



**KGHM INTERNATIONAL LTD.**  
**(Formerly “Quadra FNX Mining Ltd.”)**  
**Condensed Interim Consolidated Financial Statements**  
June 30, 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	June 30, 2012	December 31, 2011
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		720.9	1,005.5
Trade and other receivables	7	276.3	197.4
Inventory	6	173.8	198.7
Marketable securities	9	43.3	54.4
Current corporate tax receivables		37.8	21.9
<b>Total Current Assets</b>		1,252.1	1,477.9
Mineral properties, property, plant and equipment	10	974.2	982.8
Intangible assets	11	360.7	339.5
Investment in Sierra Gorda JV	5(a)	521.1	521.1
Subordinated loans receivable from Sierra Gorda JV	5(b)	129.8	-
Notes receivable	23	133.2	-
Environmental trust and bond		102.6	82.4
Other non-current assets	8	40.3	31.7
Deferred income tax assets		115.1	93.6
<b>Total Non-Current Assets</b>		2,377.0	2,051.1
<b>Total Assets</b>		3,629.1	3,529.0
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	12	140.5	123.6
Provisions	13	7.0	7.0
Borrowing and financial lease liabilities		1.6	1.6
Derivative liabilities	17	9.7	13.5
Current portion of deferred revenue	14	16.9	17.9
Current corporate tax liabilities		-	25.6
<b>Total Current Liabilities</b>		175.7	189.2
Borrowing and financial lease liabilities	15	488.7	488.2
Deferred revenue	14	166.3	169.9
Site closure and reclamation provision	16	112.0	88.6
Derivative liabilities	17	44.6	64.9
Deferred income tax liabilities		251.2	236.9
<b>Total Non-Current Liabilities</b>		1,062.8	1,048.5
<b>Total Liabilities</b>		1,238.5	1,237.7
<b>Shareholders' Equity</b>			
Share capital	18(a)	1,847.6	1,706.3
Contributed surplus		-	35.9
Accumulated other comprehensive loss		(26.3)	(15.2)
Retained earnings		569.3	564.3
<b>Total Shareholders' Equity</b>		2,390.6	2,291.3
<b>Total Liabilities and Shareholders' Equity</b>		3,629.1	3,529.0

Commitments (Note 25), Contingencies (Note 26)

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 June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net revenues	19	336.9	278.4	649.3	530.6
Cost of sales	19	338.0	214.0	594.2	402.9
Income (loss) from mining operations		(1.1)	64.4	55.1	127.7
General and administrative	21	7.0	15.6	26.6	24.0
Finance income	22(a)	(6.2)	(0.2)	(8.8)	(0.6)
Finance expense	22(b)	10.7	0.6	21.1	1.2
Other income	22(c)	(11.4)	(34.2)	(28.3)	(180.3)
Other expense		2.3	10.7	2.3	0.6
Foreign exchange loss (gain)		10.4	(0.3)	(0.2)	(2.5)
Transaction costs for merger and acquisition		1.0	-	27.3	-
<b>Earnings (loss) before income taxes and other items</b>		<b>(14.9)</b>	<b>72.2</b>	<b>15.1</b>	<b>285.3</b>
Income tax expense	20	(12.8)	(8.4)	(10.1)	(53.8)
<b>Earnings (loss) for the period</b>		<b>(27.7)</b>	<b>63.8</b>	<b>5.0</b>	<b>231.5</b>
<b>Other comprehensive (loss) income</b>					
Unrealized (loss) gain on marketable securities, net of tax	9	(12.3)	0.8	(11.0)	6.6
Reversal of unrealized gain on marketable securities, net of tax		-	(28.7)	(0.1)	(28.7)
<b>Total comprehensive income</b>		<b>(40.0)</b>	<b>35.9</b>	<b>(6.1)</b>	<b>209.4</b>
<b>Earnings per share</b>					
Basic		\$ (0.14)	\$ 0.33	\$ 0.03	\$ 1.21
Diluted		\$ (0.14)	\$ 0.33	\$ 0.03	\$ 1.20
Weighted average shares outstanding - basic		199.8	190.9	197.8	190.7
Weighted average shares outstanding - diluted		199.8	192.2	197.8	192.9

**KGHM International Ltd. (Formerly “Quadra FNX Mining Ltd.”)**

**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
<b>Balances, January 1, 2012</b>		<b>1,706.3</b>	<b>35.9</b>	<b>(15.2)</b>	<b>564.3</b>	<b>2,291.3</b>
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 loss on marketable securities, net of tax	9	-	-	(11.0)	-	(11.0)
Earnings for the period		-	-	-	5.0	5.0
<b>Balances, June 30, 2012</b>		<b>1,847.6</b>	<b>-</b>	<b>(26.3)</b>	<b>569.3</b>	<b>2,390.6</b>

	Notes	Share capital	Contrib. surplus	Accu. other comp. income	Retained earnings	Total
<b>Balances, January 1, 2011</b>		<b>1,690.0</b>	<b>32.4</b>	<b>21.9</b>	<b>273.3</b>	<b>2,017.6</b>
Stock options exercised		7.2	-	-	-	7.2
Stock-based compensation		-	2.7	-	-	2.7
Transfer to share capital for stock options		1.6	(1.6)	-	-	-
Reversal of realized gain on marketable securities		-	-	(28.7)	-	(28.7)
Unrealized gain on marketable securities, net of tax	9	-	-	6.6	-	6.6
Earnings for the period		-	-	-	231.5	231.5
<b>Balances, June 30, 2011</b>		<b>1,698.8</b>	<b>33.5</b>	<b>(0.2)</b>	<b>504.8</b>	<b>2,236.9</b>

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 June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
<b>OPERATING ACTIVITIES</b>					
Earnings (loss) for the period		(27.7)	63.8	5.0	231.5
Adjustment for:					
Stock-based compensation		-	1.1	0.7	2.7
Amortization, depletion and depreciation		37.4	39.7	70.7	72.4
Inventory writedown	6	26.0	-	26.0	11.0
Unrealized (gain) loss on derivatives	17	(5.2)	1.1	(14.9)	(12.2)
Amortization of deferred revenue	14	(2.0)	(3.1)	(4.6)	(6.6)
Foreign exchange loss (gain)		6.5	0.7	(3.1)	(3.2)
Income tax expense		12.8	8.4	10.1	53.8
Finance income	22(a)	(6.2)	(0.2)	(8.8)	(0.6)
Finance expense	22(b)	10.7	0.6	21.1	1.2
Other income	22(c)	0.1	(35.3)	(0.3)	(168.1)
Other expense		0.9	10.6	1.7	0.6
		53.3	87.4	103.6	182.5
Net changes in non-cash working capital	24	(51.2)	(14.1)	(63.3)	(71.8)
Interest received		0.5	0.3	1.1	0.6
Interest paid		(19.4)	-	(19.4)	-
Income taxes paid		(26.9)	(1.5)	(53.9)	(1.9)
<b>Cash (used in) provided from operating activities</b>		<b>(43.7)</b>	<b>72.1</b>	<b>(31.9)</b>	<b>109.4</b>
<b>INVESTING ACTIVITIES</b>					
Additions to mineral properties, plant and equipment		(34.5)	(110.3)	(64.1)	(186.4)
(Increase) decrease in other assets		0.3	0.3	(8.3)	(0.1)
(Increase) decrease in restricted cash		0.3	(0.2)	(0.3)	(0.8)
Payments on exercising marketable security warrants		-	(14.9)	-	(14.9)
Payments for environmental bond and trust		(20.0)	-	(20.4)	-
Proceeds from sale of marketable securities		-	11.4	0.3	11.4
Subordinated loan to Sierra Gorda JV	5	(52.2)	-	(126.5)	-
Notes receivable	23	(21.0)	-	(131.9)	-
Proceeds from sale of Gold Wheaton shares		-	-	-	295.0
Receipts (payments) for purchasing and settling derivatives		-	-	3.4	(3.0)
<b>Cash (used in) provided from investing activities</b>		<b>(127.1)</b>	<b>(113.7)</b>	<b>(347.8)</b>	<b>101.2</b>
<b>FINANCING ACTIVITIES</b>					
Proceeds from issue of common shares		-	5.4	110.8	7.2
Payments for settlement of stock options		-	-	(18.8)	-
Proceeds from issue of senior note net of issue costs		-	488.5	-	488.5
<b>Cash provided from financing activities</b>		<b>-</b>	<b>493.9</b>	<b>92.0</b>	<b>495.7</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>(6.5)</b>	<b>(0.7)</b>	<b>3.1</b>	<b>3.2</b>
<b>Net (decrease) increase in cash and cash equivalents during the period</b>		<b>(177.3)</b>	<b>451.6</b>	<b>(284.6)</b>	<b>709.5</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>898.2</b>	<b>576.7</b>	<b>1,005.5</b>	<b>318.8</b>
<b>Cash and cash equivalents, end of period</b>		<b>720.9</b>	<b>1,028.3</b>	<b>720.9</b>	<b>1,028.3</b>

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

# **KGHM International Ltd. (Formerly “Quadra FNX Mining Ltd.”)**

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Millions)  
Six months ended June 30, 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. (“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 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). 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**

#### **a) 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 for issuance by the board of directors on August 10, 2012.

#### **b) 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. 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 Condensed Consolidated Statements of Comprehensive Income from the effective date of acquisition or to the date of disposal.

**KGHM International Ltd. (Formerly “Quadra FNX Mining Ltd.”)**

**NOTES TO CONDENSED INTERIM CONSOLIDATED  
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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.

**c) 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.

**d) Comparative figures**

Certain prior year balances have been reclassified to comply with KGHM presentation requirements. Reconciliation for mineral property, intangible assets and property, plant and equipment is presented below. Other reclassifications are presented in the relevant notes.

	Exploration and evaluation assets	Mineral property acquisition and development	Machinery and equipment	Site closure and reclamation asset	Goodwill	Land and buildings	Water Rights	Software	Total
<b>At January 1, 2012</b>									
Cost	90.7	1,182.1	693.4	77.3	180.6	-	-	-	2,224.1
Accumulated depletion, depreciation and amortization	-	(264.1)	(159.7)	(37.0)	-	-	-	-	(460.8)
Accumulated impairment	-	(328.8)	(91.8)	(20.4)	-	-	-	-	(441.0)
<b>Net book value</b>	<b>90.7</b>	<b>589.2</b>	<b>441.9</b>	<b>19.9</b>	<b>180.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,322.3</b>
<b>Reclassifications to new categories:</b>									
Cost	-	19.5	(64.4)	(77.3)	-	57.7	57.8	6.7	-
Accumulated depletion, depreciation and amortization	-	(37.0)	26.9	37.0	-	(24.0)	-	(2.9)	-
Accumulated impairment	-	(20.4)	-	20.4	-	-	-	-	-
<b>Other reclassifications:</b>									
Cost	6.6	50.5	(57.1)	-	-	-	-	-	-
Reclassifications to impairment from accumulated amortization	-	105.1	(9.4)	-	-	-	-	-	95.7
Reclassifications to amortization from accumulated impairment	-	(17.0)	(78.7)	-	-	-	-	-	(95.7)
Accumulated impairment	-	-	20.8	-	-	(20.8)	-	-	-
Accumulated amortization	-	-	(5.8)	-	-	5.8	-	-	-
	<b>6.6</b>	<b>100.7</b>	<b>(167.7)</b>	<b>(19.9)</b>	<b>-</b>	<b>18.7</b>	<b>57.8</b>	<b>3.8</b>	<b>-</b>
<b>At January 1, 2012</b>									
Cost	97.3	1,252.1	571.9	-	180.6	57.7	57.8	6.7	2,224.1
Accumulated depletion, depreciation and amortization	-	(196.0)	(148.0)	-	-	(18.2)	-	(2.9)	(365.1)
Accumulated impairment	-	(366.2)	(149.7)	-	-	(20.8)	-	-	(536.7)
	<b>97.3</b>	<b>689.9</b>	<b>274.2</b>	<b>-</b>	<b>180.6</b>	<b>18.7</b>	<b>57.8</b>	<b>3.8</b>	<b>1,322.3</b>

**KGHM International Ltd. (Formerly “Quadra FNX Mining Ltd.”)**

**NOTES TO CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(US Dollars in Millions)  
Six months ended June 30, 2012  
(Unaudited)

**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, 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\$2.9 billion. 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\$110.0 million. 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.

**5. INVESTMENT IN SIERRA GORDA**

**(a) Investment in Sierra Gorda JV**

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 was 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. Drawings under the Senior Project Loans have been received amounting to \$350 as at June 30, 2012.

The Group’s investment in Sierra Gorda at June 30, 2012 is \$521.1 (December 31, 2011 - \$521.1).



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**(b) Subordinated loan receivable from Sierra Gorda JV**

As of June 30, 2012 the Group had funded \$129.8 to Sierra Gorda JV through a subordinated loan agreement. The balance as at June 30, 2012 includes accrued interest of \$3.3. 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.

**(c) Contractual Commitments**

As of June 30, 2012, the Group’s proportionate 55% share of the contractual commitments at Sierra Gorda totaled \$506.5 including purchase orders for mining equipment and infrastructure. A portion of each of these amounts is expected to be funded from the \$1.0 billion Senior Project loan. In addition Sierra Gorda JV signed some key contracts relating to the commercial operations for 2014, including construction of power line, supply of electricity, port and rail services. The Group’s proportionate 55% share of these contract commitments totaled \$980.0. Under the terms of the electricity supply contract, the Group is required to provide guarantees up to \$138.0.

**6. INVENTORY**

	<b>June 30,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
Robinson copper concentrate	48.6	57.8
Carlota leach pad inventory	47.1	45.8
Franke leach pad inventory	25.5	37.5
Copper cathode	7.4	14.5
Supplies	43.1	39.8
Robinson ore stockpile	1.0	3.2
Sudbury crushed ore inventory	1.1	0.1
	<b>173.8</b>	<b>198.7</b>

For the three and six months ended June 30, 2012, cost of sales includes \$26.0 of inventory write down at Franke due to a change in estimate in respect of the expected recovery from the leach pad. During the six months ended June 30, 2011 an adjustment of \$11.0 was required to reduce Carlota’s leach pad inventory to its net realizable value.

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**7. TRADE AND OTHER RECEIVABLES**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Trade receivables	250.5	162.3
Receivable from Sierra Gorda JV	0.5	10.8
Prepaid expenses and advances to suppliers	18.2	20.0
Other financial receivables	6.9	4.3
Other non-financial receivables	0.2	-
	<u>276.3</u>	<u>197.4</u>

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.

For the year ended December 31, 2011 taxes paid of \$21.9 have been reclassified from trade and other receivables to current corporate tax receivables and other current assets of \$19.8 have been reclassified to trade and other receivables.

**8. OTHER NON-CURRENT ASSETS**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Security deposits for equipment	1.4	4.4
Holdbacks on long term contracts	8.3	-
Restricted cash	26.5	23.2
Other	4.1	4.1
	<u>40.3</u>	<u>31.7</u>

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.

For the year ended December 31, 2011 marketable securities of \$54.4 and prepaid and other assets of \$19.8 have been reclassified from other current assets to marketable securities and trade and other receivables respectively.

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**9. MARKETABLE SECURITIES**

As at June 30, 2012, the Group held available for sale securities with an original cost of \$69.0 (December 31, 2011 - \$69.2) and a fair value, based on their quoted market price, of \$43.3 (December 31, 2011 - \$54.4). For the six months ended June 30, 2012, the decline in fair value of available for sale securities totaled \$11.0 net of tax, which has been recorded in shareholders’ equity as a component of comprehensive income (six months ended June 30, 2011 – increase in fair value of \$6.6 net of tax).

**10. PROPERTIES, PLANT AND EQUIPMENT**

	<b>Land and buildings</b>	<b>Mineral property acquisition and development</b>	<b>Machinery and equipment</b>	<b>Total</b>
<b>At January 1, 2012</b>				
Cost	57.7	1,252.1	571.9	1,881.7
Accumulated depletion, depreciation and amortization	(18.2)	(196.0)	(148.0)	(362.2)
Accumulated impairment	(20.8)	(366.2)	(149.7)	(536.7)
<b>Net book value</b>	<b>18.7</b>	<b>689.9</b>	<b>274.2</b>	<b>982.8</b>
<b>Period ended June 30, 2012</b>				
<b>Change in Cost</b>				
Additions	0.5	9.4	31.5	41.4
Disposal	-	-	(2.1)	(2.1)
Increase in site closure and reclamation asset	-	21.5	-	21.5
<b>Subtotal</b>	<b>0.5</b>	<b>30.9</b>	<b>29.4</b>	<b>60.8</b>
<b>Change in Accumulative Amortization</b>				
Reversal of accumulated depletion, depreciation and amortization on disposal	-	-	0.7	0.7
Depletion, depreciation and amortization charge	(1.5)	(37.3)	(31.3)	(70.1)
<b>Subtotal</b>	<b>(1.5)</b>	<b>(37.3)</b>	<b>(30.6)</b>	<b>(69.4)</b>
<b>At June 30, 2012</b>				
Cost	58.2	1,283.0	601.3	1,942.5
Accumulated depletion, depreciation and amortization	(19.7)	(233.3)	(178.6)	(431.6)
Accumulated impairment	(20.8)	(366.2)	(149.7)	(536.7)
<b>Net book value</b>	<b>17.7</b>	<b>683.5</b>	<b>273.0</b>	<b>974.2</b>

Prior year balances have been reclassified in accordance with Note 2(d).

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**11. INTANGIBLE ASSETS**

	Water rights	Exploration and evaluation assets	Software	Goodwill	Total
<b>At January 1, 2012</b>					
Cost	57.8	97.3	6.7	180.6	342.4
Accumulated depletion, depreciation and amortization	-	-	(2.9)	-	(2.9)
<b>Net book value</b>	<b>57.8</b>	<b>97.3</b>	<b>3.8</b>	<b>180.6</b>	<b>339.5</b>
<b>Period ended June 30, 2012</b>					
<b>Change in Cost</b>					
Additions	0.2	20.7	0.9	-	21.8
<b>Subtotal</b>	<b>0.2</b>	<b>20.7</b>	<b>0.9</b>	<b>-</b>	<b>21.8</b>
<b>Change in Accumulative Amortization</b>					
Depletion, depreciation and amortization charge	-	-	(0.6)	-	(0.6)
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>(0.6)</b>	<b>-</b>	<b>(0.6)</b>
<b>At June 30, 2012</b>					
Cost	58.0	118.0	7.6	180.6	364.2
Accumulated depletion, depreciation and amortization	-	-	(3.5)	-	(3.5)
<b>Net book value</b>	<b>58.0</b>	<b>118.0</b>	<b>4.1</b>	<b>180.6</b>	<b>360.7</b>

Prior year balances have been reclassified in accordance with Note 2(d).

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**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Liabilities from deliveries and services	87.2	56.8
Liabilities from employee taxes and social security	3.4	2.3
Liabilities for wages	2.4	1.0
Other financial liabilities	1.7	1.6
Accrued expenses	45.8	61.9
	<b>140.5</b>	<b>123.6</b>

For the year ended December 31, 2011, \$1.6 of accrued interest was reclassified from accounts payable and accrued liabilities to borrowings and other financial liabilities; as well \$0.2 of current corporate tax liabilities was reclassified to accounts payable and accrued liabilities.

**13. PROVISIONS**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Tax provision	6.0	6.0
Other	1.0	1.0
	<b>7.0</b>	<b>7.0</b>

**14. 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	(4.6)
Balance - June 30, 2012	183.2
Current	(16.9)
Non-current	166.3

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**15. SENIOR NOTES**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Senior notes	500.0	500.0
Senior note issue costs	(12.3)	(12.3)
Cumulative amortization of senior note issue costs	1.0	0.5
	<u>488.7</u>	<u>488.2</u>

During June 2011, the Group issued \$500.0 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 June 30, 2012 is \$523.0 based on a trading price of \$104.6 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, 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 June 30, 2012, no mandatory principal repayments are required in the next five years.

**16. SITE CLOSURE AND RECLAMATION PROVISION**

Balance at December 31, 2011	88.6
Change in estimated timing and amount of closure costs	21.4
Increase in provision due to change in discount rate	1.6
Reclamation work done to reduce liability	(0.6)
Unwinding of discount	1.0
Balance at June 30, 2012	<u>112.0</u>

Discount rates used in the estimation of the provision at June 30, 2012 were 0.9% - 1.7% for US operations, 2.2% for Chile operations and 1.2% - 1.7% for Canadian operations (for December 31, 2011 the discount rates used were 1.9%, 2.6% and 1.3% respectively).

During the quarter ended June 30, 2012, the Robinson mine revised its reclamation plan and cost estimates as required by the United States Bureau of Land Management. As a result, an increase in the provision of \$21.4 was recorded.

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.

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**17. DERIVATIVE INSTRUMENTS**

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

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Long-term supply contracts (a)	(54.3)	(54.3)
Warrants (b)	-	(20.3)
Foreign currency forward contracts (c)	-	(3.9)
Copper put options (d)	-	0.1
	<b>(54.3)</b>	<b>(78.4)</b>

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

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Derivative assets - current	-	0.1
Derivative liabilities - current	(9.7)	(13.6)
Derivative liabilities - non-current	(44.6)	(64.9)
	<b>(54.3)</b>	<b>(78.4)</b>

The loss (gain) on derivatives is comprised of the following and is included in other income (Note 22 (c)):

	<b>Three months ended June 30, 2012</b>	<b>Three months ended June 30, 2011</b>	<b>Six months ended June 30, 2012</b>	<b>Six months ended June 30, 2011</b>
Long-term supply contracts (a)	(5.2)	(2.3)	-	(2.5)
Warrants (b)	-	-	(7.6)	0.5
Foreign currency forward contracts (c)	-	-	(7.4)	(13.4)
Copper put options (d)	-	0.6	0.1	3.2
Fuel contracts	-	2.8	-	-
	<b>(5.2)</b>	<b>1.1</b>	<b>(14.9)</b>	<b>(12.2)</b>

**(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.

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These copper price escalation clauses create embedded derivatives in the acid and water supply contracts. As of June 30, 2012, the fair value of the embedded derivative liabilities was determined to be \$54.3, based on the following significant assumptions:

- Copper price of \$2.75/lb to \$3.5/lb for 2012 to 2022.
- Discount rate: 12%

**(b) Warrants**

During the six month period ended June 30, 2012, 1,055,888 Lender Warrants were exercised for proceeds of C\$9.8 million. The remaining 40,556 Lender Warrants expired unexercised.

In connection with the Plan of Arrangement with KGHM, the warrants assumed in connection with the FNX merger (FNX Warrants) were purchased by the Bidco from all warrant holders for C\$12.6 million (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 million into common shares of former Quadra FNX.

For the six months ended June 30, 2012, a gain resulted from the retirement of the warrant derivative liability in the amount of \$7.6 and is recognized in income for the period. As of June 30, 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 million Chilean Pesos on various dates.

The foreign currency contracts were recognized at fair value and recorded on the consolidated balance sheet. During the six month period ended June 30, 2012, the Group settled all of the foreign currency contracts and received \$3.5 from the counterparty resulting in a gain of \$7.4. As of June 30, 2012 no foreign currency forward contracts were outstanding.

**(d) Copper put options**

During the six months ended June 30, 2012, the remaining 18 million pounds of copper puts purchased in 2011 expired unexercised. As at June 30, 2012, no copper put options were outstanding.



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**18. 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 June 30, 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**

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**

On March 5, 2012, \$6.2 was paid to settle all 415,189 RSUs outstanding.

**(iii) PSU**

On March 5, 2012, \$1.5 was paid to settle all 102,155 PSUs outstanding.

**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 holds the goodwill established during the merger with FNX Mining Ltd. on May 20, 2010.

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	<b>Robinson (USA) <sup>(a)</sup></b>	<b>Carlota (USA)</b>	<b>Franke (Chile)</b>	<b>Sudbury Operations (Cda) <sup>(a)</sup></b>	<b>DMC</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
Copper revenues	108.5	20.0	41.7	46.6	-	-	216.8
Nickel revenues	-	-	-	16.5	-	-	16.5
Other by - product revenues	19.0	-	-	7.7	-	-	26.7
Contract mining revenues	-	-	-	-	94.9	-	94.9
Treatment Charges	(6.9)	-	-	(11.1)	-	-	(18.0)
<b>Net revenues</b>	<b>120.6</b>	<b>20.0</b>	<b>41.7</b>	<b>59.7</b>	<b>94.9</b>	<b>-</b>	<b>336.9</b>
Depreciation and amortization	8.9	-	5.8	21.5	1.2	-	37.4
Employee benefits expense	16.8	4.4	5.8	12.8	9.4	-	49.2
Raw materials, other consumables and energy	42.0	9.7	20.9	11.4	0.1	-	84.1
Office expenses	3.4	1.4	1.8	(1.9)	0.6	-	5.3
External services	5.1	1.1	4.8	10.4	74.7	-	96.1
Royalties and mineral taxes	3.7	1.0	-	-	-	-	4.7
Cost of sales inventory write-off	-	-	26.0	-	-	-	26.0
Changes in Inventories	19.1	(1.1)	1.5	(0.8)	-	-	18.7
Distribution costs	11.8	-	1.2	3.5	-	-	16.5
<b>Income (loss) from operations</b>	<b>9.8</b>	<b>3.5</b>	<b>(26.1)</b>	<b>2.8</b>	<b>8.9</b>	<b>-</b>	<b>(1.1)</b>
General and administrative	-	-	-	-	-	7.0	7.0
Finance income	-	-	-	-	-	(6.2)	(6.2)
Finance expense	-	-	-	-	-	10.7	10.7
Other income	-	-	-	-	-	(11.4)	(11.4)
Other expense	-	-	-	-	-	2.3	2.3
Foreign exchange loss	-	-	-	-	-	10.4	10.4
Transaction costs for merger and acquisition	-	-	-	-	-	1.0	1.0
<b>Segment earnings (loss) before tax</b>	<b>9.8</b>	<b>3.5</b>	<b>(26.1)</b>	<b>2.8</b>	<b>8.9</b>	<b>(13.8)</b>	<b>(14.9)</b>
<b>Capital expenditures</b>	<b>3.9</b>	<b>0.1</b>	<b>7.4</b>	<b>7.0</b>	<b>3.8</b>	<b>12.1</b>	<b>34.3</b>
<b>Segment assets as at June 30, 2012</b>	<b>531.8</b>	<b>206.8</b>	<b>199.0</b>	<b>1,111.9</b>	<b>137.1</b>	<b>1,442.5</b>	<b>3,629.1</b>

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	<b>Robinson (USA) <sup>(a)</sup></b>	<b>Carlota (USA)</b>	<b>Franke (Chile)</b>	<b>Sudbury Operations (Cda) <sup>(a)</sup></b>	<b>DMC</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
Copper revenues	91.0	22.1	25.5	78.5	-	-	217.1
Nickel revenues	-	-	-	25.0	-	-	25.0
Other by - product revenues	15.1	-	-	12.8	-	-	27.9
Contract mining revenues	-	-	-	-	27.7	-	27.7
Treatment Charges <sup>(1)</sup>	(3.7)	-	-	(15.6)	-	-	(19.3)
<b>Net revenues</b>	<b>102.4</b>	<b>22.1</b>	<b>25.5</b>	<b>100.7</b>	<b>27.7</b>	<b>-</b>	<b>278.4</b>
Depreciation and amortization	6.8	3.7	6.8	21.5	0.9	-	39.7
Employee benefits expense	16.1	5.7	4.5	12.4	5.6	-	44.3
Raw materials, other consumables and energy	36.6	14.7	20.2	7.7	0.1	-	79.3
Office expenses	2.2	1.2	1.9	0.9	0.5	-	6.7
External services	5.2	1.7	5.8	10.8	17.3	-	40.8
Royalties and mineral taxes	3.2	1.2	-	-	-	-	4.4
Changes in Inventories	3.9	(6.8)	(8.6)	(1.4)	-	-	(12.9)
Distribution costs	7.1	-	1.1	3.5	-	-	11.7
<b>Income from operations</b>	<b>21.3</b>	<b>0.7</b>	<b>(6.2)</b>	<b>45.3</b>	<b>3.3</b>	<b>-</b>	<b>64.4</b>
General and administrative <sup>(2)</sup>	-	-	-	-	-	15.6	15.6
Finance income	-	-	-	-	-	(0.2)	(0.2)
Finance expense	-	-	-	-	-	0.6	0.6
Other income <sup>(3)</sup>	-	-	-	-	-	(34.2)	(34.2)
Other expense <sup>(4)</sup>	-	-	-	-	-	10.7	10.7
Foreign exchange loss	-	-	-	-	-	(0.3)	(0.3)
<b>Segment earnings before incomes taxes</b>	<b>21.3</b>	<b>0.7</b>	<b>(6.2)</b>	<b>45.3</b>	<b>3.3</b>	<b>7.8</b>	<b>72.2</b>
<b>Capital expenditures</b>	<b>28.9</b>	<b>0.5</b>	<b>6.1</b>	<b>16.1</b>	<b>2.7</b>	<b>56.1</b>	<b>110.4</b>
<b>Segment assets as at June 30, 2011</b>	<b>436.9</b>	<b>311.6</b>	<b>334.5</b>	<b>1,301.6</b>	<b>60.7</b>	<b>1,059.5</b>	<b>3,504.8</b>

(1) Treatment charges and refining charges (TCRC) totaling to \$19.3 was reclassified from cost of sales to revenue.

(2) Exploration and evaluation cost are included in general and administrative expenses.

(3) Finance income of \$34.2 has been reclassified to other income.

(4) Loss on derivatives of \$1.1 and unrealized loss on held for trading marketable securities of \$9.6 has been reclassified as other losses.

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Copper revenues	201.2	39.5	77.4	112.2	-	-	430.3
Nickel revenues	-	-	-	39.8	-	-	39.8
Other by - product revenues	30.2	-	-	17.0	-	-	47.2
Contract mining revenues	-	-	-	-	167.3	-	167.3
Treatment Charges	(11.0)	-	-	(24.3)	-	-	(35.3)
<b>Net revenues</b>	<b>220.4</b>	<b>39.5</b>	<b>77.4</b>	<b>144.7</b>	<b>167.3</b>	<b>-</b>	<b>649.3</b>
Depreciation and amortization	18.4	-	8.1	41.8	2.1	-	70.4
Employee benefits expense	33.6	9.2	11.7	27.8	17.0	-	99.3
Raw materials, other consumables and energy	85.6	20.2	41.1	23.5	0.1	-	170.5
Office expenses	6.0	2.5	3.9	0.1	1.2	-	13.7
External services	11.2	2.2	8.6	19.8	133.1	-	174.9
Royalties and mineral taxes	6.5	1.9	-	-	-	-	8.4
Cost of sales inventory write-off	-	-	26.0	-	-	-	26.0
Changes in Inventories	11.1	(2.3)	(6.2)	(1.0)	-	-	1.6
Distribution costs	20.0	-	2.1	7.3	-	-	29.4
<b>Income (loss) from operations</b>	<b>28.0</b>	<b>5.8</b>	<b>(17.9)</b>	<b>25.4</b>	<b>13.8</b>	<b>-</b>	<b>55.1</b>
General and administrative	-	-	-	-	-	26.6	26.6
Finance income	-	-	-	-	-	(8.8)	(8.8)
Finance expense	-	-	-	-	-	21.1	21.1
Other income	-	-	-	-	-	(28.3)	(28.3)
Other expense	-	-	-	-	-	2.3	2.3
Foreign exchange loss	-	-	-	-	-	(0.2)	(0.2)
Transaction costs for merger and acquisition	-	-	-	-	-	27.3	27.3
<b>Segment earnings (loss) before tax</b>	<b>28.0</b>	<b>5.8</b>	<b>(17.9)</b>	<b>25.4</b>	<b>13.8</b>	<b>(40.0)</b>	<b>15.1</b>
<b>Capital expenditures</b>	<b>10.8</b>	<b>-</b>	<b>10.2</b>	<b>14.9</b>	<b>8.6</b>	<b>18.9</b>	<b>63.4</b>
<b>Segment assets as at June 30, 2012</b>	<b>531.8</b>	<b>206.8</b>	<b>199.0</b>	<b>1,111.9</b>	<b>137.1</b>	<b>1,442.5</b>	<b>3,629.1</b>

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	<b>Robinson (USA) <sup>(a)</sup></b>	<b>Carlota (USA)</b>	<b>Franke (Chile)</b>	<b>Sudbury Operations (Cda) <sup>(a)</sup></b>	<b>DMC</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
Copper revenues	168.3	40.0	55.6	141.6	-	-	405.5
Nickel revenues	-	-	-	51.2	-	-	51.2
Other by - product revenues	33.1	-	-	26.4	-	-	59.5
Contract mining revenues	-	-	-	-	50.3	-	50.3
Treatment Charges <sup>(1)</sup>	(7.6)	-	-	(28.3)	-	-	(35.9)
<b>Net revenues</b>	<b>193.8</b>	<b>40.0</b>	<b>55.6</b>	<b>190.9</b>	<b>50.3</b>	<b>-</b>	<b>530.6</b>
Depreciation and amortization	12.2	6.9	11.5	40.1	1.7	-	72.4
Employee benefits expense	32.2	11.9	8.2	24.6	11.3	-	88.2
Raw materials, other consumables and energy	69.3	30.2	37.3	16.4	0.1	-	153.3
Office expenses	4.5	2.8	4.3	1.5	0.8	-	13.9
External services	7.7	3.9	12.4	21.2	29.6	-	74.8
Royalties and mineral taxes	6.2	2.0	-	-	-	-	8.2
Changes in Inventories	(6.7)	(7.9)	(16.0)	(0.9)	-	-	(31.5)
Distribution costs	14.1	0.1	2.2	7.2	-	-	23.6
<b>Income from operations</b>	<b>54.3</b>	<b>(9.9)</b>	<b>(4.3)</b>	<b>80.8</b>	<b>6.8</b>	<b>-</b>	<b>127.7</b>
General and administrative <sup>(2)</sup>	-	-	-	-	-	24.0	24.0
Finance income	-	-	-	-	-	(0.6)	(0.6)
Finance expense	-	-	-	-	-	1.2	1.2
Other income <sup>(3)</sup>	-	-	-	-	-	(180.3)	(180.3)
Other expense <sup>(4)</sup>	-	-	-	-	-	0.6	0.6
Foreign exchange loss	-	-	-	-	-	(2.5)	(2.5)
<b>Segment earnings before incomes taxes</b>	<b>54.3</b>	<b>(9.9)</b>	<b>(4.3)</b>	<b>80.8</b>	<b>6.8</b>	<b>157.6</b>	<b>285.3</b>
<b>Capital expenditures</b>	<b>49.8</b>	<b>4.9</b>	<b>19.7</b>	<b>29.9</b>	<b>3.1</b>	<b>84.6</b>	<b>192.0</b>
<b>Segment assets as at June 30, 2011</b>	<b>436.9</b>	<b>311.6</b>	<b>334.5</b>	<b>1,301.6</b>	<b>60.7</b>	<b>1,059.5</b>	<b>3,504.8</b>

(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 June 30, 2012, 37.9 million pounds of copper have been provisionally valued at an average price of \$3.44 per pound. The final pricing for these provisionally priced sales is expected to occur between July and October 2012.

(1) Treatment charges and refining charges (TCRC) totaling to \$35.9 were reclassified from cost of sales to revenue.

(2) Exploration and evaluation costs are included in general and administrative expenses.

**KGHM International Ltd. (Formerly “Quadra FNX Mining Ltd.”)**

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- (3) Gain on derivatives \$12.2, finance income of \$34.2, and gain on sale of Gold Wheaton shares \$ 133.9 has been reclassified to other income.
- (4) Finance expense of \$0.6 has been reclassified to other expense

**20. INCOME TAXES**

For the six month period ended June 30, 2012, the Group recognized a current income tax expense of \$17.3 and a deferred income tax recovery of \$7.2 (for the six months ended June 30, 2011 \$38.7 current income tax expense and \$15.1 deferred income tax expense). The income tax recovery for the six months ended June 30, 2012 has been recorded based on a forecasted effective income tax rate of 22.9% excluding certain onetime tax events (2011: income tax expense effective income tax rate of 18%). 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.

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.

**21. GENERAL AND ADMINISTRATIVE**

	<b>Three months ended June 30, 2012</b>	<b>Three months ended June 30, 2011</b>	<b>Six months ended June 30, 2012</b>	<b>Six months ended June 30, 2011</b>
Employee benefits expenses	2.8	9.9	18.1	14.2
Legal and professional services	2.3	2.4	2.8	3.3
Office and communication expenses	1.7	3.1	5.2	6.1
Insurance expenses and property taxes	0.2	0.2	0.5	0.4
	<b>7.0</b>	<b>15.6</b>	<b>26.6</b>	<b>24.0</b>

**22. FINANCE INCOME AND EXPENSE**

**(a) Finance Income**

Finance income for the six months ended June 30, 2012 of \$8.8 (June 30, 2011 - \$0.6) is primarily related to interest earned on short-term investments, interest on Senior Project Loans to Sierra Gorda JV (Note 5) and notes receivable (Note 23).

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**(b) Finance Expenses**

Finance expense for the six months ended June 30, 2012 of \$21.1 (June 30, 2011 - \$1.2) is primarily comprised of \$19.4 interest expense related to senior notes (Note 15).

**(c) Other Income**

Other Income for the six months ended June 30, 2012 of \$28.3 (June 30, 2011 - \$180.3) is primarily comprised of gain on derivatives (Note 17) and management fees from Sierra Gorda JV (Note 23). For the six months ended June 30, 2011, other income includes a \$133.9 gain from disposal of Gold Wheaton shares.

**23. RELATED PARTY TRANSACTIONS AND BALANCES**

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 \$0.4 at June 30, 2012 (December 31, 2011 - \$10.8). This amount is repayable in the normal course of business. The Group earned management fees of \$12.5 from the Sierra Gorda JV during the six months ended June 30, 2012, which were included in other income.

On March 5, 2012, the Group 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 the Group 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 six months ended June 30, 2012, \$1.3 of related interest income was recorded.

In the second quarter of 2012, the Group loaned \$21 in the form of a Canadian dollar promissory note to the Bidco to fund its capital investment. The note is non-interest bearing and is payable on demand.

**24. SUPPLEMENTARY CASH FLOW INFORMATION**

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Increase in receivables	(72.8)	(4.6)	(80.4)	(18.5)
(Increase) decrease in inventory	16.7	(15.5)	(1.1)	(47.3)
Increase (decrease) in accounts payable and accrued liabilities	10.7	6.0	18.2	(3.0)
Decrease in provisions	(5.8)	-	-	(3.0)
	(51.2)	(14.1)	(63.3)	(71.8)
Non-cash investing and financing activities:				
Mineral properties, plant and equipment purchases in accruals	1.7	(0.3)	2.1	(5.6)

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**25. COMMITMENTS**

As at June 30, 2012 the commitments of the Group were \$112.0 in relation to capital projects, rent, and contractual obligation. As at June 30, 2012, commitments of \$11.5 are due within a year, \$50.8 are due within one to three years and \$49.7 are due after five years.

**26. 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, existing litigations are not considered to be likely to have a material impact on the financial statements.