# KGHM INTERNATIONAL LTD.
# (Formerly "Quadra FNX Mining Ltd.")
## Condensed Interim Consolidated Financial Statements
March 31, 2012
(Expressed in millions of U.S. dollars, except where indicated)
(Unaudited)

**KGHM International Ltd. (Formerly "Quadra FNX Mining Ltd.")**

# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(US Dollars in Millions)
(Unaudited)

| | Notes | March 31, 2012 | December 31, 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | | 898.2 | 1,005.5 |
| Receivables | *7* | 207.1 | 199.5 |
| Inventory | *6* | 218.3 | 198.7 |
| Derivative assets | *15* | - | 0.1 |
| Notes receivable | *21* | 111.2 | - |
| Other current assets | *8* | 71.8 | 69.3 |
| **Total Current Assets** | | 1,506.6 | 1,473.1 |
| | | | |
| Mineral properties, plant and equipment | *9* | 1,134.0 | 1,141.7 |
| Investment in Sierra Gorda JV | *5* | 521.1 | 521.1 |
| Subordinated loan receivable from Sierra Gorda JV | *5* | 75.1 | - |
| Goodwill | | 180.6 | 180.6 |
| Environmental trust and bond | | 82.6 | 82.4 |
| Other non-current assets | *8* | 40.9 | 31.7 |
| Deferred income tax assets | | 99.4 | 93.6 |
| **Total Non-Current Assets** | | 2,133.7 | 2,051.1 |
| **Total Assets** | | 3,640.3 | 3,524.2 |
| | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | *10* | 142.3 | 125.0 |
| Provisions | *11* | 12.8 | 7.0 |
| Derivative liabilities | *15* | 9.2 | 13.6 |
| Current portion of deferred revenue | *12* | 17.3 | 17.9 |
| Other current liabilities | | - | 0.2 |
| Current corporate tax liabilities | | 8.1 | 20.7 |
| **Total Current Liabilities** | | 189.7 | 184.4 |
| | | | |
| Senior Notes | *13* | 488.5 | 488.2 |
| Deferred revenue | *12* | 167.9 | 169.9 |
| Site closure and reclamation provision | *14* | 87.7 | 88.6 |
| Derivative liabilities | *15* | 50.3 | 64.9 |
| Deferred income tax liabilities | | 225.6 | 236.9 |
| **Total Non-Current Liabilities** | | 1,020.0 | 1,048.5 |
| **Total Liabilities** | | 1,209.7 | 1,232.9 |
| | | | |
| **Shareholders' Equity** | | | |
| Share capital | *16(a)* | 1,847.6 | 1,706.3 |
| Contributed surplus | | - | 35.9 |
| Accumulated other comprehensive loss | | (14.0) | (15.2) |
| Retained earnings | | 597.0 | 564.3 |
| **Total Shareholders' Equity** | | 2,430.6 | 2,291.3 |
| **Total Liabilities and Shareholders' Equity** | | 3,640.3 | 3,524.2 |

Commitments (Note 23), Contingencies (Note 24)
The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## KGHM International Ltd. (Formerly "Quadra FNX Mining Ltd.")

# CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(US Dollars in Millions)
(Unaudited)

| | Notes | | Three months ended March 31, 2012 | | Three months ended March 31, 2011 |
|---|---|---|---|---|---|
| Revenues | | | 329.6 | | 268.8 |
| Cost of sales inventory writedown | | | - | | 11.0 |
| Cost of production & other selling expenses | | | 273.4 | | 194.6 |
| Income from mining operations | | | 56.2 | | 63.2 |
| General and administrative | *19* | | 13.0 | | 8.4 |
| Exploration and evaluation | | | 6.6 | | - |
| Gain on derivatives | *15* | | (9.6) | | (13.3) |
| Gain from disposal of Gold Wheaton shares | | | - | | (133.9) |
| Finance income | *20* | | (2.6) | | (0.4) |
| Finance expense | *20* | | 10.1 | | 0.5 |
| Other income | *21* | | (7.3) | | (9.6) |
| Other expense | | | 0.3 | | 0.7 |
| Foreign exchange gain | | | (10.6) | | (2.2) |
| Transaction costs for merger and acquisition | | | 26.3 | | - |
| **Earnings before income taxes and other items** | | | 30.0 | | 213.0 |
| Income tax recovery (expense) | *18* | | 2.7 | | (45.3) |
| **Earnings for the period** | | | 32.7 | | 167.7 |
| **Other comprehensive income** | | | | | |
| Unrealized gain on marketable securities, net of tax | *8* | | 1.3 | | 5.8 |
| Reversal of unrealized gain on marketable securities, net of tax | | | (0.1) | | - |
| **Total comprehensive income** | | | 33.9 | | 173.5 |
| **Earnings per share** | | | | | |
| Basic | | $ | 0.17 | $ | 0.88 |
| Diluted | | $ | 0.17 | $ | 0.85 |
| Weighted average shares outstanding - basic | | | 194.7 | | 190.6 |
| Weighted average shares outstanding - diluted | | | 194.7 | | 193.5 |

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

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(US Dollars in Millions)
(Unaudited)

| | Notes | Share capital | Contrib. surplus | Accu. other comp. income | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balances, January 1, 2012** | | **1,706.3** | **35.9** | **(15.2)** | **564.3** | **2,291.3** |
| Stock options exercised | | 2.9 | - | - | - | 2.9 |
| Warrants exercised | | 107.9 | - | | - | 107.9 |
| Stock-based compensation | | - | (18.2) | - | - | (18.2) |
| Exercise of converted FNX warrants | | | 12.8 | | | 12.8 |
| Transfer to share capital for stock options and warrants exercised | | 30.5 | (30.5) | - | - | - |
| Reversal of realized gain on marketable securities | | - | - | (0.1) | - | (0.1) |
| Unrealized gain on marketable securities, net of tax | *8* | - | - | 1.3 | - | 1.3 |
| Earnings for the period | | - | - | - | 32.7 | 32.7 |
| **Balances, March 31, 2012** | | **1,847.6** | **-** | **(14.0)** | **597.0** | **2,430.6** |

| | Notes | Share capital | Contrib. surplus | Accu. other comp. income | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balances, January 1, 2011** | | **1,690.0** | **32.4** | **21.9** | **273.3** | **2,017.6** |
| Stock options exercised | | 1.8 | - | - | - | 1.8 |
| Stock-based compensation | | - | 1.6 | - | - | 1.6 |
| Transfer to share capital for stock options exercised | | 0.5 | (0.5) | - | - | - |
| Unrealized gain on marketable securities, net of tax | | - | - | 5.8 | - | 5.8 |
| Earnings for the period | | - | - | - | 167.7 | 167.7 |
| **Balances, March 31, 2011** | | **1,692.3** | **33.5** | **27.7** | **441.0** | **2,194.5** |

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

**KGHM International Ltd. (Formerly "Quadra FNX Mining Ltd.")**

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in Millions)
(Unaudited)

| | Notes | Three months ended March 31, 2012 | Three months ended March 31, 2011 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Earnings for the period | | 32.7 | 167.7 |
| Adjustment for: | | | |
| Stock-based compensation | | 0.7 | 1.6 |
| Amortization, depletion and depreciation | | 36.2 | 32.0 |
| Inventory wirtedown | | - | 11.0 |
| Gain from disposal of Gold Wheaton shares | | - | (133.9) |
| Unrealized gain on derivatives | | (9.6) | (13.3) |
| Amortization of deferred revenue | | (2.6) | (3.5) |
| Foreign exchange loss (gain) | | 4.5 | (3.9) |
| Income tax (recovery) expense | | (2.7) | 45.3 |
| Finance income | *20* | (2.6) | (0.4) |
| Finance expense | *20* | 10.1 | 0.5 |
| Other income | | (0.1) | (9.6) |
| Other expense | | 0.3 | 0.7 |
| | | 66.9 | 94.2 |
| Net changes in non-cash working capital | *22* | (14.6) | (56.6) |
| Interest received | | 0.6 | 0.3 |
| Income taxes paid | | (27.0) | (0.4) |
| **Cash provided from operating activities** | | **25.9** | **37.5** |
| **INVESTING ACTIVITIES** | | | |
| Additions to mineral properties, plant and equipment | | (29.5) | (76.2) |
| Increase in other assets | | (8.7) | (0.4) |
| Increase in restricted cash | | (0.6) | (0.7) |
| Increase in environmental bond and trust | | (0.4) | - |
| Proceeds from sale of marketable securities | | 0.3 | - |
| Subordinated loan to Sierra Gorda JV | *5* | (74.3) | - |
| Note receivable from 0929260 B.C. Unlimited Liability Company | *21* | (110.9) | - |
| Proceeds from sale of Gold Wheaton shares | | - | 295.0 |
| Payments for purchasing and settling derivatives | | 3.4 | (3.0) |
| **Cash (used in) provided from investing activities** | | **(220.7)** | **214.7** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from issue of common shares | | 110.8 | 1.8 |
| Payment for settlement of stock options | | (18.8) | - |
| **Cash provided from financing activities** | | **92.0** | **1.8** |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | | **(4.5)** | **3.9** |
| **Net increase in cash and cash equivalents during the period** | | **(107.3)** | **257.9** |
| **Cash and cash equivalents, beginning of period** | | **1,005.5** | **318.8** |
| **Cash and cash equivalents, end of period** | | **898.2** | **576.7** |
| **Cash and cash equivalents comprise of:** | | | |
| Cash deposits, bankers acceptances and term deposits | | 632.5 | 249.7 |
| Government money market investments | | 265.7 | 327.0 |
| | | 898.2 | 576.7 |

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

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2012
(Unaudited)

## 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. a company based in Poland that operates three mines and two smelter/refineries in Poland. KGHM Polska Miedź S.A. 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 Four Bentall Centre, 1055 Dunsmuir Street, Suite 2414, Vancouver, British Columbia, V7X 1K8. The Group has six operating mines: the Robinson mine in Nevada; the Levack mine, including the Morrison deposit, in Ontario; the Franke mine in Chile; the Carlota mine in Arizona; and the Podolsky and McCreedy West mines in 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 5). As a result of its terms, the Sierra Gorda JV is being accounted for using the equity method. The Group also owns an advanced exploration project ("Victoria") in Sudbury, Ontario.

The Robinson, Franke and Carlota mines are open pit copper mines, with some byproduct gold and molybdenum at Robinson, and the Levack/Morrison, Podolsky 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

**b) Basis of presentation and measurement**

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim financial reporting as issued by the International Accounting Standards Board ("IASB"). The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and financial instruments which are measured at fair value. All financial information in these consolidated financial statements is presented in United States dollars rounded to the nearest million.

These condensed interim consolidated financial statements were approved by the board of directors for issue on May 10, 2012.

**c) Basis of consolidation**

These condensed interim consolidated financial statements include the accounts of the Group and its controlled subsidiaries. Control is achieved when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All subsidiaries are wholly-owned except for the Sierra Gorda JV which the Group owns 55%. The results of subsidiaries acquired or disposed of during the period are included in the Condensed Consolidated Statements of Comprehensive Income from the effective date of acquisition or to the date of disposal. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Intergroup balances and transactions are eliminated on consolidation.

Associates are all entities over which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between twenty and fifty percent of the voting power of another entity. Associates are accounted for using the equity method whereby the Group's share of an associate's income or loss is recognized in profit or loss.

**d) Use of estimates and judgements**

Areas of critical accounting estimates and judgements that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 2 of the Group's consolidated financial statements as at and for the year ended December 31, 2011.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using the same accounting policies as those disclosed in Note 3 to the Group's annual audited consolidated financial statements for the year ended December 31, 2011.

A number of new standards, amendments to standards, and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these interim consolidated financial statements. These new standards and interpretations not yet adopted are disclosed in Note 3 to the Group's annual audited consolidated financial statements for the year ended December 31, 2011.

## 4. ACQUISITION BY KGHM Polska Miedź S.A.

On March 5, 2012 KGHM Polska Miedź S.A., through its wholly owned subsidiary 0929260 BC Unlimited Liability Company ("Bidco"), acquired all of the issued and outstanding shares of 193,334,154 of the Group for C$2,900.6. The transaction was structured as a court-approved Plan of Arrangement. Under the terms of the arrangement, Quadra FNX shareholders received C$15.00 for each common share of Quadra FNX. All Quadra FNX trading warrants were acquired from warrant holders and exercised for common shares of Quadra FNX for C$109.7. The purchase and exercise of these warrants was financed by a loan from Quadra FNX to Bidco in return of a promissory note with principal amount of $110.9 bearing interest at 3.75% per annum, and maturing on March 5, 2013.

On March 12, 2012, Quadra FNX changed its name to KGHM International Ltd., and ceased to be a publicly-traded company on March 29, 2012.

(US Dollars in Millions)

## 5. INVESTMENT IN SIERRA GORDA

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.

Pursuant to the joint venture agreement, Sumitomo made an initial contribution of $724.2 which is fully invested as of January 2012. Commencing February 2012, the Group and Sumitomo fund proportionally those JV costs not covered by JV borrowings.

Sumitomo took the lead in efforts to arrange, and guarantee project financing in the amount of $1.0 billion. The JV retained Sumitomo Mitsui Bank Corporation (SMBC) as the financial advisor for the project financing and on March 8, 2012, the JV signed the $1.0 billion Senior Project Loan agreement with a group of lenders led by Japan Bank for International Corporation. The project loans have a 9.5 year term with an interest rate of LIBOR plus a margin. The first draw under the Senior Project Loans was received on March 30, 2012 in the amount of $140.

Prior to the Senior Project loans in place, the Group funded $74.3 to Sierra Gorda JV through a subordinated loan agreement. Subject to the subordinated conditions to the Senior Project loans, interest and principal of the subordinated loan are payable on demand. The subordinate loan forms part of the security arrangement under the Senior Project loans.

The Group's investment in Sierra Gorda at March 31, 2012 is $521.1.

As of March 31, 2012, the Group's proportionate 55% share of the contractual commitments at Sierra Gorda totaled $355.9. In addition, the Group's proportionate 55% share of the purchase orders for mining equipment and infrastructure totaled $210.1. A portion of each of these amounts is expected to be funded from the $1.0 billion Senior Project Loan.

## 6. INVENTORY

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Robinson copper concentrate | 64.7 | 57.8 |
| Carlota leach pad inventory | 45.7 | 45.8 |
| Franke leach pad inventory | 46.7 | 37.5 |
| Copper cathode | 16.0 | 14.5 |
| Supplies | 40.8 | 39.8 |
| Robinson ore stockpile | 4.1 | 3.2 |
| Sudbury crushed ore inventory | 0.3 | 0.1 |
| | 218.3 | 198.7 |

(US Dollars in Millions)

## 7. RECEIVABLES

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Trade receivables | 169.4 | 162.3 |
| Advances to suppliers | 0.2 | 0.2 |
| Receivables from Sierra Gorda JV (Note 21) | 6.5 | 10.8 |
| VAT/GST/income tax receivables | 30.8 | 25.9 |
| Interest receivable | 0.2 | 0.3 |
| | 207.1 | 199.5 |

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.

## 8. OTHER ASSETS

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| **Current** | | |
| Marketable securities | 55.7 | 54.4 |
| Prepaid expenses and advances to suppliers | 11.7 | 10.5 |
| Investment tax credits receivable | 4.4 | 4.4 |
| | 71.8 | 69.3 |
| **Non-current** | | |
| Security deposits on equipment | 4.4 | 4.4 |
| Restricted cash | 23.8 | 23.2 |
| Other | 12.7 | 4.1 |
| | 40.9 | 31.7 |

As at March 31, 2012, the Group held marketable securities with an original cost of $69.0 (December 31, 2011 - $69.2) and a fair value, based on their quoted market price, of $55.7 (December 31, 2011 - $54.4). For the three months ended March 31, 2012, the change in fair value of all the investments totaled $1.3 net of tax which has been recorded in shareholders' equity as a component of comprehensive income (three months ended March 31, 2011 – increase in fair value of $5.8 net of tax).

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

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2012
(Unaudited)

## 9. MINERAL PROPERTIES, PLANT AND EQUIPMENT

| | Exploration and evaluation assets | Mineral property acquisition and development | Plant, buildings and equipment | Site closure and reclamation asset | Total |
|---|---|---|---|---|---|
| **At January 1, 2012** | | | | | |
| Cost | 90.7 | 1,182.1 | 693.4 | 77.3 | 2,043.5 |
| Accumulated depletion, depreciation and amortization | - | (264.1) | (159.7) | (37.0) | (460.8) |
| Accumulated impairment | - | (328.8) | (91.8) | (20.4) | (441.0) |
| **Net book value** | **90.7** | **589.2** | **441.9** | **19.9** | **1,141.7** |
| | | | | | |
| **Period ended March 31, 2012** | | | | | |
| | | | | | |
| **Change in Cost** | | | | | |
| Additions | 6.1 | 11.6 | 11.4 | - | 29.1 |
| Increase in site closure and reclaimation asset | - | - | - | (1.8) | (1.8) |
| Asset Impairment | - | - | - | - | - |
| Transfers | 6.6 | 38.2 | (44.8) | - | - |
| Impairment reclassifications | - | (17.0) | (78.7) | - | (95.7) |
| Subtotal | 12.7 | 32.8 | (112.1) | (1.8) | (68.4) |
| | | | | | |
| **Change in Accumulative Amortization** | | | | | |
| Depletion, depreciation and amortization charge | - | (18.8) | (14.6) | (1.6) | (35.0) |
| Transfers | - | 91.8 | 3.9 | - | 95.7 |
| Subtotal | - | 73.0 | (10.7) | (1.6) | 60.7 |
| | | | | | |
| **At March 31, 2012** | | | | | |
| Cost | 103.4 | 1,231.9 | 660.0 | 75.5 | 2,070.8 |
| Accumulated depletion, depreciation and amortization | - | (191.1) | (170.4) | (38.6) | (400.1) |
| Accumulated impairment | - | (345.8) | (170.5) | (20.4) | (536.7) |
| **Net book value** | **103.4** | **695.0** | **319.1** | **16.5** | **1,134.0** |

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2012
(Unaudited)

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Accounts payable | 61.3 | 50.3 |
| Accrued payroll, benefits and withholding tax | 16.8 | 9.2 |
| Accrued liabilities | 52.7 | 62.8 |
| Accrued royalties | 0.3 | 1.1 |
| Accrued interest | 11.2 | 1.6 |
| | 142.3 | 125.0 |

## 11. PROVISIONS

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Tax provision | 6.0 | 6.0 |
| Other | 6.8 | 1.0 |
| | 12.8 | 7.0 |

During the three months ended March 31, 2012, the other provisions increased due to severance costs as a result of change in control from purchase of Quadra FNX Mining Ltd. by KGHM Polska Miedź S.A.

## 12. DEFERRED REVENUE

The Group has recognized, as deferred revenue, a prepayment received previously by FNX from Franco Nevada (formerly "Gold Wheaton") for the delivery of 50% of the contained gold, platinum and palladium in ore mined and shipped from the existing Sudbury Operations.

| | |
|---|---|
| Balance - December 31, 2011 | 187.8 |
| Recognized into revenue | (2.6) |
| Balance - March 31, 2012 | 185.2 |
| Current | (17.3) |
| Non-current | 167.9 |

## 13. SENIOR NOTES

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Senior notes | 500.0 | 500.0 |
| Senior note issue costs | (12.3) | (12.3) |
| Cumulative amortization of senior note issue costs | 0.8 | 0.5 |
| | 488.5 | 488.2 |

(US Dollars in Millions)

During June 2011, the Group issued $500 aggregate principal amount of 7.75% senior unsecured notes ("Notes") due 2019 in a private placement which is carried at amortized cost. The fair market value of the notes at March 31, 2012 is $565 based on a trading price of $113 per $100.

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. Subsequent to the acquisition of Quadra FNX by KGHM Polska Miedź S.A. on March 5, 2012, the Group issued Notices of Change of Control and Offer to Purchase to bondholders. The Offer to Purchase expired on May 3, 2012 at 12:00 am Eastern Standard Time. No senior notes were tendered under the Offer to Purchase.

At March 31, 2012, no mandatory principal repayments are required in the next five years.

## 14. SITE CLOSURE AND RECLAMATION PROVISION

| | |
|---|---|
| Balance at December 31, 2011 | 88.6 |
| New obligations raised or acquired | - |
| Change in estimated timing and amount of closure costs | (0.1) |
| Increase in provision due to change in discount rate | (1.2) |
| Reclamation work done to reduce liability | (0.1) |
| Unwinding of discount | 0.5 |
| Balance at March 31, 2012 | 87.7 |

Discount rates used in the estimation of the provision at March 31, 2012 were 1.2% - 1.92% for US operations, 2.8% for Chile operations and 2.11% for Canadian operations (for December 31, 2011 the discount rates used were 1.9%, 2.6% and 1.3% respectively).

The closure cost estimates are subject to change based on amendments to laws and regulations. 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.

## 15. DERIVATIVE INSTRUMENTS

Derivative instruments are carried in the Consolidated Statements of Financial Position at fair value and are comprised of the following:

| | **March 31, 2012** | **December 31, 2011** |
|---|---|---|
| Long-term supply contracts (a) | (59.5) | (54.3) |
| Warrants (b) | - | (20.3) |
| Foreign currency forward contracts (c) | - | (3.9) |
| Copper put options (d) | - | 0.1 |
| | (59.5) | (78.4) |

(US Dollars in Millions)

Derivative instruments are presented in the Consolidated Statements of Financial Position as follows:

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Derivative assets - current | - | 0.1 |
| Derivative liabilities - current | (9.2) | (13.6) |
| Derivative liabilities - non-current | (50.3) | (64.9) |
| | (59.5) | (78.4) |

The loss (gain) on derivatives is comprised of the following:

| | Three months ended March 31, 2012 | Three months ended March 31, 2011 |
|---|---|---|
| Long-term supply contracts (a) | 5.3 | (0.2) |
| Warrants (b) | (7.6) | (13.4) |
| Foreign currency forward contracts (c) | (7.4) | - |
| Copper put options (d) | 0.1 | 2.6 |
| Fuel contracts | - | (2.3) |
| | (9.6) | (13.3) |

**(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 the 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 March 31, 2012, the fair value of the embedded derivative liabilities was determined to be $59.5, based on the following significant assumptions:

- Copper price of $2.75/lb to $3.83/lb for 2012 to 2022.
- Discount rate: 12%

**(b) Warrants**

The Group's warrants are accounted for as a derivative financial liability. Although the exercise price of the warrants is fixed in Canadian dollars, the functional currency of the Group is the US dollar. Accordingly, the foreign exchange effect results in the warrants being classified as a derivative financial liability as the Group will report a variable amount of cash in US dollars.

During the three month period ended March 31, 2012, 1,055,888 Lender Warrants were exercised for proceeds of C$9.8. The remaining 40,556 Lender Warrants expired unexercised.

(US Dollars in Millions)

In connection with the Plan of Arrangement with KGHM Polska Miedź S.A., the warrants assumed in connection with the FNX merger (FNX Warrants) were purchased by the Bidco from all warrant holders for C$12.6 (7,473,749 FNX Warrants at C$1.68 per warrant). All FNX Warrants were then immediately exercised by the Bidco in the amount of C$97.1 into common shares of former Quadra FNX.

For the three months March 31, 2012, a gain resulted from the retirement of the warrant derivative liability in the amount of $7.6 and is recognized in the Statement of Comprehensive Income for the period. As of March 31, 2012 no warrants remain outstanding.

**(c) Foreign currency forward contracts**

The Group is required to fund significant amounts of capital asset investment for Sierra Gorda in Chilean Peso. The Group entered into a number of foreign currency contracts to sell $200.0 in exchange for 101,150 Chilean Pesos on various dates.

The foreign currency contracts have been recognized at fair value and recorded on the consolidated balance sheet. During the three month period ended March 31, 2012, the Group settled all of the foreign currency contracts and received $3.5 from the counterparty resulting in a gain of $7.4 recorded in the condensed interim consolidated statements of comprehensive income.

**(d) Copper put options**

During the three months ended March 31, 2012, the remaining 18 million pounds of copper puts purchased in 2011 expired unexercised. As at March 31, 2012, no copper put options were outstanding.

## 16. SHARE CAPITAL

### (a) 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 December 31, 2011 | 191,989,255 | 1,706.3 |
| Capital stock issued: | | |
| Stock options exercised | 289,011 | 2.9 |
| Lender warrants exercised | 1,055,888 | 9.7 |
| Warrants exercised in connection with Plan of Arrangement | 6,502,162 | 98.2 |
| Transfer from contributed surplus: | | |
| Transactions in connection with Plan of Arrangement | | 30.5 |
| Balance at March 31, 2012 | 199,836,316 | 1,847.6 |

### (b) Stock Options and Share-Based Payments

In accordance with the Plan of Arrangement, holders of stock options, performance share units (PSUs), and restricted share units (RSUs) will receive the cash consideration to which they are entitled pursuant to the terms of the relevant plans. On March 5, 2012, all stock options, PSUs, and RSUs were vested or earned by relevant holders resulting in the Group paying out respective cash considerations. Any remaining “out-of-the-money” stock options and share-base payments not paid were cancelled immediately thereafter.

(i) Stock Options

The Group has a stock option plan to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Group by offering them an opportunity to participate in the Group’s future performance through awards of options. The cash consideration paid to each holder of a “in-the-money” stock option under the Plan of Arrangement is the difference between their exercise price on the day which the option was granted and the Plan of Arrangement offer price of C$15.00 per common share. On March 5, 2012, $18.8 was paid to settle “in-the-money” stock options with the remaining “out-of-the-money” stock options cancelled immediately thereafter.

(ii) RSU

During 2009, the Group implemented a RSU plan as a long term incentive to directors and certain employees in an effort to foster a responsible balance between short-term and long-term results. RSU’s are granted to participants in such numbers as the Group may determine as a bonus or similar payment in respect of services rendered during the year. RSU’s were granted to employees and non-management members of the Board. Each RSU entitles the participant to receive, once vested, a cash payment equal to the fair market value of one share on the applicable vesting date. On March 5, 2012, $6.2 was paid to settle all 415,189 RSUs outstanding.

(iii) PSU

During 2010, the Group implemented a PSU plan as a long term incentive to senior management in an effort to foster a responsible balance between short-term and long-term results. Under this plan, the Group credits a PSU to an eligible participant and the right to receive a cash payment equal to the fair market value of one share of the Group upon achievement of certain PSU vesting criteria. PSU’s can vest based on one or more of the following factors: the market price of the Group’s shares at specified times and/or return to shareholders; achievement of corporate or individual performance objectives; and other discretionary terms and conditions the Group may determine. The Compensation Committee focused on relative return to shareholders over a two year period in assessing the vesting of the PSU grants. Similar to RSU’s, once vested; a participant is entitled to a cash payment equal to the fair market value of one share on the applicable vesting date. On March 5, 2012, $1.5 was paid to settle all 102,155 PSUs outstanding.

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2012
(Unaudited)

## 17. 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 evaluation and acquisition of new mineral properties and corporate administration. The Sudbury operations of the Group holds the goodwill established during the merger with FNX Mining Ltd. on May 20, 2010.

For the three months ended March 31, 2012

| | Robinson (USA) [a] | Carlota (USA) | Franke (Chile) | Sudbury Operations (Cda) [a] | DMC | Corporate & Other | Total |
|---|---|---|---|---|---|---|---|
| Copper revenues | 92.6 | 19.5 | 35.6 | 65.8 | - | - | 213.5 |
| Nickel revenues | - | - | - | 23.2 | - | - | 23.2 |
| Other by-product revenues | 11.2 | - | - | 9.3 | - | - | 20.5 |
| Contract mining revenues | - | - | - | - | 72.4 | - | 72.4 |
| Revenues | **103.8** | **19.5** | **35.6** | **98.3** | **72.4** | **-** | **329.6** |
| Production costs of goods sold | 73.9 | 14.2 | 23.9 | 54.9 | 66.6 | - | 233.5 |
| Amortization, depletion, and depreciation | 9.3 | 2.4 | 3.4 | 20.2 | 0.9 | - | 36.2 |
| Royalties and mineral taxes | 2.8 | 0.9 | - | - | - | - | 3.7 |
| **Income (loss) from operations** | **17.8** | **2.0** | **8.3** | **23.2** | **4.9** | **-** | **56.2** |
| General and administrative expense | - | - | - | - | - | 13.0 | 13.0 |
| Exploration and valuation | - | - | - | - | - | 6.6 | 6.6 |
| Gain on derivatives | - | - | - | - | - | (9.6) | (9.6) |
| Finance income | - | - | - | - | - | (2.6) | (2.6) |
| Finance expense | - | - | - | - | - | 10.1 | 10.1 |
| Other income | - | - | - | - | - | (7.3) | (7.3) |
| Other expenses | - | - | - | - | - | 0.3 | 0.3 |
| Foreign exchange gain | - | - | - | - | - | (10.6) | (10.6) |
| Transaction costs for merger and acquisition | - | - | - | - | - | 26.3 | 26.3 |
| **Segment earnings (loss) before tax** | **17.8** | **2.0** | **8.3** | **23.2** | **4.9** | **(26.2)** | **30.0** |
| | | | | | | | |
| **Capital expenditures** | 6.9 | (0.1) | 2.8 | 7.9 | 4.8 | 6.8 | 29.1 |
| **Segment assets as at March 31, 2012** | 506.3 | 204.1 | 215.0 | 1,145.8 | 107.4 | 1,461.7 | 3,640.3 |

(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 March 31, 2012, 22.9 million pounds of copper have been provisionally valued at an average price of $3.84 per pound. The final pricing for these provisionally priced sales is expected to occur between April and May 2012.

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Three months ended March 31, 2012
(Unaudited)

For the three months ended March 31, 2011

| | Robinson (USA) [a] | Carlota (USA) | Franke (Chile) | Sudbury Operations (Cda) [a] | DMC | Corporate & Other | Total |
|---|---|---|---|---|---|---|---|
| Copper revenues | 77.4 | 17.9 | 30.2 | 60.1 | - | - | 185.6 |
| Nickel revenues | - | - | - | 26.1 | - | - | 26.1 |
| Other by-product revenues | 17.9 | - | - | 16.7 | - | - | 34.6 |
| Contract mining revenues | - | - | - | - | 22.5 | - | 22.5 |
| Revenues | **95.3** | **17.9** | **30.2** | **102.9** | **22.5** | **-** | **268.8** |
| Production costs of goods sold | 54.6 | 12.9 | 24.6 | 48.3 | 18.2 | - | 158.6 |
| Amortization, depletion, and depreciation | 4.6 | 3.7 | 3.6 | 19.3 | 0.8 | - | 32.0 |
| Royalties and mineral taxes | 3.1 | 0.9 | - | - | - | - | 4.0 |
| Inventory write down | - | 11.0 | - | - | - | - | 11.0 |
| **Income from operations** | **33.0** | **(10.6)** | **2.0** | **35.3** | **3.5** | **-** | **63.2** |
| General and administrative expense | - | - | - | - | - | 8.4 | 8.4 |
| Gain on derivatives | - | - | - | - | - | (13.3) | (13.3) |
| Gain from disposal of Gold Wheaton shares | - | - | - | - | - | (133.9) | (133.9) |
| Finance income | - | - | - | - | - | (0.4) | (0.4) |
| Finance expense | - | - | - | - | - | 0.5 | 0.5 |
| Foreign exchange gain | - | - | - | - | - | (2.2) | (2.2) |
| Other income | - | - | - | - | - | (9.6) | (9.6) |
| Other expenses | - | - | - | - | - | 0.7 | 0.7 |
| **Segment earnings before incomes taxes** | **33.0** | **(10.6)** | **2.0** | **35.3** | **3.5** | **149.8** | **213.0** |
| | | | | | | | - |
| **Capital expenditures** | 46.9 | 13.3 | 24.5 | 29.8 | 0.1 | 74.1 | 188.7 |
| **Segment assets as at March 31, 2011** | 407.0 | 300.2 | 324.8 | 1,208.5 | 53.3 | 639.5 | 2,933.3 |

## 18. INCOME TAXES

For the three month period ended March 31, 2012, the Group recognized a current income tax expense of $14.4 and a deferred income tax recovery of $17.1 (for the three months ended March 31, 2011 $17.6 current income tax expense and $27.7 deferred income tax expense). The income tax recovery for the three months ended March 31, 2012 has been recorded based on a forecasted effective income tax rate of 9% (2011: income tax expense effective income tax rate of 21%). The forecast of the annual effective income tax rate includes assumptions regarding metal prices, mine production and costs.

Management believes that uncertainty exists regarding the realization of certain deferred tax assets and therefore the economic benefit of the available tax deduction has not been recognized. The Group has not recognized the benefit of U.S. Alternative Minimum Tax credits, the tax basis of Carlota in excess of the acquisition price and certain non-capital losses.

(US Dollars in Millions)

The Group has foreign subsidiaries that have undistributed earnings. 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.

## 19. GENERAL AND ADMINISTRATIVE

| | **Three months ended March 31, 2012** | **Three months ended March 31, 2011** |
|---|---|---|
| Employee expenses | 9.0 | 7.1 |
| Office and communication costs | 3.2 | 3.6 |
| Legal and professional services | 0.5 | 0.5 |
| Insurance expenses and property taxes | 0.2 | 0.2 |
| Other | 0.1 | (3.0) |
| | 13.0 | 8.4 |

## 20. FINANCE INCOME AND EXPENSE

Finance income for the three months March 31, 2012 of $2.6 (March 31, 2011 - $0.4) is primarily related to interest earned on short-term investments. Finance expense $10.1 (March 31, 2011 - $0.5) is primarily comprised of $9.6 interest expense related to senior notes

## 21. RELATED PARTY TRANSACTIONS AND BALANCES

The consolidated financial statements include those of KGHM International Ltd. 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.

Upon formation of the Sierra Gorda JV, the joint venture became a related party with the Group. The amount due from the Sierra Gorda JV is $6.5 at March 31, 2012 (December 31, 2011 - $10.8). This amount is repayable in the normal course of business. The Group earned management fees of $6.3 from the Sierra Gorda JV during the three months ended March 31, 2012, which were included in other income in the condensed interim consolidated statements of comprehensive income.

On March 5, 2012, KGHM loaned $110.9 to the Bidco for the purchase and exercise of FNX Warrants in conjunction with the Plan of Arrangement. The obligation with respect to the loan is evidenced by a promissory note payable to KGHMI due March 5, 2013. Interest on the outstanding principal is calculated at 3.75% per annum payable in arrears on the maturity date, or on the date which the principal amount is paid by the Bidco. For the three months March 31, 2012, $0.3 interest income was recognized in the condensed interim consolidated statements of comprehensive income.

(US Dollars in Millions)

## 22. SUPPLEMENTARY CASH FLOW INFORMATION

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

| | Three months ended March 31, 2012 | Three months ended March 31, 2011 |
|---|---|---|
| Increase in receivables | (6.7) | (1.6) |
| Increase in inventory | (20.3) | (31.0) |
| Increase in other current assets | (1.2) | (12.2) |
| Increase (decrease) in accounts payable and accrued liabilities | 8.1 | (8.5) |
| Increase (decrease) in provisions | 5.8 | (3.0) |
| Decrease in other current liabilities | (0.3) | (0.3) |
| | (14.6) | (56.6) |
| Non-cash investing and financing activities: | | |
| Mineral properties, plant and equipment purchases in accruals | 0.4 | (5.3) |

## 23. COMMITMENTS

As at March 31, 2012 the commitments of the Group were $138.0 in relation to capital projects, rent, and contractual obligations.

## 24. CONTINGENCIES

(a) The Group sells all the ore produced from its Sudbury Operations to a single processor. That processor is required to pay for ore shipped and sold based on the metals which the processor is able to recover from the various ores delivered. This varies depending on the metallurgical and mineralogical composition as well as mining grades of nickel, copper, cobalt, platinum, palladium, gold and silver for each ore. This is determined by the processor via metallurgical and mineralogical testing of the various ores. There are several different payable metals terms with the processor for the various ores from the Group's Sudbury mines in order to reflect the differences in the metal recoveries.

Interim processing terms (i.e. treatment and refining charges) and interim payable metals terms have been established by the processor for the Sudbury Operations. The Group is currently discussing final commercial terms with the processor. There is a possibility that once final terms have been agreed that revised terms may be applied to ore shipped in prior periods. The Group cannot, at this time, determine the amount, if any, of such adjustment. Depending on the outcome of the negotiations of final payable metals and processing terms, a material increase or decrease in payable metals and/or processing costs may need to be recorded.

(b) 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.

(c) The Group is subject to lawsuits from time to time which are not believed to have a material impact on the financial statements.