

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SECOND QUARTER ENDED JUNE 30, 2013**

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

| | Three months ended June 30 | | | Six months ended June 30 | | |
|--------------------------------------|----------------------------|--------|--------|--------------------------|-------|--------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| FINANCIAL HIGHLIGHTS | | | | | | |
| Net revenues ⁽¹⁾ | 314 | 337 | -7% | 586 | 649 | -10% |
| Income (loss) from mining operations | 27 | (1) | N/A | 91 | 55 | 65% |
| Adjusted EBITDA ⁽²⁾ | 65 | 67 | -3% | 145 | 147 | -1% |
| Adjusted EBITDA per share (basic) | 0.33 | 0.34 | -3% | 0.73 | 0.74 | -2% |
| Earnings (loss) for the period | 2 | (28) | N/A | 16 | 5 | 229% |
| Earnings (loss) per share (basic) | 0.01 | (0.14) | N/A | 0.08 | 0.03 | 175% |
| Cash | 386 | 537 * | -28% | 386 | 537 * | -28% |
| Working capital | 615 | 870 * | -29% | 615 | 870 * | -29% |

⁽¹⁾ Net of treatment and refining charges

⁽²⁾ See "Non-IFRS Financial Measures"

*2012 comparatives are at December 31, 2012

SECOND QUARTER AND RECENT HIGHLIGHTS:

- Copper production in Q2 2013 decreased by 5% to 56 million pounds compared to 60 million pounds in Q2 2012. However due to sales and inventory timing, copper sales increased by 7% to 69 million pounds in Q2 2013 compared to 64 million pounds in Q2 2012.
- The Robinson mine had another exceptional quarter with cash costs of \$1.84/lb due to a lower cost of production compared to the same period last year (see **Review of Operations and Projects**). The Company's overall cash costs were \$2.23/lb of copper sales.
- Despite the increase in sales volume, total net revenue decreased by 7% to \$314 million in the quarter compared to \$337 million in the same quarter of 2012 due to a significant decline in realized copper prices to \$3.09/lb in Q2 2013 from \$3.37/lb in Q2 2012. No revenue was included from the Podolsky mine which ceased operations in Q1 2013.
- Income from mining operations increased by \$28 million to \$27 million in Q2 2013 from a loss of \$1 million in the same period last year due to a \$26 million write down related to the leach pad inventory at Franke in Q2 2012 (see **Review of Operations and Projects**).
- Adjusted EBITDA decreased 3% to \$65 million primarily due to the decline in copper prices.
- Earnings increased to \$2 million in Q2 2013 compared to a loss of \$28 million in Q2 2012 primarily due to an increase in income from mining operations by \$28 million.
- The Company ended the second quarter of 2013 with \$386 million of cash and cash equivalents. The decrease in cash and cash equivalents compared to December 31, 2012 is due to the Q2 2013 increase in loans of \$142 million to the Sierra Gorda JV to complete the construction of the Sierra Gorda mine (see **Liquidity and Capital Resources**).
- To provide funds for general corporate purposes the Company entered into a \$200 million Corporate Facility (see **Liquidity and Capital Resources**).
- At the end of Q2 2013, the Sierra Gorda project's overall progress was 51% complete. The project remains on schedule to commence production in 2014.

This Management Discussion and Analysis ("MD&A") of KGHM International Ltd. (formerly Quadra FNX Mining Ltd.) and its subsidiaries ("KGHMI" or the "Company") has been prepared as at August 7, 2013 and is intended to be read in conjunction with the accompanying unaudited consolidated financial statements for the quarter ended June 30, 2013 and audited consolidated financial statements for the year ended December 31, 2012. 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.

- An agreement was signed on August 1, 2013, between the Company and Vale Canada Limited (Vale), a wholly-owned subsidiary Vale S.A., regarding the development of the Victoria project as well as the ore off-take to Vale's processing facilities in Sudbury, Canada. The Company has obtained the right to build and operate the Victoria project as the sole owner. Furthermore, the agreement finalizes the processing and payable metal terms on the ores that are processed in Vale's facilities from the Company's Sudbury Operations, including the future Victoria mine. The new off-take arrangement is agreed to be effective from January 1, 2013 and retroactive adjustments are expected to be agreed by the parties before the end of 2013.

FINANCIAL PERFORMANCE

Earnings

The Company recorded earnings of \$2 million or \$0.01 per share (basic) for Q2 2013 compared to a loss of \$28 million or -\$0.14 per share (basic) for the same period of 2012. Higher earnings in Q2 2013 compared to Q2 2012 was attributed to an increase in income from mining operations of \$28 million primarily due to a \$26 million write down related to the leach pad inventory at Franke in Q2 2012 (see "Mine operating expense and operating income"). The Company also recognized \$19.5 million in finance income in Q2 2013 compared to \$6.2 million in the same period of 2012 primarily due to the interest on the loan to Sierra Gorda JV. The current quarter gains were offset by a decline in value of marketable securities by \$8.3 million, combined with an increase in foreign exchange loss of \$5.4 million due to the depreciation of the Canadian dollar and Chilean peso (see "General and Administrative and Other Expenses").

During Q2 2013, the Company sold 68.6 million pounds of copper at an average effective price of \$3.09/lb and 28.2 thousand ounces of total precious metals (TPMs) compared to 64.3 million pounds of copper in Q2 2012 at an average effective price of \$3.37/lb and 22.2 thousand ounces of TPMs.

Revenues

| | 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 |
| | | | | | | | | |
| | Three months ended June 30, 2012 | | | | | | | |
| | Robinson | Morrison | Franke | Carlota | Podolsky | McCreedy West | DMC | Total |
| Copper sales (million lbs) | 32.5 | 8.1 | 11.8 | 5.6 | 5.8 | 0.5 | - | 64.3 |
| (in millions of U.S. dollars) | | | | | | | | |
| Copper | 108.5 | 26.0 | 41.7 | 20.0 | 18.9 | 1.7 | - | 216.8 |
| Nickel | - | 8.8 | - | - | 1.5 | 6.2 | - | 16.5 |
| Other by product ⁽¹⁾ | 19.0 | 3.7 | - | - | 3.5 | 0.5 | - | 26.7 |
| Contract mining | - | - | - | - | - | - | 94.9 | 94.9 |
| Treatment and refining charges | (6.9) | (6.8) | - | - | (4.1) | (0.2) | - | (18.0) |
| Total net revenues | 120.6 | 31.7 | 41.7 | 20.0 | 19.8 | 8.2 | 94.9 | 336.9 |

| | Six months ended June 30, 2013 | | | | | | | |
|---------------------------------|---------------------------------------|----------|--------|---------|----------|---------------|-------|--------|
| | Robinson | Morrison | Franke | Carlota | Podolsky | McCreedy West | DMC | Total |
| Copper sales (million lbs) | 68.2 | 17.3 | 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 | - | - | 3.5 | 3.8 | - | 64.8 |
| 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 |

| | Six months ended June 30, 2012 | | | | | | | |
|---------------------------------|---------------------------------------|----------|--------|---------|----------|---------------|-------|--------|
| | Robinson | Morrison | Franke | Carlota | Podolsky | McCreedy West | DMC | Total |
| Copper sales (million lbs) | 56.3 | 18.6 | 21.2 | 10.7 | 11.0 | 1.1 | | 118.9 |
| (in millions of U.S. dollars) | | | | | | | | |
| Copper | 201.2 | 68.3 | 77.4 | 39.5 | 40.0 | 3.9 | - | 430.3 |
| Nickel | - | 23.2 | - | - | 3.6 | 13.0 | - | 39.8 |
| Other by product ⁽¹⁾ | 30.2 | 9.2 | - | - | 7.3 | 0.5 | - | 47.2 |
| Contract mining | - | - | - | - | - | - | 167.3 | 167.3 |
| Treatment and refining charges | (11.0) | (15.8) | - | - | (8.0) | (0.5) | - | (35.3) |
| Total net revenues | 220.4 | 84.9 | 77.4 | 39.5 | 42.9 | 16.9 | 167.3 | 649.3 |

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

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

Despite an increase in sales volumes, total net revenues in Q2 2013 decreased by \$22.6 million or 7% compared to the same quarter of 2012. The decrease in total net revenues is due a decline in copper price, lower contract mining revenues from DMC as a result of a change in contract phases for one of DMC's largest clients, and the cessation of mining at Podolsky. The copper spot price at June 30, 2013 was \$3.06/lb compared to \$3.49/lb at June 30, 2012. The overall increase in copper sales volumes for Q2 2013 is due to timing of sales at Robinson and an increase in copper production at Morrison compared to the same period last year.

Revenues at Morrison and McCreedy West in Q2 2013 include non-cash revenue of \$2.5 million for 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.

Mine operating expenses and operating income

Three months ended June 30, 2013

| | McCreeedy | | | | | | | Total |
|---|-----------|----------|--------|---------|----------|-------|------|--------|
| | Robinson | Morrison | Franke | Carlota | Podolsky | West | DMC | |
| Net revenues | 150.5 | 36.5 | 28.6 | 18.1 | (0.2) | 9.8 | 71.0 | 314.3 |
| Depreciation and amortization | 9.3 | 19.4 | 4.4 | - | - | 2.5 | 1.1 | 36.7 |
| Employee benefits expense | 17.7 | 7.3 | 6.6 | 4.2 | 0.5 | 3.2 | 10.4 | 49.8 |
| Raw materials, other consumables and energy | 43.2 | 7.3 | 19.3 | 9.0 | 0.5 | 2.7 | 0.8 | 82.9 |
| 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 |
| Deferred stripping costs | (23.4) | - | - | - | - | - | - | (23.4) |
| 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 |

Three months ended June 30, 2012

| | McCreeedy | | | | | | | Total |
|---|-----------|----------|--------|---------|----------|-------|------|-------|
| | Robinson | Morrison | Franke | Carlota | Podolsky | West | DMC | |
| Net revenues | 120.6 | 31.7 | 41.7 | 20.0 | 19.8 | 8.2 | 94.9 | 336.9 |
| Depreciation and amortization | 8.9 | 12.3 | 5.8 | - | 6.6 | 2.6 | 1.2 | 37.4 |
| Employee benefits expense | 16.8 | 6.8 | 5.8 | 4.4 | 3.1 | 2.9 | 9.4 | 49.2 |
| Raw materials, other consumables and energy | 42.0 | 6.6 | 20.9 | 9.7 | 2.1 | 2.7 | 0.1 | 84.1 |
| Office expenses | 3.4 | (2.0) | 1.8 | 1.4 | 0.8 | (0.7) | 0.6 | 5.3 |
| External services | 5.1 | 4.3 | 4.8 | 1.1 | 4.0 | 2.1 | 74.7 | 96.1 |
| Royalties | 3.7 | - | - | 1.0 | - | - | - | 4.7 |
| Inventory write down | - | - | 26.0 | - | - | - | - | 26.0 |
| Changes in Inventories | 19.1 | (0.5) | 1.5 | (1.1) | (0.3) | - | - | 18.7 |
| Distribution costs | 11.8 | 0.8 | 1.2 | - | 1.7 | 1.0 | - | 16.5 |
| Cost of Sales | 110.8 | 28.3 | 67.8 | 16.5 | 18.0 | 10.6 | 86.0 | 338.0 |
| Operating income (loss) | 9.8 | 3.4 | (26.1) | 3.5 | 1.8 | (2.4) | 8.9 | (1.1) |

Six months ended June 30, 2013

| | McCreeedy | | | | | | | Total |
|---|-----------|----------|--------|---------|----------|-------|-------|--------|
| | Robinson | Morrison | Franke | Carlota | Podolsky | West | DMC | |
| Net revenues | 250.0 | 69.6 | 56.1 | 38.3 | 15.1 | 22.7 | 134.5 | 586.3 |
| Depreciation and amortization | 17.2 | 31.7 | 9.7 | - | 1.9 | 4.9 | 2.2 | 67.6 |
| Employee benefits expense | 35.3 | 13.1 | 14.1 | 8.5 | 2.8 | 6.4 | 21.7 | 101.9 |
| Raw materials, other consumables and energy | 83.8 | 14.2 | 37.9 | 18.8 | 2.5 | 5.4 | 0.8 | 163.5 |
| 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 |
| 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 |
| Deferred Stripping | (23.4) | - | - | - | - | - | - | (23.4) |
| Cost of Sales | 164.2 | 73.3 | 73.1 | 28.2 | 12.7 | 23.6 | 120.4 | 495.6 |
| Operating income (loss) | 85.8 | (3.7) | (17.0) | 10.1 | 2.4 | (0.9) | 14.1 | 90.8 |

Six months ended June 30, 2012

| | McCreedy | | | | | | | Total |
|---|----------|----------|--------|---------|----------|-------|-------|-------|
| | Robinson | Morrison | Franke | Carlota | Podolsky | West | DMC | |
| Net revenues | 220.4 | 84.9 | 77.4 | 39.5 | 42.9 | 16.9 | 167.3 | 649.3 |
| Depreciation and amortization | 18.4 | 25.0 | 8.1 | - | 12.2 | 4.6 | 2.1 | 70.4 |
| Employee benefits expense | 33.6 | 14.9 | 11.7 | 9.2 | 6.7 | 6.2 | 17.0 | 99.3 |
| Raw materials, other consumables and energy | 85.6 | 11.9 | 41.1 | 20.2 | 6.3 | 5.3 | 0.1 | 170.5 |
| Office expenses | 6.0 | (0.6) | 3.9 | 2.5 | 1.2 | (0.5) | 1.2 | 13.7 |
| External services | 11.2 | 7.6 | 8.6 | 2.2 | 7.9 | 4.3 | 133.1 | 174.9 |
| Royalties | 6.5 | - | - | 1.9 | - | - | - | 8.4 |
| Inventory write down | - | - | 26.0 | - | - | - | - | 26.0 |
| Changes in Inventories | 11.1 | (0.8) | (6.2) | (2.3) | (0.2) | - | - | 1.6 |
| Distribution costs | 20.0 | 2.2 | 2.1 | - | 3.2 | 1.9 | - | 29.4 |
| Cost of Sales | 192.4 | 60.2 | 95.3 | 33.7 | 37.3 | 21.8 | 153.5 | 594.2 |
| Operating income (loss) | 28.0 | 24.7 | (17.9) | 5.8 | 5.6 | (4.9) | 13.8 | 55.1 |

Cost of sales decreased by \$51 million or 15% in Q2 2013 compared to the same period last year due to lower costs at Franke, DMC, and no production from Podolsky. Lower cost of sales at Franke compared to Q2 2012 was primarily due to a leach pad inventory writedown in Q2 2012. Podolsky completed the mining of its economic resource at the end of Q1 2013 and subsequent changes to net revenue for Q2 2013 relate to settlement adjustments from prior quarter shipments. Cost of sales at DMC were lower in the Q2 2013 as contract mining activities decreased in Q2 2013 compared to Q2 2012 due to the change in project phases (see “**Review of Operations and Projects**”).

Cost of sales for the first six months of 2013 decreased by \$99 million or 17% from the same period in 2012 due to a decrease in cost of sales at Robinson, Franke, Podolsky and DMC. The decrease in cost of sales at Robinson is due to the deferral of waste stripping costs that benefit future ore production without increase in overall costs as a result of the stripping (see “**Review of Operations and Projects**”).

General & administrative and other expenses

General and administrative expenses for Q2 and the first six months of 2013 were in line with the same periods in 2012.

The Company recognized \$19.5 million in finance income in Q2 2013 compared to \$6.2 million in the same period of 2012 and \$36.1 million for the six months ended June 30, 2013 and \$8.8 million for the same period in 2012. These increases were primarily driven by the increase in the interest on the loan to Sierra Gorda JV as the loan amount increased by \$605 million from June 30, 2012 to June 30, 2013. Finance expenses for Q2 2013 and the six months ended June 30, 2013 were in line with the same periods in 2012.

Other income for Q2 2013 was similar to the same period in 2012 and for the six months ended June 30, 2013 was \$17.8 million compared to \$28.3 million primarily due to \$10 million higher derivative gain in 2012 as a result of the exercise of the Company’s issued and outstanding warrants as well as a gain on Chilean peso currency forward contracts. Other expense for Q2 2013 and six months ended June 30, 2013 was in line with the same periods in 2012. In Q2 2013 marketable securities declined in value after being impaired in Q1 2013. As a result, an additional \$8.3 million of impairment was recognized in Q2 2013 with total impairment for the six month ended June 30, 2013 of \$35.1 million.

The Company recorded a foreign exchange loss of \$15.8 million in Q2 2013 compared to \$10.4 million in Q2 2012 as well as a loss for the six months ended June 30, 2013 of \$15.4 million and gain of \$0.2 million for the same period of 2012. The increase of foreign exchange loss is due to the depreciation of the Canadian dollar and Chilean peso in Q2 2013 and the six months ended June 30 2013 more so than in the same periods in 2012. These currencies are held to mitigate the risks related to costs incurred in those currencies. The Company also incurred \$27.3 million of transaction costs in the first six months of 2012 in connection with the acquisition of the Company by KGHM.

The Company recorded income tax expenses of \$25.8 million in Q2 2013 compared to \$10.1 million tax expense in the same period of 2012. The tax expense for the current year has been recorded based on an estimated annual effective tax rate of 26% (2012 ó 23%) excluding certain one-time tax events. The increase in effective tax rate in

2013 is caused by the usage as well as expiry of certain tax credits and increase in some non-deductible expenses in the period.

REVIEW OF OPERATIONS AND PROJECTS

PRODUCTION SUMMARY

Production for the quarter and six months ended June 30, 2013 and 2012 from the Company's operating mines is summarized as follows:

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| Copper production (Mlbs) | | | | |
| Robinson ⁽²⁾ | 30.8 | 30.9 | 67.3 | 55.0 |
| Morrison deposit ⁽⁴⁾ | 10 | 8.1 | 17.3 | 18.6 |
| Franke ⁽³⁾ | 8.8 | 8.8 | 19.4 | 18.2 |
| Carlota ⁽³⁾ | 5.8 | 5.5 | 11.4 | 11.0 |
| Podolsky ⁽⁴⁾ | 0.1 | 5.8 | 4.2 | 11.0 |
| McCreedy West ⁽⁴⁾ | 0.9 | 0.5 | 1.9 | 1.1 |
| | 56.4 | 59.6 | 121.5 | 114.9 |
| Nickel production (Mlbs) | | | | |
| Morrison deposit ⁽⁴⁾ | 1.6 | 1.2 | 2.7 | 2.9 |
| Podolsky ⁽⁴⁾ | 0 | 0.2 | 0.1 | 0.4 |
| McCreedy West ⁽⁴⁾ | 1.1 | 0.9 | 2.2 | 2.0 |
| | 2.7 | 2.3 | 5.0 | 5.3 |
| TPM ⁽¹⁾ (kcozs) | | | | |
| Robinson ⁽²⁾ | 15 | 9.7 | 30.4 | 17.0 |
| Morrison deposit ⁽⁴⁾ | 8.1 | 7.7 | 15.7 | 17.9 |
| Podolsky ⁽⁴⁾ | 0.3 | 5.5 | 4.2 | 10.3 |
| McCreedy West ⁽⁴⁾ | 1.4 | 0.4 | 2.7 | 0.1 |
| | 24.8 | 23.3 | 53.0 | 45.3 |
| Total copper equivalent (Mlbs) ⁽⁵⁾ | | | | |
| | 74.2 | 74.7 | 157.5 | 146.7 |

⁽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 previously announced LOM commodity prices: Cu at \$2.75/lb, Ni at \$8/lb, Pt at \$1600/oz, Pd at US\$500/oz, Au at \$1000/oz and Mo at \$12/lb and excludes the impact of the Franco Nevada Agreement.

Robinson (Nevada, U.S.)

| | Three months ended June 30 | | Six months ended June 30 | |
|--|----------------------------|--------|--------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Copper production payable (Mlbs) | 30.8 | 30.9 | 67.3 | 55.0 |
| Gold production payable (kozs) | 15.0 | 9.7 | 30.4 | 17.0 |
| Ore mined (Mt) | 2.4 | 3.7 | 8.2 | 6.7 |
| Waste mined (Mt) | 18.3 | 16.4 | 30.1 | 36.4 |
| Ore milled (Mt) | 3.9 | 3.7 | 8.1 | 6.7 |
| Copper grade (%) | 0.45 | 0.53 | 0.46 | 0.54 |
| Gold grade (g/t) | 0.24 | 0.25 | 0.22 | 0.24 |
| Copper recovery (%) | 81.9 | 74.6 | 85.7 | 71.9 |
| Gold recovery (%) | 55.5 | 34.2 | 52.5 | 34.6 |
| Cash cost per pound of copper sold (\$/lb) | \$1.84 | \$2.69 | \$1.71 | \$2.72 |
| Capital expenditure | \$28.4 | \$3.9 | \$33.0 | \$10.8 |
| Cost of goods sold* | \$97.9 | \$99.6 | \$147.2 | \$172.2 |
| Operating income | \$41.2 | \$9.8 | \$85.8 | \$28.0 |

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

Copper production for Q2 2013 was in line with Q2 2012. Despite lower head grades and lower volume of ore mined for the period, as a result of waste stripping in Ruth West 3 and Kimbley, production levels were maintained through the increase in recovery and drawdown of stockpile ore inventory. Higher recoveries in the first six months of 2013 were mainly due to clean ore delivery from the Ruth pit and business improvement practices implemented in 2013. Gold production in Q2 2013 was 54% higher than 2012 primarily due to higher recovery and ore tonnes milled. The increase in waste mined for Q2 2013 over Q2 2012 is due to the acceleration of waste removal in the Ruth Pit area in order to gain access to the ore in 2014.

Robinson production costs and capital expenditures

Despite higher sales volumes, costs of goods sold for Q2 2013 was consistent with Q2 2012 due to higher production in the first two months of the quarter as well as lower production costs after the capitalization of waste removal costs related to 2014 ore production. Cost of goods sold for the first six months of 2013 were lower than the same periods of 2012 mainly due to the lower unit production cost which was a result of significantly higher production volumes and the capitalization of deferred stripping. The stripping ratio (ratio of waste to ore) in Q2 2013 was 7.6 compared to 4.4 in Q2 2012.

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 2013 was \$1.84 compared to \$2.69 in Q2 2012. The decreased cash cost per pound of copper sold is mainly due to lower current period stripping costs and increased bi-product revenue for the period. The cash cost per pound of copper sold for the first six months of 2013 was \$1.71 compared to \$2.72 in 2012. The decreased cash cost for the current year was due to lower costs associated with higher by-product revenues and increased production.

Capital expenditures at Robinson increased significantly in Q2 2013 compared to Q2 2012. Capital costs incurred were primarily due to capital stripping and dewatering activity. Operating income increased in Q2 2013 and the first six months of 2013 compared to the same periods in 2012 as a result of the decreased unit operating cost and the increase in copper sold. During Q2 2013, Robinson entered into a new finance lease agreement for equipment with a value of \$11.4.

Robinson Outlook

For the remainder of 2013, RNMC ore production will be from the Liberty Pit, where the grade is expected to be lower than the ore mined from the Ruth pit. As a result, production in the second half of the year is expected to be lower than the first half of the year. Waste stripping will be focused on the Kimbley and Ruth East 2 pushbacks. Additional stripping in the Ruth West 3 pushback will take place through the remainder of the year. Capital expenditures for 2013 will primarily relate to capital stripping and mine development.

Morrison deposit (Ontario, Canada)

| | Three months ended June 30 | | Six months ended June 30 | |
|--|----------------------------|--------|--------------------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Copper ore sold (kt) | 70.7 | 53.0 | 119.2 | 110.0 |
| Copper grade (%) | 7.3 | 8.2 | 7.8 | 9.1 |
| Copper sold - payable (Mlbs) | 10.0 | 8.1 | 17.3 | 18.6 |
| Nickel sold - payable (Mlbs) | 1.6 | 1.2 | 2.7 | 2.9 |
| Gold sold - payable (kozs) | 1.6 | 1.7 | 3.2 | 3.4 |
| Platinum sold - payable (kozs) | 2.3 | 1.9 | 4.3 | 4.8 |
| Palladium sold - payable (kozs) | 4.2 | 4.1 | 8.3 | 9.7 |
| Cash cost per pound of copper sold (\$/lb) | \$1.91 | \$1.43 | \$1.84 | \$1.18 |
| Capital expenditure | \$8.4 | \$4.1 | \$15.9 | \$10.1 |
| Cost of goods sold* | \$23.5 | \$16.2 | \$41.8 | \$35.9 |
| Operating income | -\$7.5 | \$3.4 | -\$3.7 | \$24.7 |

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

Copper ore produced and sold for Q2 2013 was significantly higher than Q2 2012, although copper grades were down 11% from 8.2% to 7.3%. The Craig shaft rehabilitation was completed in early May allowing the shaft to return to full use, which enabled the increase in copper ore sold in Q2 2013. The mining rates achieved in Q2 2013 are expected to continue through the remainder of the year. The increase in throughput during the quarter was partially offset by a reduction in realized grades in Q2 2013 from Q2 2012. The reduction in grade is primarily due to unexpected dilution from a long hole stope in April and a seismic event in June that delayed the extraction of a high grade workplace.

Mine development continued on the Morrison down ramp to an elevation of 4520 ft for Q2 2013. Development of the deeper access from Craig, down to the 5000 ft elevation at Morrison is underway. The diamond drilling completed during the quarter continued focus on delineation of the Q3 and Q4 mining areas. Drilling in the Morrison down ramp to sterilize the future ramp location began in the quarter and is anticipated to be completed in Q3.

Morrison production costs and capital expenditures

Cost of goods sold for Q2 2013 were higher than Q2 2012 due to a full quarter operation of the Craig infrastructure compared to the same period in 2012. Cost of goods sold for the first six months of 2013 were also higher than the same periods of 2012. The direct mining costs are in line with the previous year but the additional cost of the Craig shaft remediation and operation of the Craig infrastructure, which was being commissioned during the first six months of 2012, have increased the year over year operating expenses.

The cash cost per pound of copper sold for Q2 2013 was \$1.91 compared to \$1.43 in Q2 2012. The increase in cash cost is due to higher operating costs for the quarter. The cash cost per pound of copper sold for the first six months of 2013 was \$1.84 compared to \$1.18 in 2012. The increase in year to date cash costs is a result of higher operating costs, a reduction in grades, and a reduction in by-product revenue primarily due to a decrease in total precious metal production and metal prices.

The addition of the Craig infrastructure has enabled the operation access to capital development workplaces that were not available in 2012. As a result, ramp and raise development expenditures have increased during the quarter compared to the same period in 2012. Capital spending will be focused on sustaining the operation for the remainder of the year. All major fixed plant installations are in place and operational. Operating income decreased in Q2 2013 compared Q2 2012 due to the decline in copper prices and the increase in cost of goods sold.

Morrison deposit outlook

The operation will continue to focus on reducing production variability by improving detailed knowledge of the ore body. Diamond drilling is targeted to improve the definition of the lower portion of the Morrison deposit. The main ramp development will continue to drive towards additional drilling platforms and the second lower access is expected to be completed in early Q2 2014. Copper and by-product metal production is expected to increase compared to the first six months of the year.

Other Operations*

| | Three months ended June 30 | | Six months ended June 30 | |
|--|----------------------------|---------|--------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Copper production (Mlbs) | 15.6 | 20.6 | 36.9 | 41.3 |
| Nickel production (Mlbs) | 1.1 | 1.1 | 2.3 | 0.6 |
| TPM ⁽¹⁾ (kcozs) | 1.6 | 5.8 | 6.9 | 10.5 |
| Cash cost per pound of copper sold (\$/lb) | \$3.52 | \$2.59 | \$3.13 | \$3.22 |
| Capital expenditure | \$3.4 | \$10.4 | \$3.4 | \$14.3 |
| Cost of goods sold ⁽²⁾ | \$60.3 | \$93.9 | \$120.7 | \$149.7 |
| Operating (loss) income | -\$11.8 | -\$23.2 | -\$5.4 | -\$11.4 |

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

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

*Other operations consist of Franke, Carlota, McCreedy West and Podolsky

Copper production for Q2 2013 decreased by 5 million lbs over Q2 2012 primarily due to the completion of production at the Podolsky mine in Q1 2013, resulting in a decrease by 5.8 million lbs during the quarter. The economic resource was depleted at Podolsky and mine production came to a close at the end of Q1 2013.

Despite lower ore grade and production disruptions experienced during the quarter, copper production at Franke for Q2 2013 was in line with Q1 2013 due to the increase in recovery from the 50-50 blend of the Franke and China pit ores. Copper production in Q2 2013 at Franke was impacted by the 18-day labour union strike in May. Subsequently the labour agreement was reached.

Copper production at Carlota slightly increased in Q2 2013 compared to Q2 2012 from the improvement in recoveries in the conveyor stacked sulfide ore placed in previous quarters.

Following the waiver by Vale of its right to process magnesium oxide Contact Nickel ores, McCreedy West continued mining contact nickel and delivered a total of 92,000 tonnes of nickel ore to Xstrata's mill in Q2 2013 compared to 67,000 tonnes delivered in Q2 2012.

Production costs and capital expenditures

Cost of goods sold for Q2 2013 decreased compared to Q2 2012 mainly due to a decline in costs at Podolsky and Carlota. Cost of goods sold at Podolsky decreased by \$9.9 million in Q2 2013 compared to Q2 2012 due to the mine production closure at the end of Q1 2013, with costs incurred during the quarter relating to ongoing care and maintenance. The decrease in cost of goods sold at Carlota is due to decreased costs of fuel price and consumption, lower acid consumption, and maintenance costs. The decrease in cost of goods sold at Franke in Q2 2013 compared to Q2 2012 is primarily due to the \$26 million write down related to leach pad inventory in Q2 2012 and a decrease in sales volume by 3.2 million lbs in the current quarter. The decrease in sales volume is due to the timing of shipments at the end of the quarter from port closures as result of weather delays.

The cash cost per pound of copper sold for other operations in Q2 2013 was \$3.52 compared to \$3.69 in Q1 2012. The decrease in cash cost per pound of copper sold is mainly driven by lower cost of goods sold.

Capital expenditures in Q2 2013 primarily relate to Franke and were insignificant compared to Q2 2012 due to the delay in capital projects from the decline in copper price.

Other operations experienced a loss of \$11.8 million for the current quarter primarily due to a \$12.6 million operating loss realized at Franke. During the quarter Franke incurred an inventory net realizable value adjustment of \$9.0 million due to higher operating costs and a declining copper price during the period. The remainder of the loss at Franke was attributed to declining metal prices and the May 2013 strike.

Other Operations Outlook

Franke is expecting higher production for the remainder of the year as a result of the change in the China:Franke ore blend at the end of June from 1:1 to a 2:1, which should yield higher leach recoveries. Lower acid consumption is expected from this new blend, which will result in lower operating cost. The pad-loading production rate target for the third quarter has been raised by 5% to further increase copper production. The trend for minimal capital spending at Franke is expected to continue, with no significant projects planned for the remainder of the year except for the re-lining of the E-2 pond which will be completed in July.

Carlota is implementing a mine-for-closure plan which optimizes cash flow while advancing activities related to the winding down of operations. Carlota will complete mining in the Stage 1 Cactus Pit at the end of Q3 2013, while continuing to mine ore from the Stage 2 Carlota pit.

Ongoing Care and maintenance of the Podolsky mine infrastructure continues and is forecasted to be complete at the end of 2013.

2013 production at McCreedy West is expected to focus on the Contact Nickel zone with 95% of the production expected from contact Nickel ores and the remainder production from the Copper ores from the 700 Complex.

Sierra Gorda Joint Venture (the "JV")

The following information is reported on a full 100% project basis. The Company owns a 55% interest in the JV.

As of June 30, 2013, the Sierra Gorda project had incurred \$2,393 million capital expenditures, including progress payments for mining and plant equipment, camp, infrastructure and plant construction, and other project related payments. At June 30, 2013 the JV had cash of \$667 million. Because the Company accounts for the JV using the equity method, the cash is not included in KGHM's cash balance.

On March 8, 2012 the JV signed the \$1 billion Senior Project Loan agreement with a group of lenders led by Japan Bank for International Cooperation. The project loan has a 9.5 year term with an interest rate of LIBOR plus a margin. As of June 30, 2013, the JV had drawn down \$920 million on the project loan. The loan is guaranteed 100% by Sumitomo and is non-recourse to the Company.

Sierra Gorda activities and outlook

During Q2 2013, the project has largely completed the detailed engineering phase for the concentrate plant, sea water pipeline and tailings storage facility. In addition, the majority of the major procurement has moved into the main construction phase. At the end of Q2 2013, construction of the seawater pipeline and tailing storage facility is over 1/4 complete and approximately 1/3 of the plant construction is complete. During the quarter, there was significant progress on concrete and steel foundations. Twenty six haul trucks, four shovels, seven drills and support equipment were turned over to the operation team as of Q2 2013. In March 2012, the pre-stripping commenced and a total of 91.5 million tonnes of waste material were mined by June 2013, representing approximately 45% of the amount required before commissioning. The project remains on schedule to commence production in 2014.

On March 1, 2013 KGHM announced the definitive cost estimates (DCE) and schedule start-up for the Sierra Gorda project. The total initial capital is projected at approximately \$3.9 billion. The sponsors also agreed to pursue further saving plans to reduce the capital cost including adoption of a leasing program for mining equipment. In Q2 2013, the JV entered into lease agreements to lease various mining equipment minimum lease payments of \$26 million. These leases are accounted for as finance leases with a term of 84 months and bearing an interest rate of 90-day LIBOR plus a margin.

As of June 30, 2013 the Sierra Gorda JV had signed contract and purchase order commitments of approximately \$3.5 billion or 87% of the \$3.9 billion of capital; including purchase orders for mining/plant equipment, materials, infrastructure and construction services for the mine, plant and infrastructure areas. Approximately \$2.4 billion of the committed amount has been incurred.

Victoria Project

During Q2 2013, the Company continued to advance the project management plan with the primary focus on the advanced exploration shaft to establish underground drilling platforms and construction of the infrastructure required to achieve a bulk sample.

The Company also continued discussions on Impact Benefit Agreements with the Sagamok Anishnawbek and Atikameksheng Anishnawbek First Nations. The Company continued discussions with the Métis Nation of Ontario on a Memorandum of Understanding.

The Company continued preparation of the closure plan for submission and all environmental permit applications required by the Province of Ontario to commence construction have been submitted.

Victoria Project Outlook

An agreement was signed on August 1, 2013, between the Company and Vale Canada Limited (Vale), a wholly-owned subsidiary Vale S.A., regarding the development of the Victoria project as well as the ore off-take to Vale's processing facilities in Sudbury, Canada. The Company has obtained the right to build and operate the Victoria project as the sole owner. Furthermore, the agreement finalizes the processing and payable metal terms on the ores that are processed in Vale's facilities from the Company's Sudbury Operations, including the future Victoria mine.

The Company will continue to progress towards approval and granting of the required permits, and prepare for infrastructure construction and shaft development in the second half of the year.

DMC Mining Services

DMC recorded revenue of \$71.0 million in Q2 2013, a decline of \$23.9 million from Q2 2012. The decline was mainly attributable to the Canadian shaft sinking contract business. In 2012, the Company incurred significant amount of effort and cost to build out shaft sinking infrastructure and installing shaft sinking equipment for specific contracts. During Q1 2013, the projects have moved to the next phase where the attention turned to the shaft excavation portion of work in which the Company anticipated lower revenue during this phase.

Operating income for Q2 2013 was \$5.0 million compared to \$8.9 million in Q2 2012. In addition to the aforementioned contract in Canada, the decline in operating income was also due to a force majeure event took place in one of DMC's clients in the United States. As a result, work performed was halted and delayed during the month of May.

DMC Outlook

In the first half of 2013, DMC revenues and operating income are ahead of budget. In anticipation of the scheduled advancement on the shaft sinking contract mentioned above the business's 2013 budget was set at about 85% of the previous year's actual results. With Q2 completed, contracts in hand and new tenders submitted by the division are in a good position to meet or exceed its targets for the year. We anticipate the amount of new work being tendered in the second half of the year will be lower due to reduced gold and other metal prices.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2013, the Company had cash and cash equivalents of \$385.9 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 also held marketable securities with a total fair value of \$26.1 million.

The Company generated cash from operating activities of \$163.5 million for the first six months of 2013 compared to \$31.9 million used for operating activities for the same period of 2012. The increase in operating cash flow is largely driven by the higher operating income in 2013 as well as a decrease in working capital.

At June 30, 2013, the Company had working capital of \$614.7 million as compared to \$869.6 million at December 31, 2012. The decrease in working capital in the first six months of 2013 is primarily a result of the decreased cash position at June 30, 2013 and decrease in accounts receivable due to lower sales at the end of Q2 2013 compared to the end of Q4 2012. At June 30, 2013, accounts receivable and revenues include approximately 31 million pounds of copper that has been provisionally valued at \$3.07/lb. The final pricing for these provisionally priced sales is expected to occur between July 2013 and September 2013. Changes in the price of copper from the amounts used to calculate the provisional values will impact the Company's revenues and working capital position in Q3 2013.

Capital spending in the first six months of 2013 was \$58.6 million for operations and projects. In Q2 2013, the Company advanced \$141.6 million to Sierra Gorda JV to complete the construction of the Sierra Gorda mine. Subject to the subordination conditions to the Senior Project Loans, interest and principal on these loans 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. The Company utilized the Corporate Facility to secure a \$137.5 million letter of credit in connection with the Company's obligations under the Sierra Gorda joint venture power purchase agreement thereby releasing \$137.5 million of cash previously held as security. The Company expects to utilize the Corporate Facility to support other letters of credit currently secured by cash.

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. In the remainder of 2013 the Company expects to spend approximately \$131 million on capital expenditures for its six operating mines.

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 | 5.6 | 1.1 | 2.8 | 6.7 | 8.1 | 90.4 | 114.8 |
| Franke Mine supply contracts | 10.9 | 11.2 | 11.5 | 10.8 | 9.9 | 38.6 | 93.1 |
| Senior Notes | 38.8 | 38.8 | 38.8 | 38.8 | 38.8 | 538.4 | 732.4 |
| Minimum lease payments | 10.6 | 7.4 | 5.9 | 5.6 | 5.2 | 11.5 | 46.2 |
| Total | 65.9 | 58.5 | 59.1 | 62.0 | 62.1 | 679.0 | 986.5 |

Under the Sierra Gorda JV agreement, the Company expects to fund approximately \$305 million, representing the Company's share of the funding requirement, of the construction budget in the remaining six months of 2013.

As at June 30, 2013, the Company's proportionate 55% share of the contractual commitments at Sierra Gorda totaled \$2,044 million including purchase orders for mining equipment, infrastructure and mine operating commitments after commencement of production. A portion of each of these amounts is expected to be funded from the \$1.0 billion Senior Project loan and subordinated loans from JV partners.

Reclamation liabilities

The Company has estimated total future reclamation costs of \$115 million (undiscounted nominal dollar), which are primarily related to the closure of the Robinson, Carlota and Franke mines and the Sudbury operations. The accounting carrying value of this liability is \$96 million at June 30, 2013 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 \$107 million as at June 30, 2013. The Company revises the Reclamation plan and cost estimate for Robinson annually as required by the US Bureau of Land Management and adjusts the amount of the bond accordingly. The reclamation plan and cost estimate for Carlota is updated every five years as required by the regulator and the amount of the bond is adjusted accordingly. There is currently no environmental bonding in place at Franke. A closure plan for Podolsky is being 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.

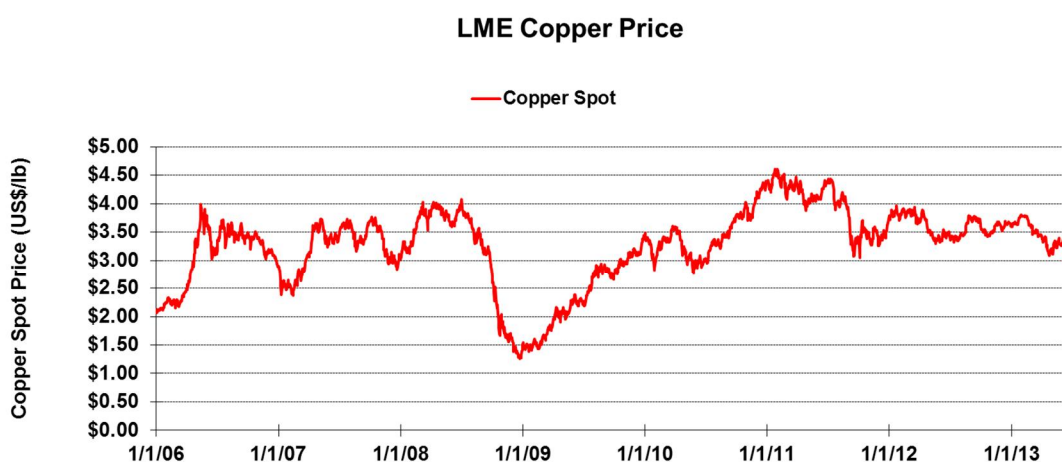
Robinson Mine power supply contract

Effective April 1, 2013, Robinson signed a one year supply contract for electricity which expires in 2014.

MARKET TRENDS AND FUNDAMENTALS

Copper prices averaged \$3.25/lb in Q2 2013. In Q2 2013, market participants were focused on slowing economic conditions in China. However, the copper market was supported by supply disruptions at some large mines and smelters, lack of availability of scrap due to lower prices and increased imports into China. Looking forward, the company believes copper market fundamentals will remain strong over the long term: supported by a dearth of supply stemming from project delays due to CAPEX and OPEX overruns, environmental, political, sovereignty and taxation issues in many regions where proposed projects are being developed. In the short term, from a demand perspective, the Company recognizes headwinds due to the economic environment in Europe. Longer term, continued urbanization of emerging market countries such as China and an acceleration of growth in OECD economies will provide a positive backdrop for copper demand.

The following graph shows the spot price of copper from 2006 to June 30, 2013 as published by the London Metal Exchange (LME).



At June 30, 2013, the closing spot price was \$3.06/lb. At July 31, 2013, the closing spot price was \$3.12/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.

The following table summarizes the impact of the changes in copper price on the Company's after tax earnings for the remainder of 2013:

| Copper price | Impact on the after tax earnings (excluding derivatives) |
|--------------|--|
| +\$0.20/lb | 19.4 |
| -\$0.20/lb | (19.4) |

The Company is required to fund significant amount of capital asset investment in Chilean Pesos (CLP). To manage its CLP risk, the Company has invested \$131 million in CLP denominated short term investments.

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) The Company is subject to lawsuits from time to time. The existing lawsuits are not disclosed on the grounds that they are not believed to be material.

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 \$8.1 million at June 30, 2013 (December 31, 2012 - \$3.5 million). This amount is repayable in the normal course of business. The Company earned management fees of \$12.5 million from the Sierra Gorda JV during the six months ended June 30, 2013, which were included in other income. In July 2013, the Company and Sumitomo agreed to defer 50% of the payment of management fees to the Company until January 1, 2015. The outstanding amount will bear an interest rate of 0.75% per annum.

On March 5, 2012, the Company loaned \$110.9 to Bidco 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. For the six months ended June 30, 2013, \$2.0 (six months ended June 30, 2012 - \$1.0) of related interest income was recorded. Bidco repaid \$13.2 of the above principal and interest on February 28, 2013. The remaining principal and interest is not expected to be received in the next year.

In 2012, the Company loaned \$20.7 million in the form of a Canadian dollar promissory note to Bidco to fund its capital investment. The note is non-interest bearing and is payable on demand. The note was repaid in entirety at the beginning of 2013.

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 June 30, 2013.

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 \$23.4 and recorded a depreciation expense of \$0.4 during the six months ended June 30, 2013.

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, 2013. At June 30, 2013 the Company had available U.S. Alternative Minimum Tax Credits of \$25.9 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.

SUBSEQUENT EVENTS

An agreement was signed on August 1, 2013, between the Company and Vale Canada Limited (Vale), a wholly-owned subsidiary Vale S.A., regarding the development of the Victoria project as well as the ore off-take to Vale's processing facilities in Sudbury, Canada. The Company has obtained the right to build and operate the Victoria project as the sole owner. Furthermore, the agreement finalizes the processing and payable metal terms on the ores that are processed in Vale's facilities from the Company's Sudbury Operations, including the future Victoria mine. The new off-take arrangement is agreed to be effective from January 1, 2013 and retroactive adjustments are expected to be agreed by the parties before the end of 2013. There is no material impact on the condensed interim consolidated financial statements related to the revised terms on ore shipped in prior periods.

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. At June 30, 2013 and August 7, 2013, the total number of issued and outstanding shares of the Company was 199,836,316.

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 | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2013 | | | | 2012 | | 2011 | |
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Net revenues * | | | | | | | | |
| Robinson | 151 | 100 | 162 | 151 | 120 | 100 | 89 | 112 |
| Carlota | 18 | 20 | 23 | 22 | 20 | 20 | 25 | 26 |
| Franke | 29 | 28 | 41 | 34 | 42 | 36 | 29 | 42 |
| Morrison | 36 | 33 | 53 | 44 | 32 | 53 | 39 | 42 |
| Podolsky | 0 | 15 | 13 | 15 | 20 | 23 | 22 | 23 |
| McCreedy West | 10 | 13 | 9 | 11 | 8 | 9 | 13 | 12 |
| DMC | 71 | 63 | 76 | 83 | 95 | 72 | 54 | 49 |
| Net revenues - Total | 314 | 272 | 378 | 358 | 336 | 312 | 271 | 305 |
| Operating (loss) income | 26.9 | 63.9 | 65.2 | 64.7 | (1.1) | 56.2 | (85.9) | (187.0) |
| Earnings (loss) before income taxes | 12.6 | 29.7 | 47.3 | 68.8 | (14.9) | 30.0 | (135.1) | 119.2 |
| Earnings (loss) | 1.7 | 14.8 | 44.3 | 54.5 | (27.7) | 32.7 | (107.8) | 142.8 |
| Basic earnings (loss) per share | \$0.01 | \$0.07 | \$0.22 | \$0.27 | -\$0.14 | \$0.17 | -\$0.56 | \$0.75 |
| Diluted earnings (loss) per share | \$0.01 | \$0.07 | \$0.22 | \$0.27 | -\$0.14 | \$0.17 | -\$0.56 | \$0.71 |

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

| SUMMARY OF QUARTERLY OPERATING RESULTS | | | | | | | | |
|---|--------|----------|--------|--------|--------|--------|--------|----------|
| | 2013 | | | 2012 | | | 2011 | |
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Robinson | | | | | | | | |
| Cu produced payable (Mlbs) | 30.8 | 36.5 | 34.3 | 30.2 | 30.9 | 24.1 | 27.2 | 26.7 |
| Ore milled (Mt) | 3.9 | 4.1 | 4.0 | 3.4 | 3.7 | 3.0 | 3.5 | 3.9 |
| Au production payable (kozs) | 15.0 | 15.4 | 10.6 | 10.2 | 9.7 | 7.3 | 7.9 | 9.2 |
| Cu grade (%) | 0.45 | 0.47 | 0.49 | 0.56 | 0.53 | 0.56 | 0.49 | 0.43 |
| Au grade (g/t) | 0.24 | 0.21 | 0.22 | 0.29 | 0.25 | 0.23 | 0.22 | 0.21 |
| Cu recovery (%) | 81.9 | 89.2 | 83.5 | 75.4 | 74.6 | 68.6 | 75.0 | 77.4 |
| Au recovery (%) | 55.5 | 50 | 39.3 | 34.4 | 34.2 | 34.9 | 33.7 | 38.8 |
| Cu sales (Mlbs) | 43.4 | 24.8 | 41.2 | 36.9 | 32.5 | 23.8 | 21.1 | 27.9 |
| Average realized price (\$/lb) | \$3.05 | \$3.49 | \$3.49 | \$3.78 | \$3.34 | \$3.89 | \$3.66 | \$3.48 |
| Cash cost per pound of payable copper sold (\$/lb) | \$1.84 | \$1.47 | \$2.00 | \$2.36 | \$2.69 | \$2.75 | \$2.19 | \$2.19 |
| Carlota | | | | | | | | |
| Cu production (Mlbs) | 5.8 | 5.6 | 5.8 | 6.1 | 5.5 | 5.5 | 7.0 | 6.6 |
| Ore placed (Mt) | 0.9 | 1.2 | 1.3 | 1.1 | 1.3 | 1.2 | 1.2 | 1.3 |
| Total Cu grade (%) | 0.58 | 0.61 | 0.61 | 0.66 | 0.60 | 0.39 | 0.36 | 0.32 |
| Cu sales (Mlbs) | 5.6 | 5.7 | 6.4 | 6.2 | 5.6 | 5.1 | 7.4 | 6.6 |
| Average realized price (\$/lb) | \$3.23 | \$3.57 | \$3.59 | \$3.48 | \$3.57 | \$3.85 | \$3.32 | \$3.99 |
| Cash cost per pound of copper sold (\$/lb) | \$2.41 | \$2.46 | \$2.53 | \$2.58 | \$2.70 | \$2.96 | \$2.80 | \$3.12 |
| Franke | | | | | | | | |
| Cu production (Mlbs) | 8.8 | 10.6 | 10.7 | 10.5 | 8.8 | 9.4 | 8.7 | 9.0 |
| Ore placed (Mt) | 0.9 | 1.0 | 1.1 | 1.1 | 0.9 | 1.0 | 0.9 | 0.8 |
| Total Cu grade (%) | 0.72 | 0.67 | 0.72 | 0.68 | 0.78 | 0.83 | 0.78 | 0.80 |
| Cu sales (Mlbs) | 8.6 | 11.7 | 11.7 | 9.1 | 11.8 | 9.4 | 8.4 | 10.5 |
| Average realized price (\$/lb) | \$3.31 | \$3.74 | \$3.53 | \$3.60 | \$3.53 | \$3.79 | \$3.41 | \$3.96 |
| Cash cost per pound of copper sold (\$/lb) | \$4.18 | \$3.70 | \$3.31 | \$3.30 | \$5.03 | \$2.54 | \$2.39 | \$3.33 |
| Morrison | | | | | | | | |
| Cu ore sold (kt) ⁽¹⁾ | 70.7 | 48.5 | 70.3 | 55.8 | 53.0 | 57.0 | 57.1 | 53.3 |
| Cu grade (%) | 7.3 | 8.5 | 9.3 | 9.2 | 8.2 | 10.0 | 8.6 | 9.6 |
| Payable Cu sold (Mlbs) | 10.0 | 7.3 | 12.6 | 9.5 | 8.1 | 10.5 | 9.2 | 10.1 |
| Payable Ni sold (Mlbs) | 1.6 | 1.1 | 1.8 | 1.4 | 1.2 | 1.7 | 1.3 | 1.4 |
| Payable TPM sold (kozs) ⁽²⁾ | 8.1 | 7.6 | 10.0 | 9.3 | 7.7 | 10.2 | 8.1 | 8.4 |
| Average realized price (\$/lb) | \$3.02 | \$3.51 | \$3.51 | \$3.71 | \$3.23 | \$4.02 | \$3.52 | \$3.47 |
| Cash cost per pound of copper sold (\$/lb) | \$1.91 | \$1.74 | \$1.19 | \$1.32 | \$1.43 | \$0.99 | \$0.86 | \$0.59 |
| Podolsky | | | | | | | | |
| Cu ore sold (kt) ⁽¹⁾ | 0.0 | 88.0 | 88.8 | 76.8 | 98.7 | 92.3 | 93.4 | 112.2 |
| Cu grade (%) | 0.0 | 2.7 | 2.5 | 2.6 | 3.1 | 3.1 | 3.4 | 3.0 |
| Payable Cu sold (Mlbs) | 0.1 | 4.1 | 3.5 | 3.7 | 5.8 | 5.2 | 5.7 | 6.0 |
| Payable Ni sold (Mlbs) | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| Payable TPM sold (kozs) ⁽²⁾ | 0.3 | 3.9 | 6.1 | 1.6 | 5.4 | 4.8 | 5.9 | 7.2 |
| Average realized price (\$/lb) | N/A | \$3.49 | \$3.52 | \$3.68 | \$3.28 | \$4.06 | \$3.53 | \$3.42 |
| Cash cost per pound of copper sold (\$/lb) | N/A | \$2.34 | \$2.91 | \$2.32 | \$2.00 | \$2.42 | \$1.91 | \$1.89 |
| McCreedy West | | | | | | | | |
| Cu ore sold (kt) ⁽¹⁾ | 6.7 | 5.8 | 9.2 | 8.1 | 4.6 | 4.9 | 9.0 | 15.6 |
| Cu grade (%) | 4.8 | 3.6 | 3.7 | 5.3 | 3.6 | 3.5 | 3.0 | 1.6 |
| Ni ore sold (kt) ⁽¹⁾ | 91.7 | 84.1 | 82.5 | 47.7 | 67.5 | 88.0 | 85.1 | 53.6 |
| Ni grade (%) | 1.2 | 1.3 | 1.3 | 1.2 | 1.3 | 1.3 | 1.2 | 1.6 |
| Payable Cu sold (Mlbs) | 0.9 | 1.0 | 0.8 | 1 | 0.5 | 0.6 | 0.8 | 0.9 |
| Payable Ni sold (Mlbs) | 1.1 | 1.1 | 0.8 | 0.8 | 0.9 | 1.1 | 1.0 | 1.3 |
| Payable TPM sold (kozs) ⁽²⁾ | 1.4 | 1.4 | 0.6 | 2.1 | 0.4 | 0.0 | 2.2 | 1.9 |
| Average realized price (\$/lb) | \$2.87 | \$3.57 | \$3.48 | \$3.73 | \$3.21 | \$4.29 | \$3.56 | \$3.74 |
| Cash cost per pound of copper sold (\$/lb) ⁽³⁾ | \$2.84 | (\$0.18) | \$4.26 | \$0.40 | \$2.80 | \$4.68 | \$0.63 | (\$0.38) |

⁽¹⁾ Converted into metric tonne from original short ton

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

⁽³⁾ Nickel ore primarily sold yet cash costs calculated based on copper produced.

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

| | Three months ended June 30, 2012 | | | | | | |
|--|----------------------------------|-------------|-------------|-------------|-------------|------------------|--------------|
| | Robinson | Carlota | Franke | Morrison | Podolsky | McCreedy West | Total |
| Production costs of goods sold | 95.9 | 14.1 | 59.3 | 16.2 | 11.5 | 8.0 | 205.0 |
| Treatment and refining charges | 6.9 | - | - | 6.8 | 4.1 | 0.2 | 18.0 |
| Royalties | 3.7 | 1.0 | - | - | - | - | 4.7 |
| Total cash cost | 106.5 | 15.1 | 59.3 | 23.0 | 15.6 | 8.2 | 227.7 |
| By-product revenues | (19.0) | - | - | (11.4) | (4.0) | (6.8) | (41.2) |
| | 87.5 | 15.1 | 59.3 | 11.6 | 11.6 | 1.4 | 186.5 |
| Copper sold (million lbs) | 32.5 | 5.6 | 11.8 | 8.1 | 5.8 | 0.5 | 64.3 |
| Cash cost per pound of copper sold (US\$/lb) | \$ 2.69 | \$ 2.70 | \$ 5.03 | \$ 1.43 | \$ 2.00 | \$ 2.80 | \$ 2.90 |

| | 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 |

Six months ended June 30, 2012

| | Robinson | Carlota | Franke | Morrison | Podolsky | McCreedy West | Total |
|---|-----------------|----------------|----------------|-----------------|-----------------|--------------------------|----------------|
| Production costs of goods sold | 165.7 | 28.3 | 83.2 | 35.9 | 25.1 | 17.2 | 355.4 |
| Treatment and refining charges | 11.0 | - | - | 15.8 | 8.0 | 0.5 | 35.3 |
| Royalties | 6.5 | 1.9 | - | - | - | - | 8.4 |
| Total cash cost | 183.2 | 30.2 | 83.2 | 51.7 | 33.1 | 17.7 | 399.1 |
| By-product revenues | (30.2) | - | - | (29.7) | (8.9) | (13.7) | (82.5) |
| | 153.0 | 30.2 | 83.2 | 22.0 | 24.2 | 4.0 | 316.6 |
| Copper sold (million lbs) | 56.3 | 10.7 | 21.2 | 18.6 | 11.0 | 1.1 | 118.9 |
| Cash cost per pound of copper sold (US\$/lb) | \$ 2.72 | \$ 2.82 | \$ 3.92 | \$ 1.18 | \$ 2.20 | \$ 3.79 | \$ 2.66 |

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, stock-based compensation 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 June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| (All amounts in millions of United States dollars except per share amounts) | | | | |
| Income from mining operations | 26.9 | (1.1) | 90.8 | 55.1 |
| Adjusting items: | | | | |
| Amortization, depreciation and depletion | 41.1 | 43.3 | 68.5 | 79.5 |
| Inventory write down | - | 26.0 | - | 26.0 |
| Stock-based compensation | - | - | - | 0.7 |
| General and administrative | (9.0) | (7.0) | (26.7) | (26.6) |
| Service fee from Sierra Gorda JV | 6.3 | 6.3 | 12.5 | 12.5 |
| Adjusted EBITDA | 65.3 | 67.5 | 145.1 | 147.2 |
| Weighted-average number of shares outstanding -basic | 199.8 | 199.8 | 199.8 | 197.9 |
| Adjusted EBITDA per share | \$0.33 | \$0.34 | \$0.73 | \$0.74 |

August 7, 2013

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 Mied S.A.
- ❖ The need to attract and retain qualified personnel;
- ❖ Dewatering at the Robinson Mine in 2013 and beyond;
- ❖ 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 transition to 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;
- ❖ The mineralogy and block model assumptions at all mines and projects;
- ❖ The leaching rate and recoveries achievable at the Carlota Mine due to the high content of fines within the ore and other processing factors;
- ❖ The leaching rate and recoveries at the Franke and China deposits at the Franke Mine;
- ❖ 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;
- ❖ Increased 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.