

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

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

	Three months ended September 30			Nine months ended September 30		
	2014	2013	Change	2014	2013	Change
FINANCIAL HIGHLIGHTS						
Net revenues ⁽¹⁾	207	224	-8%	533	810	-34%
Income from mining operations	5	6	-10%	6	97	-94%
Adjusted EBITDA ⁽²⁾	39	45	-12%	89	190	-53%
Earnings for the period	12	14	-17%	13	30	-55%
Cash	63	140	*	63	140	*
Working capital	159	437	*	159	437	*

⁽¹⁾ Net of treatment and refining charges

⁽²⁾ See "Non-IFRS Financial Measures"

*2013 comparatives are at December 31, 2013

THIRD QUARTER AND RECENT ACTIVITIES:

- Adjusted EBITDA for Q3 2014 was \$39 million down from \$45 million in Q3 2013. The 15% increase in overall copper sold for the quarter from 47 million pounds to 55 million pounds was offset by a \$12 million decline in by-product revenues and 5% decline in realized copper price compared with 2013 (see "**Revenues**"). The average effective copper price during Q3 2014 was \$3.11/lb compared to \$3.29/lb in Q3 2013.
- C1 cash costs improve from \$2.41/lb in Q3 2013 to \$2.25/lb in Q3 2014.
- Copper production in Q3 2014 increased by 4% to 49 million pounds compared to 47 million pounds in Q3 2013 due mainly to an 18% improvement in production at Robinson from an increase in ore grade and recovery. September 2014 was the best month of the year at Robinson for copper production, recovery and ore grade as a result of the clean Ruth East ore mined (see "**Review of Operations and Projects**").
- Net revenues decreased by 8% to \$207 million in the quarter compared to \$224 million in the same quarter of 2013 due largely to the \$18 million decline in contract mining revenues at DMC which is affected by the stages of its contracts and the market decline in the gold mining sector.
- Income from mining operations decreased slightly from \$6 million in Q3 2013 to \$5 million in Q3 2014 primarily due to decrease in net revenues (see "**Financial Performance**").
- As a result of lower realized copper price, Q3 2014 posted earnings of \$12 million compared to earnings of \$14 million in Q3 2013.

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 November 12, 2014 and is intended to be read in conjunction with the accompanying unaudited consolidated financial statements for the quarter ended September 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.

FINANCIAL PERFORMANCE

Earnings

The Company recorded earnings of \$12 million for Q3 2014 compared to earnings of \$14 million for Q3 2013. The slight decrease in earnings in Q3 2014 is due to a decrease in income from mining operations from a decline in copper prices, offset by an increase in production and sales volumes. The increase in production in Q3 2014 is primarily due to an increase in milled grades and recovery rate at Robinson compared to Q3 2013 (see “**Mine operating expense and operating income**”). During Q3 2014, the Company sold 54.7 million pounds of copper at an average effective price of \$3.11/lb and 18.3 thousand ounces of TPMs compared to 47.4 million pounds of copper in Q3 2013 at an average effective price of \$3.29/lb and 23.2 thousand ounces of TPMs.

The Company recognized a foreign exchange loss during the quarter of \$4 million, compared to a foreign exchange gain of \$1 million during Q3 2013. The foreign exchange loss was offset by a decrease in income tax expense from \$7 million in Q3 2013 to \$1 million in Q3 2014 (see “**General and Administrative and other expenses**”).

For the nine months of 2014, the Company recognized \$69 million in finance income compared to \$61 million in the same period of 2013 due to the increase in the interest on the loan to Sierra Gorda JV. The increase in finance income is offset by the finance expense charged for the nine months of the year, due to the additional interest expenses from the Corporate Facility entered into at the end of Q2 2013 and the guarantee fees charged by KGHM. The Company recorded a foreign exchange loss of \$4 million for the nine months of 2014 compared to a loss of \$14 million in the same period of 2013. The decrease in foreign exchange loss in 2014 relates to fewer Chilean pesos held compared to 2013 (see “**General & Administrative and Other expense**”).

Revenues

	Three months ended September 30, 2014							Total
	Robinson	Morrison	Franke	Carlota	McCreedy West	DMC		
Copper sales (million lbs)	26.1	8.7	13.3	5.8	0.8	-	54.7	
(in millions of U.S. dollars)								
Copper	80.4	27.0	42.6	17.9	2.4	-	170.3	
Nickel	-	12.0	-	-	(0.3)	-	11.7	
Other by product ⁽¹⁾	9.0	7.3	-	-	1.3	-	17.6	
Contract mining	-	-	-	-	-	25.2	25.2	
Treatment and refining charges	(8.6)	(8.6)	-	-	(1.1)	-	(18.3)	
Total net revenues	80.8	37.7	42.6	17.9	2.3	25.2	206.5	

	Three months ended September 30, 2013							Total
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	
Copper sales (million lbs)	17.8	10.4	13.7	4.7	0.5	0.3	-	47.4
(in millions of U.S. dollars)								
Copper	60.4	33.0	44.2	15.0	1.8	1.8	-	156.2
Nickel	-	10.0	-	-	0.9	4.2	-	15.1
Other by product ⁽¹⁾	16.0	9.1	-	-	0.1	1.3	-	26.5
Contract mining	-	-	-	-	-	-	43.6	43.6
Treatment and refining charges	(4.4)	(11.8)	-	-	(1.2)	(0.3)	-	(17.7)
Total net revenues	72.0	40.3	44.2	15.0	1.6	7.0	43.6	223.7

Nine months ended September 30, 2014								
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Copper sales (million lbs)	55.9	25.1	32.0	17.0	-	2.2	-	132.1
(in millions of U.S. dollars)								
Copper	167.7	77.3	101.7	53.1	-	6.6	-	406.4
Nickel	-	36.1	-	-	-	7.3	-	43.4
Other by product ⁽¹⁾	27.8	21.6	-	-	-	2.9	-	52.3
Contract mining	-	-	-	-	-	-	78.3	78.3
Treatment and refining charges	(19.0)	(26.4)	-	-	-	(2.3)	-	(47.7)
Total net revenues	176.5	108.6	101.7	53.1	-	14.5	78.3	532.7

Nine months ended September 30, 2013								
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Copper sales (million lbs)	86.0	27.7	29.8	15.9	4.7	2.2	-	166.3
(in millions of U.S. dollars)								
Copper	279.4	88.7	100.3	53.3	15.8	7.9	-	545.4
Nickel	-	28.0	-	-	1.9	18.0	-	47.9
Other by product ⁽¹⁾	62.7	19.9	-	-	3.6	5.1	-	91.3
Contract mining	-	-	-	-	-	-	178.1	178.1
Treatment and refining charges	(20.1)	(26.7)	-	-	(4.6)	(1.3)	-	(52.7)
Total net revenues	322.0	109.9	100.3	53.3	16.7	29.7	178.1	810.0

⁽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 customer's port of delivery. As a result, the Company's revenues include estimated prices for sales, based on forward copper prices at year end, as well as pricing adjustments for sales that occurred in the previous year based on the difference between the actual price received and the price at year end for sales from the previous years that were not settled in that year. The pricing of copper cathode sales is generally set in the month of shipment or one month after the time of shipment and therefore pricing adjustments in subsequent periods are minimal. Revenues from sales of Sudbury copper and nickel ores are recognized based on the payable metals that are estimates based on metallurgical testing and interim payment terms, neither of which is binding and, as such, final payment terms could differ from those reported. Contract mining revenues are generated from services performed.

Q3 2014 net revenues decreased by \$17 million or 8% compared to the same period in 2013. The decrease in net revenues is mainly due to the decrease in realized copper price (5%), lower by-product revenues and lower contract mining revenues from DMC, partially offset by an increase in production and sales volumes at Robinson. The effective copper price for Q3 2014 was \$3.11/lb compared to \$3.29/lb in Q3 2013.

Revenues at Morrison and McCreedy West in Q3 2014 included non-cash revenue of \$2.6 million representing the amortization of a deferred revenue liability related to the Company's 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 September 30, 2014							
	McCreedy							Total
	Robinson	Morrison	Franke	Carlota	West	DMC	Other	
Net revenues	80.8	37.7	42.6	17.9	2.3	25.2	-	206.5
Depreciation and amortization	19.6	13.9	2.9	-	0.9	1.2	-	38.5
Employee benefits expense	8.7	5.9	5.3	3.5	0.7	13.6	0.2	37.9
Raw materials, other consumables and energy	20.8	5.7	16.0	6.9	0.6	4.6	0.2	54.8
Office expenses	2.9	1.8	2.5	0.9	0.2	0.9	0.1	9.3
External services	6.4	3.9	3.8	1.1	1.1	10.9	0.2	27.4
Royalties	2.4	-	0.5	0.5	-	-	-	3.4
Changes in Inventories	13.3	-	5.4	0.4	(0.1)	-	(0.5)	18.5
Distribution costs	9.4	0.9	0.8	-	0.2	-	-	11.3
Cost of Sales	83.5	32.1	37.2	13.3	3.6	31.2	0.2	201.1
Operating income (loss)	(2.7)	5.6	5.4	4.6	(1.3)	(6.0)	(0.2)	5.4

	Three months ended September 30, 2013							
	McCreedy							Total
	Robinson	Morrison	Franke	Carlota	Podolsky	West	DMC	
Net revenues	72.0	40.3	44.2	15.0	1.6	7.0	43.6	223.7
Depreciation and amortization	19.3	17.0	6.7	-	-	3.5	1.1	47.6
Employee benefits expense	11.8	5.7	6.8	3.9	0.6	2.7	7.3	38.8
Raw materials, other consumables and energy	29.0	6.6	19.0	9.3	0.8	2.9	-	67.6
Office expenses	4.5	1.7	1.9	1.0	0.1	0.4	0.8	10.4
External services	12.9	6.0	4.0	2.3	0.8	2.3	31.2	59.5
Royalties	1.7	-	-	0.5	-	-	-	2.2
Changes in Inventories	(15.0)	(1.8)	4.7	(4.7)	-	(1.7)	-	(18.5)
Distribution costs	7.5	1.0	0.4	-	0.1	0.9	-	9.9
Cost of Sales	71.7	36.2	43.5	12.3	2.4	11.0	40.4	217.5
Operating income (loss)	0.3	4.1	0.7	2.7	(0.8)	(4.0)	3.2	6.2

	Nine months ended September 30, 2014							
	McCreedy							Total
	Robinson	Morrison	Franke	Carlota	West	DMC	Other	
Net revenues	176.5	108.6	101.7	53.1	14.5	78.3	-	532.7
Depreciation and amortization	46.1	41.0	7.7	-	3.3	3.5	-	101.6
Employee benefits expense	31.1	18.8	18.6	11.5	4.0	35.5	0.7	120.2
Raw materials, other consumables and energy	69.0	18.6	47.2	22.0	3.3	4.6	1.6	166.3
Office expenses	8.9	4.9	7.5	2.9	0.7	2.0	0.3	27.2
External services	17.6	12.8	11.0	3.1	3.7	38.3	0.5	87.0
Royalties	5.1	-	0.5	1.8	-	-	-	7.4
Reversal of leach pad inventory impairment	-	-	-	(11.5)	-	-	-	(11.5)
Changes in Inventories	(4.6)	0.2	0.2	3.0	0.3	-	(0.7)	(1.6)
Distribution costs	24.3	3.0	1.9	-	0.9	-	-	30.1
Cost of Sales	197.5	99.3	94.6	32.8	16.2	83.9	2.4	526.7
Operating income (loss)	(21.0)	9.3	7.1	20.3	(1.7)	(5.6)	(2.4)	6.0

Nine months ended September 30, 2013

	McCreedy							Total
	Robinson	Morrison	Franke	Carlota	Podolsky	West	DMC	
Net revenues	322.0	109.9	100.3	53.3	16.7	29.7	178.1	810.0
Depreciation and amortization	35.6	48.7	16.4	-	1.9	8.4	3.3	114.3
Employee benefits expense	40.4	18.8	20.9	12.4	3.4	9.1	29.0	134.0
Raw materials, other consumables and energy	97.0	20.8	56.9	28.1	3.3	8.3	0.8	215.2
Office expenses	14.0	5.4	6.4	2.5	0.8	1.1	2.0	32.2
External services	22.1	14.7	13.1	4.8	4.1	6.9	125.7	191.4
Royalties	9.5	-	-	2.1	-	-	-	11.6
Changes in Inventories	(11.0)	(2.1)	1.8	(9.4)	0.2	(1.8)	-	(22.3)
Distribution costs	28.3	3.2	1.1	-	1.4	2.6	-	36.6
Cost of Sales	235.9	109.5	116.6	40.5	15.1	34.6	160.8	713.0
Operating income (loss)	86.1	0.4	(16.3)	12.8	1.6	(4.9)	17.3	97.0

Cost of sales decreased by \$16 million or 8% in Q3 2014 compared to Q3 2013 primarily due to the lower cost of sales at DMC, McCreedy West, and Franke. 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 (“**Review of Operations and Projects**”). The reduction at McCreedy West is due to a decrease in ore throughput from the suspension of nickel ore production. Cost of sales decreased at Franke primarily due to a reduction in operating costs from a favourable foreign exchange rate.

Cost of sales for the first nine months of 2014 decreased by \$186 million or 26% from the same period in 2013. The decrease in cost of sales is due to a reduction of throughput and mining activity at all operations combined with a favourable exchange rate at the Canadian and Chilean operations.

General & Administrative and Other Expenses

General and administrative expenses for the first nine months of 2014 of \$29.7 million were lower than the same period in 2013 of \$36.6 million due mainly to lower long-term incentive plan accruals in 2014. The Company recognized \$68.9 million in finance income in the nine months of 2014 compared to \$60.6 million in the same period of 2013 due to the increase in the interest on the loan to Sierra Gorda JV as the loan amount increased by \$472.6 million from September 30, 2013 to September 30, 2014.

Finance expenses for the nine months of 2014 of \$43.4 million were higher than the same period in 2013 of \$36.2 million due to additional interest expenses from the Corporate Facility entered into at the end of Q2 2013 as well as KGHM guarantee fees charged.

Other income for the nine months of 2014 of \$20.9 million was lower than the same period in 2013 of \$30.5 million primarily due to a large derivative gain in 2013 on the Franke mine’s acid and water contracts due to change in copper prices. Other expense for the nine months of 2014 was in line with the same periods in 2013. In the nine months of 2013 \$35.1 million of impairment on marketable securities was recognized due to a prolonged decline in market value.

The Company recorded a foreign exchange loss of \$4.0 million in the nine months of 2014 compared to a loss of \$14.0 million in the same period of 2013. The decrease in foreign exchange loss in 2014 relates to fewer Chilean pesos held compared to 2013 where the Company held over \$38.0 million of Chilean peso short-term investment as well as the depreciation of the peso for both 2013 and 2014. Foreign 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 \$1.8 million for the first nine months of 2014 compared to \$32.4 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 7% (2013 – 30%) excluding certain one-time tax events. The decrease in effective tax rate in 2014 is mainly caused by the realization of Canadian tax benefits of losses.

REVIEW OF OPERATIONS AND PROJECTS

PRODUCTION SUMMARY

Production for the quarter ended September 30, 2014 and 2013 from the Company's operating mines is summarized as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Copper production (Mlbs)				
Robinson ⁽²⁾	21.9	18.6	63.6	85.9
Morrison deposit ⁽⁴⁾	8.7	10.4	25.1	27.7
Franke ⁽³⁾	11.7	12.7	32.0	32.1
Carlota ⁽³⁾	5.8	4.5	17.3	15.9
Podolsky ⁽⁴⁾	0.0	0.5	0.0	4.7
McCreedy West ⁽⁴⁾	0.8	0.3	2.2	2.2
	48.9	47.0	140.2	168.5
Nickel production (Mlbs)				
Morrison deposit ⁽⁴⁾	1.5	1.6	4.5	4.2
Podolsky ⁽⁴⁾	0.0	0.1	0.0	0.2
McCreedy West ⁽⁴⁾	0.0	0.6	0.7	2.8
	1.5	2.3	5.2	7.3
TPM ⁽¹⁾ (kzs)				
Robinson ⁽²⁾	5.5	7.5	17.5	37.9
Morrison deposit ⁽⁴⁾	10.6	12.9	30.4	28.7
Podolsky ⁽⁴⁾	0.0	0.5	0.0	4.7
McCreedy West ⁽⁴⁾	1.1	0.6	2.8	3.3
	17.2	21.5	50.7	74.6
Total copper equivalent (Mlbs) ⁽⁵⁾	59.3	62.1	173.3	219.6

⁽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 September 30		Nine months ended September 30	
	2014	2013	2014	2013
Copper production payable (Mlbs)	21.9	18.6	63.6	85.9
Gold production payable (kozs)	5.5	7.5	17.5	37.9
Ore mined (Mt)	2.9	3.9	9.4	12.1
Waste mined (Mt)	19.2	20.2	56.7	50.3
Ore milled (Mt)	3.1	3.4	10.4	11.4
Copper grade (%)	0.44	0.37	0.40	0.44
Gold grade (g/t)	0.16	0.20	0.15	0.22
Copper recovery (%)	75.7	71.4	73.7	82.1
Gold recovery (%)	33.2	33.5	34.4	47.3
Cash cost per pound of copper sold	\$2.37	\$2.52	\$2.61	\$1.87
Capital expenditure	\$38.9	\$26.0	\$90.8	\$59.0
Cost of goods sold*	\$62.3	\$56.4	\$154.7	\$203.6
Operating income (loss)	(\$2.7)	\$0.3	(\$21.0)	\$86.1

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

Q3 2014 results at Robinson were impacted by a 26-day mill shut down for SAG gear replacement in July and August. Despite lower volumes of ore mined and milled, copper production in Q3 2014 was 18% higher than Q3 2013 due to an increase in copper ore grade and recovery. Gold production in Q3 2014 was 28% lower than Q3 2013 due to lower tons milled and a decline in gold grade. For Q3 2014, ore feed originated primarily from Ruth and the lower elevation of the Kimbley pits, which yielded higher copper head grades and lower gold grades than the ore generated from the Liberty and upper elevations of Kimbley in Q3 2013. The drawdown of the coarse ore stockpile for feeder maintenance yielded a lower recovery rate in Q3 2013. Ore tonne milled in Q3 2014 was 10% lower than Q4 2014 due to an extended repair job in the mill. Q3 2014 performance improved from Q2 2014 due to blending synergies from higher grade material that was mined from the bottom of the Ruth East pit in September.

Total tonnes mined in Q3 2014 decreased by 8% compared to Q3 2013 as a result of longer haul profiles from mining in the bottom of the Ruth pit in September and development activities in the Kimbley pit compared to the short haul profile from the Liberty pit in Q3 2013.

For the first nine months of 2014, the decrease in copper and gold production compared to the same periods of 2013 is largely due to a considerable decline in head grade and recoveries from ore mined in the Liberty pit in Q1 2014. Total tonnes mined also fell by 22% primarily due to development activities at the Kimbley and Ruth pits in Q1 2014, compared to the first nine months of 2013.

Robinson production costs and capital expenditures

Cost of goods sold for Q3 2014 was higher due to higher production and higher sales volumes compared to Q3 2013. Copper sales increased 47% in Q3 2014 compared to the same period of 2013 due to an increase in ore quality resulting in an increase in copper production, and a drawdown of concentrate inventory in the period.

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 Q3 2014 was \$2.37 compared to \$2.52 in Q3 2013. The decrease in cash cost per pound of copper sold in the current quarter is due to increased production from improved grades and recoveries, offset by a decrease in by-product revenue. The cash cost per pound of copper sold for the first nine months of 2014 was \$2.61 compared to \$1.87 in 2013. The increase is due to a significant reduction in production and sales and lower bi-product revenue during the first half of 2014.

Capital expenditures increased in Q3 2014 due to mine development stripping costs of \$32 million, compared to \$22 million in the same period of 2013. During the quarter, Robinson primarily focused on stripping relating to the Ruth complex. For the first nine month of 2014, mine development stripping costs totaled \$81 million compared to \$45 million for the same periods in 2013 primarily due to mine development stripping related to the Kimbley pit and

Ruth Complex. An operating loss was recognized for the quarter and the first nine months of 2014, primarily due to the decline in metal prices and increase in amortization of capitalized stripping of \$46 million compared to \$36 million for the same period of 2013.

Robinson Outlook

Robinson will complete mining in the Kimbley pit in the first part of Q4 2014 and will begin development of the Ruth West pit in Q4 2014. Ore mined for the remainder of the year is expected from the Ruth East pit. In 2015, ore mined will be from Ruth East, Ruth North and Ruth West pits. Quality of the ore is expected to improve. Robinson continues to analyze blending opportunities and process modifications to improve performance. Aggressive cost cutting measures also continues at Robinson 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 September 30		Nine months ended September 30	
	2014	2013	2014	2013
Copper ore sold (kt)	53.9	63.0	173.1	182.2
Copper grade (%)	8.3	8.2	7.6	7.9
Copper sold - payable (Mlbs)	8.7	10.4	25.1	27.7
Nickel sold - payable (Mlbs)	1.5	1.6	4.5	4.2
Gold sold - payable (koz)	1.3	1.1	4.3	4.3
Platinum sold - payable (koz)	2.6	2.4	7.2	6.7
Palladium sold - payable (koz)	6.7	9.4	18.8	17.7
Cash cost per pound of copper sold (\$/lb)	\$1.15	\$1.48	\$1.34	\$1.71
Capital expenditure	\$7.6	\$8.1	\$23.7	\$24.0
Cost of goods sold*	\$18.3	\$20.3	\$58.2	\$62.1
Operating income (loss)	\$5.6	\$4.1	\$9.3	\$0.4

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

Ore produced and sold for Q3 2014 was 14% lower than Q3 2013 due to an increase in seismicity related delays, resulting in decreased throughput. An increase in mine seismicity has developed for the first 9 months of 2014, which has resulted in limited access to affected workplaces. Morrison continues to address seismic challenges and is taking measures to stabilize output.

Mine development continued on the Morrison down ramp to an elevation of 4780' for Q3 2014. Development in the 5040 access drift continued with diamond drilling starting from the first drill station in Q3 2014.

Morrison production costs and capital expenditures

Cost of goods sold for Q3 2014 was lower than Q3 2013 due to a decrease in ore volumes and favourable exchange rate. The cash cost per pound of copper sold decreased from \$1.48 in Q3 2013 to \$1.15 in Q3 2014, and decreased to \$1.34 from \$1.71 for the first nine months of 2014. The decrease cash cost per pound of copper sold is mainly due decrease operating cost primarily from favourable exchange rates and an increase in by-product revenue as a result of an increase in nickel and other precious metal prices.

Capital spending in Q3 2014 comprised primarily of lateral development activities, diamond drilling and waste haulage. Operating income increased in Q3 2014 compared Q3 2013 due to lower operating costs and lower depreciation and amortization.

Morrison deposit outlook

The operation continues to focus their effort towards planning around the geotechnical challenges and becoming proactive in anticipating problem areas. The Craig pillar stoping area remains on track for mining in Q4 2014 which is expected to increase copper output compared to Q3 2014. The current diamond drilling program in the 5040 drift to quantify further extensions of the lower part of the Morrison deposit will continue through to the end of the first half of 2015.

Other Operations*

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Copper production (Mlbs)	18.2	18.0	51.5	54.9
Nickel production (Mlbs)	0.0	0.7	0.7	3.1
TPM ⁽¹⁾ (kcozs)	1.1	1.1	2.8	8.0
Cash cost per pound of copper sold (\$/lb)	\$2.56	\$2.76	\$2.45	\$3.02
Capital expenditure	\$0.2	\$2.1	\$4.2	\$5.5
Cost of goods sold ⁽²⁾	\$50.7	\$59.4	\$132.6	\$177.7
Operating income (loss)	\$8.5	(\$1.4)	\$23.3	(\$6.8)

* 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 Q3 2014 slightly increased from the same period in 2013 primarily due to the increase in production from Carlota by 1.3 million pounds offset by a decrease in production at Franke by 1.0 million pounds. Production for the first nine months of 2014 decreased by 3.4 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 4.7 million pounds. The economic resource was depleted at Podolsky and mine production came to a close at the end of Q1 2013.

Q3 2014 copper production at Franke decreased from 12.7 million pounds in Q3 2013 to 11.7 million pounds. The decrease in production is primarily due to a decrease in ore grade and higher carbonate content at the end of Q3 2014, which resulted in slower kinetics of the recovery leach cycle. Franke continues to blend ore from Franke and China pit ores. Copper production for the first nine months of the year is consistent with production for the same period of 2013.

Carlota is expected to complete excavation of ore during first part of Q4 2014. Drilling for the sub surface leaching program started in Q3 2014, with leaching continuing throughout September. The sub surface leaching program 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 Q3 2014 decreased by 15% or \$9 million compared to Q3 2013 due to the reduction in throughput at McCreedy West from the suspension of nickel ore mining since Q1 2014 and a decrease in operating costs at Franke.

The decrease in cash cost per pound of copper sold in Q3 2014 compared to the same period 2013 is due to a reduction in cash cost per pound sold at Carlota from \$2.55/lb in Q3 2013 to \$2.28/lb in Q3 2014. Carlota recorded an overall decrease in costs primarily due to reversal of the leach pad inventory in Q2 2014.

Capital expenditures for Q3 2014 were minimal due to cost management initiatives and deferral of non-critical capital projects for the remainder of 2014.

Other Operations Outlook

Carlota continues to implement its plan which optimizes cash flow while advancing activities related to the winding down of ore mining activities. Based on the current mine plan, the mining of ore is expected to continue into first part of Q4, followed by residual leaching for approximately four years. Concurrent reclamation activities have been implemented using existing manpower and equipment to minimize long term environmental risk of the property. Carlota is continuing the testing of subsurface leaching within the leach pad in order to enhance and facilitate copper recovery efforts. Leaching will take place through shallow wells drilled within the stacked ore in order to try and access previously stacked ores which have not been adequately exposed to acidic solutions. Subsurface leaching will continue through 2015.

The successful blending of the 2:1 China:Franke pit ore will continue in Q4 2014. Recovery to cathode is expected to be above 70%.

Production at McCreedy West is expected to continue from the 700 Complex. The site is on track to produce 91 thousand tonnes for 2014; with a large portion of the production coming from the 700 Complex.

DMC Mining Services

During Q3 2014, DMC recorded revenue of \$25.2 million compared to \$43.6 million in the same period in 2013. An operating loss of \$6 million was recorded for Q3 2014 compared to an operating income of \$3.2 million for Q3 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 nine months of 2014 was \$78.3 million with an operating loss of \$5.6 million, compared to \$178.1 million in revenue and \$17.3 million in operating income in Q3 2013.

DMC Outlook

The market is currently slow for the contracting business. 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.

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 Q3 2014 the Sierra Gorda joint venture (“JV”) expended \$349 million in capital expenditures, including infrastructure, plant construction, commissioning and other project related payments. As of September 30, 2014, approximately \$4.0 billion in project capital costs, excluding leased mining equipment, has been incurred. At September 30, 2014 the JV had cash of \$347 million. Because the Company accounts for the JV using equity based accounting principles, the cash is not included in KGHMI’s cash balance.

Sierra Gorda activities and outlook

At the end of September 2014 the Sierra Gorda project construction has been substantially completed and the project is in ramp up phase. Pre-stripping activities were completed by the end of Q1 2014 and an additional 71 million tonnes of material was extracted and 638 thousand tonnes of ore milled by the end of Q3 2014.

The official production of the grinding circuit has started on August 1, 2014 and the first filtered final concentrate was produced by the Sierra Gorda mine in August 2014. At the end of Q3 2014, the Sierra Gorda mine produced 631 tonnes of copper in the final concentrate. The first shipment of concentrate was sold in October 2014.

In 2013, the JV entered into lease agreements to lease various mining equipment with minimum lease payments of \$62 million. These lease agreements have been accounted for as finance leases with a term of 84 months, and the interest rate varies based on the specific lease agreement. Most of the leases are based on the 90-day Libor rate plus a margin.

As of September 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 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 intention of the legal action was to obtain annulment of the permits to transport and store of the JV’s copper concentrate. On February 26, 2014, the Court of Appeals of Antofagasta ruled in favour of the plaintiffs and annulled all permits, requesting the JV to

re-enter the environmental evaluation system including all activities. The JV appealed to the Supreme Court. On August 4, 2014, the Supreme Court reversed the judgment of the Court of Appeals of Antofagasta made in February 2014. Due to the reversals of such annulments, the construction of the warehouse at the port of Antofagasta restarted in late August but the delay has caused concentrate shipments to temporarily be transported by truck.

Sierra Gorda Oxide Ore

The Sierra Gorda Oxide deposit is part of the Sierra Gorda JV mineral property. The Company is evaluating the opportunity for copper production from Oxide ores mined at the Sierra Gorda project

As at September 30, 2014, the Engineering Study for the Sierra Gorda Oxide Project was over 50% complete. It is expected to complete in early 2015. 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. In August an agreement was reached with the receiver to lease and operate the plant and pad, with plant operations resuming in September.

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 Engineering Study and leach testing data will be presented to Sumitomo (the JV partner) for review and consideration for participation.

Victoria Project

During Q3 2014 the primary focus remained on delivery of the Basic Engineering Report that is required for full project approval. Site preparation continues to progress with drill and blasting for site levelling completed and backfilling at 50% completion. Fabrication of the hoisting system is near completion.

The Company has been successful in discussions with the First Nations on Impact Benefit Agreements (IBA). An IBA was signed with Atikameksheng Anishnawbek at the end of September and with Sagamok Anishnawbek in early October.

The Company received all environmental permits from the Ministry of Environment and has the necessary environmental approvals required by the Province of Ontario to construct site facilities. The project team is assessing all development opportunities for the project. Amendments to the Closure Plan and permits are being prepared to address the change in the project plan.

Victoria Project Outlook

The Company continues to work towards concluding the Basic Engineering Study required for full project approval in early 2015. Site activities will focus on completion of site leveling and winterization of facilities. Engineering and procurement efforts will concentrate on long lead items, preparation for critical path infrastructure construction and shaft development.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2014, the Company had cash and cash equivalents of \$62.6 million. These amounts are comprised of cash deposits and highly liquid investments that are readily convertible to cash. The counter parties include banks, governments and government agencies.

The Company generated cash in operating activities of \$75.9 million for the nine months ended September 30, 2014 compared to \$188.2 million for the same period for 2013. The decrease in operating cash flow in the nine months ended September 30, 2014 compared to the same period in 2013 is largely driven by lower net income before tax. (see “**Mine operating expenses and operating income**”).

At September 30, 2014, the Company had working capital of \$159.4 million compared to \$437.2 million at December 31, 2013. The decrease in working capital in the nine months of 2014 is primarily a result of the receipt of notes receivable of \$104.9 million and draw down of cash which had been used in investing activities. At September 30, 2014, accounts receivable and revenues include approximately 36.9 million pounds of copper that has been provisionally valued at \$3.09/lb. The final pricing for these provisionally priced sales is expected to occur between

October 2014 and January 2015. Changes in the price of copper from the amounts used to calculate the provisional values will impact the Company's revenues and working capital position the fourth quarter of 2014 and first quarter of 2015.

Capital spending in the nine months of 2014 was \$176.6 million for operations and projects. In the nine months of 2014, the Company advanced as subordinated debt \$364.3 million and as equity contribution \$154 million to Sierra Gorda JV for the construction and commissioning 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 ("PPA obligation") thereby releasing \$137.5 million of capacity in the Corporate Facility which was being utilized at December 31, 2013. In the nine months of 2014, the Company had total draws of \$168.0 million in cash under the Corporate Facility. As at September 30, 2014, \$77.5 million of letters of credit was being financed by KGHM on behalf of the Company in addition to the PPA obligation.

During the second quarter the Company entered into a \$100 million cash pooling arrangement with KGHM ("Cash Pooling"). The Cash Pooling bears interest at LIBOR plus margin. The Cash Pooling is unsecured and is subordinated and postponed to the Corporate Facility; in addition repayments of advances are subject to limitations governed by the Corporate Facility and there are no fixed terms of repayment. As of September 30, 2014 the Company had utilized \$52.8 million under the Cash Pooling.

During the nine months of 2014, the Company issued 231,126,000 common shares to KGHM for total proceeds of \$210.0 million, of which 73,194,000 common shares were issued for proceeds of \$66.0 million during Q3 2014.

Liquidity Outlook

The Company's future profitability and cash position are highly dependent on the price of copper and to a lesser extent, precious metals and nickel. Future changes in the price of copper will also impact the final settlement price of provisionally priced sales. The Company expects to spend approximately \$200.0 million on capital, largely for development projects, for the rest of 2014 including funding of ramp up costs of Sierra Gorda. The Company expects to meet this requirement from a combination of direct funding from the parent KGHM, available facilities and internally generated funds.

Commitments and contractual obligations

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Reclamation liabilities	14.1	5.6	4.3	10.0	25.6	112.1	171.7
Franke mine supply contracts	10.3	11.3	11.8	11.1	10.8	28.3	83.6
Purchase contracts	17.6	8.0	7.1	6.9	3.5	-	43.1
Senior notes	38.8	38.8	38.8	38.8	538.8	-	694.0
Minimum lease payments	8.5	6.3	6.4	5.2	4.0	11.4	41.8
Corporate Facility	-	-	168.0	-	-	-	168.0
Total	89.3	70.0	236.4	72.0	582.7	151.8	1,202.2

In addition, as at September 30, 2014, the Company's proportionate 55% share of the contractual commitments for capital at Sierra Gorda totalled \$7 million including purchase orders for mining equipment and infrastructure and contractual commitments for commercial operations totalled \$1,749 million.

Reclamation liabilities

The Company has estimated total future reclamation costs of \$171.7 million as at September 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 \$150.3 at September 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 \$42.3 million as at September 30, 2014 (\$48.1 million as at December 31, 2013). At September 30, 2014, \$11.1 million of new Letters of Credit for environmental bonding were being financed directly by KGHM, in addition, \$5.4 million of Letters of Credit for environmental bonding previously financed by the Company were being financed by KGHM.

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. Robinson is working on the revision of reclamation plan. The closure estimate is expected to increase when the revision plan is complete by the end of the year. 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

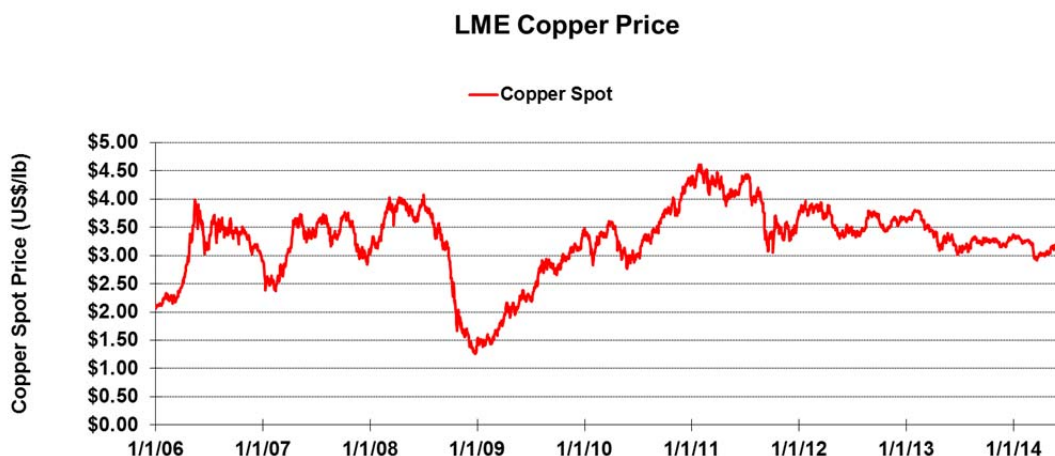
The Company has a long-term supply contract for sulphuric acid for use in the copper extraction process at Franke. The minimum commitment under the contract is estimated to be \$4.1 million per annum subject to adjustment based on the prevailing copper prices over the term of the contract which expires 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.

MARKET TRENDS AND FUNDAMENTALS

Copper price averaged \$3.17/lb in Q3 2014 an increase of 3% from the average copper price in Q2 2014. A tight refined market, due to limited scrap supply and smelter maintenance kept prices buoyed for most of the quarter until weak economic data from China and Europe resulted in lower prices during most of September. Looking forward, the company believes copper market fundamentals will remain strong over the long term. Long term supply will be challenged because of project delays due to CAPEX and OPEX overruns, environmental, political, sovereignty and taxation issues in many regions where proposed projects are being developed. Long term demand will continue to benefit from urbanization of emerging market countries such as China and an acceleration of growth in OECD economies will also provide a positive backdrop for copper demand.

The following graph shows the spot price of copper from 2006 to September 30, 2014 as published by the London Metal Exchange (“LME”).



At September 30, 2014, the closing spot price was \$3.05/lb. At October 31, 2014, the closing spot price was \$3.10/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 Company’s revenues and cash flows are subject to fluctuations in the market price of copper and gold. In addition, there is a time lag between the time of initial payment on shipment and final pricing, and changes in the price of copper and gold during this period impact the Company’s revenues and working capital position.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

Copper price	Impact on the after tax earnings (excluding derivatives)
+ \$0.20/lb	16.5
- \$0.20/lb	(16.5)

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

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

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

CONTINGENCIES

- (a) In the normal course of business DMC enters into agreements that contain indemnification commitments and may contain features that meet the expanded definition of guarantees. The terms of these indemnification agreements will vary based on the contract and typically do not provide for a limit on the maximum potential liability. The Company has not made any payments under such indemnifications and no amounts have been accrued in the financial statements with respect to these indemnification commitments.
- (b) DMC is involved in a dispute about certain design issues around the shaft sinking for one of its customers. The Company has been advised by counsel that it has a reasonably strong case but the issue is technically complex and there can be no certainty that a liability may not materialize in the future.
- (c) The Company is subject to lawsuits from time to time, existing litigation is not considered to be likely to have a material impact on the financial statements.

TRANSACTIONS WITH RELATED PARTIES

Upon formation of the Sierra Gorda JV, the joint venture became a related party with the Company. The amount due from the Sierra Gorda JV is \$7.4 million at September 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 as at September 30, 2014 was \$3.1 million (December 31, 2013- \$3.1 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 September 30, 2014, \$25.0 million (December 31, 2013- \$6.3 million) of the management fee and \$6.0 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 management's application of accounting policies. Critical accounting policies and estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

Mineral Properties

Mineral property 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 ("value in use") or fair value less costs to sell. Discounted cash flows for mineral properties are estimated based on a number of assumptions including management's view of long-term commodity prices, proven and probable reserves, estimated value beyond proven and probable reserves, and estimates of future operating, capital, reclamation costs, residual values of assets and discount rate. Based on management's view of future metal prices and cost assumptions, the carrying value of the Company's mineral properties was not impaired at September 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 acquiree's net identifiable assets acquired.

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

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

Leach Pad Inventory

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

estimate of recoverable copper placed on the leach pad is reconciled to actual copper production, and the engineering estimates will be refined based on actual results over time.

Revenue Recognition

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

Site Closure and Reclamation Provision

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

Financial Instruments

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

Deferred Stripping

The Company adopted IFRIC-20, Stripping cost in the production phase of a surface mine ("IFRIC 20"). IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity: useable ore and improved access to other ore bodies that can be mined in future periods.

The adoption of IFRIC 20 resulted in an increase in the capitalization of stripping activity assets on the Company's 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 \$81.0 million in deferred stripping of which \$3.4 million related to capitalized amortization.

Deferred Income Tax Assets

Management believes that uncertainty exists regarding the realization of certain deferred tax assets and therefore a valuation allowance has been recorded as of September 30, 2014. At September 30, 2014 the Company had available U.S. Alternative Minimum Tax Credits of \$36.7 million, which have not been recognized due to the uncertainty of realization. The Company also has not recognized the benefit of certain non-capital losses. However, the Company has recognized a net current deferred income tax asset for other temporary differences created between the tax and accounting basis of assets and liabilities in the United States and the Company's Sudbury operations.

Management estimates that, using long term copper prices in line with its mine plan estimates, the future taxable income will be sufficient to utilize the deferred tax assets which have been recognized.

OUTSTANDING SHARE DATA

On March 5, 2012, KGHM acquired 100% of the issued and outstanding shares of the Company (193,334,154) and exercised 6,502,162 warrants. In the nine months ended September 30, 2014 the Company issued shares to its shareholder KGHM to increase its issued and outstanding shares as at September 30, 2014 and November 12, 2014 to 430,962,316.

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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net revenues *								
Robinson	81	65	30	85	72	151	100	162
Carlota	18	19	17	19	15	18	20	23
Franke	43	24	35	45	44	29	28	41
Morrison	38	40	31	58	40	36	33	53
Podolsky	0	0	0	0	2	0	15	13
McCreedy West	2	5	8	9	7	10	13	9
DMC	25	27	27	37	44	71	63	76
Net revenues - Total	207	179	148	253	224	314	272	378
Income (loss) from operations	5.4	23.3	(22.7)	(25.0)	6.2	26.9	63.9	65.2
Earnings (loss) before income taxes	12.8	26.8	(24.4)	(44.9)	20.2	12.6	29.7	47.3
Earnings (loss)	11.6	22.4	(20.6)	(20.7)	13.6	1.7	14.8	44.3
Basic earnings (loss) per share	\$0.03	\$0.08	(\$0.10)	(\$0.10)	\$0.07	\$0.01	\$0.07	\$0.22
Diluted earnings (loss) per share	\$0.03	\$0.08	(\$0.10)	(\$0.10)	\$0.07	\$0.01	\$0.07	\$0.22

SUMMARY OF QUARTERLY OPERATING RESULTS								
	2014				2013			2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Robinson								
Cu produced payable (Mlbs)	21.9	24.6	17.1	21.9	18.6	30.8	36.5	34.3
Ore milled (Mt)	3.1	4.0	3.3	3.4	3.4	3.9	4.1	4.0
Au production payable (kozs)	5.5	6.2	5.9	7.2	7.5	15.0	15.4	10.6
Cu grade (%)	0.44	0.40	0.36	0.39	0.37	0.45	0.47	0.49
Au grade (g/t)	0.16	0.13	0.16	0.16	0.20	0.24	0.21	0.22
Cu recovery (%)	75.7	74.9	69.8	76.9	71.4	81.9	89.2	83.5
Au recovery (%)	33.2	35.4	34.6	42.0	33.5	55.5	50.0	39.3
Cu sales (Mlbs)	26.1	19.1	10.7	22.1	17.8	43.4	24.8	41.2
Average realized price (\$/lb)	\$3.08	\$3.22	\$2.41	\$3.39	\$3.39	\$3.05	\$3.49	\$3.49
Cash cost per pound of copper sold (\$/lb)	\$2.37	\$2.50	\$3.39	\$1.68	\$2.52	\$1.84	\$1.47	\$2.00
Carlota								
Cu production (Mlbs)	5.8	5.7	5.8	5.5	4.5	5.8	5.6	5.8
Ore placed (Mt)	0.7	0.9	0.7	0.9	1.0	0.9	1.2	1.3
Total Cu grade (%)	0.75	0.62	0.68	0.58	0.57	0.58	0.61	0.61
Cu sales (Mlbs)	5.8	5.8	5.4	5.7	4.7	5.6	5.7	6.4
Average realized price (\$/lb)	\$3.08	\$3.20	\$3.11	\$3.22	\$3.22	\$3.23	\$3.57	\$3.59
Cash cost per pound of copper sold (\$/lb)	\$2.28	\$0.69	\$2.83	\$2.70	\$2.55	\$2.41	\$2.46	\$2.53
Franke								
Cu production (Mlbs)	11.7	9.5	10.9	11.8	12.7	8.8	10.6	10.7
Ore placed (Mt)	1.1	1.0	1.0	1.1	1.1	0.9	1.0	1.1
Total Cu grade (%)	0.68	0.65	0.66	0.70	0.71	0.72	0.67	0.72
Cu sales (Mlbs)	13.3	7.7	11.0	13.7	13.7	8.6	11.7	11.7
Average realized price (\$/lb)	\$3.20	\$3.16	\$3.17	\$3.22	\$3.22	\$3.31	\$3.74	\$3.53
Cash cost per pound of copper sold (\$/lb)	\$2.60	\$2.78	\$2.66	\$2.71	\$2.70	\$4.18	\$3.70	\$3.31
Morrison								
Cu ore sold (kt) ⁽¹⁾	53.9	59.0	60.2	78.6	63.0	70.7	48.5	70.3
Cu grade (%)	8.3	7.7	6.7	9.3	8.2	7.3	8.5	9.3
Payable Cu sold (Mlbs)	8.7	8.7	7.7	13.7	10.4	10.0	7.3	12.6
Payable Ni sold (Mlbs)	1.5	1.4	1.5	2.1	1.6	1.6	1.1	1.8
Payable TPM sold (kozs) ⁽²⁾	10.6	10.5	9.3	15.8	12.9	8.1	7.6	10.0
Average realized price (\$/lb)	\$3.11	\$3.17	\$2.94	\$3.18	\$3.18	\$3.02	\$3.51	\$3.51
Cash cost per pound of copper sold (\$/lb)	\$1.15	\$1.13	\$1.78	\$1.08	\$1.48	\$1.91	\$1.74	\$1.19
Podolsky								
Cu ore sold (kt) ⁽¹⁾	0.0	0.0	0.0	0.0	1.5	0.0	88.0	88.8
Cu grade (%)	0.0	0.0	0.0	0.0	4.0	0.0	2.7	2.5
Payable Cu sold (Mlbs)	0.0	0.0	0.0	0.0	0.5	0.1	4.1	3.5
Payable Ni sold (Mlbs)	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.2
Payable TPM sold (kozs) ⁽²⁾	0.0	0.0	0.0	0.0	0.5	0.3	3.9	6.1
Average realized price (\$/lb)	N/A	N/A	N/A	N/A	N/A	N/A	\$3.49	\$3.52
Cash cost per pound of copper sold (\$/lb)	N/A	N/A	N/A	N/A	N/A	N/A	\$2.34	\$2.91
McCreedy West								
Cu ore sold (kt) ⁽¹⁾	12.1	11.6	9.1	6.7	4.2	6.7	5.8	9.2
Cu grade (%)	3.5	3.5	3.3	5.0	3.6	4.8	3.6	3.7
Ni ore sold (kt) ⁽¹⁾	(4.8)	0.0	49.2	79.2	80.9	91.7	84.1	82.5
Ni grade (%)	2.9	0.0	1.2	1.0	1.0	1.2	1.3	1.3
Payable Cu sold (Mlbs)	0.8	0.7	0.7	0.8	0.3	0.9	1.0	0.8
Payable Ni sold (Mlbs)	0.0	0.1	0.7	0.9	0.6	1.1	1.1	0.8
Payable TPM sold (kozs) ⁽²⁾	1.1	1.1	0.7	0.7	0.6	1.4	1.4	0.6
Average realized price (\$/lb)	\$2.99	\$3.23	\$2.91	\$3.36	\$5.50	\$2.87	\$3.57	\$3.48
Cash cost per pound of copper sold (\$/lb) ⁽³⁾	\$3.85	\$2.24	\$1.28	\$5.18	\$8.66	\$2.84	(\$0.18)	\$4.26

⁽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 September 30, 2014					
	Robinson	Carlota	Franke	Morrison	McCreedy West	Total
Production costs of goods sold	59.9	12.7	34.1	18.3	2.8	127.8
Treatment and refining charges	8.5	-	-	8.6	1.1	18.3
Royalties	2.4	0.5	0.5	-	-	3.5
Total cash cost	70.9	13.2	34.6	26.9	3.9	149.6
By-product revenues	(9.0)	-	-	(17.0)	(0.8)	(26.8)
	61.9	13.2	34.6	9.9	3.1	122.8
Copper sold (million lbs)	26.1	5.8	13.3	8.7	0.8	54.7
Cash cost per pound of copper sold (US\$/lb)	\$2.37	\$2.28	\$2.60	\$1.15	\$3.85	\$2.25

	Three months ended September 30, 2013						
	Robinson	Carlota	Franke	Morrison	McCreedy West	Other	Total
Production costs of goods sold	54.7	11.4	37.0	20.3	8.1	2.4	133.8
Treatment and refining charges	4.4	-	-	11.9	0.3	1.2	17.8
Royalties	1.7	0.5	-	-	-	-	2.2
Total cash cost	60.8	11.9	37.0	32.1	8.4	3.5	153.8
By-product revenues	(16.1)	-	-	(16.8)	(5.6)	(1.1)	(39.4)
	44.7	11.9	37.0	15.4	2.8	2.5	114.4
Copper sold (million lbs)	17.8	4.7	13.7	10.4	0.3	0.5	47.4
Cash cost per pound of copper sold (US\$/lb)	\$2.52	\$2.55	\$2.70	\$1.48	\$8.66	\$4.83	\$2.41

	Nine months ended September 30, 2014						
	Robinson	Carlota	Franke	Morrison	McCreedy West	Other	Total
Production costs of goods sold	149.6	30.6	84.7	58.2	12.7	2.3	338.0
Treatment and refining charges	19.0	-	-	26.4	2.3	-	47.7
Royalties	5.1	1.8	0.5	-	-	-	7.4
Total cash cost	173.6	32.4	85.2	84.6	15.1	2.3	393.2
By-product revenues	(27.8)	-	-	(51.1)	(9.6)	-	(88.4)
	145.8	32.4	85.2	33.5	5.5	2.3	304.7
Copper sold (million lbs)	55.9	17.0	32.0	25.1	2.2	-	132.1
Cash cost per pound of copper sold (US\$/lb)	\$2.61	\$1.91	\$2.66	\$1.34	\$2.55	-	\$2.31

	Nine months ended September 30, 2013						
	Robinson	Carlota	Franke	Morrison	Podolsky	McCreedy West	Total
Production costs of goods sold	194.1	37.2	100.8	62.1	13.3	26.7	434.1
Treatment and refining charges	20.1	-	-	26.7	4.6	1.3	52.7
Royalties	9.5	2.1	-	-	-	-	11.6
Total cash cost	223.8	39.3	100.8	88.8	17.8	28.1	498.5
By-product revenues	(62.7)	-	-	(41.6)	(4.2)	(22.8)	(131.4)
	161.0	39.3	100.8	47.1	13.6	5.3	367.1
Copper sold (million lbs)	86.0	15.9	29.8	27.6	4.7	2.2	166.3
Cash cost per pound of copper sold (US\$/lb)	\$1.87	\$2.47	\$3.38	\$1.71	\$2.88	\$2.40	\$2.21

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

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

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
(All amounts in millions of United States dollars except per share amounts)				
Income from mining operations	5.4	6.2	6.0	97.0
Adjusting items:				
Amortization, depreciation and depletion	40.2	42.6	102.1	111.1
General and administrative	(9.8)	(9.9)	(29.6)	(36.6)
Other loss	(0.2)	(0.2)	(0.8)	(0.5)
Service fee from Sierra Gorda JV	3.8	6.3	11.5	18.8
	34.0	38.7	83.2	92.7
Adjusted EBITDA	39.4	44.9	89.2	189.7

FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" that is based on the Company's expectations, estimates and projections as of the dates as of 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 Company's mining projects;
- ❖ The integration with KGHM Polska Miedź 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;
- ❖ Construction contract issues at DMC;
- ❖ 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.