KGHM INTERNATIONAL LTD.

Consolidated Annual Financial Statements

For the years ended December 31, 2014 and 2013

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

March 13, 2015

Independent Auditor's Report

To the Audit Committee of KGHM International Ltd.

We have audited the accompanying consolidated financial statements of KGHM International Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KGHM International Ltd. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

KGHM International Ltd.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(US Dollars in Millions)

	Notes	December 31, 2014	December 31, 2013
ASSETS			
Current			
Cash and cash equivalents		62.4	140.0
Trade and other receivables	6	124.4	192.1
Marketable securities	8	0.6	0.7
Notes receivable	23	-	104.9
Inventory	5	176.1	157.7
Current corporate tax receivables		23.1	16.6
Total Current Assets		386.6	612.0
Mineral properties, property, plant and equipment	9	963.3	923.5
Intangible assets	10	449.3	398.8
Sierra Gorda JV - investment	4(a)	584.9	494.2
Sierra Gorda JV - subordinated loans	4(b)	1,776.6	1,121.5
Environmental trust and bonds	11	43.0	48.1
Other non-current assets	7	81.8	54.2
Deferred income tax assets	20	98.5	89.3
Total Non-Current Assets		3,997.4	3,129.6
Total Assets		4,384.0	3,741.6
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	12	119.5	125.1
Current provisions	16	27.0	17.4
Other current liabilities		4.2	5.3
KGHM Cash Pooling	15	70.6	-
Derivative liabilities	17	7.3	9.3
Current portion of deferred revenue	13	13.2	9.5
Current corporate tax liabilities		4.7	8.2
Total Current Liabilities		246.5	174.8
Borrowings and finance lease liabilities	14	697.4	498.5
Deferred revenue	13	141.6	156.8
Provisions	16	140.5	134.5
Derivative liabilities	17	39.6	42.4
Deferred income tax liabilities	20	215.1	205.5
Total Non-Current Liabilities		1,234.2	1,037.7
Total Liabilities		1,480.7	1,212.5
Shareholders' Equity			
Share capital	18	2,208.5	1,851.5
Accumulated other comprehensive gain		0.2	0.1
Retained earnings		694.6	677.5
Total Shareholders' Equity		2,903.3	2,529.1
Total Liabilities and Shareholders' Equity		4,384.0	3,741.6

Commitments (Note 25), Contingencies (Note 26), Subsequent events (Note 13 (b))

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

Approved by the Board of Directors:

(Signed) **Derek White, Director**

(Signed) **Jaroslaw Romanowski, Director**

KGHM International Ltd.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(US Dollars in Millions)

	Notes	**Year ended December 31, 2014**	**Year ended December 31, 2013**
Net revenues	*19*	701.3	1,062.8
Cost of sales	*19*	713.5	990.8
(Loss) income from mining operations		(12.2)	72.0
General and administrative	*21*	37.8	47.6
Finance income	*22(a)*	(94.2)	(69.1)
Finance expense	*22(b)*	58.9	49.4
Other income	*22(c)*	(25.1)	(31.5)
Other expense		3.9	6.7
Impairment of marketable securities	*8*	0.2	35.1
Foreign exchange loss		5.4	16.2
Earnings before income taxes		0.9	17.6
Income tax recovery (expense)	*20*	16.2	(8.2)
Earnings for the period		17.1	9.4
Other comprehensive income			
Unrealized gain (loss) on marketable securities		0.1	(4.5)
Reversal due to impairment of marketable securities		-	26.8
Total comprehensive income		17.2	31.7
Earnings per share			
Basic and diluted		$ 0.05	$ 0.05
Weighted average shares outstanding - basic and diluted		334.7	199.8

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

KGHM International Ltd.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(US Dollars in Millions)

	Notes	**Share capital**	**Accu. other comp. income**	**Retained earnings**	**Total**
Balances, January 1, 2013		1,851.5	(22.2)	668.1	2,497.4
Unrealized loss on marketable securities		-	(4.5)	-	(4.5)
Reversal due to impairment of marketable securities		-	26.8	-	26.8
Earnings for the year		-	-	9.4	9.4
Balances, January 1, 2014		1,851.5	0.1	677.5	2,529.1
Issue of common shares	*18*	357.0	-	-	357.0
Unrealized gain on marketable securities	*8*	-	0.1	-	0.1
Earnings for the year		-	-	17.1	17.1
Balances, December 31, 2014		**2,208.5**	**0.2**	**694.6**	**2,903.3**

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

KGHM International Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in Millions)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
OPERATING ACTIVITIES			
Earnings for the period		17.1	9.4
Adjustment for:			
Amortization, depletion and depreciation		165.3	169.5
Depreciation capitalized to deferred stripping asset		(4.7)	(3.1)
Impairment of marketable securities	*8*	0.2	35.1
Impairment of non-current assets	*19*	-	55.4
Non-cash gain loss on derivatives	*17*	(4.8)	(5.0)
Amortization of deferred revenue	*13*	(11.5)	(12.3)
Foreign exchange loss		2.8	13.4
Income tax (recovery) expense	*20*	(16.2)	8.2
Finance income		(93.6)	(63.5)
Finance expense		54.6	45.5
Other income		(4.2)	(7.6)
Other expense		10.5	14.3
		115.5	259.3
Net changes in non-cash working capital	*24*	19.3	30.1
Interest paid on borrowings and finance lease		(46.8)	(40.6)
Income tax refund received (paid)		6.6	(14.2)
Cash provided from operating activities		**94.6**	**234.6**
INVESTING ACTIVITIES			
Additions to mineral properties, plant and equipment		(238.4)	(178.8)
Proceeds from disposal of mineral properties, plant and equipment		0.7	1.3
Deposits for environmental trust and bonds		(1.0)	(7.3)
Cash released from environmental trust and bonds		5.4	62.1
Proceeds from sale of marketable securities	*8*	-	41.4
Increase in Sierra Gorda JV- investments	*4*	(154.0)	(2.2)
Increase in Sierra Gorda JV-subordinated loans	*4*	(512.2)	(568.0)
Notes receivable repaid	*23*	105.6	34.6
Cash used in investing activities		**(793.9)**	**(616.9)**
FINANCING ACTIVITIES			
Proceeds from KGHM Cash Pooling	*15*	70.0	-
Finance lease payments		(2.5)	(1.7)
Draw down of Corporate Facility	*14*	200.0	-
Proceeds from issue of common shares	*18*	357.0	-
Cash provided from (used in) financing activities		**624.5**	**(1.7)**
Effect of foreign exchange rate changes on cash and cash equivalents		**(2.8)**	**(13.4)**
Net decrease in cash and cash equivalents during the year		**(77.6)**	**(397.4)**
Cash and cash equivalents, beginning of year		**140.0**	**537.4**
Cash and cash equivalents, end of year		**62.4**	**140.0**

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

KGHM International Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Years ended December 31, 2014 and 2013

1. NATURE OF OPERATIONS

KGHM International Ltd. (“KGHMI” or the “Group”) (formerly Quadra FNX Mining Ltd) ("Quadra FNX") was incorporated in Canada on May 15, 2002 under the British Columbia Company Act. KGHMI is a subsidiary of KGHM Polska Miedź S.A (“KGHM”), a company based in Poland that operates three mines and two smelters/refineries in Poland. KGHM acquired the Group through a court-approved Plan of Arrangement that closed on March 5, 2012.

The Group is in the business of developing and operating mines, with a focus on base metals, particularly copper. The Group’s principal place of business is Canada. KGHMI’s head office is located at Suite 500-200 Burrard Street, Vancouver, British Columbia, V6C 3L6. The Group has five operating mines: the Robinson mine in Nevada; the Morrison mine, in Ontario; the Franke mine in Chile; the Carlota mine in Arizona; and the McCreedy West mine in Ontario. The Podolsky mine in Ontario substantially ceased operations during the first quarter of 2013 and is currently under care and maintenance, pending environmental closure. The Group also owns an advanced exploration project (“Victoria”) in Sudbury, Ontario. On September 14, 2011, the Group formed a joint venture (“Sierra Gorda JV”) with Sumitomo Metal Mining Co. Ltd. and Sumitomo Corporation (collectively “Sumitomo”) to develop the Sierra Gorda copper-molybdenum project in Chile (Note 4).

The Robinson, Franke and Carlota mines are open pit copper mines, with some byproduct gold and molybdenum at Robinson, and Morrison and McCreedy West (collectively “the Sudbury Operations”) are underground mines producing copper with byproduct nickel, platinum, palladium and gold. The Sudbury Operations, the Victoria project and a mining services business (“DMC”), were acquired on May 20, 2010, when the Group completed a merger with FNX Mining Company Ltd. (“FNX”).

2. BASIS OF PRESENTATION

a) Basis of presentation and measurement

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The policies applied in these consolidated financial statements are based on IFRS issued and effective as at December 31, 2014.

The Board of Directors (“BoD”) approved these financial statements for issue on March 13, 2015.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Group and its controlled subsidiaries. Control is achieved when the Group has the rights to variable returns, rights to affect those returns from its involvement with its subsidiaries and the ability to use its powers to affect the variable returns. All subsidiaries are wholly-owned. Sierra Gorda JV of which the Group owns 55%, is accounted for using the equity method. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective date of acquisition or to the date of disposal. Intergroup balances and transactions are eliminated on consolidation.

c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions, and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, along with reported amounts of revenues and expenses during the period. Actual results may differ from these estimates, and as such, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of estimates relate to the determination of the fair value of assets and liabilities acquired in business combinations, determination of mineral reserves, impairment of long-lived assets, determination of site closure and reclamation provisions, valuation of derivative instruments, and valuation of concentrate, cathode and leach pad inventories. For the annual goodwill impairment test estimates are made to estimate future production levels and operating and capital costs, future commodity prices, and discount rates. Key judgments and estimates made by management with respect to these areas have been disclosed in the notes to these consolidated financial statements as appropriate.

The determination of mineral reserves requires the use of estimates and these reserve estimates are used in calculating depreciation, assessing impairment and forecasting timing of payments of mine closure and reclamation costs. The estimate of these reserves requires forecasts of commodity price, exchange rates, production costs and recovery rates, and these forecasts may change significantly when new information comes available.

The accounting for the Franco Nevada (formerly "Gold Wheaton") metal sales contract (Notes 3(h) and 13) involves judgments in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Group of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and reclamation costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, and as new information concerning the Group's closure and reclamation obligations becomes available.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Business combinations

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 Group 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. When the consideration transferred is less than the fair value of the net identifiable assets, a gain is recognized immediately in profit or loss.

Transaction costs such as finder's fees, legal fees, other professional and consulting fees, and due diligence fees are expensed as incurred unless they are costs related to the issue of debt or equity instruments.

b) Joint arrangements

The Group has an interest in a joint venture which is structured through a separate vehicle whereby the parties have joint control and have rights to the net assets of the arrangement. The joint venture operates in the same way as other entities, controlling the assets of the joint venture, earning its own revenue and incurring its own liabilities and expenses. Interests in joint ventures are accounted for using the equity method whereby the Group's proportionate interest in the assets, liabilities, revenues and expenses of jointly controlled entities are recognized on a single line in the consolidated statement of financial position, as a non-current asset. Currently the Sierra Gorda JV does not report any revenue or expenses as these are being capitalized to property, plant and equipment.

c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

d) Exploration and evaluation expenditures

Exploration and evaluation expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves.

Recognition and measurement

Exploration and evaluation expenditures include costs of conducting geological surveys, and exploratory drilling and sampling. Expenditures on mineral exploration or evaluation incurred in respect of a property before the acquisition of a license to explore are expensed as incurred.

Costs related to the acquisition of an exploration asset are capitalized. Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration assets and are classified as an intangible asset. The Group capitalizes the cost of acquiring, maintaining its interest, exploring and developing mineral properties as exploration assets when future inflow of economic benefits from the properties is probable and until such time as the properties are placed into development, abandoned, sold or considered to be impaired in value.

Upon completion of a technical feasibility study and when commercial viability is demonstrated, capitalized exploration and evaluation assets are transferred to and classified as mineral property. If no mineable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value.

Exploration costs that do not relate to any specific property are expensed as incurred.

Impairment

Management tests for impairment when facts and circumstances indicate the carrying value of exploration and evaluation assets might exceed recoverable amounts or when the technical feasibility and commercial viability of mineral resources is demonstrable.

e) Mineral properties, property, plant and equipment

Mineral properties, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses.

Recognition and measurement

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. Development costs are net of proceeds from the sale of metal extracted during the development phase prior to the date mining assets are capable of operating in the way intended by management.

When the Group incurs debt directly related to the construction of a new operation or major expansion, the related financing costs are capitalized during the construction period.

The cost of removing overburden to access ore is capitalized during the development phase. Mineral properties, plant and equipment costs include the fair value of the consideration given to acquire assets at the time of acquisition or construction and include expenditures that are directly attributable to bringing the asset to the location and condition necessary for their intended use. Also, these costs include an initial estimate of the costs of dismantling and removing the assets and restoring the site on which they are located, and for qualifying assets, borrowing costs.

When parts of an item of mineral properties, plant and equipment have different useful lives, they are accounted for separately as major components.

Mineral properties, plant and equipment are derecognized upon disposal or when no future economic benefits are expected. Gains and losses on disposal are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

Major spare parts and stand-by equipment with a significant initial cost, whose anticipated useful life is longer than one year, and meet the definition of an asset, are recognized as an item of property, plant and equipment.

Deferred Stripping

During the production phase of a mine (or pit) stripping costs are capitalized to the related component to the extent they give rise to a future benefit. Where a mine operates several open pits, the mine plan will determine if a pit is regarded as separate component or if a pit will have several separate components. Stripping costs are accounted for separately by reference to ore from each component.

The strip ratio represents the ratio of the estimated total volume of waste, to the estimated total quantity of economically recoverable ore, over the life of the mine or pit component. Stripping costs are deferred where the actual stripping ratios are higher than the average life of mine or pit component strip ratio or when that the material mined is primarily waste. The costs charged to the income statement are based on application of the mine's strip ratio to the quantity of ore mined in the period. Where the ore is expected to be evenly distributed or future strip ratios for the component are expected to be lower, waste removal is expensed as incurred

Deferred stripping costs that are capitalized are depleted using the units of production method and are classified as a tangible asset under mineral property.

Subsequent costs

The cost of replacing a part of an item of mineral properties, plant and equipment is recorded in the carrying amount of the item provided that there are future economic benefits, and the costs can be measured. The carrying amount of the part being replaced is then derecognized. The costs of day-to-day servicing of mineral properties, plant and equipment are recognized in profit or loss.

During the production phase, exploration and evaluation costs are capitalized provided that there is an expectation that the costs will be recoverable on exploitation or sale.

Depreciation

The carrying values of mineral properties, plant and equipment are depreciated using the unit-of-production method to their estimated residual values over their estimated useful lives or the estimated useful life of the associated mine, if shorter.

Mineral property acquisition and development costs and certain plant and equipment are depreciated on a unit-of-production basis based on the expected tonnes of proven and probable reserves and where applicable, a portion of resource based on the expected conversion of resources into reserves to be mined or, for heap leach operations, the expected tonnes of copper cathode to be produced. Other equipment is amortized on a straight line basis over their estimated useful lives, generally three to seven years. Depreciation related to production activities is initially recorded in inventory when ore is extracted from the mine. Depreciation is recognized in cost of sales in the Consolidated Statements of Comprehensive Income in the same period as the revenue from the sale of the inventory.

The Group's management conducts an annual assessment of the estimated residual values, useful lives, and depreciation methods used for mineral property acquisition and development costs, and property, plant and equipment. Any material changes in estimates are applied prospectively.

Goodwill

Goodwill is tested annually for impairment at year end. In addition, at each reporting period the Group assesses whether there is an indication that goodwill is impaired and, if there is such an indication, the Group 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 dispose. 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.

f) Impairment of non-current assets

The carrying value of non-current assets, which consist primarily of mineral properties, plant, and equipment and goodwill, is reviewed regularly for events or changes in circumstances which indicate that the carrying value of an asset may not be recoverable. The carrying value of goodwill and indefinite lived intangibles is reviewed at least annually, while other non-current assets are reviewed when certain triggering events occur. An impairment loss is recognized if the carrying value of an asset exceeds the estimated recoverable amount. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to dispose. Fair value less cost to dispose is the amount obtainable from the sale of the asset or cash generating unit in an arm's length transaction between knowledgeable and willing parties less the cost of disposal. Value in use is the estimated future cash flow expected to be received through continued use and subsequent disposal of the asset discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in profit or loss based on the amount by which the carrying amount of the asset exceeds the recoverable amount.

Estimated future cash flows are based on estimates of future metal prices, proven and probable reserves, estimated value beyond proven and probable reserves, and future operating cost assumptions.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets or cash generating units ("CGU"). In most cases this results in the Group evaluating its non-financial assets on a mine-specific basis. For the purposes of impairment testing, exploration and evaluation assets are allocated to the CGU to which the exploration activities relate. Goodwill acquired in a business combination is allocated to the cash generating unit that is expected to benefit from the synergies of the combination.

Impairment losses for other assets or CGU's recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If so, an impairment loss is reversed only to the extent that the related asset or CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

g) Revenue recognition

Revenue is recognized when the rights and obligations of ownership pass to the customer and the price is reasonably determinable. The majority of the Group's products are sold under pricing arrangements where final prices are determined based on quoted market prices for the refined product in a period subsequent to the date of sale.

For sales of concentrate, final pricing is generally determined three to four months after the date of sale. For sales of ore, final pricing is generally determined three to six months after the date of sale. For sales of copper cathode, final pricing is generally determined in the same month as, or the month subsequent to, the date of sale. Revenue is recorded provisionally at the time of sale based on preliminary assays and forward prices for the expected date of the final settlement. Subsequent variations in price and volumes are recognized as revenue adjustments as they occur until the price is finalized.

Contract mining revenues are earned on a fixed price contract basis, on a cost reimbursement basis or on a unit-of-production basis such as metres drilled, metres of advance on underground development, tonnes of ore mined and hourly charges for work performed, and are recognized at the time that the service has been performed.

h) Deferred revenue

Pursuant to an agreement dated July 15, 2008, and assumed by the Group upon the merger with FNX, the Group is obligated to sell to Franco Nevada 50% of the ounces of gold, platinum and palladium adjusted by relative price into gold ounces ("gold equivalent ounces") contained in ore mined and shipped from the Morrison, McCreedy West and Podolsky mines and potentially certain other deposits over the remaining life of these deposits. In 2008, FNX received an up-front payment of C$400 million from Franco Nevada as consideration for the sale of these gold equivalent ounces. In addition, the Group receives a cash payment equal to the lower of $400 per gold equivalent ounce (subject to a 1.0% annual inflationary adjustment commencing July 1, 2011) and the prevailing market price per ounce of gold as the gold equivalent ounces are delivered to Franco Nevada.

The up-front payment has been deferred and the amortization thereof is recognized as an adjustment to revenues as the related gold equivalent ounces are sold to Franco Nevada. The adjustment is determined on the basis of the proportion that the gold equivalent ounces sold to Franco Nevada is to the total estimated gold equivalent ounces in the life of mine plans for the deposits subject to the agreement. In the event that, at the end of the 40 year term of the agreement, the Group has not delivered gold equivalent ounces with a value of C$400 million in excess of $400 per gold equivalent ounce, the Group will be required to pay the deficiency in cash.

i) Inventory

Inventories are comprised of final concentrate products and copper cathodes, leach pad inventory, ore stock piles, and supplies. All inventories are carried at the lower of cost and net realizable value. The cost of concentrate products, copper cathodes, leach pad inventory, and ore inventory includes all direct costs incurred in production including mining, processing, mine site administration, freight, overburden and waste removal costs and depreciation charges relating to the production of inventory. Net realizable value is the estimated selling price for inventories less costs of completion and estimated distribution and other selling costs. The cost of inventories is determined using the average cost method. Write-downs of inventory to net realizable value are recorded as a cost of sales. If there is a subsequent increase in the value of inventories, the previous write-downs to net realizable value may be reversed to the extent that the related inventory has not been sold.

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 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 act0ual copper production, and the engineering estimates are refined based on actual results over time.

j) Financial instruments

The Group designates its financial assets, other than derivative assets, as loans and receivables, available for sale and "fair value through profit and loss". Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. 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. When these assets are impaired, the carrying amount of the financial asset is reduced by the impairment loss directly, except for receivables. The

carrying amount of receivables is reduced through the use of an allowance account and changes to the carrying amount of this account are recognized in profit or loss.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income, unless such assets are determined to be impaired in which case the impairment loss is reclassified out of other comprehensive income and recognized in profit or loss for the period. The reversal of previously recognized impairment losses are recognized directly in equity and not reversed through profit or loss. Available for sale financial assets are comprised of marketable securities.

Financial liabilities other than derivative liabilities are recognized initially at fair value and are subsequently stated at amortized cost. These liabilities include trade accounts payable, other liabilities, loans and borrowings.

Transaction costs on financial assets and liabilities other than those classified as "fair value through profit and loss" are treated as part of the carrying value of the asset or liability. Transaction costs for asset and liabilities at "fair value through profit and loss" are expensed as incurred.

The Group may, from time to time, use derivative instruments to manage its exposure to commodity prices and foreign exchange movements creating derivative financial assets and liabilities. These derivative instruments, including provisionally priced receivables and embedded derivatives, are recorded at fair value. Changes in the fair value of derivatives are recognized in the profit or loss. Derivatives embedded in non-derivative contracts are recognized separately unless closely related to the host contract.

k) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that these taxes relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences associated with the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss and temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

l) Foreign currency translation

The United States dollar is considered to be the functional currency of the Group and all of its subsidiaries.

Transactions denominated in currencies other than the United States dollars are translated using the exchange rate in effect on the transaction date or at an average rate. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the balance sheet dates. All differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items are translated at the historical rate. Exchange gains or losses on translation are recorded in profit or loss.

m) Provisions

When the Group has a present legal or constructive obligation as a result of a past event, a provision is recognized only when the obligation can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the obligation due to the passage of time is recognized as finance expense.

Site closure and reclamation provision

The Group recognizes a provision for statutory, contractual, legal or constructive obligations associated with decommissioning of mining operations, reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or development of mineral properties, plant and equipment. Provisions for site closure and reclamation are recognized in the period in which the obligation is incurred or acquired, and are measured based on expected future cash flows to settle the obligation, discounted to their present value. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability including risks specific to the countries in which the related operation is located.

When an obligation is initially recognized the corresponding cost is capitalized to the carrying amount of the related asset in mineral properties, plant and equipment. These costs are depreciated using either the unit of production or straight line method depending on the asset to which the obligation relates.

The obligation is increased for the unwinding of the discount and the corresponding amount is recognized as a finance expense. The obligation is also adjusted for changes in the estimated timing, amount of expected future cash flows and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset, except where deductions are greater than the carrying value of the related asset, in which case the amount of the excess is recognized in profit or loss.

n) Earnings per share

Basic earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period.

Diluted earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period adjusted for the effects of all dilutive potential common. As of March 5, 2012 all options and warrants were exercised and subsequently no elements of dilutive potential existed for the Group.

o) Leases

Leases are classified as finance or operating depending on the terms and conditions of the lease agreements. Payments under operating leases are expensed in the period in which they are incurred. Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition of an asset related to a finance lease, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Leased assets are amortized on a straight line basis over the period of expected use. Obligations under capital lease are reduced by lease payments, net of computed interest.

p) Cash equivalents

Cash equivalents consist of cash at banks and highly liquid investments, which are readily convertible into cash with maturities of three months or less from the date of purchase.

q) Share capital

The Group records proceeds from share issuances net of issue costs and any tax effects in shareholders' equity.

r) Employee benefits

Employee benefits include base salary, health and disability benefits and annual bonuses. Annual bonuses are paid based on participation in the Group's Short-Term Incentive Plan ("STIP"), which provides the opportunity for employees to earn a cash incentive on the achievement of specific key performance indicators established during the annual performance, planning and review process. In addition to annual bonuses, and at the discretion of the BoD, payment of extraordinary bonuses may be paid to recognize exceptional performance and results for the Group. Employee benefits are recognized as the related services are provided.

The Group also contributes to employee Registered Retirement Savings Plans or similar plans. These costs are expensed as incurred.

s) Finance income and expense

Finance income is comprised comprises of interest income on funds invested (including available-for-sale financial assets) and dividend income. Dividend income is recognized on the date that the Group's right to receive payment is established. Finance income is considered an operating activity for cash flow purposes. Gains and losses on the disposal of available-for-sale financial assets are recognized in other income.

Finance expense is comprised of interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized using the effective interest method. Finance costs are considered an operating activity for cash flow purposes.

t) New pronouncements adopted

The Group has adopted the following new or amended IFRS pronouncements as at January 1, 2014:

IFRIC 21 Accounting for levies imposed by governments

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

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

u) New standards and interpretations not yet adopted

A number of new standards, amendment to standards, and interpretation are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing these consolidated financial statements.

Revenue from contracts with customers

In May 2014, IFRS 15 Revenue from Contracts with Customers ("IFRS 15") was issued, which is applicable for annual reporting periods beginning on or after January 1, 2017, with an option for early adoption. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Group is in the process of analyzing the impact of IFRS 15 and determining the effect on the consolidated financial statements.

Financial instruments

In July 2014 IFRS 9, Financial Instruments ("IFRS 9") was issued. The completed standard provides revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. This final version of IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group is in the process of analyzing the impact of IFRS 9 and determining the effect on the consolidated financial statements.

Consolidated financial statements and Investments in associates

On September 11, 2014, the IASB issued narrow-scope amendments to IFRS 10, Consolidated Financial Statements ("IFRS 10"), and Investments in Associates and Joint Ventures (2011) ("IAS 28"). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments will be effective from annual periods commencing on or after January 1, 2016. The Group is in the process of analyzing the impact of the amendments to IFRS 10 and IAS 28 and determining the effect on the consolidated financial statements.

4. SIERRA GORDA JV

(a) Sierra Gorda JV- investment

The Group and Sumitomo formed a joint venture on September 14, 2011 to develop the Sierra Gorda copper-molybdenum project in Chile. The joint venture operates through a jointly-controlled entity owned 55% by the Group and 45% by Sumitomo and is being accounted for using the equity method. During the year ended December 31, 2014, the Group contributed equity of $154.0 (December 31, 2013- $2.2) to the joint venture.

During the year ended December 31, 2014, the Group eliminated 55% of inter-group profits with the Sierra Gorda JV related to the interest income on subordinated loans (Note 4(b)) and service fee income (Note 23) amounting to $54.1 and $9.2 respectively (During the year ended December 31, 2013- $19.5 and $9.6 respectively). This eliminated profit decreases the investment in Sierra Gorda JV.

The Group's investment in the Sierra Gorda JV at December 31, 2014 was $584.9 (December 31, 2013- $494.2).

(b) Sierra Gorda JV- subordinated loans

As of December 31, 2014 the Group had funded $1,536.7 (December 31, 2013- $1,024.5) to the Sierra Gorda JV through subordinated loan agreements. Accrued interest on this balance as at December 31, 2014 was $239.9 (December 31, 2013- $97.0). For the year ended December 31, 2014, the Group recorded interest income of $88.7 (December 31, 2013- $59.8) (Note 22(a)). Subject to subordination conditions to the Senior Project loans, interest and principal of the subordinated loans are payable on demand and in any event any interest and principal remaining on December 15, 2024 is due and payable. The subordinated loans form part of the security arrangement under the Senior Project loans.

(c) Contractual commitments

At December 31, 2014, the Group's proportionate 55% share of the contractual commitments with respect to the Sierra Gorda JV related to the construction and operation of the mine were are follows: $241.4 in 2015, $54.1 in 2016 and $855.9 for periods 2017 and beyond.

During the year ended December 31, 2013, the Sierra Gorda JV entered into lease agreements to lease certain mine equipment. The Group's proportionate share of the minimum lease payments totaled $245.8 as at December 31, 2014 (December 31, 2013- $34.3). These leases are accounted for as finance leases with a term of 84 months and most bear an interest rate of 90-day LIBOR plus a spread.

The Sierra Gorda JV has recognized embedded leases of $80 million within the Abengoa transmission line construction contracts due to a right to purchase option on the transmission line and system. These leases have been accounted for as finance leases based on a term of 252 months.

(d) Summary financial information

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

	December 31, 2014	**December 31, 2013**
	100%	100%
Current Assets	**449.3**	**549.9**
Cash and cash equivalents	279.7	285.8
Other	169.6	264.1
Non-Current Assets	**5,773.2**	**3,905.5**
Mineral property, plant and equipment	5,743.0	3,891.5
Other	30.2	14.0
Total Assets	6,222.5	4,455.4
Current Liabilities	**419.0**	**383.4**
Non-Current Liabilities	**4,586.3**	**3,134.8**
Subordinated sponsors' loans	3,230.2	2,039.2
Senior project loans	910.0	1,000.0
Other	446.1	95.6
Total Liabilities	5,005.3	3,518.2

(e) Contingency

In January 2014, some citizens of Antofagasta filed two Constitutional legal actions before the Court of Appeals of Antofagasta to stop the construction of the ATI concentrate warehouse at the port of Antofagasta. The intention of the legal action was to obtain annulment of the permits to transport and store of the Sierra Gorda JV’s copper concentrate. On February 26, 2014, the Court of Appeals of Antofagasta ruled in favour of the plaintiffs and annulled all permits, requesting the Sierra Gorda JV’s to re-enter the environmental evaluation system including all activities. The Sierra Gorda JV appealed to the Supreme Court of Chile. On August 4, 2014, the Supreme Court of Chile reversed the judgment of the Court of Appeals of Antofagasta made in February 2014. Due to the reversals of such annulments, the construction of the warehouse at the port of Antofagasta restarted in late August but the delay has caused concentrate shipments to temporarily be transported by truck. Construction completion and commissioning of the concentrate storage and loading facilities in Antofagasta are scheduled for the second quarter of 2015. The JV continues to use the public port facilities in Antofagasta and Arica to ship concentrates.

5. INVENTORY

	December 31, 2014	December 31, 2013
Robinson copper concentrate	29.2	8.5
Carlota leach pad inventory	66.1	59.9
Franke leach pad inventory	17.1	15.4
Copper cathode	7.8	4.8
Supplies	50.8	51.9
Robinson ore stockpile	5.1	16.6
Sudbury crushed ore inventory	-	0.6
	176.1	157.7

For the year ended December 31, 2014 (December 31, 2013- $Nil), cost of sales includes $25.0 due to inventory write downs at Robinson to reduce the concentrate and ore stockpile inventory to net realizable value.

During the second quarter of 2014, a reversal of impairment was recognized in cost of sales which increased Carlota's leach pad inventory by $11.5. The reversal of impairment was triggered by a new leaching methodology which is expected to recover copper in areas of the leach pad where lower than expected recovery was experienced and written down in 2010.

6. TRADE AND OTHER RECEIVABLES

	December 31, 2014	December 31, 2013
Trade receivables	100.3	163.7
Receivable from Sierra Gorda JV (Note 23)	9.2	9.5
Receivable from Bidco	0.3	-
Receivable from KGHM and other related parties	0.5	0.8
Prepaid expenses and advances to suppliers	10.9	14.8
Other receivables	3.2	3.3
	124.4	192.1

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

	December 31, 2014	**December 31, 2013**
Less than 1 month	29.6	86.9
1 to 2 months	28.8	37.1
Greater than 2 months	66.0	68.1
	124.4	192.1

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

Trade receivables as at December 31, 2014 include receivables that pertain to construction contracts of $18.5 (December 31, 2013- $13.4) and retention on construction contracts of $ 14.9 (December 31, 2013- $21.6).

7. OTHER NON-CURRENT ASSETS

	December 31, 2014	**December 31, 2013**
Security deposits for equipment	1.3	1.4
Receivable from Sierra Gorda JV (Note 23)	38.3	9.2
Prepaid on long term contracts	5.6	6.7
Restricted cash	31.2	30.9
Other	5.4	6.0
	81.8	54.2

Restricted cash relates to various cash backed letters of credit including letters of credit to BHP Billiton Canada Inc. for the work being performed by DMC Mining Services.

8. MARKETABLE SECURITIES

As at December 31, 2014, the Group held available for sale securities with an original cost and impaired cost of $9.4 and $0.4, (December 31, 2013- 9.4 and $0.6) respectively and a fair value based on their quoted market price of $0.6 (December 31, 2013- $0.7). For the year ended December 31, 2014, the Group recognized an impairment on available for sale marketable securities of $0.2 (December 31, 2013- $35.1). The impairment in 2013 was recognized due to the fair value of the marketable securities being below cost for a prolonged period.

During the year ended December 31, 2013, the Group received $41.4 in proceeds from disposal of marketable securities, which had an original cost and impaired cost of $59.5 and $33.2 respectively. This disposal resulted in a gain of $7.6, which is included in other income (Note 22(c)) and a foreign exchange gain of $ 0.6.

9. MINERAL PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mineral property acquisition and development	Machinery and equipment	Assets under construction	Total
At January 1, 2014					
Cost	60.5	1,481.8	609.4	23.2	2,174.9
Accumulated depletion, depreciation and amortization	(24.0)	(376.8)	(258.5)	-	(659.3)
Accumulated impairment	(20.8)	(421.6)	(149.7)	-	(592.1)
Net book value	**15.7**	**683.4**	**201.2**	**23.2**	**923.5**
Year ended December 31, 2014					
Change in Cost					
Additions	-	128.4	14.4	47.5	190.3
Disposal	-	-	(3.8)	(1.2)	(5.0)
Increase in site closure and reclamation asset	-	14.8	-	-	14.8
Transfers	10.3	13.3	-	(23.6)	-
Subtotal	10.3	156.5	10.6	22.7	200.1
Change in Accumulated Amortization					
Reversal of accumulated depletion, depreciation and amortization on disposal	-	-	3.0	-	3.0
Depletion, depreciation and amortization charge	(2.7)	(117.2)	(40.3)	(3.1)	(163.3)
Subtotal	(2.7)	(117.2)	(37.3)	(3.1)	(160.3)
At December 31, 2014					
Cost	70.8	1,638.3	620.0	45.9	2,375.0
Accumulated depletion, depreciation and amortization	(26.7)	(494.0)	(295.8)	(3.1)	(819.6)
Accumulated impairment	(20.8)	(421.6)	(149.7)	-	(592.1)
Net book value	**23.3**	**722.7**	**174.5**	**42.8**	**963.3**

Machinery and equipment includes $11.8 related to two finance leases agreements entered into during the year ended December 31, 2013. Finance lease obligations are $2.4 due within one year, $4.7 due within one to three years and $0.6 due after three years.

Additions to mineral property include deferred stripping cost at Robinson of $113.6 (December 31, 2013- $89.3).

As at December 31, 2014, assets under construction include $36.2 for costs incurred at Victoria (December 31, 2013- $12.1).

10. INTANGIBLE ASSETS

	Exploration and evaluation assets	Water rights	Other intangible assets	Software	Goodwill	Total
At January 1, 2014						
Cost	153.0	59.1	2.4	9.7	180.6	404.8
Accumulated depletion, depreciation and amortization	-	-	(0.3)	(5.7)	-	(6.0)
Net book value	**153.0**	**59.1**	**2.1**	**4.0**	**180.6**	**398.8**
Period ended December 31, 2014						
Change in Cost						
Additions	48.1	3.1	-	1.3	-	52.5
Subtotal	48.1	3.1	-	1.3	-	52.5
Change in Accumulated Amortization						-
Depletion, depreciation and amortization charge	-	-	(0.4)	(1.6)	-	(2.0)
Subtotal	-	-	(0.4)	(1.6)	-	(2.0)
At December 31, 2014						
Cost	201.1	62.2	2.4	11.0	180.6	457.3
Accumulated depletion, depreciation and amortization	-	-	(0.7)	(7.3)	-	(8.0)
Net book value	**201.1**	**62.2**	**1.7**	**3.7**	**180.6**	**449.3**

11. ENVIRONMENTAL TRUST AND BOND

	December 31, 2014	December 31, 2013
Environmental bonds (a)	27.9	33.0
Held in trust for Robinson reclamation (b)	15.1	15.1
	43.0	48.1

(a) The Group has posted environmental bonds for its mines in Canada and the US. The Group revises the reclamation plan and cost estimate for its mines annually and adjusts the amount of the bonds accordingly. During the year ended December 31, 2014, the Group increased environmental bonds by $1.0 (December 31, 2013- $7.3) and redeemed $5.4 of environmental bonds which were replaced by letters of credit supported by KGHM. During 2013 $61.0 bonds were redeemed, which were replaced by letters of credit issued under the Corporate Facility.

(b) Under the terms of the Kennecott Royalty Agreement that the Group assumed on the acquisition of the Robinson Mine, a 3% net smelter return royalty is payable to Royal Gold Inc. (formerly to Kennecott). The agreement required that the first royalty payments be paid into a trust until such time that $20.0, with accumulated interest, was available to pay for qualified rehabilitation expenditures on the Robinson mine. The trust account was fully funded in 2006. Under the terms of the agreement, the Group received $1.1 from the trust for the year ended December 31, 2013 on completion of certain reclamation activities.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2014	December 31, 2013
Deliveries and services	45.6	59.9
Payables to Sierra Gorda JV (Note 23)	1.3	-
Payables to KGHM	2.3	-
Employee taxes and social security	3.8	3.9
Wages	2.2	2.2
Other	2.5	1.8
Accrued expenses	61.8	57.3
	119.5	125.1

13. DEFERRED REVENUE

The Group has recognized as deferred revenue a prepayment received previously by FNX from Franco-Nevada Corporation for the delivery of 50% of the contained gold, platinum and palladium in ore mined and shipped from certain deposits at the existing Sudbury Operations.

Balance - January 1, 2013	178.6
Recognized into revenue	(12.3)
Balance - January 1, 2014	166.3
Recognized into revenue	(11.5)
Balance - December 31, 2014	154.8
Current	13.2
Non-Current	141.6
Total Deferred Revenue	154.8

14. BORROWINGS AND FINANCE LEASE LIABILITIES

	December 31, 2014	**December 31, 2013**
Borrowings	692.1	490.7
Finance lease	5.3	7.8
	697.4	498.5

Borrowings are made up of the following:

	December 31, 2014	**December 31, 2013**
Senior notes	500.0	500.0
Senior note issue costs	(12.3)	(12.3)
Cumulative amortization of senior note issue costs	4.4	3.0
Corporate facility	200.0	-
	692.1	490.7

a) Borrowings

In June 2011, the Group issued $500.0 aggregate principal amount of 7.75% senior unsecured notes (“Notes”) due 2019 in a private placement. The Notes are carried at amortized cost. The fair market value of the face value of the Notes at December 31, 2014 is $520.6 (December 31, 2013 - $525.5) based on a trading price of 104.1 (December 31, 2013- 105.1) per 100.

These Notes contain certain covenants that limit the Group’s ability and the ability of certain subsidiaries to, incur additional indebtedness, issue preferred stock, create liens, make restricted payments, create or permit certain payments and distributions, engage in amalgamations, mergers or consolidations, make certain dispositions and transfers of assets, or engage in transactions with affiliates.

The Group may redeem the Notes prior to June 15, 2015 in whole or in part at 100.0% of their principal amount, plus accrued interest plus the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the June 15, 2015 redemption price plus required interest payments through June 15, 2015 over the principal amount of the note.

The Group may redeem the Notes at any time on or after June 15, 2015 at the redemption prices and periods set forth below, plus accrued and unpaid interest:

June 15, 2015..103.875%
June 15, 2016..101.938%
June 15, 2017 and thereafter 100.000%

Upon specified change of control events, each holder of a note will have the right to require the Group to purchase all or a portion of the Notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

b) Corporate Facility

During 2013, the Group entered into a $200.0 senior secured revolving corporate credit facility (“the Corporate Facility”) with a syndicate of banks dated for reference June 19, 2013. The Corporate Facility was due to mature on June 19, 2017 and bears interest at LIBOR plus a margin dependent on the Group’s net indebtedness to rolling EBITDA ratio.

During the first quarter of 2014, KGHM replaced the letter of credit of $137.5 that had been issued on behalf of the Group for the Sierra Gorda JV power purchase agreement under the Corporate Facility thereby releasing $137.5 of capacity in the Corporate Facility. During the second quarter of 2014, KGHM replaced the remaining $61.0 letters of credit that were issued under the Corporate Facility

During the year ended December 31, 2014, the Group drew $200.0 in cash from the Corporate Facility.

On January 28, 2015, the Group refinanced the facility with a $200.0 term loan due December 31, 2019 from its shareholder 0929260 B.C. Unlimited Liability Company (“Bidco”).

The below table summarizes the usage of the Corporate Facility:

	Letters of Credit	Loans	Total
Balance at January 1, 2014	198.5	-	198.5
Issued for reclamation bonding during the period	11.1	-	11.1
Replaced by KGHM for Sierra Gorda JV	(137.5)	-	(137.5)
Replaced by KGHM for reclamation bonding	(72.1)	-	(72.1)
Draw down of the Corporate Facility	-	200.0	200.0
Balance at December 31, 2014	-	200.0	200.0

KGHM supported an additional $5.4 letters of credit during 2014 to replace the environmental bonds redeemed at Robinson, which were not part of the Corporate Facility. At December 31, 2014 KGHM held $215.0 of letters of credit on behalf of the Group.

15. KGHM Cash Pooling

During the second quarter of 2014, the Group entered into a $150.0 cash pooling agreement with its parent company KGHM (“Cash Pooling”). The Cash Pooling bears interest at LIBOR plus margin. The Cash Pooling is unsecured and is subordinated and postponed to the Corporate Facility; in addition repayments of advances are subject to limitations governed by the Corporate Facility and there are no fixed terms of repayment. As of December 31, 2014, the Group had utilized $70.0 under the Cash Pooling and accrued $0.6 in interest.

16. PROVISIONS

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

	December 31, 2014	December 31, 2013
Site closure and reclamation provision	159.8	148.8
Carlota termination benefits and other	7.7	3.1
Total provisions	**167.5**	**151.9**
Current	27.0	17.4
Long term	140.5	134.5
Total provisions	**167.5**	**151.9**

Site closure and reclamation provisions are as follows:

Balance at January 1, 2013	96.0
Change in estimated timing and amount of closure cost	62.6
Decrease in provision due to change in discount rate	(8.8)
Reclamation work done to reduce liability	(2.8)
Unwinding of discount	1.8
Balance at January 1, 2014	148.8
Change in estimated timing and amount of closure cost	8.0
Increase in provision due to change in discount rate	2.6
Reclamation work done to reduce liability	(2.9)
Unwinding of discount	3.3
Balance at December 31, 2014	**159.8**
Current	21.1
Non Current	138.7
Total Site closure and reclamation provisions	**159.8**

Site closure and reclamation provisions by region are as follows:

	December 31, 2014	December 31, 2013
United States	138.0	127.8
Chile	14.3	13.6
Canada	7.5	7.4
	159.8	148.8

Undiscounted site closure and reclamation cost estimates required to satisfy the obligations by region are as follows:

	December 31, 2014	December 31, 2013
United States	176.6	147.3
Chile	15.9	15.6
Canada	8.4	8.4
	200.9	171.3

The reclamation cost estimates are discounted at a pre-tax risk free rate specific to each liability.

During the fourth quarter of 2014, a mine in the United States region updated its reclamation plan to comply with revised permit requirements, which resulted in an increase of $8.1 to the discounted liability. As well, a mine in the Chile region revised its reclamation plan and cost estimates in order to comply with revised guidelines issued by a governmental agency in Chile and to recognize disturbance carried out in 2014.

During the fourth quarter of 2013, a mine in the United States region formalized its reclamation plan which resulted in a net increase of $54.7 to the discounted liability.

The closure cost estimates are subject to change based on amendments to laws and regulations and physical disturbance at the mine sites. The Group is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future.

	December 31, 2014	December 31, 2013
Discount rates		
United States	1.8% - 2.5%	1.8% - 3.4%
Chile	1.9%	2.3%
Canada	2.3% - 2.9%	2.6% - 2.8%
Expected completion dates of reclamation	2015-2037	2014-2036

17. DERIVATIVE INSTRUMENTS

As at December 31, 2014 the Group's derivative instruments comprised of long-term supply contracts as noted in 17(a) below.

a) Long-term supply contracts

The Group has long-term supply contracts for sulphuric acid and water with contracted prices that are subject to adjustment based on prevailing copper prices. The acid contract has a low base price, but requires an additional $2.50/tonne to be paid for each $0.10/lb that the copper price exceeds $1.10/lb. Similarly, the water contract requires that an additional $0.08/cubic metre be paid for each $0.15/lb that copper price exceeds $1.50/lb. The minimum commitment under the contracts is estimated to be $4.1 per annum for acid and $1.1 per annum for water.

These copper price escalation clauses create embedded derivatives in the acid and water supply contracts. As of December 31, 2014, the fair value of the embedded derivative liabilities was $46.9 (December 31, 2013 - $51.7) and for the year ended December 31, 2014 a gain of $4.8 (December 31, 2013- $5.0) (Note 22) was recognized in other income. The following significant assumptions were used:

- Copper price in the range of $2.82/lb to $3.37/lb from 2015 to 2022.
- Discount rate: 11%

b) Foreign currency contracts

i) Chilean Pesos (CLP)

In 2014, the Group purchased puts for the equivalent of $200.0 in CLP with a strike price of 525 CLP per USD at a cost of $1.4 which expired between January and March 2014 unexercised.

ii) Canadian Dollars

The Group entered into a number of foreign currency contracts to sell $62.5 in CAD with a strike price of $1.10 CAD per USD at a cost of $0.9, with settlements between August and December 2014. As at December 31, 2014 all contracts had expired and during the year ended December 31, 2014 the Group recognized a loss of $0.7.

18. SHARE CAPITAL

Common Shares

The Group has authorized share capital of 1,000,000,000 common shares ("Shares") with no par value.

	Number of Shares	Amount
Balance at January 1, 2014	199,836,316	1,851.5
Capital Stock issued	399,885,900	357.0
Balance at December 31, 2014	599,722,216	2,208.5

During the year ended December 31, 2014, the Group issued 399,885,900 (December 31, 2013- $Nil) common shares to its shareholder Bidco for total proceeds of $357.0.

In January 2015, the Group issued 37,103,980 common shares for total proceeds of $29.8 to Bidco.

19. SEGMENTED INFORMATION

The Group's reportable operating segments are individual mine operations and development projects, being Robinson, Carlota, Franke, Sudbury Operations, DMC, other mineral properties and Corporate. The corporate segment is responsible for the oversight of the Group's mineral properties and corporate administration. The Sudbury operations of the Group are assigned the goodwill established during the merger with FNX Mining Ltd. on May 20, 2010.

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	Robinson (USA) [a]	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda) [a]	DMC	Corporate & Other	Total
Copper revenues	220.6	69.8	129.1	113.1	-	-	532.6
Nickel revenues	-	-	-	55.7	-	-	55.7
Other by - product revenues	34.9	-	-	34.6	-	-	69.5
Contract mining revenues	-	-	-	-	107.1	-	107.1
Treatment charges	(24.6)	-	-	(39.0)	-	-	(63.6)
Net revenues	**230.9**	**69.8**	**129.1**	**164.4**	**107.1**	-	**701.3**
Depreciation and amortization	81.8	-	10.3	61.6	4.7	-	158.4
Employee benefits expense	38.4	14.7	24.0	30.0	47.1	-	154.2
Raw materials, other consumables and energy	89.3	27.7	63.6	30.9	4.7	-	216.2
Office expenses	12.0	3.9	10.0	7.6	3.2	-	36.7
External services	25.7	3.8	14.9	22.5	53.0	-	119.9
Royalties and mineral taxes	6.7	2.1	1.0	-	-	-	9.8
Reversal of leach pad inventory impairment (Note 5)	-	(11.5)	-	-	-	-	(11.5)
Changes in inventories	(9.1)	5.0	(4.4)	(0.6)	-	-	(9.1)
Distribution costs	32.4	-	2.3	4.2	-	-	38.9
Income (loss) from operations	**(46.3)**	**24.1**	**7.4**	**8.2**	**(5.6)**	-	**(12.2)**
General and administrative	-	-	-	-	-	37.8	37.8
Finance income	-	-	-	-	-	(94.2)	(94.2)
Finance expense	-	-	-	-	-	58.9	58.9
Other income	-	-	-	-	-	(25.1)	(25.1)
Other expense	-	-	-	-	-	3.9	3.9
Impairment of marketable securities	-	-	-	-	-	0.2	0.2
Foreign exchange loss	-	-	-	-	-	5.4	5.4
Segment earnings (loss) before tax	**(46.3)**	**24.1**	**7.4**	**8.2**	**(5.6)**	**13.1**	**0.9**

	Robinson (USA) [a]	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda) [a]	DMC	Corporate & Other	Total
Capital expenditures	121.5	-	4.4	31.2	1.9	79.1	238.1
Segment non-current assets as at December 31, 2014	353.1	84.1	111.1	713.2	37.0	2,699.0	3,997.5
Segment assets as at December 31, 2014	428.5	161.5	168.6	784.8	96.9	2,743.8	4,384.1

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	Robinson (USA)	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda)	DMC	Corporate & Other	Total
Copper revenues	353.5	72.0	145.0	161.4	-	-	731.9
Nickel revenues	-	-	-	66.6	-	-	66.6
Other by-product revenues	78.3	-	-	43.2	-	-	121.5
Contract mining revenues	-	-	-	-	215.3	-	215.3
Treatment charges	(24.7)	-	-	(47.8)	-	-	(72.5)
Net revenues	**407.1**	**72.0**	**145.0**	**223.4**	**215.3**	**-**	**1,062.8**
Depreciation and amortization	56.4	-	22.2	81.6	4.5	-	164.7
Employee benefits expense	44.7	15.8	27.1	40.4	65.9	-	193.9
Raw materials, other consumables and energy	105.1	36.9	74.6	41.1	-	-	257.7
Office expenses	18.1	3.7	8.4	11.1	3.7	-	45.0
External services	42.4	6.3	17.3	34.0	121.3	-	221.3
Impairment of non-current assets	-	55.4	-	-	-	-	55.4
Royalties and mineral taxes	12.0	2.9	-	-	-	-	14.9
Changes in inventories	(8.3)	(9.4)	9.3	(0.2)	-	-	(8.6)
Distribution costs	35.3	-	1.7	9.5	-	-	46.5
Income (loss) from operations	**101.4**	**(39.6)**	**(15.6)**	**5.9**	**19.9**	**-**	**72.0**
General and administrative	-	-	-	-	-	47.6	47.6
Finance income	-	-	-	-	-	(69.1)	(69.1)
Finance expense	-	-	-	-	-	49.4	49.4
Other income	-	-	-	-	-	(31.5)	(31.5)
Other expense	-	-	-	-	-	6.7	6.7
Impairment of marketable securities	-	-	-	-	-	35.1	35.1
Foreign exchange loss	-	-	-	-	-	16.2	16.2
Segment earnings (loss) before tax	**101.4**	**(39.6)**	**(15.6)**	**5.9**	**19.9**	**(54.4)**	**17.6**

Capital expenditures	113.0	-	1.8	36.5	3.3	24.6	179.2
Segment non-current assets as at December 31, 2013	300.2	80.8	116.4	743.6	41.3	1,847.3	3,129.6
Segment assets as at December 31, 2013	441.3	155.9	181.2	836.0	119.8	2,007.4	3,741.6

(a) Revenues at Robinson and Sudbury Operations are from concentrate and ore sales and are recorded provisionally at the time of sale based on forward prices for the expected date of the final settlement. Subsequent variations in price are recognized as revenue adjustments as they occur until the price is finalized. At December 31, 2014, 36.5 million pounds of copper have been provisionally valued at an average price of $2.86 per pound. The final pricing for these provisionally priced sales is expected to occur between January and April 2015.

20. INCOME TAXES

Income tax expense included in the consolidated Statements of Comprehensive Income is as follows:

	December 31, 2014	December 31, 2013
Current tax recovery (expense)		
Current income tax recovery (expense)	17.5	(17.6)
Withholding taxes, state income tax and others	(1.0)	(1.0)
	16.5	(18.6)
Deferred tax recovery (expense)		
Change in deferred income tax assets and liabilities	(0.3)	10.4
Income tax recovery (expense)	16.2	(8.2)

The reconciliation of the income taxes calculated at the statutory rates to the Group's effective income tax provision is as follows:

	December 31, 2014	December 31, 2013
Earnings before income taxes	0.9	17.6
Income tax rate	26.00%	25.75%
Income tax expense calculated using statutory rate	(0.2)	(4.5)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	(1.3)	(4.2)
Ontario mining tax and other tax credits	1.7	1.6
Different tax rates in foreign jurisdictions	24.1	1.0
Depletion allowance	(1.5)	18.6
Others, net	(3.0)	(4.7)
Benefits of deferred tax not recognized in the current year	(3.6)	(16.0)
Income tax recovery (expense)	16.2	(8.2)

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Recognized deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets	**December 31, 2014**	**December 31, 2013**
Mineral properties, plant and equipment	61.0	77.2
Reclamation liabilities	2.1	1.5
Inventory	-	2.6
Tax losses	18.4	2.6
Interest receivable	3.0	-
Other	14.0	5.4
	98.5	89.3
Deferred tax liabilities		
Mineral properties, plant and equipment	(186.8)	(180.1)
Deferred revenue	(9.6)	(13.1)
Interest payable	(3.1)	-
Inventory	(1.4)	(1.6)
Other deferred tax liabilities	(14.2)	(10.7)
	(215.1)	(205.5)
Recognized deferred tax assets (liabilities), net	(116.6)	(116.2)

Deferred tax assets have not been recognized in respect of certain items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits.

As of December 31, 2014, the Group has loss carry-forwards in Canada of $5.6 (December 31, 2013- $30.7) expiring between years 2032 to 2033; in Chile of $251.0 (December 31, 2013- $233.4) which can be carried forward indefinitely against future years' taxable income; and in the US of $53.0 (December 31, 2013 - $Nil) which can be carried forward until 2034.

The Group has available Alternative Minimum Tax credits of $27.0 (December 31, 2013- $35.7) which can be carried forward indefinitely and applied to reduce regular taxes payable in the United States.

The Group has foreign subsidiaries that have undistributed earnings of $1,124.5 (December 31, 2013- $1,072.9). The Group can control the timing of the repatriation of undistributed earnings, and it is probable that these earnings will not be repatriated in the foreseeable future. Therefore, deferred income taxes have not been provided in respect of these earnings.

The Group has an estimated aggregate amount of $69.3 (December 31, 2013- $69.3) temporary difference associated with investments in subsidiaries, branches, and associates and interest in joint venture for which deferred tax liabilities have not been recognized.

21. GENERAL AND ADMINISTRATIVE

	Year ended December 31, 2014	Year ended December 31, 2013
Employee benefits expenses	19.3	23.5
Legal and professional services	7.3	9.3
Office and communication expenses	11.2	14.8
	37.8	47.6

22. FINANCE INCOME AND EXPENSE

(a) Finance Income

Finance income for the year ended December 31, 2014 of $94.2 (December 31, 2013- $69.1) is primarily related to interest earned on short-term investments of $0.7 (December 31, 2013- $5.5), interest on subordinate loans to Sierra Gorda JV of $88.7 (December 31, 2013- $59.8) and interest on notes receivable of $0.7 (December 31, 2013- $3.8) (Note 23) and letter of credit fees from Sierra Gorda JV of $4.1 (December 31, 2013- $Nil) (Note 23).

(b) Finance Expenses

Finance expense for the year ended December 31, 2014 of $58.9 (December 31, 2013- $49.4) is primarily comprised of $38.8 interest expense related to senior notes (December 31, 2013- $38.8), interest expense on the Corporate Facility of $5.4 (December 31, 2013- $2.9) (Note 14), accretion $3.3 (December 31, 2013- $1.8), guarantee fees to Sumitomo on Sierra Gorda financing $4.2 (December 31, 2013-$3.8), letters of credit fees to KGHM of $3.9 (December 31, 2013- $Nil) (Note 14) and amortization on the deferred financing fees of $2.1 (December 31, 2013-$1.6).

(c) Other Income

Other income for the year ended December 31, 2014 of $25.1 (December 31, 2013- $31.5) is primarily comprised of net service fees from Sierra Gorda JV of $15.8 (December 31, 2013- $15.4) (Note 23), gain on derivatives of $4.8 (December 31, 2013- $5.0) (Note 17), gain on sale of marketable securities $Nil (December 31, 2013- $7.6) and gain due to reduction in reclamation liability of $4.2 (December 31, 2013- $Nil).

23. RELATED PARTY TRANSACTIONS AND BALANCES

Upon formation of the Sierra Gorda JV, the joint venture became a related party with the Group. The net amount due from the Sierra Gorda JV is $7.9 at December 31, 2014 (December 31, 2013- $9.5) (Note 6) (Note 12) and is repayable in the normal course of business. Service fees currently payable to the Group at December 31, 2014 is $3.1 (December 31, 2013- $3.1). It was agreed that 50% of the payment of the service fees earned from July 1 to December 31, 2013, 100% of the service fees earned from January 1, 2014 onwards and 100% of the letter of credit guarantee fees payable to the Group be deferred until financial completion. As at December 31 2014, $31.3

(December 31, 2013- $6.3) of the service fee and $7.1 (December 31, 2013- $2.9) of a letter of credit guarantee fee have been deferred (Note 7). The outstanding amounts bear an interest rate of 0.75% per annum.

On March 5, 2012, the Group loaned $110.9 to Bidco for the purchase and exercise of FNX Warrants in conjunction with the Plan of Arrangement. The obligation with respect to the loan was evidenced by a promissory note payable to the Group. In Q1 2013, the maturity date was extended to March 5, 2014. Interest on the outstanding principal was calculated at 3.75% per annum payable in arrears on the maturity date, or on the date which the principal amount is paid by Bidco. Bidco repaid $13.2 of the above principal and interest on February 28, 2013 and on March 10, 2014, Bidco repaid $105.6.

The consolidated financial statements include those of KGHM International and its subsidiaries. Related parties include relationships involving direct or indirect control, including common control; it also includes joint control and significant influence. These relationships are not restricted to entities, but also include individuals and key management personnel.

(a) Relationships with subsidiaries

The Group's ownership interest represents the portion directly or indirectly held through various entities and corporate structures. The Group's material subsidiaries are as follows:

Subsidiary	**Country of incorporation**	**Ownership interest**
Robinson Nevada Mining Company	United States	100%
Carlota Copper Company	United States	100%
Sociedad Contractual Minera Franke Chile	Chile	100%
FNX Mining Company Inc.	Canada	100%
DMC Mining Services Corporation	United States	100%
Sierra Gorda SCM (Equity accounting)	Chile	55%

(b) Transactions with key management personnel

Key management personnel comprise of the Group's BoD and Executive Officers. Compensation programs include base salary, annual bonuses, long-term incentives, and benefits. These are categorized as follows:

	2014	**2013**
Short-term employee benefits	4.8	5.4
Termination benefits	-	2.1
	4.8	7.5

Key management personnel transactions and balances

The Group is not aware of any key management personnel during the period that were indebted to the Group or its subsidiaries, or whose indebtedness to another entity is the subject of a guarantee, support agreement, letter of credit or other similar arrangement.

Short-term employee benefits

Short-term employee benefits include base salary, health and disability benefits, and annual bonus for each executive. Annual bonuses are paid based on participation in the Group's Short-Term Incentive Plan ("STIP"), which provides the opportunity for executives to earn a cash incentive on the achievement of specific KPI's established during the annual Performance, Planning and Review Process. In addition to annual bonuses, and at the discretion of the BoD, payments of extraordinary bonuses are allowed to recognize exceptional performance and results for the Group. As at December 31, 2014, the amount due to key management personnel for short-term benefits was $0.7 (December 31, 2013- $1.1).

Directors of the Group receive various directors' fees such as retainer's fees and fees for meeting attendance.

Post-employment benefits

The Group does not have a defined benefit or defined contribution plan for post-employment benefits. Contributions are paid by the Group to employee RRSP's or similar plans in other jurisdictions to the maximum of 8% of annual base salary, or the maximum contribution as permitted by pension law.

Termination benefits

Executive Officers have employment agreements that provide a range of termination and change of control benefits. Where there is a change of control in the Group and employment is terminated without cause, or is terminated by the executive within first 12 months, they are entitled up to 36 months of base salary, incentive compensation and Group paid benefits depending on the number of years completed as an Executive Officer and contribution to the Group. In the case where termination is other than a change of control, the range is from no contractual arrangements to 36 months of compensation as described for change of control.

Other long-term benefits

Executive Officers participate in the Group's long term incentive plan ("LTIP"). The expenses related to this plan are included in employee benefit expenses (Note 21). There were no payments made related to this plan since it became effective in 2012. During the year ended December 31, 2014, the group recognized an expense of $0.2 (December 31, 2013- $1.0) for the key management personnel under this plan based on an assumed future payout.

24. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Year ended December 31, 2014	Year ended December 31, 2013
Decrease in receivables	67.7	72.9
Increase in inventory	(18.4)	(16.9)
Increase in other non-current asset	(24.3)	(7.3)
Decrease in accounts payable and accrued liabilities	(10.2)	(17.6)
Increase (decrease) in provisions	4.5	(1.0)
	19.3	30.1
Non-cash investing and financing activities:		
(Decrease) increase in mineral properties, plant and equipment purchases in accruals	(0.3)	0.4
Increase in additions to mineral properties, plant and equipment due to finance lease	-	11.8

25. COMMITMENTS

(a) Operating leases

The Group has entered into commercial operating leases. These leases have an average life of between three and five years with no renewal option included in the contracts.

Future minimum payments under non-cancellable operating leases as at December 31 are as follows:

	December 31, 2014	December 31, 2013
Within one year	5.4	5.8
After one year but not more than five years	16.0	15.1
More than five years	10.2	12.5
	31.6	33.4

(b) Purchase contracts

The Group has purchase contracts as follows:

	December 31, 2014	December 31, 2013
Within one year	34.6	13.4
After one year but not more than five years	68.6	45.7
More than five years	25.2	35.3
	128.4	94.4

Commitments that pertain to Sierra Gorda JV are disclosed in Note 4(c).

(c) Royalty agreements

The Group's significant royalty agreements for its operating mines are as below:

(i) Robinson mine

Production at the Robinson Mine is subject to two royalty agreements: a 3% net smelter return royalty payable to Royal Gold Inc. and a 0.225% net smelter return royalty payable to Franco Nevada Corporation. The Franco Nevada royalty agreement also provides for the following additional payments:

(1) A 10% royalty on net smelter returns on 51% of the production of gold from the Robinson Mine in excess of 60,000 ounces per calendar year;

(2) A royalty on 51% of copper production at the Robinson Mine in excess of 130 million pounds of copper, payable in any calendar year in which the price of copper exceeds $1.00 per pound at the end of the year (adjusted for inflation from 1990) (the "Trigger Price"), in an amount equal to $0.05 per pound plus 40% of the amount by which the average price of copper for the year exceeds the Trigger Price.

(ii) Carlota mine

The Carlota mine is subject to a 5% net smelter return royalty on production from certain mining claims that were previously owned by BHP Copper Inc.

26. CONTINGENCIES

(a) In the normal course of business DMC enters into agreements that contain indemnification commitments and may contain features that meet the expanded definition of guarantees. The terms of these indemnification agreements will vary based on the contract and typically do not provide for a limit on the maximum potential liability. The Group has not made any payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to these indemnification commitments.

(b) DMC is involved in a dispute about certain design issues around the shaft sinking for one of its customers. The Group has been advised by counsel that it has a reasonably strong case but the issue is technically complex and there can be no certainty that a liability may not materialize in the future.

(c) The Group is subject to lawsuits from time to time, existing litigation is not considered to be likely to have a material impact on the financial statements.

27. MANAGEMENT OF CAPITAL RISK

The Group's objectives when managing capital risk are to safeguard the Group's ability to continue as a going concern in order to pursue the operation and development of mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Group includes the components of shareholders' equity and long term debt in the management of capital. The capital structure is managed in conjunction with the structure of KGHM. To maintain or adjust the capital structure, the Group may issue new common shares, issue new debt, repay debt, and acquire or dispose of assets or investments.

In order to facilitate the management of its capital requirements, the Group prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the BoD and KGHM.

To maximize ongoing development efforts, the Group does not pay out dividends. The investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities of three months or less when acquired, and are selected with regards to the expected timing of expenditures from continuing operations.

28. FINANCIAL INSTRUMENTS

Financial instruments are classified as held for trading, held to maturity, loans and receivables, available for sale or other financial liabilities. Financial instruments carried at fair value on the consolidated balance sheet are classified within a fair value hierarchy that prioritizes the inputs to fair value measurements. The three levels of the fair value hierarchy are:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

At December 31, 2014 and at December 31, 2013, the carrying value of financial instruments were approximately their fair value except for the senior note with a carrying value of $492.1 (December 31, 2013- $490.7) and a fair value of the face value of $520.6 (December 31, 2013- $525.5) (Note 14). The fair value hierarchy for the Group's financial instruments at December 31, 2014 and December 31, 2013 was as follows:

- Level 1: Marketable securities.
- Level 2: Receivables for provisionally priced metal sales, derivative assets, derivatives and embedded derivatives liabilities

Level 1 – Quoted prices in active markets for identical assets or liabilities

Marketable equity securities are valued using quoted market prices in active markets. Accordingly, these items are included in Level 1 of the fair value hierarchy.

Level 2 – Significant other observable inputs

Derivative instruments are included in Level 2 of the fair value hierarchy as they are valued using discounted cash flow models. These models require a variety of inputs including but not limited to, contractual terms, market prices, forward price curves, long term price estimates. These inputs are obtained from or corroborated with the market where possible. The significant assumptions are described in Note 17.

Also included in Level 2 are settlements expected from provisional pricing on concentrate and ore sales because they are valued using quoted market prices.

The Group does not have any level 3 financial instruments.

The Group and in particular the Group's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk, commodity price risk and equity price risk. These risks are assessed regularly and when appropriate the Group takes steps to mitigate these risks.

(a) Currency risk

The Group's revenues from the sale of copper, nickel, gold, molybdenum and other precious metals are contracted and denominated in US dollars. A significant portion of the Group's operating expenses and the majority of its assets and liabilities are transacted and denominated in US dollars. There are certain operations of the Group that have transactions denominated in a currency other than US dollars, therefore, creating some currency risk. The Franke mine has some operating expenses and accounts payable denominated in Chilean pesos. The corporate office and its Sudbury mines are located in Canada, as such, most general and administrative expenses are paid in Canadian dollars and some operating expenses and accounts payable are denominated in Canadian dollars. Marketable securities that are held are denominated in Canadian dollars.

KGHMI is also exposed to Chilean currency through the capital expenditures on the Sierra Gorda JV. To partly manage this risk the Group purchased Chilean pesos and invested them in UF denominated short term investments. These investments are inflation indexed and partly mitigate inflation risk and currency risk in Chile. The Group had sold all its UF denominated short term investments by the end of 2013.

From time to time, the Group enters into foreign currency contracts to manage currency risk. In 2014, the Group entered into Chilean peso and Canadian dollar contracts. As at December 31, 2014 all contracts had expired (Note 17(b))

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at December 31, 2014 and December 31, 2013 are as follows:

	December 31, 2014	December 31, 2013
Financial Assets		
Canadian dollar	38.8	67.3
Chilean peso	2.2	4.1
	41.0	71.4

	December 31, 2014	December 31, 2013
Financial Liabilities		
Canadian dollar	37.8	30.0
Chilean peso	15.7	16.0
	53.5	46.0

Financial instruments are only considered sensitive to foreign exchange rates where they are not in US dollars. In the following table, a positive number indicates an increase in income for the period where the foreign currencies strengthen against the US dollar. The same percentage weakening of the stated currencies would have an equal and opposite effect.

	December 31, 2014	December 31, 2013
Increase (decrease) in earnings		
10% appreciation of the Canadian dollar	0.1	3.7
10% appreciation of the Chilean peso	(1.4)	(1.2)
	(1.3)	2.5

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Group's significant counterparty exposures are as follows:

- The payment terms of the trade receivables are defined in the contracts and subject to a range of dates and settlement terms as per normal mining industry practices. The Group manages the credit risk for trade and other receivables through established credit monitoring activities and long term business relationships with most customers having stable and large international operations.

- For cash and cash equivalents the counterparties primarily consist of banks, governments and government agencies with a minimum Standard & Poor's credit rating of A+ or higher.

The carrying values of these assets represent the Group's maximum exposure to credit risk. The Group's investment policy has pre-defined expenditure, and requires monitoring of the concentration of exposure and where possible, takes steps to limit exposures to any one counterparty to reduce risk concentration. The Group does not believe that it is exposed to any material concentration of credit risks as at December 31, 2014.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk through regular forecasting and the management of its capital structure and financial leverage to ensure adequate sources of funding, including funding from KGHM, are available to finance operations and projects.

The following table details the Group's expected remaining contractual maturities for its financial liabilities as at December 31, 2014. The amounts presented are undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to satisfy the liabilities.

	Less than 1 year	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**After 5 years**	**Total**
Franke Mine supply contracts	9.6	11.5	12.2	10.6	10.7	25.2	79.8
Accounts payable	119.5	-	-	-	-	-	119.5
Senior Notes and interest	38.8	38.8	38.8	38.8	519.4	-	674.6
Minimum lease payments	8.0	6.4	6.4	4.6	4.0	10.2	39.6
Corporate Facility	-	-	200.0	-	-	-	200.0
Total	175.9	56.7	257.4	54.0	534.1	35.4	1,113.5

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate risk is not considered material for the Group given its fixed rate debt and marginal returns on interest bearing assets.

(e) Commodity price risk

The value of the Group's mineral resource properties is related to both the current and future outlook price of copper, gold, molybdenum, and other precious metals. Historically, these prices have fluctuated widely and are affected by numerous factors outside of the Group's control, including industrial and retail demand, global economic growth, levels of worldwide mine production, short-term changes in supply and demand related to speculative activities, and forward sales by producers and speculators.

The profitability of the Group's operations is highly correlated to the market price of copper and gold. The Group's main source of revenues is from the sale of copper and gold. If metal prices decline significantly, or for a prolonged period, the Group's operations and development projects may not be economically feasible.

In addition, changes in commodity prices can have a significant impact on accounts receivable, which includes sales that have been provisionally valued, and not yet subject to final pricing (Note 19(a)).

The following table summarizes the impact of the change in commodity price on the Group's financial instruments at December 31, 2014 with all other variables held constant. A positive amount indicates an increase in income where the copper price increases by $0.50/lb.:

	A change of :	2014 Increase (decrease) in carrying value of assets	2013 Increase (decrease) in carrying value of assets
Change in copper price (per pound)	$ 0.50		
Receivables		18.3	16.1
Franke long-term supply contracts		(9.6)	(13.0)

(f) Equity price risk

Equity price risk is defined as the potential adverse impact on the Group's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Group closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Group.

Equity price risk is not considered material given the Group's holding of marketable securities is insignificant.