KGHM INTERNATIONAL

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED JUNE 30, 2014

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

	Three months ended June 30			Six months ended June 30		
	2014	2013	Change	**2014**	2013	Change
FINANCIAL HIGHLIGHTS						
Net revenues [1]	**179**	314	-43%	**326**	586	-44%
Income from mining operations	**23**	27	-13%	**1**	91	-99%
Adjusted EBITDA [2]	**48**	65	-26%	**50**	145	-66%
Earnings for the period	**22**	2	N/A	**2**	16	-89%
Cash	**118**	140 *	-15%	**118**	140 *	-15%
Working capital	**312**	437 *	-29%	**312**	437 *	-29%

[1] Net of treatment and refining charges
[2] See "Non-IFRS Financial Measures"
**2013 comparatives are at December 31, 2013*

SECOND QUARTER AND RECENT ACTIVITIES:

The Company achieved significant improvement in results in Q2 2014 over Q1 2014:

- Adjusted EBITDA increased from $2 million in Q1 to $48 million in Q2
- Earnings improved from a loss of $21 million in Q1 to earnings of $22 million in Q2
- All the companyøs mines improved their operating results in Q2 2014 compared to Q1 2014. The Robinson mine saw a $22 million improvement in operating income, Morrison $9 million and Carlota $13 million.
- Robinson sales increased from 11 million pounds to 19 million pounds due to a 20% increase in ore mined and 11% increase in grades as well as improved milling recoveries. The Morrison mine production improved largely due to a 15% increase in grades. Significant improvements were recognized at Carlota during the quarter, a combination of improved production and recognition of increased recoverable copper from the leach pad due to planned subsurface leaching (see õ**Review of Operations and Projects"**).

Comparing Q2 2014 to Q2 2013:

- Adjusted EBITDA for Q2 2014 was $48 million down from $65 million in the same period in 2014. The main influence was the lower copper and gold production from the Robinson mine due to lower milled grades and recoveries from the ore mined from the Kimbley pit in 2014 compared to the Ruth pit in 2013.
- Earnings for Q2 2014 were $20 million better than in 2013 but Q2 2013 was affected by a $16 million foreign exchange loss due to the weakening Chilean peso.
- Net revenues decreased by 43% to $179 million in the quarter compared to $314 million in Q2 2013 due to the decrease in sales volume (lower production) by 63% and a reduction in contract mining revenue at DMC.
- Income from mining operations decreased $4 million from $27 million in Q2 2013 to $23 million in Q2 2014. The decrease is primarily due to the decrease in sales volumes as a result of decreased production at the Robinson mine (see õ**Financial Performance**ö).
- The Company sold 42 million pounds of copper and 17 thousand ounces of total precious metals (TPMs) in Q2 2014 compared to 69 million pounds of copper and 28 thousand ounces of TPMs in Q2 2013 (see **"Review of Operations and Projects"**).

This Management's 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 August 12, 2014 and is intended to be read in conjunction with the accompanying unaudited consolidated financial statements for the quarter ended June 30, 2014 and audited consolidated financial statements and the notes thereto for the year ended December 31, 2013. 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.***

- C1 costs decreased from $2.23/lb in Q2 2013 to $2.03/lb in Q2 2014 primarily due to a reduction in costs of goods sold relating to the adjustment to Carlotaøs leach pad inventory. Cash costs at mines other than Robinson were in aggregate lower in Q2 2014 than Q2 2013.

The Company ended the second quarter of 2014 with $118 million of cash and cash equivalents. The decrease in cash and cash equivalents compared to December 31, 2013 is primarily due to the funding of the Companyøs capital and joint venture projects (see **"Liquidity and Capital Resource"**).

FINANCIAL PERFORMANCE

Earnings

The Company recorded earnings of $22 million for Q2 2014 compared to earnings of $2 million for Q2 2013. Increased earnings in Q2 2014 were primarily due to a foreign exchange gain of $2 million compared to a foreign exchange loss of $16 million in the same period of 2013. Income from mining operations decreased by $4 million: the significant $39 million reduction in Robinson operating income was offset by significant improvements in other mines operating income - $14 million at Morrison, $14 million at Franke and $10 million at Carlota.

During Q2 2014, the Company sold 42.0 million pounds of copper at an average effective price of $3.20/lb and 17.4 thousand ounces of TPMs compared to 68.6 million pounds of copper in Q2 2013 at an average effective price of $3.09/lb and 28.2 thousand ounces of TPMs.

Revenues

	Three months ended June 30, 2014						
	Robinson	Morrison	Franke	Carlota	McCreedy West	DMC	Total
Copper sales (million lbs)	19.1	8.7	7.7	5.8	0.7	-	42.0
(in millions of U.S. dollars)							
Copper	61.5	27.6	24.3	18.5	2.3	-	134.2
Nickel	-	13.3	-	-	2.2	-	15.5
Other by product (1)	10.9	7.8	-	-	0.7	-	19.4
Contract mining	-	-	-	-	-	26.5	26.5
Treatment and refining charges	(7.3)	(9.1)	-	-	(0.7)	-	(17.1)
Total net revenues	65.1	39.6	24.3	18.5	4.5	26.5	178.5

	Three months ended June 30, 2013							
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Copper sales (million lbs)	43.4	10.0	8.6	5.6	0.1	0.9	-	68.6
(in millions of U.S. dollars)								
Copper	132.5	30.1	28.6	18.1	(0.2)	2.7	-	211.8
Nickel	-	9.6	-	-	-	5.5	-	15.1
Other by product (1)	27.5	5.4	-	-	0.2	2.1	-	35.2
Contract mining	-	-	-	-	-	-	71.0	71.0
Treatment and refining charges	(9.5)	(8.7)	-	-	(0.1)	(0.5)	-	(18.8)
Total net revenues	150.5	36.4	28.6	18.1	(0.1)	9.8	71.0	314.3

	Six months ended June 30, 2014						
					McCreedy		
	Robinson	Morrison	Franke	Carlota	West	DMC	Total
Copper sales (million lbs)	29.8	16.4	18.7	11.2	1.4	-	77.4
(in millions of U.S. dollars)							
Copper	87.3	50.3	59.1	35.2	4.2	-	236.1
Nickel	-	24.1	-	-	7.6	-	31.7
Other by product [(1)]	18.8	14.3	-	-	1.6	-	34.7
Contract mining	-	-	-	-	-	53.1	53.1
Treatment and refining charges	(10.4)	(17.8)	-	-	(1.2)	-	(29.4)
Total net revenues	95.7	70.9	59.1	35.2	12.2	53.1	326.2

	Six months ended June 30, 2013							
						McCreedy		
	Robinson	Morrison	Franke	Carlota	Podolsky	West	DMC	Total
Copper sales (million lbs)	68.2	17.2	16.1	11.3	4.2	1.9	-	118.9
(in millions of U.S. dollars)								
Copper	219.0	55.7	56.1	38.3	14.1	6.1	-	389.3
Nickel	-	18.0	-	-	1.0	13.8	-	32.8
Other by product [(1)]	46.7	10.8	-	-	3.4	3.8	-	64.7
Contract mining	-	-	-	-	-	-	134.5	134.5
Treatment and refining charges	(15.7)	(14.9)	-	-	(3.4)	(1.0)	-	(35.0)
Total net revenues	250.0	69.6	56.1	38.3	15.1	22.7	134.5	586.3

[(1)] *Consists of 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 customerøs port of delivery. As a result, the Companyøs 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.

Q2 2014 net revenues decreased by $136 million or 43% compared to the same period in 2013. The decrease in net revenues is mainly due to the decrease in copper and gold production at Robinson and lower contract mining revenues from DMC, partially offset by a slight increase in realized copper price (4%). Copper spot price at June 30, 2014 was $3.15/lb compared to $3.06/lb at June 30, 2013.

Revenues at Morrison and McCreedy West in Q2 2014 included non-cash revenue of $2.6 million representing the amortization of a deferred revenue liability related to the Companyøs obligation to sell 50% of the gold, platinum and palladium contained in ore mined and shipped from certain deposits to Franco-Nevada (formerly Gold Wheaton).

Mine operating expenses and operating income

	Three months ended June 30, 2014							
	Robinson	Morrison	Franke	Carlota	McCreedy West	DMC	Other	Total
Net revenues	65.1	39.6	24.3	18.5	4.5	26.5	-	178.5
Depreciation and amortization	13.5	13.7	(0.4)	-	0.8	1.2	-	28.8
Employee benefits expense	10.2	6.8	7.4	3.7	1.4	11.7	0.3	41.5
Raw materials, other consumables and energy	23.7	6.0	14.9	8.2	0.7	-	0.3	53.8
Office expenses	2.3	1.5	2.5	0.9	0.2	0.5	0.1	8.0
External services	5.5	4.1	3.7	0.8	0.8	13.5	0.1	28.5
Royalties	1.6	-	-	0.7	-	-	-	2.3
Reversal of leach pad inventory impairment	-	-	-	(11.5)	-	-	-	(11.5)
Changes in Inventories	(3.1)	-	(5.5)	1.3	0.1	-	(0.2)	(7.4)
Distribution costs	9.4	1.0	0.4	-	0.4	-	-	11.2
Cost of Sales	63.1	33.1	23.0	4.1	4.4	26.9	0.6	155.2
Operating income (loss)	2.0	6.5	1.3	14.4	0.1	(0.4)	(0.6)	23.3

	Three months ended June 30, 2013							
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Net revenues	150.5	36.5	28.6	18.1	(0.2)	9.8	71.0	314.3
Depreciation and amortization	8.4	19.4	4.4	-	-	2.5	1.1	35.8
Employee benefits expense	11.2	7.3	6.6	4.2	0.5	3.2	10.4	43.4
Raw materials, other consumables and energy	27.2	7.3	19.3	9.0	0.5	2.7	0.8	66.8
Office expenses	6.3	2.4	1.9	0.7	0.2	0.5	0.6	12.6
External services	4.7	5.0	4.3	1.3	0.2	1.9	53.1	70.5
Royalties	4.8	-	-	0.6	-	-	-	5.4
Changes in Inventories	36.4	1.3	4.3	(2.1)	-	-	-	39.9
Distribution costs	10.3	1.3	0.4	-	0.1	0.9	-	13.0
Cost of Sales	109.3	44.0	41.2	13.7	1.5	11.7	66.0	287.4
Operating income (loss)	41.2	(7.5)	(12.6)	4.4	(1.7)	(1.9)	5.0	26.9

	Six months ended June 30, 2014							
	Robinson	Morrison	Franke	Carlota	McCreedy West	DMC	Other	Total
Net revenues	95.7	70.9	59.1	35.2	12.2	53.1	-	326.2
Depreciation and amortization	26.5	27.1	4.8	-	2.4	2.3	-	63.1
Employee benefits expense	22.4	12.8	13.3	8.0	3.2	21.9	0.7	82.3
Raw materials, other consumables and energy	48.2	12.9	31.2	15.1	2.7	-	1.4	111.5
Office expenses	6.0	3.1	5.0	2.0	0.5	1.1	0.2	17.9
External services	11.2	8.9	7.2	2.0	2.6	27.4	0.3	59.6
Royalties	2.7	-	-	1.3	-	-	-	4.0
Reversal of leach pad inventory impairment	-	-	-	(11.5)	-	-	-	(11.5)
Changes in Inventories	(17.9)	0.2	(5.2)	2.6	0.4	-	(0.2)	(20.1)
Distribution costs	14.9	2.0	1.1	-	0.7	-	-	18.8
Cost of Sales	114.0	67.0	57.4	19.5	12.5	52.7	2.4	325.6
Operating income (loss)	(18.3)	3.9	1.7	15.7	(0.3)	0.4	(2.4)	0.6

	Six months ended June 30, 2013							
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Net revenues	250.0	69.6	56.1	38.3	15.1	22.7	134.5	586.3
Depreciation and amortization	16.3	31.7	9.7	-	1.9	4.9	2.2	66.6
Employee benefits expense	28.6	13.1	14.1	8.5	2.8	6.4	21.7	95.2
Raw materials, other consumables and energy	68.0	14.2	37.9	18.8	2.5	5.4	0.8	147.6
Office expenses	9.5	3.7	4.5	1.5	0.7	0.7	1.2	21.8
External services	9.2	8.7	9.1	2.5	3.3	4.6	94.5	131.9
Royalties	7.8	-	-	1.6	-	-	-	9.4
Reversal of leach pad inventory impairment	-	0.2	-	-	-	-	-	0.2
Changes in Inventories	4.0	(0.3)	(2.9)	(4.7)	0.2	(0.1)	-	(3.8)
Distribution costs	20.8	2.2	0.7	-	1.3	1.7	-	26.7
Cost of Sales	164.2	73.4	73.1	28.2	12.7	23.6	120.4	495.6
Operating income (loss)	85.8	(3.8)	(17.0)	10.1	2.4	(0.8)	14.1	90.8

Cost of sales decreased by $132 million or 46% in Q2 2014 compared to Q2 2013 primarily due to the lower cost of sales at Robinson, DMC, Franke and Carlota. Lower cost of sales at Robinson for Q2 2014 compared to Q2 2013 is primarily due to cost savings initiatives implemented, changes in inventory from a higher ending inventory balance in Q2 2013 compared to Q2 2014 and the reduction in sales volume from a decrease in copper concentrate grade (õ**Review of Operations and Projects**ö). Cost of sales at DMC were lower during the current quarter as contract mining activities decreased compared to the same period in 2013 from the change in project phases and the completion of projects in 2013 that are non-recurring as well as the less favourable market conditions. Cost of sales decreased at Franke primarily due to the decrease in copper sales volumes, reduction in operating costs and timing of cathode sales. A decrease in cost of sales at Carlota is due to the adjustment to leach pad inventory due to the increase in recoveries on previously stacked ore.

Cost of sales for the first six months of 2014 decreased by $170 million or 34% from the same period in 2013 due primarily to a decrease at DMC, Robinson, Franke, McCreedy West and Carlota. The reduction at McCreedy West is due to a decrease in ore throughput from reduced mining activity. Podolsky completed the mining of its economic resource at the end of Q1 2013.

General & administrative and other expenses

General and administrative expenses for Q2 and the first six months of 2014 were lower than the same periods in 2013 due mainly to lower expensed exploration costs and lower consulting fees in 2014. The Company recognized $22.6 million in finance income in Q2 2014 compared to $19.5 million in the same period of 2013 and $44.1 million for the six months ended June 30, 2014 and $36.1 million for the same period in 2013. These increases were primarily driven by the increase in the interest on the loan to Sierra Gorda JV as the loan amount increased by $591 million from June 30, 2013 to June 30, 2014.

Finance expenses for Q2 2014 and the six months ended June 30, 2014 of $14.4 million and $28.3 million were higher than the same periods in 2013 of $11.7 million and $22.7 million respectively due to additional interest expenses from the Corporate Facility entered into at the end of Q2 2013.

Other income for the six months ended June 30, 2014 of $9.2 million was lower than the same period in 2013 of $17.8 million primarily due to a large derivative gain in 2013 on the Franke mineøs acid and water contracts. Other income for Q2 2014 of $2.7 million was lower compared to the same period in 2013 of $11.4 million due to a derivative loss in 2014 compared to a derivative gain in 2013. Other expense for Q2 2014 and six months ended June 30, 3014 was in line with the same periods in 2013. In the six months ended June 30, 2013 $35.1 million of impairment on marketable securities was recognized due to a decline in market value.

The Company recorded a foreign exchange gain of $2.1 million in Q2 2014 compared to a loss of $15.8 million in Q2 2013 as well as a loss of $0.5 million in the six months ended June 30, 2014 compared to $15.4 million the same period in 2013. The foreign exchange loss in 2013 related primarily to the depreciation of the Chilean peso in 2013 when the Company held over $130 million of Chilean peso short-term investment These currencies are held to mitigate the risks related to costs incurred in those currencies. The Company sold all of the Chilean peso short-term investments by the end of 2013.

The Company recorded income tax expense of $0.6 million for the first six months of 2014 compared to $25.8 million tax expense in the same period of 2013. The tax expense for the current year has been recorded based on an estimated annual effective tax rate of 23% (2013 ó 26%) excluding certain one-time tax events. The decrease in effective tax rate in 2014 is mainly caused by the realization of the tax benefits of losses.

REVIEW OF OPERATIONS AND PROJECTS

PRODUCTION SUMMARY

Production for the quarter ended June 30, 2014 and 2013 from the Companyøs operating mines is summarized as follows:

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Copper production (Mlbs)				
Robinson [2]	**24.6**	30.8	**41.7**	67.3
Morrison deposit [4]	**8.7**	10.0	**16.4**	17.3
Franke [3]	**9.5**	8.8	**20.4**	19.4
Carlota [3]	**5.7**	5.8	**11.5**	11.4
Podolsky [4]	**0.0**	0.1	**0.0**	4.2
McCreedy West [4]	**0.7**	0.9	**1.4**	1.9
	49.2	56.4	**91.4**	121.5
Nickel production (Mlbs)				
Morrison deposit [4]	**1.4**	1.6	**2.9**	2.7
Podolsky [4]	**0.0**	0.0	**0.0**	0.1
McCreedy West [4]	**0.1**	1.1	**0.7**	2.2
	1.5	2.7	**3.6**	5.0
TPM [1] (kozs)				
Robinson [2]	**6.2**	15.0	**12.1**	30.4
Morrison deposit [4]	**10.5**	8.1	**19.8**	15.7
Podolsky [4]	**0.0**	0.3	**0.0**	4.2
McCreedy West [4]	**1.1**	1.4	**1.7**	2.7
	17.8	24.8	**33.6**	53.0
Total copper equivalent (Mlbs) [5]	**61.1**	74.2	**114.0**	157.5

[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 June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Copper production payable (Mlbs)	**24.6**	30.8	**41.7**	67.3
Gold production payable (kozs)	**6.2**	15.0	**12.1**	30.4
Ore mined (Mt)	**3.5**	2.4	**6.4**	8.2
Waste mined (Mt)	**18.7**	18.3	**37.5**	30.1
Ore milled (Mt)	**4.0**	3.9	**7.3**	8.1
Copper grade (%)	**0.40**	0.45	**0.38**	0.46
Gold grade (g/t)	**0.13**	0.24	**0.14**	0.22
Copper recovery (%)	**74.9**	81.9	**72.7**	85.7
Gold recovery (%)	**35.4**	55.5	**35.0**	52.5
Cash cost per pound of copper sold	**$2.50**	$1.84	**$2.82**	$1.71
Capital expenditure	**$31.6**	$28.4	**$52.0**	$33.0
Cost of goods sold*	**$51.2**	$97.9	**$92.3**	$147.2
Operating income (loss)	**$2.0**	$41.2	**($18.3)**	$85.8

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

Copper production for Q2 2014 was lower than Q2 2013 due to significantly lower ore grade and recovery rates from ore mined in the Kimbley pit in Q2 2014 compared to higher quality ore mined in the lower elevations of the Ruth complex in Q2 2013. Performance improved from Q1 2014 to Q2 2014 due to blending synergies from the addition of ore processed from a drop cut in Ruth West, ore mined in the Liberty pit, and improved milling rates. Gold production in Q2 2014 was less than Q2 2013 production due to a considerable decline in gold grade and recoveries. Gold recovery is further impacted by high pyrite ores that carry gold and are rejected in flotation.

Total tonnes mined in Q2 2014 increased by 7% compared to Q2 2013 primarily due to development activities in the Kimbley and Ruth pits. The Kimbley pit required access to higher quality ores from the pitøs lower elevations and the Ruth East pit required accelerated pushback development in order to access higher quality Ruth East ores for the second half of 2014. The development of the remaining ore in the Ruth West drop cut that began in Q1 2014 was completed in Q2 2014. The development of the Ruth East push back will position the mine for higher quality ore delivery in 2015.

Robinson production costs and capital expenditures

Costs of goods sold was lower in Q2 2014 than Q2 2013 due to a decline in sales volume after the capitalization of waste removal costs related to future ore production. Copper sales decreased by 56% in Q2 2014 compared to the same period of 2013 due to a decrease in ore quality and subsequent decrease in copper production, and significant $30 million increases in period end concentrate inventory.

The cash cost per pound of copper sold is a non-IFRS term and consists of cost of goods sold, less by-product revenue, divided by copper pounds sold in the period (see **"Non-IFRS Financial Measures"**). The cash cost per pound of copper sold for Q2 2014 was $2.50 compared to $1.84 in Q2 2013, and increased to $2.82 from $1.71for the first half of 2014. The increased cash cost per pound of copper sold is mainly due to lower production (lower ore grade and recovery rates) and reduced by-product revenue in Q2 2014. By-product revenue is negatively affected by reduced gold grades and gold recovery due to high pyrite ores.

Capital expenditures increased in Q2 2014 and the first six months of 2014 compared to the same periods of 2013 primarily due to mine development stripping related to the Kimbley pit and the Ruth complex.

Robinson Outlook

Robinson will complete mining in the Kimbley pit in Q3 2014 while continuing to develop the Ruth East pit so that it can be the primary ore supplier in Q4 2014 and in 2015. Robinson continues to analyze blending opportunities and process modifications to improve performance. Robinson is resuming its aggressive cost cutting for the remainder of 2014 and all non-critical capital expenditures have been reduced or deferred for the remainder of 2014.

Morrison deposit (Ontario, Canada)

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Copper ore sold (kt)	**59.0**	70.7	**119.2**	119.2
Copper grade (%)	**7.7**	7.3	**7.2**	7.8
Copper sold - payable (Mlbs)	**8.7**	10.0	**16.4**	17.3
Nickel sold - payable (Mlbs)	**1.4**	1.6	**2.9**	2.7
Gold sold - payable (kozs)	**1.3**	1.6	**3.0**	3.2
Platinum sold - payable (kozs)	**2.5**	2.3	**4.6**	4.3
Palladium sold - payable (kozs)	**6.6**	4.2	**12.1**	8.3
Cash cost per pound of copper sold ($/lb)	**$1.13**	$1.91	**$1.44**	$1.84
Capital expenditure	**$8.1**	$8.4	**$16.1**	$15.9
Cost of goods sold*	**$19.5**	$23.5	**$39.9**	$41.8
Operating income (loss)	**$6.5**	($7.5)	**$3.9**	($3.7)

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

Copper ore produced and sold for Q2 2014 was 17% lower than Q2 2013 as the mine addressed challenges with increased seismicity and associated delays and increased support installation in some key stoping areas. Copper grades improved later in the quarter and were 6% higher than Q2 2013 as a result of additional high grade trunk vein mining. Despite the decrease in ore volume sold, payable TPM (gold, platinum, and palladium) was 28% higher in Q2 2014 due to higher grades realized in the locations mined in lower Morrison Deposit Zone 3.

Mine development continued on the Morrison down ramp to an elevation of 4700ø for Q2 2014. Development of the deeper access from Craig, down to the 5000ø elevation also continues. Diamond drilling from lower Morrison was focused on during the quarter to develop mining areas for the second half of 2014. Drilling is also taking place in Morrison Deposit Zone 1 where the operations are testing a possible up dip extension of the Keel zone.

Morrison production costs and capital expenditures

Cost of goods sold for Q2 2014 were lower than Q2 2013 due to a decrease in ore volumes, reduced contractor costs and improved maintenance efficiencies from process improvements introduced in early 2013.

The cash cost per pound of copper sold for the first six months of 2014 was $1.44 compared to $1.84 in 2013. The decrease in cash cost is due to lower operating costs for the quarter and higher by-product revenue. Similarly, a decrease in cash costs were realized during Q2 2014 as the cash cost per pound of copper sold was $1.13 compared to $1.91 for the same period in 2013.

Lateral development and capital raising scope has been consistent resulting in consistent capital expenditure spend for the first half of 2014 compared to the same period in 2013. Operating income increased in Q2 2014 compared Q2 2013 due to lower operating costs and lower depreciation, depletion and amortization.

Morrison deposit outlook

The site backfilling progress has been a strong point in the first 6 months of 2014, and will allow for improved execution of the mine plan. Capital development in the access to the 5000ø elevation will continue with diamond drilling commencing from the first station in mid Q3 2014. This access and associated diamond drilling is critical to quantifying the extents of the lower portion of the Morrison deposit.

Other Operations*

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Copper production (Mlbs)	**15.9**	15.6	**33.3**	36.9
Nickel production (Mlbs)	**0.1**	1.1	**0.7**	2.3
TPM[(1)] (kozs)	**1.1**	1.6	**1.7**	6.9
Cash cost per pound of copper sold ($/lb)	**$1.94**	$3.52	**$2.39**	$3.13
Capital expenditure	**$3.9**	$3.4	**$8.5**	$3.4
Cost of goods sold[(2)]	**$29.3**	$60.3	**$81.9**	$120.7
Operating income (loss)	**$15.2**	($11.8)	**$14.6**	($5.4)

** Other 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 Q2 2014 slightly increased from the same period in 2013 primarily due to the increase in production from Franke by 0.7 million pounds over Q2 2013. Production for the first six months of 2014 decreased by 3.6 million pounds compared to the same period of 2013 primarily due to the completion of production at the Podolsky mine in Q1 2013, resulting in a decrease by 4.2 million pounds. The economic resource was depleted at Podolsky and mine production came to a close at the end of Q1 2013.

Despite a decline in ore grade and production disruptions, Q2 2014 copper production at Franke increased by 8% from 8.8 million pounds to 9.5 million pounds compared to the same in 2013. The increase in production is due to higher throughput and pad loading rates compared to the same period in 2013. Franke continues to blend ore from Franke and China pit ores. During the quarter, Franke and Union One successfully negotiated a collective bargaining agreement without a work stoppage.

Copper production at Carlota remained relatively consistent in Q2 2014 and for the six months of the year compared to the same periods in 2013. Total tonnes mined and ore placement in Q2 2014 were significantly lower than the same periods of 2013 due to the planned reduction in the overall mining rate as Carlota completes its mining phase in the second half of 2014. Residual leaching was planned to continue for several years after mining ceased. The introduction of subsurface leaching, that is planned to commence in commercial scale in the second half of 2014, is expected to extend the operating life of the mine by several additional years beyond the previous plan.

Production costs and capital expenditures

Cost of goods sold for Q2 2014 decreased by 51% or $31.0 million compared to 2013 primarily due to the adjustment to Carlotaøs leach pad inventory by $11.5 million. Carlota has evaluated the use of subsurface leaching within the leach pad in order to increase recovery on previously stacked ore. Leaching would take place through shallow wells drilled within the stacked ore in order to access historically stacked ores which have not been adequately exposed to acidic solutions. A further decrease in cost of goods sold of $14.7 million arose at Franke due to an increase in copper production, reduction in operating costs, and timing of cathode sales. The remainder of the decrease is due to a reduction in throughput at McCreedy West.

The decrease in cash cost per pound of copper sold in Q2 2014 compared to the same period 2013 is largely due to a reduction in cash cost per pound sold at Franke from $4.18/lb in Q2 2013 to $2.78/lb in Q2 2014. Franke recorded an overall decrease in costs and increase in production primarily due to the improved recoveries from the change in China:Franke ore blending ratio combined with a decrease in acid and power costs.

Capital expenditures for Q2 2014 related to Franke and included improvements to the intermediate leach solution pond and the vibration unit of the second crusher. There were minimal capital expenditures for Q2 2014 at McCreedy and no capital expenditures at Carlota. During the first half of 2014, Carlota exchanged its 240 ton haulage fleet with the Robinson Mine, receiving a fleet of 150 ton trucks. In addition, a hydraulic shovel was removed from its lease contract during the period.

Other Operations Outlook

The successful blending of the 2:1 China:Franke pit ore will continue into the third quarter of 2014. Recovery to cathode is expected to be above 70%.

Carlota continues to implement its plan which optimizes cash flow while advancing activities related to the winding down of operations. Based on the current mine plan, the mining of ore is expected to cease in the second half of 2014, followed by residual leaching. Carlota will commence subsurface leaching in commercial scale in the second half of 2014 which is expected to extend the operating life of the mine by several additional years beyond the previous residual leaching plan. This will extend the period over which the company is able to carry out its reclamation plans. Concurrent reclamation activities are planned to be carried out where possible using existing manpower and equipment to minimize long term environmental risk of the property.

2014 production for the remainder of the year at McCreedy West will be a focus on copper ore mining from the 700 Complex. The site is targeting 97.2 thousand tonnes for 2014; a significant portion of the production will come from the 700 copper zone with the remainder being mined in Q1 2014 from the contact nickel zone before the cancellation of the nickel agreement with Glencore.

DMC Mining Services

During Q2 2014, DMC recorded revenue of $26.5 million compared to $71.0 million in the same period in 2013. An operating loss for Q2 2014 was recorded for $0.4 million compared to an operating income of $5.0 million for the same period in 2013. The decline in revenue and operating income was due to a less capital intensive pace of work compared to last year at a large shaft sinking project in Canada and fewer projects in the United States due to less favourable market conditions. Revenue for the first half of 2014 was $53.1 million with an operating income of $0.4 million, compared to $134.5 million in revenue and $14.1 million in operating income in the first half of 2013.

DMC Outlook

The market is currently slow for the contracting business. DMC has recently seen a slight increase in requests for proposals and have recently won some additional business. DMC is hopeful that these are sign of a market improvement in the near term. DMC continues to have existing business under contract that should provide stable revenue into the future and expects the pace of work on those projects to increase into next year. DMC also carries out work for the Company and revenue and profit is eliminated from the financial results.

DMC continues to expect to work closely with clients for cost savings measures for the remainder of 2014. Over the next few years, DMC expects to invest in and expand the raise boring business, a niche market in which DMC has built a solid reputation and expertise.

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.

During Q2 2014 the Sierra Gorda joint venture (JV) expended $385 million in capital expenditures, including progress payments for mining and plant equipment, camp, infrastructure and plant construction, and other project related payments. As of June 30, 2014, approximately $3.7 billion in project capital costs, excluding leased mining equipment, has been incurred. At June 30, 2014 the JV had cash of $258 million. Because the Company accounts for the JV using equity based accounting principles, the cash is not included in KGHMIøs cash balance.

Sierra Gorda activities and outlook

At the end of June 2014, over 95% of the Sierra Gorda project had been completed. Pre-stripping activities completed by the end of Q1 2014 with 700 thousand tonnes of sulfide ore in stockpile near the primary crusher by the end of Q2 2014. On July 30, 2014 the first concentrate was produced by the Sierra Gorda mine.

During 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. Most of the leases are based on the 90-day Libor rate plus a margin. As announced in Q2 2013, the project continues to see cost pressures but is pursuing opportunities to reduce funding needs to compensate for those pressures.

As of June 30, 2014 the JV entered into lease agreements for four electric shovels, 21 haul trucks and 53 mobile equipment and vehicles. The total of the equipment was sold for $185 million and was paid in cash upon closing the agreements. The leasing of all of the equipment has been accounted for as a finance lease based on a term of 72 months for electric shovels and 84 months for the rest of the equipment with a fixed rate of interest.

In January 2014, some citizens of Antofagasta, including the Major, a Deputy, neighbours associations, local professionals, and some owners and tenants of buildings close to the area, filed two Constitutional legal actions before the Court of Appeals of Antofagasta to stop the construction of the warehouse at the port of Antofagasta. The claims were against the Regional Environment agency, Antofagasta Railway Company PLC, International Port of Antofagasta and the JV.

The intention of the legal action is for the annulment of the permits to transport and store of the JVøs copper concentrate. All three companies, together with the environmental agency challenged such claims. However, on February 26, 2014, the Court of Appeals of Antofagasta ruled in favour of the plaintiffs and annulled all permits, requesting the JV to re-enter the environmental evaluation system including all activities. All companies and the õServicio de Evaluacion Ambientalö (SEA) appealed to the Supreme Court. On April 15, 2014 oral hearings were done and strong intents for conciliation were being conducted.

On August 4, 2014, the Supreme Court reversed the judgment of the Court of Appeals of Antofagasta made in February 2014 which annulled permits to transport and store the JVøs copper concentrate, which would have also caused the JV to re-enter the environmental evaluation system on all related activities. Due to reversals of such annulments, the construction of the warehouse at the port of Antofagasta can legally continue.

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 ores mined at the Sierra Gorda project. In 2012, a Pre-Feasibility study indicated that processing of the oxide ores, which are being mined as part of the pre-stripping and normal mine development activities, was feasible.

As at June 30, 2014, the Feasibility study for the Sierra Gorda Oxide Project was 39% complete. Column leach testing continues to yield excellent results. Heap leach testing was suspended in May 2014 due to the declaration of bankruptcy by the owner of the pilot plant being used for operation of the heap leach test pad. A proposed agreement between Sierra Gorda and the receiver, which would allow continuation of heap leach testing through the end of 2014, is under legal review and final approval is pending. A favourable outcome is expected.

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

During Q2 2014, the Company continued to advance the project management plan with the primary focus on engineering and site preparation required to facilitate the advanced exploration shaft and underground development. Engineering on hoisting systems are complete and fabrication is progressing. Site preparation continues to progress with drill and blasting for site levelling reaching 50% completion.

The Company continued to advance discussions regarding the Impact Benefit Agreements with the Sagamok Anishnawbek and Atikameksheng Anishnawbek First Nations.

The Company has received preliminary drafts of all environmental permits and are working with the Ministry of Environment to finalize the permits. The Company now has all the necessary environmental approvals required by the Province of Ontario to construct site facilities. A third party engineering team is advancing the study to deliver a front-end-load study for the entire project by Q4 2014.

Victoria Project Outlook

The Company is working towards concluding agreements with both First Nations communities by the end of year. Both First Nations will be conducting Chief and Council elections during Q3 2014 and discussion have not been scheduled during this period. The Company will continue engineering efforts, procurement of long lead items, preparation for critical path infrastructure construction and shaft development.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2014, the Company had cash and cash equivalents of $118.4 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 used cash in operating activities of $15.4 million for the six months ended June 30, 2014 compared to $163.5 million of cash generated for the same period for 2013. The decrease in operating cash flow in the six months ended June 30, 2014 compared to the same period in 2013 is largely driven by lower net income before tax, offset by the change in working capital (see õ**Mine operating expenses and operating income**ö).

At June 30, 2014, the Company had working capital of $312.3 million as compared to $437.2 million at December 31, 2013. The decrease in working capital in the six months ended June 30, 2014 is primarily a result of the receipt of notes receivable of $104.9 million which had been used in investing activities. At June 30, 2014, accounts receivable and revenues include approximately 30.8 million pounds of copper that has been provisionally valued at $3.15/lb. The final pricing for these provisionally priced sales is expected to occur between August and October 2014. Changes in the price of copper from the amounts used to calculate the provisional values will impact the Companyøs revenues and working capital position in the third and fourth quarters of 2014.

Capital spending in the six months ended June 30, 2014 was $106.1 million for operations and projects. In the six months ended June 30, 2014, the Company advanced as subordinated debt $298.3 million to Sierra Gorda JV for the construction of the Sierra Gorda mine. Subject to the subordination conditions to the Senior Project Loans, interest and principal on the subordinated debt are payable on demand.

To provide funds for general corporate purposes the Company entered into a $200 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 (õPPA obligationö) thereby releasing $137.5 million of capacity in the Corporate Facility which was utilized at December 31, 2013. In the six months ended June 30, 2014, the Company had total draws of $120.0 million in cash under the Corporate Facility. As at June 30, 2014, $77.5 million of letters of credit was being financed by KGHM.

During the second quarter the Company entered into a $100 million cash pooling arrangement with KGHM (õCash Poolingö). 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 June 30, 2014 the Company had utilized $25.0 under the Cash Pooling. During Q2, the Company issued 157,932,000 common shares to KGHM for total proceeds of $144.0.

Liquidity Outlook

The Companyøs 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 $504 million on capital for operations and projects for the rest of 2014. At projected metal prices, the Company expects that it will be able to meet the operating cash requirements from existing resources and cash flow from operations. Project spending is expected to continue to be funded by the parent KGHM.

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	29.5	29.0	15.3	10.9	21.2	66.8	172.7
Franke mine supply contracts	11.0	11.2	12.0	11.5	10.7	30.5	86.9
Purchase contracts	34.6	7.4	6.9	6.7	5.0	-	60.6
Senior notes	38.8	38.8	38.8	38.8	538.8	-	694.0
Minimum lease payments	7.6	6.0	6.0	5.4	3.6	10.6	39.2
Corporate Facility	-	-	120.0	-	-	-	120.0
Total	121.5	92.4	199.0	73.3	579.3	107.9	1,173.4

As at June 30, 2014, the Companyøs proportionate 55% share of the contractual commitments for capital at Sierra Gorda totaled $261.9 million including purchase orders for mining equipment and infrastructure. Contractual commitments for commercial operations totaled $1,520.1 as at June 30, 2014.

Reclamation liabilities

The Company has estimated total future reclamation costs of $172.7 million as at June 30, 2014 (undiscounted nominal dollar), which are primarily related to the closure of the US, Canada and Chile operations. The accounting carrying value of this liability is $154.8 at June 30, 2014 based on the estimated discounted future payments.

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 $42.7 million as at June 30, 2014 ($48.1 million as at December 31, 2013). At June 30, 2014, $11.1 million of new Letters of Credit for environmental bonding were being financed by KGHM which in Q1 was issued under the Corporate Facility and in addition, in Q2, $5.4 million of Letters of Credit for environmental bonding was financed by KGHM directly.

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. The minimum commitment under the contract is estimated to be $4.1 million per annum subject to adjustment based on the prevailing copper prices over the term of the contract 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. The minimum commitment under the contract is estimated to be approximately $1.1 million per annum subject to adjustment based on the prevailing copper prices over the term of the contract 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.

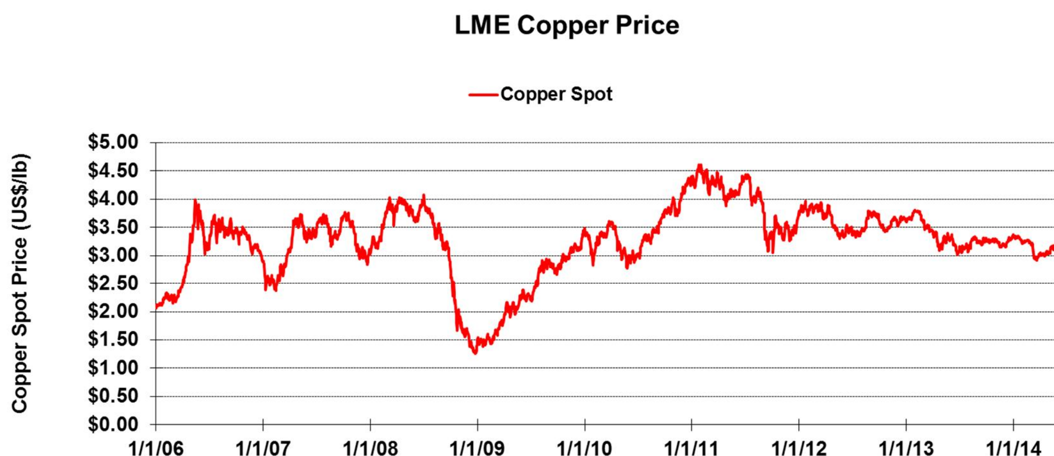
Robinson Mine Electricity Supply Contract

In Q2 2014, Robinson mine signed a five-year electricity supply contract which expires in 2019. The minimum commitment under the contract is estimated to be $6.6 million per annum over the contract term.

MARKET TRENDS AND FUNDAMENTALS

Copper prices averaged $3.08/lb in Q2 2014. Improving economic data in China and a tight refined market due to lack of scrap availability and smelter maintenance, saw prices increase 7.8% from an annual low of $2.92/lb on March 19, 2014 to $3.15/lb on June 30, 2014. 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 overruns in CAPEX and OPEX, 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 2006 to June 30, 2014 as published by the London Metal Exchange (õLMEö).



At June 30, 2014, the closing spot price was $3.15/lb. At July 31, 2014, the closing spot price was $3.24/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.

The Companyøs 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 Companyøs revenues and working capital position.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Companyøs 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 Companyøs revenues and working capital position.

The following table summarizes the impact of the changes in copper price on the Companyøs after tax earnings for 2014:

Copper price	Impact on the after tax earnings (excluding derivatives)
+ $0.20/lb	21.8
- $0.20/lb	(21.8)

A proportion of the spending in the Sierra Gorda project (õthe projectö) is denominated in Chilean Pesos (õCLPö). To manage this risk, the Company and the project purchased and held CLP investments which are being drawn down over the construction period. At June 30, 2014, the Company held $0.8 million (December 31, 2013 $4.1 million) and the project held $14.1 million (December 31, 2013 $215.1 million) in CLP denominated cash and cash equivalents. In addition in January 2014, the Company purchased puts for the equivalent of $200.0 million in CLP with a strike price of 525 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.

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 has encountered certain design issues around the shaft sinking for one of its major customers that could give rise to future liability. The Company is evaluating this issue together with its customer but at this stage the amount of any liability cannot be determined.

(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 amount due from the Sierra Gorda JV is $11.6 million at June 30, 2014 (December 31, 2013- $9.5 million) (Note 6). This amount is repayable in the normal course of business.

Current management fees payable to the Company for the period ended June 30, 2014 was $3.1 million (June 30, 2013- $12.5 million) from the Sierra Gorda JV. It was agreed that 50% of the management fees earned from July 1 to December 31, 2013, 100% of the management fees earned from January 1, 2014 onwards and 100% of the letter of credit guarantee fees payable to the Company be deferred until 2015. As at June 30, 2014, $18.7 million (December 31, 2013- $6.3 million) of the management fee and $5.0 million (December 31, 2013- $2.9 million) 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 Company loaned $110.9 million 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 Company. 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 million of the above principal and interest on February 28, 2013. On March 10, 2014, Bidco repaid $105.6 million, being the remaining principal and interest.

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 managementøs 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 development costs, including exploration, mine construction, and stripping costs, are capitalized until production is achieved, and 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 (õvalue in useö) or fair value less costs to sell. Discounted cash flows for mineral properties are estimated based on a number of assumptions including managementøs 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 managementøs view of future metal prices and cost assumptions, the carrying value of the Companyøs mineral properties was not impaired at June 30, 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 acquireeøs 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 (õCGUö).

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 Robinsonøs concentrates and Sudburyøs 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 Companyøs 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 Companyøs 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 õfair value through profit and lossö. 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 õfair value through profit and lossö 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 (õIFRIC 20ö). 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.

The adoption of IFRIC 20 resulted in an increase in the capitalization of stripping activity assets on the Companyøs consolidated balance sheet and an increase in earnings. These items were partially offset by the amortization of stripping activity assets on a units-of-production basis. The Company capitalized $47.2 million and recorded a depreciation expense of $2.1 million during the six months ended June 30, 2014.

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 June 30, 2014. At June 30, 2014 the Company had available U.S. Alternative Minimum Tax Credits of $36.0 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 Companyøs 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. In the six months ended June 30, 2014 the Company issued shares to its shareholder KGHM to increase its issued and outstanding shares as at June 30, 2014 and August 12, 2014 to 357,768,316.

SUMMARY OF QUARTERLY OPERATING RESULTS

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

SUMMARY OF QUARTERLY FINANCIAL RESULTS								
	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net revenues *								
Robinson	65	30	85	72	151	100	162	151
Carlota	19	17	19	15	18	20	23	22
Franke	24	35	45	44	29	28	41	34
Morrison	40	31	58	40	36	33	53	44
Podolsky	0	0	0	2	0	15	13	15
McCreedy West	5	8	9	7	10	13	9	11
DMC	27	27	37	44	71	63	76	83
Net revenues - Total	**179**	**148**	**253**	**224**	**314**	**272**	**378**	**358**
Income (loss) from operations	23.3	(22.7)	(25.0)	6.2	26.9	63.9	65.2	64.7
Earnings (loss) before income taxes	26.8	(24.4)	(44.9)	20.2	12.6	29.7	47.3	68.8
Earnings (loss)	22.4	(20.6)	(20.7)	13.6	1.7	14.8	44.3	54.5
Basic earnings (loss) per share	$0.08	($0.10)	($0.10)	$0.07	$0.01	$0.07	$0.22	$0.27
Diluted earnings (loss) per share	$0.08	($0.10)	($0.10)	$0.07	$0.01	$0.07	$0.22	$0.27

SUMMARY OF QUARTERLY OPERATING RESULTS								
	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Robinson								
Cu produced payable (Mlbs)	24.6	17.1	21.9	18.6	30.8	36.5	34.3	30.2
Ore milled (Mt)	4.0	3.3	3.4	3.4	3.9	4.1	4.0	3.4
Au production payable (kozs)	6.2	5.9	7.2	7.5	15.0	15.4	10.6	10.2
Cu grade (%)	0.4	0.36	0.39	0.37	0.45	0.47	0.49	0.56
Au grade (g/t)	0.13	0.16	0.16	0.20	0.24	0.21	0.22	0.29
Cu recovery (%)	74.9	69.8	76.9	71.4	81.9	89.2	83.5	75.4
Au recovery (%)	35.4	34.6	42.0	33.5	55.5	50.0	39.3	34.4
Cu sales (Mlbs)	19.1	10.7	22.1	17.8	43.4	24.8	41.2	36.9
Average realized price ($/lb)	$3.22	$2.41	$3.39	$3.39	$3.05	$3.49	$3.49	$3.78
Cash cost per pound of copper sold ($/lb)	$2.50	$3.39	$1.68	$2.52	$1.84	$1.47	$2.00	$2.36
Carlota								
Cu production (Mlbs)	5.7	5.8	5.5	4.5	5.8	5.6	5.8	6.1
Ore placed (Mt)	0.9	0.7	0.9	1.0	0.9	1.2	1.3	1.1
Total Cu grade (%)	0.62	0.68	0.58	0.57	0.58	0.61	0.61	0.66
Cu sales (Mlbs)	5.8	5.4	5.7	4.7	5.6	5.7	6.4	6.2
Average realized price ($/lb)	$3.20	$3.11	$3.22	$3.22	$3.23	$3.57	$3.59	$3.48
Cash cost per pound of copper sold ($/lb)	$0.69	$2.83	$2.70	$2.55	$2.41	$2.46	$2.53	$2.58
Franke								
Cu production (Mlbs)	9.5	10.9	11.8	12.7	8.8	10.6	10.7	10.5
Ore placed (Mt)	1.0	1.0	1.1	1.1	0.9	1.0	1.1	1.1
Total Cu grade (%)	0.65	0.66	0.70	0.71	0.72	0.67	0.72	0.68
Cu sales (Mlbs)	7.7	11.0	13.7	13.7	8.6	11.7	11.7	9.1
Average realized price ($/lb)	$3.16	$3.17	$3.22	$3.22	$3.31	$3.74	$3.53	$3.60
Cash cost per pound of copper sold ($/lb)	$2.78	$2.66	$2.71	$2.70	$4.18	$3.70	$3.31	$3.30
Morrison								
Cu ore sold (kt) [1]	59.0	60.2	78.6	63.0	70.7	48.5	70.3	55.8
Cu grade (%)	7.7	6.7	9.3	8.2	7.3	8.5	9.3	9.2
Payable Cu sold (Mlbs)	8.7	7.7	13.7	10.4	10.0	7.3	12.6	9.5
Payable Ni sold (Mlbs)	1.4	1.5	2.1	1.6	1.6	1.1	1.8	1.4
Payable TPM sold (kozs) [2]	10.5	9.3	15.8	12.9	8.1	7.6	10.0	9.3
Average realized price ($/lb)	$3.17	$2.94	$3.18	$3.18	$3.02	$3.51	$3.51	$3.71
Cash cost per pound of copper sold ($/lb)	$1.13	$1.78	$1.08	$1.48	$1.91	$1.74	$1.19	$1.32
Podolsky								
Cu ore sold (kt) [1]	0.0	0.0	0.0	1.5	0.0	88.0	88.8	76.8
Cu grade (%)	0.0	0.0	0.0	4.0	0.0	2.7	2.5	2.6
Payable Cu sold (Mlbs)	0.0	0.0	0.0	0.5	0.1	4.1	3.5	3.7
Payable Ni sold (Mlbs)	0.0	0.0	0.0	0.1	0.0	0.1	0.2	0.2
Payable TPM sold (kozs) [2]	0.0	0.0	0.0	0.5	0.3	3.9	6.1	1.6
Average realized price ($/lb)	N/A	N/A	N/A	N/A	N/A	$3.49	$3.52	$3.68
Cash cost per pound of copper sold ($/lb)	N/A	N/A	N/A	N/A	N/A	$2.34	$2.91	$2.32
McCreedy West								
Cu ore sold (kt) [1]	11.6	9.1	6.7	4.2	6.7	5.8	9.2	8.1
Cu grade (%)	3.5	3.3	5.0	3.6	4.8	3.6	3.7	5.3
Ni ore sold (kt) [1]	0.0	49.2	79.2	80.9	91.7	84.1	82.5	47.7
Ni grade (%)	0.0	1.2	1.0	1.0	1.2	1.3	1.3	1.2
Payable Cu sold (Mlbs)	0.7	0.7	0.8	0.3	0.9	1.0	0.8	1.0
Payable Ni sold (Mlbs)	0.1	0.7	0.9	0.6	1.1	1.1	0.8	0.8
Payable TPM sold (kozs) [2]	1.1	0.7	0.7	0.6	1.4	1.4	0.6	2.1
Average realized price ($/lb)	$3.23	$2.91	$3.36	$5.50	$2.87	$3.57	$3.48	$3.73
Cash cost per pound of copper sold ($/lb)[3]	$2.24	$1.28	$5.18	$8.66	$2.84	($0.18)	$4.26	$0.40

[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.

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 June 30, 2014						
	Robinson	**Carlota**	**Franke**	**Morrison**	**McCreedy West**	**Other**	**Total**
Production costs of goods sold	**49.6**	**3.3**	**21.4**	**19.5**	**3.4**	**0.57**	**97.9**
Treatment and refining charges	**7.4**	**-**	**-**	**9.0**	**0.7**	**-**	**17.1**
Royalties	**1.6**	**0.7**	**-**	**0.0**	**0.0**	**-**	**2.2**
Total cash cost	**58.6**	**4.0**	**21.4**	**28.6**	**4.1**	**0.57**	**117.2**
By-product revenues	**(10.9)**	**-**	**-**	**(18.7)**	**(2.5)**	**-**	**(32.1)**
	47.7	**4.0**	**21.4**	**9.8**	**1.6**	**0.57**	**85.0**
Copper sold (million lbs)	**19.1**	**5.8**	**7.7**	**8.7**	**0.7**	**-**	**42.0**
Cash cost per pound of copper sold (US$/lb)	**$2.50**	**$0.69**	**$2.78**	**$1.13**	**$2.24**	**$ -**	**$2.03**

	Three months ended June 30, 2013						
	Robinson	**Carlota**	**Franke**	**Morrison**	**Podolsky**	**McCreedy West**	**Total**
Production costs of goods sold	93.1	12.8	36.1	23.5	1.6	9.2	176.3
Treatment and refining charges	9.5	-	-	8.7	0.1	0.5	18.8
Royalties	4.8	0.6	-	-	-	-	5.5
Total cash cost	107.4	13.5	36.1	32.2	1.7	9.7	200.5
By-product revenues	(27.5)	-	-	(13.1)	(0.1)	(7.1)	(47.8)
	79.9	13.5	36.1	19.1	1.5	2.6	152.7
Copper sold (million lbs)	43.4	5.6	8.6	10.0	0.1	0.9	68.6
Cash cost per pound of copper sold (US$/lb)	$1.84	$2.41	$4.18	$1.91	$13.30	$2.84	$2.23

	Six months ended June 30, 2014						
	Robinson	**Carlota**	**Franke**	**Morrison**	**McCreedy West**	**Other**	**Total**
Production costs of goods sold	**89.7**	**17.9**	**50.5**	**39.9**	**10.0**	**2.3**	**210.2**
Treatment and refining charges	**10.4**	**-**	**-**	**17.8**	**1.2**	**0.0**	**29.4**
Royalties	**2.7**	**1.3**	**-**	**-**	**-**	**-**	**4.0**
Total cash cost	**102.8**	**19.2**	**50.5**	**57.7**	**11.2**	**2.3**	**243.6**
By-product revenues	**(18.8)**			**(34.1)**	**(8.8)**		**(61.6)**
	84.0	**19.2**	**50.5**	**23.6**	**2.4**	**2.3**	**182.0**
Copper sold (million lbs)	**29.8**	**11.2**	**18.7**	**16.4**	**1.4**	**0.0**	**77.4**
Cash cost per pound of copper sold (US$/lb)	**$ 2.82**	**$ 1.72**	**$ 2.71**	**$ 1.44**	**$ 1.78**	**$ -**	**$ 2.35**

	Six months ended June 30, 2013						
	Robinson	Carlota	Franke	Morrison	Podolsky	McCreedy West	Total
Production costs of goods sold	139.5	25.8	63.7	41.8	10.9	18.7	300.3
Treatment and refining charges	15.7	-	-	14.9	3.4	1.0	35.0
Royalties	7.8	1.6	-	-	-	-	9.4
Total cash cost	163.0	27.4	63.7	56.6	14.3	19.7	344.7
By-product revenues	(46.7)	-	-	(24.9)	(3.2)	(17.2)	(91.9)
	116.3	27.4	63.7	31.8	11.1	2.4	252.8
Copper sold (million lbs)	68.2	11.3	16.1	17.3	4.2	1.9	118.9
Cash cost per pound of copper sold (US$/lb)	$ 1.71	$ 2.44	$ 3.96	$ 1.84	$ 2.64	$ 1.30	$ 2.13

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:

(All amounts in millions of United States dollars except per share amounts)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Income from mining operations	**23.3**	26.9	**0.6**	90.8
Adjusting items:				
Amortization, depreciation and depletion	**29.9**	41.1	**61.9**	68.5
General and administrative	**(8.1)**	(9.0)	**(19.8)**	(26.7)
Other loss	**(0.6)**	-	**(0.6)**	-
Service fee from Sierra Gorda JV	**3.8**	6.3	**7.7**	12.5
	25.0	38.4	**49.2**	54.3
Adjusted EBITDA	**48.3**	65.3	**49.8**	145.1

August 12, 2014

FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" that is based on the Companyøs expectations, estimates and projections as of the dates as of which those statements were made. This forward-looking information includes, among other things, statements with respect to the Company's business strategy, plans, outlook, financing plans, long-term growth in cash flow, earnings per share and shareholder value, 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 anticipated outcome 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 results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, and developed based on assumptions about such risks, uncertainties and other factors set out herein, including but not limited to:

- 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 Companyøs mining projects;
- The integration with KGHM Polska Mied S.A.
- The need to attract and retain qualified personnel;
- The successful 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;
- Dewatering at the Robinson Mine in 2014 and beyond;
- 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;
- 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;
- Derivative contracts and exposure to the credit risk of counter-parties;
- Failure to maintain the covenants under the Corporate Facility could result in the termination and repayment of the Corporate Facility;
- Taxation in multiple jurisdictions;
- Political and country risk;
- Conflicts of interest; and
- Fluctuations in foreign currency exchange rates.

A discussion of these and other factors that may affect the Company's actual results, performance, achievements or financial position is contained in the filings by the Company with the Canadian provincial securities regulatory authorities prior to the Company ceasing to be a reporting issuer, including the Company's Annual Information Form and the Annual Information Form filed by FNX prior to the merger between Quadra and FNX. 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 its stated production outcomes, and such other assumptions and factors as set out 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 obligations 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.