

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR AND FOURTH QUARTER ENDED DECEMBER 31, 2013**

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

	Three months ended December 31			Year ended December 31		
	2013	2012	Change	2013	2012	Change
FINANCIAL HIGHLIGHTS						
Net revenues ⁽¹⁾	253	378	-33%	1,063	1,385	-23%
Income from mining operations	(25)	65	-138%	72	185	-61%
Adjusted EBITDA ⁽²⁾	69	90	-23%	259	333	-22%
Earnings for the period	(21)	44	-147%	9	104	-91%
Cash	140	537	-74%	140	537	-74%
Working capital	437	870	-50%	437	870	-50%

⁽¹⁾ Net of treatment and refining charges

⁽²⁾ See "Non-IFRS Financial Measures"

2013 ANNUAL AND RECENT ACTIVITIES:

- Total Net revenues for 2013 decreased by 23% to \$1,063 million compared to \$1,385 million in 2012 due to the decrease in sales volume (lower production) by 14% and a 9% decline in average realized copper prices.
- Total production for the year was 222 million pounds of copper and 98 thousand ounces of total precious metals (TPMs) compared to 244 million pounds of copper and 95 thousand ounces of TPMs in 2012 (see "**Review of Operations and Projects**").
- The decrease in copper production for the year is due mainly to the cessation of mining at Podolsky at the end of Q1 2013 with the completion of mining of the economic resource. The mine was under care and maintenance for the remainder of the year.
- Despite the overall decrease in copper production, the Robinson and Franke Mines achieved all-time records for copper recovery and copper production for 2013 respectively (see "**Review of Operations and Projects**").
- Income from mining operations decreased \$113 million from \$185 million in 2012 to \$72 million. The decrease is primarily due to the impairment of Carlota non-current asset of \$55.4 million and the decline of average realized copper prices from \$3.62/lb in 2012 to \$3.29/lb in 2013.
- Adjusted EBITDA decreased by 22% from \$333 million in 2012 to \$259 million in 2013 due to the decline in realized copper prices combined with the decrease in payable copper produced in the year.
- Earnings decreased by \$94 million to \$9 million compared to \$104 million in 2012 mainly due to a decrease in operating income (see "**Financial Performance**").
- To provide funds for general corporate purposes the Company entered into a \$200 million Corporate Facility in Q2 2013. The Company utilized the Corporate Facility to secure a \$137.5 million letter of credit in connection with the Company's obligation under the Sierra Gorda joint venture power purchase agreement (see "**Liquidity and Capital Resources**").
- On March 1, 2013, KGHM announced the definitive cost estimates ("DCE") and scheduled startup for the Sierra Gorda project. The total initial capital was projected at approximately \$3.9 billion.
- On August 1, 2013, the Company signed an agreement with Vale and obtained the right to build and operate the Victoria project as the sole owner. The agreement also finalized processing and payable metal terms on the Company's ores, including from the future Victoria mine, processed in Vale's facilities. The new off-take arrangement is effective from January 1, 2013 and retroactive adjustments have been agreed as at year end.

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 March 27, 2014 and is intended to be read in conjunction with the accompanying audited consolidated financial statements 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.

FOURTH QUARTER

- Net revenues decreased 33% to \$253 million in the current quarter compared to \$378 million in Q4 2012 due to decreased sales volumes and a decline in realized metal prices.
- Income from mining operations fell \$90 million from \$65 million in 2012 to a loss of \$25 million. The loss during Q4 2013 was primarily due to impairment of non-current asset at Carlota for \$55.4 million.
- Adjusted EBITDA decreased 23% to \$69 million from \$90 million in 2012 mainly due to decreased sales volumes and a decline in average realized copper price.
- Earnings decreased by \$65 million to a loss of \$21 million compared to \$44 million in 2012.
- Total production for the quarter was 54 million pounds of copper and 24 thousand ounces of TPMs compared to 68 million pounds of copper and 27 thousand ounces of TPMs in the same period of 2012. Copper cash costs were \$1.97 per pound in Q4 2013 compared with \$2.18 for Q4 2012. The decrease in cash cost per pound sold primarily relates to reduced cash costs at Robinson and Franke (see “**Review of Operations and Projects**”).
- In Q4 2013, Morrison produced record high payable copper improving by 8% over Q4 2012 due to an increase in ore volumes from mining of the Craig pillar (see “**Review of Operations and Projects**”).

FINANCIAL PERFORMANCE

Earnings

The Company recorded earnings of \$9 million for 2013 compared to \$104 million for 2012. Lower earnings in 2013 were primarily due to a decrease in operating income from a decline in revenues (see “**Revenues**”) and impairment of non-current assets at Carlota. Other income and losses for 2013 were in line with 2012. 2013 earnings were also impacted by an impairment of marketable securities of \$35 million and a foreign exchange loss of 16 million, which were offset by an increase in finance income primarily generated by the subordinate loans to the Sierra Gorda JV and a decrease in general and administration expense (see “**General & administrative and other expenses**”).

During 2013, the Company sold 222.2 million pounds of copper at an average effective price of \$3.29/lb and 99.6 thousand ounces of TPMs compared to 261.5 million pounds of copper in 2012 at an average effective price of \$3.62/lb and 92.7 thousand ounces of TPMs.

Revenues

	Year ended December 31, 2013							Total
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	
Copper sales (million lbs)	108.0	41.4	43.5	21.6	4.7	3.0	-	222.2
(in millions of U.S. dollars)								
Copper	353.5	135.0	145.0	72.0	15.9	10.5	-	731.9
Nickel	-	40.9	-	-	1.9	23.8	-	66.6
Other by product ⁽¹⁾	78.3	33.5	-	-	3.6	6.1	-	121.5
Contract mining	-	-	-	-	-	-	215.3	215.3
Treatment and refining charges	(24.7)	(41.3)	-	-	(4.6)	(1.9)	-	(72.5)
Total net revenues	407.1	168.1	145.0	72.0	16.8	38.5	215.3	1,062.8

Year ended December 31, 2012

	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy		Total
						West	DMC	
Copper sales (million lbs)	134.4	40.7	42.0	23.3	18.2	2.9	-	261.5
(in millions of U.S. dollars)								
Copper	484.6	147.8	152.5	84.1	66.1	10.6	-	945.7
Nickel	-	48.1	-	-	6.6	26.0	-	80.7
Other by product ⁽¹⁾	73.8	19.5	-	-	12.5	2.4	-	108.2
Contract mining	-	-	-	-	-	-	325.9	325.9
Treatment and refining charges	(25.5)	(34.3)	-	-	(13.6)	(1.7)	-	(75.1)
Total net revenues	532.9	181.1	152.5	84.1	71.6	37.3	325.9	1,385.4

⁽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.

2013 net revenues decreased by \$323 million or 23% compared to 2012. The decrease in net revenues is due to lower contract mining revenues from DMC, decline in copper price (9%), decrease in production at Robinson, and the cessation of mining at Podolsky (14%). Nickel and total precious metal revenues also decreased due to lower sales volumes, primarily relating to the cessation of the Podolsky mine, and the overall decline in metal price. Copper spot price at December 31, 2013 was \$3.35/lb compared to \$3.60/lb at December 31, 2012.

2013 revenues at Morrison and McCreedy West included non-cash revenue of \$12.3 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

Year Ended December 31, 2013

	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy		Total
						West	DMC	
Net revenues	407.1	168.1	145.0	72.0	16.8	38.5	215.3	1,062.8
Depreciation and amortization	56.4	69.9	22.2	-	1.9	9.8	4.5	164.7
Employee benefits expense	44.7	24.6	27.1	15.8	4.0	11.8	65.9	193.9
Raw materials, other consumables and energy	105.1	27.0	74.6	36.9	3.4	10.7	-	257.7
Office expenses	18.1	7.7	8.4	3.7	1.5	1.9	3.7	45.0
External services	42.4	20.7	17.3	6.3	4.2	9.1	121.3	221.3
Impairment of non-current assets	-	-	-	55.4	-	-	-	55.4
Royalties	12.0	-	-	2.9	-	-	-	14.9
Changes in Inventories	(8.3)	(0.2)	9.3	(9.4)	0.2	(0.2)	-	(8.6)
Distribution costs	35.3	4.6	1.7	-	1.4	3.5	-	46.5
Cost of Sales	305.7	154.3	160.6	111.6	16.6	46.6	195.4	990.8
Operating income (loss)	101.4	13.8	(15.6)	(39.6)	0.2	(8.1)	19.9	72.0

Year Ended December 31, 2012

	McCreeedy							Total
	Robinson	Morrison	Franke	Carlota	Podolsky	West	DMC	
Net revenues	532.9	181.1	152.5	84.1	71.6	37.3	325.9	1,385.4
Depreciation and amortization	36.0	52.7	17.7	-	20.3	10.2	4.8	141.7
Employee benefits expense	68.8	28.9	26.1	17.7	12.0	11.9	67.5	232.9
Raw materials, other consumables and energy	175.7	30.5	82.1	40.0	10.9	10.1	-	349.3
Office expenses	12.4	(4.9)	7.5	4.8	2.1	(0.5)	2.5	23.9
External services	23.3	17.3	19.6	3.7	14.8	9.7	222.9	311.3
Royalties	15.6	-	-	4.0	-	-	-	19.6
Inventory write down	-	-	27.3	-	-	-	-	27.3
Changes in Inventories	43.6	-	(7.0)	(2.4)	(0.1)	(0.1)	-	34.0
Distribution costs	44.9	4.8	2.0	-	5.4	3.3	-	60.4
Cost of Sales	420.3	129.3	175.3	67.8	65.4	44.6	297.7	1,200.4
Operating income (loss)	112.6	51.8	(22.8)	16.3	6.2	(7.3)	28.2	185.0

Cost of sales decreased by \$210 million or 17% in 2013 compared to 2012 primarily due to the lower cost of sales at Robinson, DMC and Podolsky. Lower cost of sales at Robinson for 2013 compared to 2012 is primarily due to the decrease in sales volume at Robinson from the decrease in ore grade, capitalized waste stripping costs, and a decrease in distribution costs. Cost of sales at DMC were lower during the year as contract mining activities decreased during the year compared to 2012 from the change in project phases and the completion of projects during the year. Podolsky completed the mining of its economic resource at the end of Q1 2013, with remaining costs relating to site care and maintenance. The overall decrease in cost of sales was slightly offset by the Q4 2013 impairment of non-current assets at Carlota for \$55.4 million (see “**Review of Operations and Projects**”).

General & administrative and other expenses

General and administrative expenses for Q4 and the year of 2013 of \$11.0 million and \$47.6 million were lower than the same periods in 2012 of \$21.8 million and \$65.0 million primarily due to consulting fees on a business improvement project incurred in 2012.

The Company recognized finance income of \$8.5 million for Q4 2013 and \$69.1 million for 2013 compared to \$13.8 million and \$32.2 million for the same periods in 2012. The increase in 2013 was primarily due to the interest earned from the loans to Sierra Gorda JV.

Finance expenses for 2013 of \$49.4 million was higher than the same period in 2012 of \$43.8 million mainly due to financing expense on the corporate facility entered into in 2013.

Other income of \$31.5 million for 2013 was lower than the \$40.8 million recognized in the same period of 2012 due to lower service fee income recognized in 2013. Other expense was in line for the year and quarter ended December 31, 2013 compared to the same period in 2012.

The Company recorded a foreign exchange loss of \$16.2 million for 2013 compared \$16.5 million foreign exchange gain in 2012. This decrease in 2013 is due to the depreciation of the Canadian dollar and the Chilean Peso during the year. These currencies are held to mitigate the risks related to costs incurred in those currencies. In 2012, the Company incurred \$29.1 million transaction costs in connection with the Plan of Arrangement with KGHM.

The Company recorded income tax expenses of \$8.2 million in 2013 compared to \$27.4 million in 2012. The tax expense for the current year has been recorded based on an estimated annual effective tax rate of 30.2% (2012 – 26.9%) excluding the effect of certain one-time accounting adjustments. The increase in effective tax rate in 2013 is mainly caused by the impairment charge on marketable securities.

FOURTH QUARTER FINANCIAL PERFORMANCE

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

SUMMARY OF QUARTERLY FINANCIAL RESULTS								
	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net revenues *								
Robinson	85	72	151	100	162	151	120	100
Carlota	19	15	18	20	23	22	20	20
Franke	45	44	29	28	41	34	42	36
Morrison	58	40	36	33	53	44	32	53
Podolsky	0	2	0	15	13	15	20	23
McCreedy West	9	7	10	13	9	11	8	9
DMC	37	44	71	63	76	83	95	72
Net revenues - Total	253	224	314	272	378	358	336	312
Operating (loss) income	(25.0)	6.2	26.9	63.9	65.2	64.7	(1.1)	56.2
Earnings (loss) before income taxes	(44.9)	20.2	12.6	29.7	47.3	68.8	(14.9)	30.0
Earnings (loss)	(20.7)	13.6	1.7	14.8	44.3	54.5	(27.7)	32.7
Basic earnings (loss) per share	(\$0.10)	\$0.07	\$0.01	\$0.07	\$0.22	\$0.27	(\$0.14)	\$0.17
Diluted earnings (loss) per share	(\$0.10)	\$0.07	\$0.01	\$0.07	\$0.22	\$0.27	(\$0.14)	\$0.17

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

Earnings

The Company recorded a loss of \$20.7 million or \$0.10 per share (basic) for Q4 2013, compared to earnings of \$44.3 million or \$0.22 per share (basic) for Q4 2012. Current quarter earnings decreased due to a decline in sales revenues as a result of a reduction in sales volume and the impairment on non-current asset at Carlota for \$55.4 million.

Net revenues

Net revenues in Q4 2013 decreased compared to the same quarter of 2012 mainly due to a reduction in sales volumes from the decrease in production and decline in copper price. Average realized copper price for Q4 2013 was \$3.33/lb compared to 3.51/lb for Q4 2012. Q4 2013 revenues at Morrison and McCreedy West also included non-cash revenue of \$4.2 million for the amortization of a deferred revenue liability related to Franco Nevada.

At December 31, 2013, receivables at the Robinson mine and Sudbury operations include 32.2 million of copper which has been provisionally valued at \$3.34/lb.

Cost of sales and operating income

Cost of sales in Q4 2013 were \$277.8 million compared to \$312.5 in the same period of 2012 due primarily to lower production costs associated with Robinson (see **“Review of Operations and Projects”**) and decrease contract mining activities at DMC.

Operating income decreased to a loss of \$25.0 million in Q4 2013 from \$65.2 million in the same period of 2012. Excluding the Carlota impairment recognized in Q4 2013 of \$55.3 million, operating income would have decreased by \$34.8 million compared to the same quarter of 2012. The decrease in operating income is attributed to a combination a decline in average realized copper prices and lower sales volumes due to the processing of low grade ore primarily from the Liberty pit and the cessation of mining at Podolsky.

REVIEW OF OPERATIONS AND PROJECTS

PRODUCTION SUMMARY

Production for the quarter and year ended December 31, 2013 from the Company's operating mines is summarized as follows:

	Three months ended December 31		Year ended December 31	
	2013	2012	2013	2012
Copper production (Mlbs)				
Robinson ⁽²⁾	21.9	34.3	107.9	119.5
Morrison deposit ⁽⁴⁾	13.7	12.6	41.4	40.7
Franke ⁽³⁾	11.8	10.7	43.9	39.4
Carlota ⁽³⁾	5.5	5.8	21.3	22.9
Podolsky ⁽⁴⁾	0	3.5	4.7	18.2
McCreedy West ⁽⁴⁾	0.8	0.8	3.0	2.9
	53.7	67.8	222.2	243.6
Nickel production (Mlbs)				
Morrison deposit ⁽⁴⁾	2.1	1.8	6.3	6.1
Podolsky ⁽⁴⁾	0	0.2	0.2	0.8
McCreedy West ⁽⁴⁾	0.9	0.8	3.7	3.6
	3.0	2.8	10.3	10.5
TPM ⁽¹⁾ (kcozs)				
Robinson ⁽²⁾	7.2	10.6	45.1	37.9
Morrison deposit ⁽⁴⁾	15.9	10.0	44.5	37.3
Podolsky ⁽⁴⁾	0	6.1	4.7	18.0
McCreedy West ⁽⁴⁾	0.7	-	4.0	2.0
	23.8	26.8	98.3	95.2
Total copper equivalent (Mlbs) ⁽⁵⁾	68.6	85.1	283.3	303.2

⁽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 December 31		Year ended December 31	
	2013	2012	2013	2012
Copper production payable (Mlbs)	21.9	34.3	107.8	119.5
Gold production payable (kcozs)	7.2	10.6	45.1	37.9
Ore mined (Mt)	4.1	4.3	16.2	14.7
Waste mined (Mt)	22.8	15.1	73.1	65.9
Ore milled (Mt)	3.4	4.0	14.8	14.1
Copper grade (%)	0.39	0.49	0.43	0.53
Gold grade (g/t)	0.16	0.22	0.20	0.25
Copper recovery (%)	76.9	83.5	81.0	75.8
Gold recovery (%)	42.0	39.3	46.4	35.9
Cash cost per pound of copper sold (\$/lb)	\$1.68	\$2.00	\$1.83	\$2.39
Capital expenditure	\$54.0	\$11.0	\$113.0	\$29.4
Cost of goods sold*	\$48.1	\$103.6	\$251.7	\$374.2
Operating income	\$15.3	\$45.5	\$101.4	\$112.6

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

Payable copper production decreased by 10% from 2012 to 107.9 million lbs in 2013. Despite higher volumes of ore mined and ore milled, the decrease in copper production was primarily due to a 20% decline in milled grade during the transition between pits in the second half of 2013. For the second half of the year, ore feed primarily originated from the Liberty pit and the coarse ore stockpile, which yielded lower head grades than the ore generated from the Ruth West and Ruth East pits in the same periods of 2012. Annual tonnes mined increased by 11% over 2012 as a result of contract mining in the Liberty Pit during the second half of 2013. The contract mining allows for Robinson resources to focus on the Ruth Pit waste stripping (capitalized) in order to reach Ruth pit ore in 2014 while keeping the mill feed consistent.

Robinson achieved a new annual copper recovery record of 81.0% and total ore milled of 14.8 million tonnes for 2013. The increase in copper and gold recovery rates for 2013 is due to clean ore characteristics realized in the first half of 2013 and business improvement practices.

Production in Q4 2013 was lower than Q4 2012 due to the decline in head grade and recovery rates from the change in ore quality from the Ruth pit to the Liberty pit. Contract mining of ore in the Liberty pit was completed by the end of the quarter.

Robinson production costs and capital expenditures

Cost of goods sold in Q4 and in 2013 was lower than the same periods of 2012 primarily due to a decline in sales volumes and lower production costs after the capitalization of waste removal costs related to future ore production. Copper sales decreased by 20% and 46% in 2013 and Q4 2013 respectively, compared to the same periods of 2012 due to the decrease in copper production. The effect of the capitalization of waste removal costs was partially offset by Liberty Pit contract mining costs.

The cash cost per pound of copper sold is a non-IFRS term and consists of cash portion of cost of sales, less by-product revenue, divided by the pounds of payable copper sold in the period (see “**Non-IFRS Financial Measures**”). The cash cost per pound of copper sold decreased from \$2.39 to \$1.83 and \$2.00 to \$1.68 for 2013 and Q4 2013 compared to the same periods in 2012 respectively. The decrease in cash cost for the year was affected by a lower site operating cost due to a lower stripping ratio related to current year ore mined.

Capital expenditures at Robinson in 2013 were primarily related to capital stripping, contract mining, dewatering of the pits, mine dispatch system, and environmental compliance projects. Capitalized stripping costs for 2013 and Q4 2013 totalled \$89.3 million and \$44.0 million respectively.

Robinson Outlook

Mining in 2014 is planned for the Ruth and Kimbley pits, with ore deliveries coming from the Kimbley Pit for the first three quarters and Ruth East for the fourth quarter. Capital expenditures for 2014 will primarily relate to capital stripping of waste, environmental compliance projects, dewatering, power distribution, and geotechnical engineering.

Morrison deposit (Ontario, Canada)

	Three months ended December 31		Year ended December 31	
	2013	2012	2013	2012
Copper ore sold (kt)	78.6	70.3	260.8	236.1
Copper grade (%)	9.25	9.30	8.28	9.30
Copper sold - payable (Mlbs)	13.7	12.6	41.4	40.7
Nickel sold - payable (Mlbs)	2.1	1.8	6.3	6.1
Gold sold - payable (kozs)	2.0	1.6	6.3	6.6
Platinum sold - payable (kozs)	3.8	2.8	10.5	10.1
Palladium sold - payable (kozs)	10.0	5.6	27.7	20.6
Cash cost per pound of copper sold (\$/lb)	\$1.08	\$1.19	\$1.50	\$1.21
Capital expenditure	\$9.2	\$8.3	\$33.2	\$25.1
Cost of goods sold*	\$22.5	\$21.7	\$84.6	\$76.6
Operating income	\$13.4	\$15.2	\$13.8	\$51.8

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

Copper ore produced and sold for 2013 was 9% higher than 2012 as a result of increased long hole production and improved infrastructure reliability at Craig in the second half of 2013. Payable copper production and sales in 2013 increased from 2012 primarily due to the record ore production and improved payable terms for payable copper as a result of the revised agreement with Vale. The increase in throughput in 2013 was partially offset by a decline in copper grades which is a function of normal variation in workplaces and the impact from geotechnical challenges in higher grade workplaces.

In Q4 2013, Morrison produced record high payable copper, which is 8% higher than Q4 2012, due to an increase in ore volumes from mining of the Craig pillar. The increase in other payable metals produced in Q4 2013 over the same period of 2012 is also a result of additional ore volume mined from the Craig Pillar and the improved payable terms from the revised agreement with Vale.

Morrison production costs and capital expenditures

Cost of goods sold in 2013 was 9% higher than in 2012 due to the variable cost of increased ore production, additional costs associated with Care and Maintenance at Levack and remediation of the Craig shaft during the first half of 2013. Despite higher mining volumes, cost of goods sold in Q4 2013 was in line with the same period in 2012.

Cash cost per pound of copper sold in 2013 increased from \$1.21 in 2012 to \$1.50 as a result of the increase in treatment and refining charges from the change in Vale payable terms and lower by-product revenues driven by a decline in metal prices. The cash cost per pound of copper sold was \$1.08 for Q4 2013 compared to \$1.19 for the same period of 2012 due to an improved payable terms and higher metal production during the quarter as a result of increased throughput, partially offset by lower metal prices.

Capital spending in 2013 comprised primarily of lateral development activities, diamond drilling and waste haulage. Development continued on both the Morrison down ramp, opening three new levels during the year; and the 5040 ramp, which will act as the third access between Craig and Morrison when completed.

Morrison deposit outlook

Development of the 5040 ramp will support to the next phase of diamond drilling in the lower portion of the Morrison ore body. This ramp is expected to be complete in November of 2014 with first scheduled to start in June and the final drill scheduled to start in November. Production volumes and costs are expected to be consistent with 2013 but with lower copper grades driven by the sequence of extracting sill pillars throughout the year.

Other Operations*

	Three months ended December 31		Year ended December 31	
	2013	2012	2013	2012
Copper production (Mlbs)	18.1	20.8	73.1	83.4
Nickel production (Mlbs)	0.9	1.0	3.9	4.4
TPM ⁽¹⁾ (kozs)	0.7	6.7	8.7	20.0
Cash cost per pound of copper sold (\$/lb)	\$2.80	\$3.08	\$2.98	\$3.08
Capital expenditure	\$3.8	\$6.0	\$9.3	\$24.8
Cost of goods sold ⁽²⁾	\$64.3	\$75.6	\$244.4	\$294.5
Operating loss	(\$56.3)	(\$2.1)	(\$63.1)	(\$7.6)

* 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 the year and Q4 2013 decreased from the same periods in 2012 primarily due to the completion of production at the Podolsky mine, partially offset by increased production from Franke. The economic resource was depleted at Podolsky and mine production came to a close at the end of Q1 2013.

Despite a decline in ore grade, 2013 copper production at Franke increased by 11% or 4.5 million lbs from 39.4 million pounds in 2012. Record copper production levels were achieved during the year due to the favourable China:Franke pit ore blend, yielding higher recoveries. Copper production in Q4 2013 was 11% or 1.1 million lbs higher than the same quarter in 2012 of 10.7 million lbs due to improved recovery and higher pad loading rates.

2013 copper production at Carlota decreased by 7% or 1.6 million lbs from 22.9 million pounds in 2012 due to a planned reduction in the overall mining rate, resulting in a decrease in both tonnes of ore place on the pads and waste tonnes moved. Q4 2013 production slightly decreased from Q4 2012 due to lower quantity of conveyor stacked ore placed during the quarter.

Production costs and capital expenditures

Cost of goods sold for the year decreased by 17% compared to 2012 due to a decline in costs at Podolsky and Carlota as a result of decreased mining activities at these mines.

Cash cost per pound of copper sold in 2013 decreased by 6% compared to 2012 due to a reduction in cash cost per pound sold at Franke from \$3.31/lb in 2012 to \$2.71/lb in 2013. Franke recorded an overall decrease in costs and increase in production primarily due to the improved recoveries in the second half of 2013 from the change in China:Franke ore blending ratio. Q4 2013 cash cost per pound of copper sold decreased by \$0.28/lb from Q4 2012 primarily due to a reduction in costs at Carlota and Franke during the period.

Capital expenditures significantly decreased from 2012 to 2013 due to the pre-stripping required at Franke for the China ore body in 2012. 2013 capital expenditures comprised of sustaining capital projects at Franke and capital development and waste rock removal at McCreedy West. There were no capital expenditures during the year for Carlota and Podolsky.

Other operations recorded an operating loss of \$63.1 million for 2013 primarily due to the impairment of non-current asset at Carlota in Q4 2013 for \$55.4 million.

Other Operations Outlook

The blending of the 2:1 China:Franke pit ore will continue in 2014. Copper production is expected to be slightly higher than 2013. Major repairs to the crushing pocket and ILS pond early in the year are planned and are not expected to impact production. Exploration work completed in late 2013 will be evaluated for reserve improvement at the operation.

Carlota is implementing a mine-for-closure plan which optimizes cash flow while advancing activities related to the winding down of operations. Based on the current mine plan, the mining of ore is expected to continue through Q2 2014, followed by residual leaching for approximately two and a half years. Carlota continues to mine oxide ore. Technical closure studies for all mine components are being finalized with third party consultants, in anticipation of commencing activities as the plan evolves.

On January 17, 2013, the Company was given official notice from Glencore's Sudbury Integrated Nickel Operations, that they are exercising a 30-day cancellation clause for the commercial agreement of McCreedy West's Nickel ores, making the effective termination date February 16, 2014. Glencore indicated that their processing facilities are at capacity and with a surface stockpile they do not require additional custom feed ores for their mill. Consequently, the McCreedy West will temporarily suspend nickel ores mining. McCreedy West contributed 3.0 million lbs of copper payable and 3.7 million lbs of nickel payable to the Company in 2013.

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.

In 2013 the Sierra Gorda project expended \$1,567 million in capital expenditures, including progress payments for mining and plant equipment, camp, infrastructure and plant construction, and other project related payments. At December 31, 2013 the JV had cash of \$286 million. Because the Company accounts for the JV using equity based accounting principles, the cash is not included in KGHM's cash balance.

On March 8, 2012 the JV signed a \$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 December 31, 2013, the JV had drawn down the entire \$1 billion on the project loan. The loan is guaranteed 100% by Sumitomo and is non-recourse to the Company.

Sierra Gorda activities and outlook

As of December 31, 2013 the Sierra Gorda project's overall progress was 86% complete. During 2013 the project completed the detailed engineering phase for the concentrate plant and tailings storage facility. In addition, the majority of the major procurement has moved into the main construction phase. At the end of Q4 2013, overall construction progress of the seawater pipeline was 94% complete, overall construction progress of the tailings storage facility was 86% complete and 80% of the overall plant construction progress was complete.

In March 2012, the pre-stripping commenced and a total of 158.8 million tonnes of waste material were mined by the end of 2013, representing approximately 81% of the amount required before commissioning. The project is expected to complete construction in 2014 and 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 was projected at approximately \$3.9 billion. The sponsors also agreed to pursue further savings plans to reduce the capital cost including adoption of a leasing program for mining equipment. During the year, the JV entered into lease agreements to lease various mining equipment minimum lease payments of \$62 million. These lease agreements have been accounted for as finance leases with a term of 84 months, and the interest rate varies based on the specific lease agreement. Most of the leases are based on the 90-day Libor rate plus a margin. As announced in Q2 2013, the project continues to see cost pressures but is pursuing opportunities to reduce funding needs to compensate for those pressures.

As of December 31, 2013 the Sierra Gorda JV had made contract commitments of approximately \$3.8 billion or 96% of the \$3.9 billion of capital; including purchase orders for mining/plant equipment, infrastructure and construction services for mine, plant and infrastructure areas. Approximately \$3.4 billion of the committed amount has been incurred.

The following table summarizes the financial information of the Sierra Gorda JV:

	December 31, 2013	December 31, 2012
	100%	100%
Current assets	549.9	825.1
Non-current assets	3,905.5	1,925.7
Total assets	4,455.4	2,750.8
Current liabilities	383.4	230.5
Non-current liabilities	3,134.8	1,583.0
Total liabilities	3,518.2	1,813.5

The Community of Antofagasta, including three Counsels of the community, an Elected Deputy of the district, and an architect have filed two actions before the Court of Appeals of Antofagasta against the Commission of Environment of the Second Region, Antofagasta Railway Company PLC, International Port of Antofagasta, and the Sierra Gorda JV to annul the environmental authorization permitting the transportation and storage of copper concentrate from the site of the Sierra Gorda JV to and at the port of Antofagasta. The Sierra Gorda JV and its counsel and the co-defendants maintain that the environmental permitting were properly obtained and are preparing the defense that the claims are not well founded in law. In both actions the Court dismissed the requests for injunctions made by the plaintiffs to stop the construction of the storage warehouses where the copper concentrate is to be stored. On February 26, 2014, the Court of Appeals of Antofagasta accepted an injunction in the plaintiffs favor. The Company is filing an appeal to reverse this decision.

Sierra Gorda Oxide Ore

Sierra Gorda Oxide deposit is part of Sierra Gorda mineral property. The Company is evaluating the opportunity for copper production from Oxide ores mined at the Sierra Gorda project. In 2012, a Pre-Feasibility study indicated that processing of the oxide ores, which are being mined as part of the pre-stripping and normal stripping activities, was feasible. Column leach testing of Oxide ores continued in 2013 and multiple large-scale heap leach testing were started in early 2014. The Company is advancing a Feasibility Study for the development of the Oxide resource in 2014 which will better define the opportunity. The Feasibility study and leach testing data will be presented to Sumitomo for review and consideration for participation in 2014 in the growth project. 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.

Victoria Project

During Q4 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. All exploration shaft hoisting systems were ordered for delivery by Q4 2014. Site preparation progressed with the completion of timber clearing and the initiation of overburden stripping at the project site.

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

The closure plan and financial assurance bond were officially filed by the Ministry of Northern Development and Mines in Q4 2013. Technical reviews by the Ministry of Environment “the Ministry” on all environmental permits are completed. The closure plan and environmental permits are required by the Province of Ontario prior to commencement of site construction.

A third party technical review was initiated to identify the current status of the project plan and map out an implementation strategy

The Company and Vale Canada Limited (Vale), a wholly owned subsidiary of Vale S.A., signed an agreement on August 1, 2013 that provided the Company with the right to develop and operate the Victoria project as the sole owner. The property and associated off-take agreements reduced the overall project risk and improved the financial outlook for the Victoria project.

Victoria Project Outlook

It is anticipated that all of the environmental permits will be issued in 2014. These government authorizations are required to initiate construction of the site facilities which are scheduled to begin in 2014.

The Company will continue procurement of long lead items and engineering efforts in preparation for infrastructure construction and shaft development.

DMC Mining Services

In Q4 2013, DMC recorded revenue of \$37.2 million compared to \$76.1 million in the same period in 2012. The decline was mainly attributable to the timing of Canadian shaft sinking contract business as well as the suspension of work on certain contracts in the United States. In 2012, the Company generated significant revenue building shaft sinking infrastructure and installing shaft sinking equipment for specific contracts. Early in 2013, these projects moved to the next phase, the shaft excavation portion of the work, in which the Company anticipated lower revenue.

Operating income for Q4 2013 was \$2.6 million compared to \$6.5 million in the same period in 2012. In addition to the aforementioned contract in Canada, the decline in operating income was also attributable to project suspension by clients in the United States as a result of the decline in gold prices.

DMC recorded revenue of \$215.3 million in 2013 compared to \$325.9 million in 2012. Operating income in 2013 was \$19.9 million compared to \$28.2 million in 2012. The declines in revenue and operating income in 2013 were anticipated mainly due to the progression of project phases involved in a particular shaft sinking project in Canada. The revenue was also negatively impacted by suspension of some work due to the decline in gold prices particularly in the United States

DMC Outlook

With lower near term commodity prices, DMC expects a reduction in new work being tendered in the market in 2014. DMC continues to expect to outperform our clients' expectations and to work closely with our clients for cost savings measures optimize DMC performance in 2014.

Over the next few years, DMC expects to invest in and expand the raise boring business, a niche market in which DMC has built a solid reputation and expertise.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2013, the Company had cash and cash equivalents of \$140.0 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 from operating activities of \$234.6 million for 2013 compared to \$150.0 million for 2012. Adjusting for non-cash impairments in cost of sales in 2013, the increase in operating cash flow is largely driven by the change in working capital and lower taxes paid in 2013 compared to 2012 (see "**Mine operating expenses and operating income**").

At December 31, 2013, the Company had working capital of \$437.2 million as compared to \$869.6 million at December 31, 2012. The decrease in working capital in 2013 is primarily a result of the decreased cash position at December 31, 2013. At December 31, 2013, accounts receivable and revenues include approximately 32.2 million pounds of copper that has been provisionally valued at \$3.34/lb. The final pricing for these provisionally priced sales is expected to occur between January and April 2014. 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 the first quarter of 2014.

Capital spending in 2013 was \$179.2 million for operations and projects. An additional \$7.3 million was paid to increase environmental bonding for Robinson and Victoria. In 2013, the Company advanced as subordinated debt \$568.1 million to Sierra Gorda JV for the construction of the Sierra Gorda mine. Subject to the subordination conditions to the Senior Project Loans, interest and principal on the subordinated debt are payable on demand.

To provide funds for general corporate purposes the Company entered into a \$200.0 million Corporate Facility dated for reference June 19, 2013. In Q2 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 ("PPA obligation") thereby releasing \$137.5 million of cash previously held as security. In Q3 the Company also utilized the Facility to free up \$61.0 million in cash that was previously securing other letters of credit bringing total draws under the facility to \$198.5 million.

Subsequent to December 31, 2013, KGHM provided a letter of credit in the amount of \$137.5 million on behalf of the Company for the PPA obligation thereby releasing \$137.5 million of capacity in the Corporate Facility.

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 \$750 million on capital for operations and projects in 2014. At projected metal prices, the Company expects that it will be able to meet these capital requirements from existing resources, cash flow from operations and agreed upon funding from KGHM.

Commitments and contractual obligations

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Reclamation liabilities	17.0	31.6	21.7	9.0	12.8	79.2	171.3
Franke Mine supply contracts	11.7	11.7	11.5	10.3	10.4	35.3	90.9
Senior Notes	38.8	38.8	38.8	38.8	38.8	519.4	713.4
Minimum lease payments	8.4	6.6	6.1	6.1	4.3	12.5	44.0
Corporate Facility	-	-	-	198.5	-	-	198.5
Total	75.9	88.7	78.1	262.7	66.3	646.4	1,218.1

As at December 31, 2013, the Group's proportionate 55% share of the contractual commitments for capital at Sierra Gorda totaled \$327.4 million including purchase orders for mining equipment and infrastructure. Contractual commitments for commercial operations totaled \$1,533.6 as at December 31, 2013.

Reclamation liabilities

The Company has estimated total future reclamation costs of \$171.3 million as at December 31, 2013 compared to \$109.9 million at December 31, 2012 (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 \$148.8 million at December 31, 2013 and \$96.0 million at December 31, 2012 based on the estimated discounted future payments. The increase in the reclamation liability during 2013 is primarily due to closure plan updates at our US mines.

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 \$48.1 million as at December 31, 2013. In 2013, \$61.0 million of Letters of Credit were issued by the Corporate Facility thereby reducing the cash collateral

required for the environmental bonds, thus reducing the environmental bond balance from \$102.9 million as at December 31, 2012.

The Company revises the reclamation plan and cost estimate for Robinson annually as required by the US Bureau of Land Management and adjusts the amount of the bond accordingly. The reclamation plan and cost estimate for Carlota is updated every five years as required by the regulator and the amount of the bond is adjusted accordingly. There is currently no environmental bonding in place at Franke. A closure plan for Podolsky is finalized. Closure plans for the McCreedy West and Levack operations are governed by arrangements between the Ontario Government and Vale and between Vale and the Company.

Franke Mine supply contracts

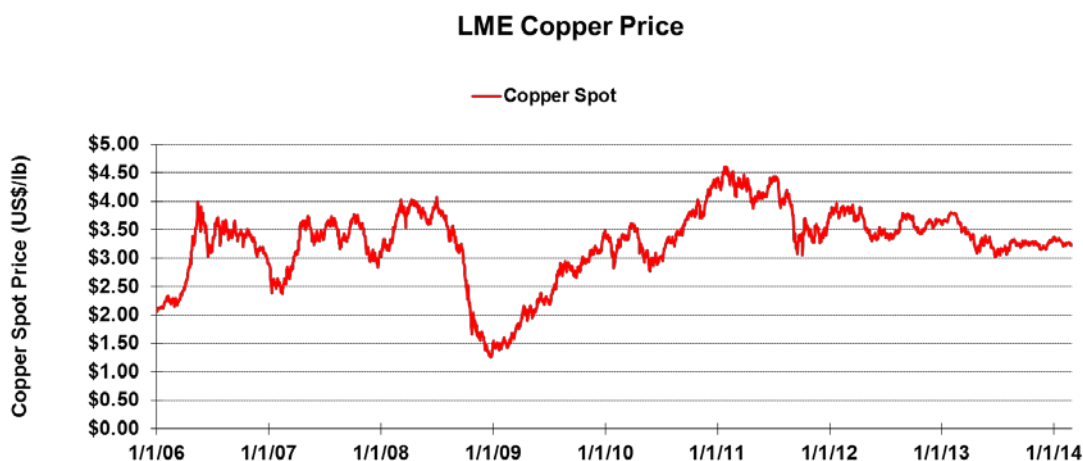
The Company has a long-term supply contract for sulphuric acid for use in the copper extraction process at Franke, which expires in 2022. The Company is committed to purchase 150,000 tonnes of sulfuric acid per annum at a base price of \$27/tonne. The base price for acid in the contract is increased 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 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 prices averaged \$3.18/lb in Q4 2013 and averaged \$3.32/lb in 2013, as compared with 2012 annual average of \$3.61/lb. The market continues to be supported by solid Chinese demand, tight scrap availability, smelter bottlenecks and improving economic circumstances in Europe. 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 February 28, 2014 as published by the London Metal Exchange (“LME”).



At December 31, 2013, the closing spot price was \$3.35/lb. At February 28, 2014, the closing spot price was \$3.22/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.

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	34.3
- \$0.20/lb	(34.3)

A proportion of the spending in the Sierra Gorda project (“the project”) is denominated in Chilean Pesos (“CLP”). To manage this risk, the Company and the project purchased and held CLP investments which are being drawn down over the construction period. At December 31, 2013, the Company held \$4.1 million (December 31, 2012 \$191.7 million) and the project held \$215.1 million (December 31, 2012 \$499.6 million) in CLP denominated cash and cash equivalents. In addition in January 2014, the Company purchased puts for the equivalent of \$200.0 million

in CLP with a strike price of 525 which expire between January and March 2014. The puts provide the Company with downside protection in the event of CLP strengthening against the USD while allowing upside participation.

CONTINGENCIES

- (a) In the normal course of business DMC enters into agreements that contain indemnification commitments and may contain features that meet the expanded definition of guarantees. The terms of these indemnification agreements will vary based on the contract and typically do not provide for a limit on the maximum potential liability. The Company has not made any payments under such indemnifications and no amounts have been accrued in the financial statements with respect to these indemnification commitments.
- (b) 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 in 2011, the joint venture became a related party with the Company. The amount due from the Sierra Gorda JV is \$9.5 million at December 31, 2013 (December 31, 2011 - \$3.5 million) and is repayable in the normal course of business.

Fees payable to the Company from the Sierra Gorda JV in 2013 were management fees of \$25.0 million (2012 - \$25.0 million) and guarantee fees related to the letter of credit the Company provided in the year of \$3.0 million, (see “**Liquidity & Capital Resources**”), . In July 2013, the Company and Sumitomo agreed to defer payment of 50% of the management fees to the Company and 100% of the guarantee fees related to the period July 1, 2013 to January 1, 2015. As at December 31, 2013 \$6.2 million of the management fee has been deferred and \$3.0 million of the guarantee fees are outstanding. These outstanding amounts bear an interest rate of 0.75% per annum.

On March 5, 2012, the Company loaned \$110.9 million to KGHM, through its wholly owned subsidiary 0929260 BC Unlimited Liability Company (“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. Bidco repaid \$13.2 million of the above principal and interest on February 28, 2013. The balance of the note as at December 31, 2013 was \$104.9 million including accrued interest of \$6.7 million (December 31, 2012 - \$3.5 million). The remaining principal and interest is 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 in Q1 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 acquisition and development costs, including exploration and evaluation assets transferred, mine construction costs, and overburden and waste removal costs, are capitalized until production is achieved, or the property is sold, abandoned or impaired. Such capitalized costs 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 December 31, 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. In 2013, the Company capitalized \$89.3 in deferred stripping, of which, \$3.1 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 December 31, 2013. At December 31, 2013 the Company had available U.S. Alternative Minimum Tax Credits of \$35.7 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. At December 31, 2013 and March 27, 2014, 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 operating results of the most recent eight quarters (unaudited):

SUMMARY OF QUARTERLY OPERATING RESULTS								
	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Robinson								
Cu produced payable (Mlbs)	21.9	18.6	30.8	36.5	34.3	30.2	30.9	24.1
Ore milled (Mt)	3.4	3.4	3.9	4.1	4.0	3.4	3.7	3.0
Au production payable (kozs)	7.2	7.5	15.0	15.4	10.6	10.2	9.7	7.3
Cu grade (%)	0.39	0.37	0.45	0.47	0.49	0.56	0.53	0.56
Au grade (g/t)	0.16	0.20	0.24	0.21	0.22	0.29	0.25	0.23
Cu recovery (%)	76.9	71.4	81.9	89.2	83.5	75.4	74.6	68.6
Au recovery (%)	42.0	33.5	55.5	50.0	39.3	34.4	34.2	34.9
Cu sales (Mlbs)	22.1	17.8	43.4	24.8	41.2	36.9	32.5	23.8
Average realized price (\$/lb)	\$3.39	\$3.39	\$3.05	\$3.49	\$3.49	\$3.78	\$3.34	\$3.89
Cash cost per pound of copper sold (\$/lb)	\$1.68	\$2.52	\$1.84	\$1.47	\$2.00	\$2.36	\$2.69	\$2.75
Carlota								
Cu production (Mlbs)	5.5	4.5	5.8	5.6	5.8	6.1	5.5	5.5
Ore placed (Mt)	0.9	1.0	0.9	1.2	1.3	1.1	1.3	1.2
Total Cu grade (%)	0.58	0.57	0.58	0.61	0.61	0.66	0.60	0.39
Cu sales (Mlbs)	5.7	4.7	5.6	5.7	6.4	6.2	5.6	5.1
Average realized price (\$/lb)	\$3.22	\$3.22	\$3.23	\$3.57	\$3.59	\$3.48	\$3.57	\$3.85
Cash cost per pound of copper sold (\$/lb)	\$2.70	\$2.55	\$2.41	\$2.46	\$2.53	\$2.58	\$2.70	\$2.96
Franke								
Cu production (Mlbs)	11.8	12.7	8.8	10.6	10.7	10.5	8.8	9.4
Ore placed (Mt)	1.1	1.1	0.9	1.0	1.1	1.1	0.9	1.0
Total Cu grade (%)	0.70	0.71	0.72	0.67	0.72	0.68	0.78	0.83
Cu sales (Mlbs)	13.7	13.7	8.6	11.7	11.7	9.1	11.8	9.4
Average realized price (\$/lb)	\$3.22	\$3.22	\$3.31	\$3.74	\$3.53	\$3.60	\$3.53	\$3.79
Cash cost per pound of copper sold (\$/lb)	\$2.71	\$2.70	\$4.18	\$3.70	\$3.31	\$3.30	\$5.03	\$2.54
Morrison								
Cu ore sold (kt) ⁽¹⁾	78.6	63.0	70.7	48.5	70.3	55.8	53.0	57.0
Cu grade (%)	9.3	8.2	7.3	8.5	9.3	9.2	8.2	10.0
Payable Cu sold (Mlbs)	13.7	10.4	10.0	7.3	12.6	9.5	8.1	10.5
Payable Ni sold (Mlbs)	2.1	1.6	1.6	1.1	1.8	1.4	1.2	1.7
Payable TPM sold (kozs) ⁽²⁾	15.8	12.9	8.1	7.6	10.0	9.3	7.7	10.2
Average realized price (\$/lb)	\$3.18	\$3.18	\$3.02	\$3.51	\$3.51	\$3.71	\$3.23	\$4.02
Cash cost per pound of copper sold (\$/lb)	\$1.08	\$1.48	\$1.91	\$1.74	\$1.19	\$1.32	\$1.43	\$0.99
Podolsky								
Cu ore sold (kt) ⁽¹⁾	0.0	1.5	0.0	88.0	88.8	76.8	98.7	92.3
Cu grade (%)	0.0	4.0	0.0	2.7	2.5	2.6	3.1	3.1
Payable Cu sold (Mlbs)	0.0	0.5	0.1	4.1	3.5	3.7	5.8	5.2
Payable Ni sold (Mlbs)	0.0	0.1	0.0	0.1	0.2	0.2	0.2	0.2
Payable TPM sold (kozs) ⁽²⁾	0.0	0.5	0.3	3.9	6.1	1.6	5.4	4.8
Average realized price (\$/lb)	N/A	N/A	N/A	\$3.49	\$3.52	\$3.68	\$3.28	\$4.06
Cash cost per pound of copper sold (\$/lb)	N/A	N/A	N/A	\$2.34	\$2.91	\$2.32	\$2.00	\$2.42
McCreedy West								
Cu ore sold (kt) ⁽¹⁾	6.7	4.2	6.7	5.8	9.2	8.1	4.6	4.9
Cu grade (%)	5.0	3.6	4.8	3.6	3.7	5.3	3.6	3.5
Ni ore sold (kt) ⁽¹⁾	79.2	80.9	91.7	84.1	82.5	47.7	67.5	88.0
Ni grade (%)	1.0	1.0	1.2	1.3	1.3	1.2	1.3	1.3
Payable Cu sold (Mlbs)	0.8	0.3	0.9	1.0	0.8	1.0	0.5	0.6
Payable Ni sold (Mlbs)	0.9	0.6	1.1	1.1	0.8	0.8	0.9	1.1
Payable TPM sold (kozs) ⁽²⁾	0.7	0.6	1.4	1.4	0.6	2.1	0.4	0.0
Average realized price (\$/lb)	\$3.36	\$5.50	\$2.87	\$3.57	\$3.48	\$3.73	\$3.21	\$4.29
Cash cost per pound of copper sold (\$/lb) ⁽³⁾	\$5.18	\$8.66	\$2.84	(\$0.18)	\$4.26	\$0.40	\$2.80	\$4.68

⁽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.

SELECTED ANNUAL INFORMATION

	2013	2012	2011
Statement of operations			
Net Revenues	1,063	1,385	1,107
Earnings	9	104	267
Basic earnings per share	\$0.05	\$0.52	\$1.39
Diluted earnings per share	\$0.05	\$0.52	\$1.36
Financial positions			
Total assets	3,742	3,690	3,529
Total long-term financial liabilities	1,038	1,009	1,049

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 December 31, 2013							
	Robinson	Carlota ¹	Franke	Morrison	Podolsky	McCreedy West	Total
Production costs of goods sold	45.6	14.7	37.1	22.5	-	10.2	131.7
Supplies inventory writeoff							
Treatment and refining charges	4.6	-	-	14.6	-	0.5	19.8
Royalties	2.5	0.8	-	-	-	-	3.2
Total cash cost	52.6	15.5	37.1	37.1	-	10.8	154.7
By-product revenues	(15.6)	-	-	(22.3)	-	(6.7)	(44.6)
	37.0	15.5	37.1	14.8	-	4.1	110.1
Copper sold (million lbs)	22.1	5.7	13.7	13.7	-	0.8	56.0
Cash cost per pound of copper sold (US\$/lb)	\$ 1.68	\$ 2.70	\$ 2.71	\$ 1.08	\$ -	\$ 5.18	\$ 1.97

Three months ended December 31, 2012							
	Robinson	Carlota	Franke	Morrison	Podolsky	McCreedy West	Total
Production costs of goods sold	98.6	15.2	38.9	21.7	10.4	10.0	194.8
Supplies inventory writeoff	(3.1)	-	-	-	-	-	(3.1)
Treatment and refining charges	7.2	-	-	10.6	2.8	0.5	21.1
Royalties	5.0	1.1	-	-	-	-	6.1
Total cash cost	107.7	16.3	38.9	32.2	13.3	10.5	218.9
By-product revenues	(25.3)	-	-	(17.1)	(3.1)	(6.9)	(52.4)
	82.4	16.3	38.9	15.1	10.2	3.6	166.5
Copper sold (million lbs)	41.2	6.4	11.7	12.6	3.5	0.8	76.2
Cash cost per pound of copper sold (US\$/lb)	\$ 2.00	\$ 2.53	\$ 3.31	\$ 1.19	\$ 2.91	\$ 4.26	\$ 2.18

	Year ended December 31, 2013						
	Robinson	Carlota ¹	Franke	Morrison	Podolsky	McCreedy West	Total
Production costs of goods sold	239.7	51.9	137.9	84.6	14.7	37.0	565.8
Supplies inventory writeoff							
Treatment and refining charges	24.7	-	-	41.3	4.6	1.9	72.5
Royalties	12.0	2.9	-	-	-	-	14.8
Total cash cost	276.4	54.8	137.9	125.9	19.3	38.9	653.2
By-product revenues	(78.3)	-	-	(63.9)	(4.3)	(29.5)	(176.0)
	198.1	54.8	137.9	62.0	15.1	9.4	477.2
Copper sold (million lbs)	108.0	21.6	43.5	41.4	4.7	3.0	222.2
Cash cost per pound of copper sold (US\$/lb)	\$ 1.83	\$ 2.53	\$ 3.17	\$ 1.50	\$ 3.20	\$ 3.13	\$ 2.15

	Year ended December 31, 2012						
	Robinson	Carlota	Franke	Morrison	Podolsky	McCreedy West	Total
Production costs of goods sold	358.6	58.7	152.3	76.6	45.1	34.4	725.7
Supplies inventory writeoff	(4.1)	-	-	-	-	-	
Treatment and refining charges	25.5	-	-	34.3	13.6	1.7	75.1
Royalties	15.6	4.0	-	-	-	-	19.6
Total cash cost	395.6	62.7	152.3	110.9	58.7	36.1	816.3
By-product revenues	(73.8)	-	-	(61.6)	(15.8)	(28.5)	(179.7)
	321.8	62.7	152.3	49.3	42.9	7.6	636.6
Copper sold (million lbs)	134.4	23.2	42.0	40.7	18.2	2.9	261.5
Cash cost per pound of copper sold (US\$/lb)	\$ 2.39	\$ 2.70	\$ 3.63	\$ 1.21	\$ 2.35	\$ 2.62	\$ 2.43

¹⁾ Carlota cash cost per pound of copper sold does not include the impairment of the reclamation asset.

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 December 31, 2013	Three months ended December 31, 2012	Year ended December 31, 2013	Year ended December 31, 2012
(All amounts in millions of United States dollars except per share amounts)				
Income from mining operations	(25.0)	65.2	72.0	185.0
Adjusting items:				
Amortization, depreciation and depletion	53.9	39.0	164.9	159.2
Stock-based compensation	-	-	-	4.6
General and administrative	(11.0)	(21.8)	(47.5)	(65.0)
Other loss	(0.7)	-	(1.2)	(3.3)
Service fee from Sierra Gorda JV	(3.4)	6.3	15.4	25.0
Inventory write down		1.3	-	27.3
Impairment of non-current assets	55.4	-	55.4	-
	<u>94.3</u>	<u>24.7</u>	<u>187.0</u>	<u>147.8</u>
Adjusted EBITDA	<u>69.3</u>	<u>89.9</u>	<u>259.0</u>	<u>332.8</u>

March 27, 2014

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 2013 and beyond;
 - ❖ The mineralogy and block model assumptions at all mines and projects;
 - ❖ The leaching rate and recoveries achievable at the Franke and Carlota Mines;
 - ❖ Potential challenges to title to the properties;
 - ❖ The dependence on transportation facilities and infrastructure;
 - ❖ Labour relations;
 - ❖ The potential need for a temporary shutdown of any of our operations, such as related to unplanned maintenance or extreme climatic conditions;
 - ❖ The actual costs of reclamation;
 - ❖ The impact of the availability and cost of key operating supplies and services;
 - ❖ Energy prices;
 - ❖ The acquisition and integration of businesses and assets;
 - ❖ Inherent hazards and risks associated with mining operations;
 - ❖ Inherent uncertainties associated with mineral exploration;
 - ❖ The mining industry is competitive for resources and sales market;
 - ❖ Being subject to government regulation, including changes in regulation;
 - ❖ Being subject to extensive environmental laws and regulations, including change in possible regulation;
 - ❖ Need for governmental licenses and permits;
 - ❖ Derivative contracts and exposure to the credit risk of counter-parties;
 - ❖ Failure to maintain the covenants under the Corporate Facility could result in the termination and repayment of the Corporate Facility;
 - ❖ Taxation in multiple jurisdictions;
 - ❖ Political and country risk;
 - ❖ Conflicts of interest; and
 - ❖ Fluctuations in foreign currency exchange rates.

A discussion of these and other factors that may affect the Company's actual results, performance, achievements or financial position is contained in the filings by the Company with the Canadian provincial securities regulatory authorities prior to the Company ceasing to be a reporting issuer, including the Company's Annual Information Form and the Annual Information Form filed by FNX prior to the merger between Quadra and FNX. Forward-looking statements are based on assumptions management believes to be reasonable, including but not limited to the continued operation of the Company's mining operations, no material adverse change in the market price of commodities, that the mining operations will operate in accordance with the Company's public statements and achieve its stated production outcomes, and such other assumptions and factors as set out herein. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate. Accordingly, readers should not place undue reliance on forward-looking statements. The Company disclaims any intent or obligations to update or revise publicly any forward-looking statements whether as a result of new information, estimates or options, future events or results or otherwise, unless required to do so by law.