market prices in active markets. Accordingly, these items are included in Level 1 of the fair value hierarchy.

Level 2 – Significant other observable inputs

Derivative instruments are included in Level 2 of the fair value hierarchy as they are valued using discounted cash flow models. These models require a variety of inputs including but not limited to, contractual terms, market prices, forward price curves, long term price estimates. These inputs are obtained from or corroborated with the market where possible. The significant assumptions are described in Note 15.

Also included in Level 2 are settlements expected from provisional pricing on concentrate and ore sales because they are valued using quoted market prices.

The Group does not have any level 3 financial instruments.

The Group's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk, interest rate risk and commodity price risk. The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at December 31, 2014. These risks are assessed regularly and when appropriate the Group takes steps to mitigate these risks. There have been no changes in the risk management department or in any risk management policies since the year end.