KGHM
INTERNATIONAL

KGHM INTERNATIONAL LTD.

Condensed Interim Consolidated Financial Statements

March 31, 2014

(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)

	Notes	**March 31, 2014**	**December 31, 2013**
ASSETS			
Current			
Cash and cash equivalents		156.2	140.0
Trade and other receivables	*6*	143.7	192.1
Notes receivable	*21*	-	104.9
Inventory	*5*	172.2	157.7
Marketable securities	*8*	0.9	0.7
Current corporate tax receivables		26.0	16.6
Total Current Assets		499.0	612.0
Mineral properties, property, plant and equipment	*9*	928.1	923.5
Intangible assets	*10*	407.1	398.8
Sierra Gorda JV- Investment	*4(a)*	481.3	494.2
Sierra Gorda JV- Subordinated loans	*4(b)*	1,283.6	1,121.5
Environmental trust and bonds		47.8	48.1
Other non-current assets	*7*	56.8	54.2
Deferred income tax assets		85.2	89.3
Total Non-Current Assets		3,289.9	3,129.6
Total Assets		3,788.9	3,741.6
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	*11*	100.7	125.1
Current provisions	*14*	17.4	17.4
Other current liabilities		14.4	5.3
Derivative liabilities	*15*	8.2	9.3
Current portion of deferred revenue	*12*	11.7	9.5
Current corporate tax liabilities		1.2	8.2
Total Current Liabilities		153.6	174.8
Borrowings and finance lease liabilities	*13*	593.3	498.5
Deferred revenue	*12*	152.5	156.8
Provisions	*14*	137.6	134.5
Derivative liabilities	*15*	41.0	42.4
Deferred income tax liabilities		202.2	205.5
Total Non-Current Liabilities		1,126.6	1,037.7
Total Liabilities		1,280.2	1,212.5
Shareholders' Equity			
Share capital	*16*	1,851.5	1,851.5
Accumulated other comprehensive gain		0.3	0.1
Retained earnings		656.9	677.5
Total Shareholders' Equity		2,508.7	2,529.1
Total Liabilities and Shareholders' Equity		3,788.9	3,741.6

Commitments (Note 23), Contingencies (Note 24)

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

KGHM International Ltd.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(US Dollars in Millions)
(Unaudited)

	Notes	Three months ended March 31, 2014		Three months ended March 31, 2013	
Net revenues	*17*		147.7		272.0
Cost of sales	*17*		170.4		208.1
(Loss) income from mining operations			(22.7)		63.9
General and administrative	*19*		11.7		17.7
Finance income	*20(a)*		(20.5)		(16.6)
Finance expense	*20(b)*		13.9		11.0
Other income	*20(c)*		(7.5)		(6.4)
Other expense			1.5		2.1
Impairment of marketable securities			-		26.8
Foreign exchange loss (gain)			2.6		(0.4)
(Loss) earnings before income taxes			(24.4)		29.7
Income tax recovery (expense)	*18*		3.8		(14.9)
(Loss) earnings for the period			(20.6)		14.8
Other comprehensive income					
Unrealized gain (loss) on marketable securities	*8*		0.2		(4.6)
Reversal due to impairment of marketable securities			-		26.8
Total comprehensive (loss) income			(20.4)		37.0
(Loss) earnings per share					
Basic		$	(0.10)	$	0.07
Diluted		$	(0.10)	$	0.07
Weighted average shares outstanding - basic			199.8		199.8
Weighted average shares outstanding - diluted			199.8		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 SHAREHOLDER'S EQUITY

(US Dollars in Millions)
(Unaudited)

	Notes	Share capital	Accu. other comp. income	Retained earnings	Total
Balances, January 1, 2014		1,851.5	0.1	677.5	2,529.1
Unrealized gain on marketable securities	8	-	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**

	Notes	Share capital	Accu. other comp. income	Retained earnings	Total
Balances, January 1, 2013		1,851.5	(22.2)	668.1	2,497.4
Unrealized loss on marketable securities		-	(4.6)	-	(4.6)
Reversal due to impairment of marketable securities		-	26.8	-	26.8
Earnings for the year		-	-	14.8	14.8
Balances, March 31, 2013		**1,851.5**	**(0.0)**	**682.9**	**2,534.4**

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)

	Notes	Three months ended March 31, 2014	Three months ended March 31, 2013
OPERATING ACTIVITIES			
(Loss) earnings for the period		(20.6)	14.8
Adjustment for:			
Amortization, depletion and depreciation		35.7	31.2
Depreciation capitalized to deferred stripping asset		(1.1)	-
Impairment of marketable securities		-	26.8
Non-cash gain on derivatives	*15*	(2.5)	(0.1)
Amortization of deferred revenue	*12*	(2.1)	(3.1)
Foreign exchange loss (gain)		1.4	(1.4)
Income tax (recovery) expense	*18*	(3.8)	14.9
Finance income		(20.2)	(14.7)
Finance expense		12.7	10.2
Other expense		2.4	2.0
		1.9	80.6
Net changes in non-cash working capital	*22*	9.7	(32.5)
Interest paid on borrowings and finance lease		(2.3)	-
Income taxes paid		(11.8)	(13.4)
Cash (used in) provided from operating activities		**(2.5)**	**34.7**
INVESTING ACTIVITIES			
Additions to mineral properties, plant and equipment		(48.3)	(19.5)
Proceeds from disposal of mineral properties, plant and equipment		0.1	0.4
Increase in restricted cash		-	(137.1)
Redemptions for environmental trust and bonds		0.3	0.1
Increase in Sierra Gorda JV- Subordinated loans	*4*	(132.0)	(133.6)
Notes receivable	*21*	105.6	34.6
Cash used in investing activities		**(74.3)**	**(255.1)**
FINANCING ACTIVITIES			
Finance lease payments		(0.6)	-
Draw down of Corporate Facility	*13*	95.0	-
Cash provided from financing activities		**94.4**	**-**
Effect of foreign exchange rate changes on cash and cash equivalents		**(1.4)**	**1.4**
Net increase (decrease) in cash and cash equivalents during the period		**16.2**	**(219.0)**
Cash and cash equivalents, beginning of period		**140.0**	**537.4**
Cash and cash equivalents, end of period		**156.2**	**318.4**

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2014
(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 smelter/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 Levack mine, including the Morrison deposit, in Ontario; the Franke mine in Chile; the Carlota mine in Arizona; and the McCreedy West mines in Ontario. The Podolsky mine substantially ceased operations during the first quarter of 2013 and is currently under care and maintenance, pending environmental closure. 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 Group also owns an advanced exploration project ("Victoria") in Sudbury, Ontario.

The Robinson, Franke and Carlota mines are open pit copper mines, with some byproduct gold and molybdenum at Robinson, and Levack/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

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim financial reporting as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

The Board of Directors ("BoD") approved these financial statements for issue on May 13, 2014.

b) Basis of consolidation

These condensed interim 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 and rights to affect those returns from its involvement with its subsidiaries. All subsidiaries are wholly-owned. The 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 condensed interim consolidated statements of comprehensive income (loss) from the effective date of acquisition or to the date of disposal. Intergroup balances and transactions are eliminated on consolidation.

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, 2013.

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, 2013.

New pronouncements adopted

IFRIC 21 Accounting for levies imposed by governments

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. IFRIC 21 was adopted by the Group on January 1, 2014.

The adoption of IFRIC 21 did not affect the Group's financial results or disclosures as the Group's analysis determined that no changes were required to the Group's existing accounting treatment of levies.

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.

The Group's investment in the Sierra Gorda at March 31, 2014 was $481.3 (December 31, 2013- $494.2).

(b) Sierra Gorda JV- Subordinated loans

As of March 31, 2014 the Group had funded $1,283.6 (December 31, 2013- $1,121.5) to Sierra Gorda JV through subordinated loan agreements. The balance as at March 31, 2014 includes accrued interest of $127.2 (December 31, 2013- $97.1). For the period ended March 31, 2014, the Group recorded interest income of $19.6 (March 31, 2013- $13.7) (Note 20(a)). Subject to the subordinated conditions to the Senior Project loans, interest and principal of the subordinated loans are payable on demand. The subordinated loans form part of the security arrangement under the Senior Project loans.

(c) Contractual Commitments

As of March 31, 2014, the Group's proportionate 55% share of the contractual commitments with respect to the Sierra Gorda JV totaled $1,769.7 (December 31, 2013- $1,861.0) including purchase orders for mining equipment, infrastructure and mine operating commitments after commencement of production.

During the year ended December 31, 2013, Sierra Gorda entered into lease agreements to lease various mine equipment. The Group's proportionate share of the minimum lease payments totaled $84.4 (December 31, 2013- $34.3). 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.

As at March 31, 2014 the Sierra Gorda JV had cash and cash equivalents of $229.6 (December 31, 2013- $285.8).

(d) Contingent liabilities

Port Matters

The Community of Antofagasta, including several members of the municipal government, an Elected Deputy of the district, a local architect and doctor filed two constitutional actions before the Court of Appeals of Antofagasta against the Commission of Environment of the Second Region, Antofagasta Railway Company PLC, International Port of Antofagasta, and the Sierra Gorda JV to annul the environmental authorization permitting the transportation and storage of copper concentrate from the mine site to the port of Antofagasta. The plaintiff's claimed that the permits required a full environmental impact study and more public participation. The Sierra Gorda JV and its counsel and the co-defendants maintain that the environmental permitting were properly obtained, and prepared the defense that the claims are not legal or supported in practice and law. Both actions were combined by the Court of Appeals, and the request for injunction made by the plaintiffs to stop the construction of the storage warehouses where the copper concentrate is to be stored was ultimately granted. Construction actions at Sierra Gorda SCM were not impacted and development of the unit trains for transporting Sierra Gorda JV's concentrate was not affected. On February 26, 2014, the Court of Appeals of Antofagasta accepted the claims in the plaintiffs favor and nullified the DIA permits for ATI, FCAB and SG SCM. SG SCM's original 2011 EIA permit remains in full effect. The Sierra Gorda JV filed an appeal with the Chilean Supreme Court to reverse the lower Court's decision.

The Supreme Court agreed to hear oral arguments from Sierra Gorda JV, ATI, FCAB and SEA in April, which were presented. A ruling from the Supreme Court on this issue is expected in May 2014. The Sierra Gorda JV expects to receive a favorable ruling from the Supreme Court that upholds the Sierra Gorda JV's 2012 DIA permit. However, alternative plans to transport and sale Sierra Gorda JV concentrates were developed and continue to advance as a contingency.

(US Dollars in Millions)

5. INVENTORY

	March 31, 2014	December 31, 2013
Robinson copper concentrate	32.2	8.5
Carlota leach pad inventory	57.2	59.9
Franke leach pad inventory	15.3	15.4
Copper cathode	5.9	4.8
Supplies	53.8	51.9
Robinson ore stockpile	7.7	16.6
Sudbury crushed ore inventory	0.1	0.6
	172.2	157.7

For the period ended March 31, 2014 (March 31, 2013- $Nil), cost of sales includes $14.6 of inventory write down at Robinson to reduce the concentrate and ore stockpile inventory to net realizable value.

6. TRADE AND OTHER RECEIVABLES

	March 31, 2014	December 31, 2013
Trade receivables	116.3	163.7
Receivable from Sierra Gorda JV (Note 21)	12.8	9.5
Receivable from Bidco	0.3	-
Receivable from other related parties	0.2	0.8
Prepaid expenses and advances to suppliers	11.6	14.8
Other receivables	2.5	3.3
	143.7	192.1

The net carrying value of trade and other receivables approximates fair value. The Group has multiple terms of payment with its customers depending on type of product shipped, and as such, the carrying values are the Group's maximum credit risk associated with each classification of receivables. These receivables are neither collateralized nor secured.

The Group's allowance for doubtful accounts is $0.4 for the period ended March 31, 2014 (December 31, 2013- $0.4).

Trade receivables as at March 31, 2014 include receivables that pertain to construction contracts of $9.9 (December 31, 2013- $13.4) and retention on construction contracts of $21.9 (December 31, 2013- $21.6).

(US Dollars in Millions)

7. OTHER NON-CURRENT ASSETS

	March 31, 2014	**December 31, 2013**
Security deposits for equipment	1.4	1.4
Receivable from Sierra Gorda JV (Note 21)	13.3	9.2
Prepaid on long term contracts	6.4	6.7
Restricted cash	29.9	30.9
Other	5.8	6.0
	56.8	54.2

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.

8. MARKETABLE SECURITIES

As at March 31, 2014, the Group held available for sale securities with an original cost and impaired cost of $9.4 (December 31, 2013- $9.4) and $0.6 (December 31, 2013- $0.6) respectively and a fair value based on their quoted market price of $0.9 (December 31-2013- $0.7).

(US Dollars in Millions)

9. MINERAL PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mineral property acquisition and development	Machinery and equipment	Assets under construction	Total
At December 31, 2013					
Cost	60.5	1,481.8	609.4	23.2	2,174.9
Accumulated depletion, depreciation and amortization	(24.0)	(376.8)	(258.5)	-	(659.3)
Accumulated impairment	(20.8)	(421.6)	(149.7)	-	(592.1)
Net book value	**15.7**	**683.4**	**201.2**	**23.2**	**923.5**
Period ended March 31, 2014					
Change in Cost					
Additions	-	31.2	0.6	5.6	37.4
Disposal	-	-	(0.2)	-	(0.2)
Increase in site closure and reclamation asset	-	2.5	-	-	2.5
Transfers	0.4	-	(3.4)	3.0	-
Subtotal	0.4	33.7	(3.0)	8.6	39.7
Change in Accumulated Amortization					
Reversal of accumulated depletion, depreciation and amortization on disposal	-	-	0.2	-	0.2
Depletion, depreciation and amortization charge	(0.5)	(22.7)	(12.1)	-	(35.3)
Transfers	(0.1)	-	0.1	-	-
Subtotal	(0.6)	(22.7)	(11.8)	-	(35.1)
At March 31, 2014					
Cost	60.9	1,515.5	606.4	31.8	2,214.6
Accumulated depletion, depreciation and amortization	(24.6)	(399.5)	(270.3)	-	(694.4)
Accumulated impairment	(20.8)	(421.6)	(149.7)	-	(592.1)
Net book value	**15.5**	**694.4**	**186.4**	**31.8**	**928.1**

Machinery and equipment includes $11.8 related to two finance leases agreements entered during the year ended December 31, 2013. Finance lease obligations are $2.3 due within one year, $4.8 due within one to three years and $2.4 due after three years.

Additions to mineral property include deferred stripping cost at Robinson of $23.2 (December 31, 2013- $89.3).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2014
(Unaudited)

10. INTANGIBLE ASSETS

	Exploration and evaluation assets	Water rights	Other intangible assets	Software	Goodwill	Total
At December 31, 2013						
Cost	153.0	59.1	2.4	9.7	180.6	404.8
Accumulated depletion, depreciation and amortization	-	-	(0.3)	(5.7)	-	(6.0)
Net book value	**153.0**	**59.1**	**2.1**	**4.0**	**180.6**	**398.8**
Period ended March 31, 2014						
Change in Cost						
Additions	8.7	0.1	-	-	-	8.8
Subtotal	8.7	0.1	-	-	-	8.8
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, 2014						
Cost	161.7	59.2	2.4	9.7	180.6	413.6
Accumulated depletion, depreciation and amortization	-	-	(0.4)	(6.1)	-	(6.5)
Net book value	**161.7**	**59.2**	**2.0**	**3.6**	**180.6**	**407.1**

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2014
(Unaudited)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2014	December 31, 2013
Liabilities from deliveries and services	43.2	59.9
Liabilities from employee taxes and social security	4.6	3.9
Liabilities for wages	1.2	2.2
Other financial liabilities	3.7	1.8
Accrued expenses	48.0	57.3
	100.7	125.1

12. 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 the existing Sudbury Operations.

Balance - Decmber 31, 2013	166.3
Recognized into revenue	(2.1)
Balance - March 31, 2014	164.2
Current	(11.7)
Non-Current	152.5

(US Dollars in Millions)

13. BORROWINGS AND FINANCE LEASE LIABILITIES

	March 31, 2014	December 31, 2013
Borrowings	586.1	490.7
Finance lease	7.2	7.8
	593.3	498.5

Borrowings

	March 31, 2014	December 31, 2013
Senior notes	500.0	500.0
Senior note issue costs	(12.3)	(12.3)
Cumulative amortization of senior note issue costs	3.4	3.0
Corporate Facility	95.0	-
	586.1	490.7

i. 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 notes at March 31, 2014 is $530.0 (December 31, 2013 - $525.5) based on a trading price of 106.0 (December 31, 2013- 105.1) per 100.

These Notes contain certain covenants that limit the Group’s ability and the ability of certain subsidiaries to, incur additional indebtedness and issue preferred stock, create liens, make restricted payments, create or permit to exist restrictions on the ability of the Group or certain subsidiaries to make certain 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, prior to June 15, 2014, up to 35% of the Notes with the net proceeds of certain equity offerings at a redemption price equal to 107.75% of the principal amount plus accrued interest. Prior to June 15, 2015, the Group may redeem the Notes 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%

(US Dollars in Millions)

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.

At March 31, 2014, no mandatory principal repayments are required in the next five years.

ii. Corporate Facility

During the second quarter of 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 matures on June 19, 2017 and bears interest at LIBOR plus a margin dependent on the Group's net indebtedness to rolling EBITDA ratio.

The Corporate Facility is secured against the present and future real property of the Group, excluding assets related to Sierra Gorda and is subject to maintenance of ratios relating to (i) interest coverage (ii) net indebtedness to rolling EBITDA and maintenance of tangible net worth. In addition until certain security interests are perfected, such interests to be completed by June 19, 2014, the Group must maintain a cash balance of $100.0 in North American based accounts. Failure to maintain these and other standard covenants for the facility of this type could result in the termination and repayment of the Corporate Facility.

The Group was in compliance with the covenants of the Corporate Facility during the period ended March 31, 2014.

During the first quarter of 2014 KGHM replaced the letter of credit of $137.5 that had been issued on behalf of the Group for the Sierra Gorda JV power purchase agreement under the Corporate Facility thereby releasing $137.5 of capacity in the Corporate Facility. During the three months ended March 31, 2014, the Group drew $95.0 in cash and $11.1 for new letters of credit related to reclamation bonding, bringing total draws under the facility to $167.1 of which $72.1 relates to letters of credit (December 31, 2013 $198.5 and $198.5 respectively).

The below table summarizes the usage of the Corporate Facility since December 31, 2013:

	Letters of Credit	Loans	Total
Balance at December 31, 2013	198.5	-	198.5
Replaced by KGHM	(137.5)	-	(137.5)
Issued for reclamation bonding	11.1	-	11.1
Draw down of the Corporate Facility	-	95.0	95.0
Balance at March 31, 2014	72.1	95.0	167.1

(US Dollars in Millions)

14. PROVISIONS

Site closure and reclamation provisions by mineral property are as follows:

	March 31, 2014	December 31, 2013
Site closure and reclamation provision	151.9	148.8
Carlota termination benefits and others	3.1	3.1
Total provisions	**155.0**	**151.9**
Current	17.4	17.4
Long term	137.6	134.5
Total provisions	**155.0**	**151.9**

Site closure and reclamation provisions are as under:

Balance at December 31, 2013	148.8
Change in estimated timing and amount of closure cost	0.7
Increase in provision due to change in discount rate	1.8
Reclamation work done to reduce liability	(0.2)
Unwinding of discount	0.8
Balance at March 31, 2014	151.9
Current	16.7
Non Current	135.2

Discount rates used in the estimation of the provision at March 31, 2014 were 1.7% - 3.0% for US operations, 1.8% for Chile operations and 2.5% - 3.0% for Canadian operations (for December 31, 2013 the discount rates used were 1.8% - 3.4%, 2.3% and 2.6% - 2.8% 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.

(US Dollars in Millions)

15. DERIVATIVE INSTRUMENTS

As at March 31, 2014 the Group's derivative instruments comprised of long-term supply contracts.

The gain on derivatives is comprised of the following and is included in other income (Note 21 (c)):

	Three months ended March 31, 2014	Three months ended March 31, 2013
Long-term supply contracts (a)	(2.5)	(0.1)
Foreign currency forward contracts (b)	1.4	-
	(1.1)	(0.1)

(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 the 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.

These copper price escalation clauses create embedded derivatives in the acid and water supply contracts. As of March 31, 2014, the fair value of the embedded derivative liabilities was determined to be $49.2 (December 31, 2013 - $51.7), based on the following significant assumptions:

- Copper price in the range of $2.95/lb to $3.23/lb from 2014 to 2022.
- Discount rate: 11%

(b) Foreign currency supply contracts

The Group entered into a number of foreign currency contracts to sell $200.0 in exchange for 105,100 million Chilean Pesos on various dates in the first quarter of 2014 at a cost of $1.4. As at March 31, 2014 all contracts expired unexercised, resulting in a loss of $1.4 (March 31 2013-$ Nil). As of March 31, 2014 no foreign currency forward contracts were outstanding.

(US Dollars in Millions)

16. SHARE CAPITAL

(a) 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, 2014	199,836,316	1,851.5
Capital stock issued:	-	-
Balance at March 31, 2014	199,836,316	1,851.5

In April 2014 the Group issued 83,805,200 common shares to its shareholder Bidco for total proceeds of $76.0 increasing the total outstanding shares to 283,641,516.

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 holds the goodwill established during the merger with FNX Mining Ltd. on May 20, 2010.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2014
(Unaudited)

For the three months ended March 31, 2014

	Robinson (USA) [a]	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda) [a]	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	-	4.5	8.1	0.8	11.4	45.1
Segment non-current assets as at March 31, 2014	312.7	74.0	122.0	735.9	40.2	2,005.1	3,289.9
Segment assets as at March 31, 2014	420.5	147.2	183.1	828.1	108.4	2,101.6	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, 2014, 24.6 million pounds of copper have been provisionally valued at an average price of $3.01 per pound. The final pricing for these provisionally priced sales is expected to occur between April 2014 and July 2014.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2014
(Unaudited)

For the three months ended March 31, 2013

	Robinson (USA)	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda)	DMC	Corporate & Other	Total
Copper revenues	86.5	20.2	27.5	43.2	-	-	177.4
Nickel revenues	-	-	-	17.7	-	-	17.7
Other by-product revenues	19.2	-	-	10.4	-	-	29.6
Contract mining revenues	-	-	-	-	63.5	-	63.5
Treatment charges	(6.2)	-	-	(10.0)	-	-	(16.2)
Net revenues	**99.5**	**20.2**	**27.5**	**61.3**	**63.5**	**-**	**272.0**
Depreciation and amortization	7.9	-	5.3	16.6	1.1	-	30.9
Employee benefits expense	17.6	4.3	7.5	11.3	11.3	-	52.0
Raw materials, other consumables and energy	40.6	9.8	18.6	11.6	-	-	80.6
Office expenses	3.2	0.8	2.6	2.0	0.6	-	9.2
External services	4.5	1.2	4.8	9.5	41.4	-	61.4
Royalties and mineral taxes	3.0	1.0	-	-	-	-	4.0
Changes in inventories	(32.4)	(2.6)	(7.2)	(1.5)	-	-	(43.7)
Distribution costs	10.5	-	0.3	2.9	-	-	13.7
Income (loss) from operations	**44.6**	**5.7**	**(4.4)**	**8.9**	**9.1**	**-**	**63.9**
General and administrative	-	-	-	-	-	17.7	17.7
Finance income	-	-	-	-	-	(16.6)	(16.6)
Finance expense	-	-	-	-	-	11.0	11.0
Other income	-	-	-	-	-	(6.4)	(6.4)
Other expense	-	-	-	-	-	2.1	2.1
Impairment of marketable securities	-	-	-	-	-	26.8	26.8
Foreign exchange gain	-	-	-	-	-	(0.4)	(0.4)
Segment earnings (loss) before tax	**44.6**	**5.7**	**(4.4)**	**8.9**	**9.1**	**(34.2)**	**29.7**

Capital expenditures	4.6	-	(0.7)	8.1	0.5	2.0	14.5
Segment non-current assets as at March 31, 2013	287.3	87.1	128.4	779.4	42.0	1,578.3	2,902.5
Segment assets as at March 31, 2013	486.5	158.2	195.6	920.7	130.3	1,822.7	3,714.0

(US Dollars in Millions)

18. INCOME TAXES

For the three month period ended March 31, 2014, the Group recognized a current income tax recovery of $4.5 and a deferred income tax expense of $0.7 (March 31, 2013- $5.2 current income tax expense and $9.7 deferred income tax expense). The income tax expense for the three months ended March 31, 2014 has been recorded based on a forecasted effective income tax rate of 18% (March 31, 2013- 33%). 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, 2014	Three months ended March 31, 2013
Employee benefits expenses	6.6	9.3
Legal and professional services	1.5	4.7
Office and communication expenses	3.6	3.9
Insurance expenses and property taxes	-	(0.2)
	11.7	17.7

20. FINANCE INCOME AND EXPENSE

(a) Finance Income

Finance income for the three months ended March 31, 2014 of $20.5 (March 31, 2013- $16.6) is primarily related to interest earned on short-term investments of $0.2 (March 31, 2013- $1.9), interest on subordinate loans to Sierra Gorda JV of $19.6 (March 31, 2013- $13.7) and interest on notes receivable of $0.7 (March 31, 2013- $1.0) (Note 21).

(b) Finance Expenses

Finance expense for the three months ended March 31, 2014 of $13.9 (March 31, 2013- $11.0) is primarily comprised of $9.7 interest expense related to senior notes (March 31, 2013- $9.7) and interest expense on the Corporate Facility of $1.1(March 31, 2013- $Nil) (Note.13)

(c) Other Income

Other Income for the three months ended March 31, 2014 of $7.5 (March 31, 2013- $6.4) is primarily comprised of management fees from Sierra Gorda JV of $3.8 (March 31, 2013- $6.3) (Note 21), and gain on derivatives of $2.5 (March 31, 2013- $0.1) (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 amount due from the Sierra Gorda JV is $12.8 at March 31, 2014 (December 31, 2013- $9.5) (Note 6). This amount is repayable in the normal course of business. Management fees payable to the Group for the period ended March 31, 2014 was $6.3 (March 31, 2013- $6.3) from the Sierra Gorda JV. In the third quarter of 2013, it was agreed that 50% of management fees and 100% of the letter of credit guarantee fees payable to the Group be deferred for the period from July 1, 2013 to January 1, 2015. As at March 31, 2014, $9.4 (December 31, 2013- $6.3) of the management fee and $3.9 (December 31, 2013- $2.9) 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. The obligation with respect to the loan is evidenced by a promissory note payable to the Group. In Q1 2013, the maturity date was extended to March 5, 2014. Interest on the outstanding principal is 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. On March 10, 2014, Bidco repaid $105.6 of the remaining principal and interest.

(US Dollars in Millions)

22. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Decrease in receivables	49.5	33.7
Increase in inventory	(14.5)	(49.7)
(Increase) decrease in other non-current asset	(3.9)	0.3
Decrease in accounts payable and accrued liabilities	(21.4)	(16.8)
	9.7	(32.5)
Non-cash investing and financing activities:		
(Decrease) increase in mineral properties, plant and equipment purchases in accruals	(3.2)	4.9

23. COMMITMENTS

As at March 31, 2014 the commitments of the Group were $120.3 in relation to capital projects, rent and contractual obligations. Commitments of $17.1 are due within one year, $59.8 are due within one to five years and $43.4 are due after three years.

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) 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.

25. FINANCIAL INSTRUMENTS

Financial instruments are classified as held for trading, loans and receivables, available for sales 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, 2014 and at December 31, 2013, the carrying value of financial instruments were approximately their fair value except for senior note with a carrying value of $491.1 (December 31, 2013- $490.7) and a fair value of $530.0 (December 31, 2013- $525.5) (Note 13). The fair value hierarchy for the Group's financial instruments at December 31, 2014 and 2013 was as follows:

- Level 1: Marketable securities.
- Level 2: Receivable 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 (Note 8). 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, 2013. 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.