KGHM INTERNATIONAL

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SECOND QUARTER ENDED JUNE 30, 2012

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

	Three months ended June 30			Six months ended June 30		
	2012	2011	Change	2012	2011	Change
FINANCIAL HIGHLIGHTS						
Net revenues [1]	337	278	21%	649	531	22%
(Loss) income from mining operations	(1)	64	-102%	55	128	-57%
Adjusted EBITDA [2]	67	86	-22%	147	186	-21%
Adjusted EBITDA per share (basic)	0.34	0.45	-25%	0.74	0.97	-24%
(Loss) earnings for the period	(28)	64	-143%	5	232	-98%
(Loss) earnings per share (basic)	(0.14)	0.33	-142%	0.03	1.21	-98%
Cash	721	1,028	-30%	721	1,028	-30%
Working capital	1,076	1,338	-20%	1,076	1,338	-20%

[1] Net of treatment and refining charges
[2] See "Non-IFRS Financial Measures"

SECOND QUARTER AND RECENT HIGHLIGHTS:

- Net revenues increased 21% to $337 million in the quarter compared to $278 million in the same quarter of 2011 despite an 18% decline in realized copper prices.
- Adjusted EBITDA decreased 22% to $67 million from $86 million in 2011 mainly due to 18% lower copper prices as well as lower grades and higher operating costs at Morrison (see "**Review of Operations and Projects**").
- Earnings decreased $92 million to a loss of $28 million compared to earnings of $64 million in the same quarter of 2011. In Q2 2012, the Company incurred a $26 million write down related to leach pad inventory at Franke. Lower copper prices in Q2 2012 also negatively impacted the earnings by $47 million. In Q2 2011, the Company realized a $25 million gain from disposition of marketable securities.
- Total production for the quarter was 60 million pounds of copper and 23 thousand ounces of total precious metals (TPMs) compared to 55 million pounds of copper and 28 thousand ounces of TPMs in Q2 2011. Cash costs were $2.90 per pound of copper sold compared to $2.35 per pound of copper sold in Q2 2011.
- The Company ended the second quarter of 2012 with $721 million of cash.

FINANCIAL PERFORMANCE

Earnings

The Company recorded a loss of $27.7 million or $0.14 per share (basic) for Q2 2012 compared to earnings of $63.8 million or $0.33 per share (basic) for the same period of 2011. For the first six months of 2012, earnings decreased to $5.0 million from $231.5 million in the same period of 2011. The significant decrease in earnings in Q2 2012 was primarily driven by a $65 million decrease in operating income due to lower average copper and nickel prices and higher operating costs at the Morrison deposit (see "**Review of Operations and Projects**") as well as a one time

This Management Discussion and Analysis ("MD&A") of KGHM International Ltd. (formerly Quadra FNX Mining Ltd). and its subsidiaries ("KGHMI" or the "Company") has been prepared as at August 10, 2012 and is intended to be read in conjunction with the accompanying unaudited consolidated financial statements for the quarter ended June 30, 2012 and audited consolidated financial statements for the year ended December 31, 2011. This MD&A contains 'forward looking information' and reference to the cautionary statement at the end of this MD&A is advised. All financial information in this MD&A is prepared in accordance with the International Financial Reporting Standards ("IFRS") and ***all dollar amounts are expressed in millions of United States dollars unless otherwise indicated.***

$26 million inventory write down related to Franke leach pad. In Q2 2011 the Company recognized a gain of $34.2 million on its investment in Far West Mining. Additional factors affecting the decrease in earnings were a $27.3 million of costs in connection with the Plan of Arrangement with KGHM Polska Miedź S.A. ("KGHM") and a realized gain of $133.9 million on the disposition of Gold Wheaton shares for the first six months of 2012 and 2011 respectively. During Q2 2012, the Company sold 64 million pounds of copper at an average price of $3.37/lb and 22 thousand ounces of TPMs compared to 53 million pounds of copper in Q2 2011 at an average price of $4.11/lb and 28 thousand ounces of TPMs.

Revenues

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

	Three months ended June 30, 2011							
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Copper sales (million lbs)	22.3	10.3	6.1	5.4	6.4	2.3	-	52.8
(in millions of U.S. dollars)								
Copper	91.0	42.8	25.5	22.1	26.3	9.4	-	217.1
Nickel	-	17.9	-	-	2.8	4.3	-	25.0
Other by product [(1)]	15.1	5.1	-	-	3.1	4.6	-	27.9
Contract mining	-	-	-	-	-	-	27.7	27.7
Treatment and refining charges	(3.7)	(9.0)	-	-	(4.5)	(2.1)	-	(19.3)
Total net revenues	102.4	56.8	25.5	22.1	27.7	16.2	27.7	278.4

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

	Six months ended June 30, 2011							
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Copper sales (million lbs)	40.5	18.5	13.0	9.5	11.8	3.4	-	96.7
(in millions of U.S. dollars)								
Copper	168.3	78.0	55.6	40.0	49.4	14.2	-	405.5
Nickel	-	38.4	-	-	6.1	6.7	-	51.2
Other by product [(1)]	33.1	7.7	-	-	8.4	10.3	-	59.5
Contract mining	-	-	-	-	-	-	50.3	50.3
Treatment and refining charges	(7.6)	(16.5)			(8.5)	(3.3)		(35.9)
Total net revenues	193.8	107.6	55.6	40.0	55.4	27.9	50.3	530.6

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

(2) Treatment and refining charges are presented as a reduction in revenues in total net revenues

Revenues, other than contract mining, are generated by the sale of copper concentrate, copper cathodes and copper and nickel ore. For the sale of copper concentrate and copper and nickel ore, revenues are generally recognized at the time of delivery to a customer based on metal prices at that time; however, under current sales contracts, final pricing for copper sold in concentrate and copper and nickel ore is generally fixed up to six months after the time of arrival of a shipment at the customer's port of delivery. As a result, the Company's revenues include estimated prices for sales, based on forward copper prices at year end, as well as pricing adjustments for sales that occurred in the previous year based on the difference between the actual price received and the price at year end for sales from the previous years that were not settled in that year. The pricing of copper cathode sales is generally set in the month of shipment or one month after the time of shipment and therefore pricing adjustments in subsequent periods are minimal. Copper sales volumes are reported based on the volume of pounds actually paid for by the customer (payable pounds). Payable pounds at Robinson are generally 3-5% lower than the metal volume actually delivered, and the amount of the deduction varies depending on concentrate grade. Revenues from sales of Sudbury copper and nickel ores are recognized based on the payable metals that are estimates based on metallurgical testing and interim payment terms, neither of which is binding and, as such, final payment terms could differ from those reported. Contract mining revenues are generated from services performed.

Total net revenues in Q2 2012 were higher than the same quarter of 2011 due to higher contract mining revenues from DMC as a result of ramped up contract mining activities. Despite higher sales volumes, copper revenues in Q2 2012 were slightly lower than Q2 2011 due to lower copper price and negative price adjustment of shipments from the prior quarter. Copper spot price at June 30, 2012 was $3.49/lb compared to $4.22/lb at June 30, 2011. By-product revenues were also lower in Q2 2012 than Q2 2011 due to lower nickel price and sales volumes. For the first six months of 2012, total net revenues were higher than the same period of 2011 mainly due to higher sales volumes partially offset by lower average metal prices.

Revenues at Morrison, McCreedy West and Podolsky in Q2 2012 and the first six months of 2012 include non-cash revenue of $2.0 million and $4.6 million respectively for the amortization of a deferred revenue liability related to the Company's obligation to sell 50% of the gold, platinum and palladium contained in ore mined and shipped from certain deposits to Franco-Nevada.

Mine operating expenses and operating income

	Three months ended June 30, 2012							
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Net revenues	120.6	31.7	41.7	20.0	19.8	8.2	94.9	336.9
Depreciation and amortization	8.9	12.3	5.8	-	6.6	2.6	1.2	37.4
Employee benefits expense	16.8	6.8	5.8	4.4	3.1	2.9	9.4	49.2
Raw materials, other consumables and energy	42.0	6.6	20.9	9.7	2.1	2.7	0.1	84.1
Office expenses	3.4	(2.0)	1.8	1.4	0.8	(0.7)	0.6	5.3
External services	5.1	4.3	4.8	1.1	4.0	2.1	74.7	96.1
Royalties	3.7	-	-	1.0	-	-	-	4.7
Inventory write down	-	-	26.0	-	-	-	-	26.0
Changes in Inventories	19.1	(0.5)	1.5	(1.1)	(0.3)	-	-	18.7
Distribution costs	11.8	0.8	1.2	-	1.7	1.0	-	16.5
Cost of Sales	110.8	28.3	67.8	16.5	18.0	10.6	86.0	338.0
Operating income (loss)	9.8	3.4	(26.1)	3.5	1.8	(2.4)	8.9	(1.1)

	Three months ended June 30, 2011							
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Net revenues	102.4	56.8	25.5	22.1	27.7	16.2	27.7	278.4
Depreciation and amortization	6.8	10.5	6.8	3.7	8.5	2.5	0.9	39.7
Employee benefits expense	16.1	6.5	4.5	5.7	3.6	2.3	5.6	44.3
Raw materials, other consumables and energy	36.6	2.9	20.2	14.7	2.8	2.0	0.1	79.3
Office expenses	2.2	0.5	1.9	1.2	0.3	0.1	0.5	6.7
External services	5.2	3.4	5.8	1.7	4.0	3.4	17.3	40.8
Royalties	3.2	-	-	1.2	-	-	-	4.4
Inventory write down	-	-	-	-	-	-	-	-
Changes in Inventories	3.9	(1.4)	(8.6)	(6.8)	-	-	-	(12.9)
Distribution costs	7.1	0.9	1.1	-	1.6	1.0	-	11.7
Cost of Sales	81.1	23.3	31.7	21.4	20.8	11.3	24.4	214.0
Operating income (loss)	21.3	33.5	(6.2)	0.7	6.9	4.9	3.3	64.4

	Six months ended June 30, 2012							
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Net revenues	220.4	84.9	77.4	39.5	42.9	16.9	167.3	649.3
Depreciation and amortization	18.4	25.0	8.1	-	12.2	4.6	2.1	70.4
Employee benefits expense	33.6	14.9	11.7	9.2	6.7	6.2	17.0	99.3
Raw materials, other consumables and energy	85.6	11.9	41.1	20.2	6.3	5.3	0.1	170.5
Office expenses	6.0	(0.6)	3.9	2.5	1.2	(0.5)	1.2	13.7
External services	11.2	7.6	8.6	2.2	7.9	4.3	133.1	174.9
Royalties	6.5	-	-	1.9	-	-	-	8.4
Inventory write down	-	-	26.0	-	-	-	-	26.0
Changes in Inventories	11.1	(0.8)	(6.2)	(2.3)	(0.2)	-	-	1.6
Distribution costs	20.0	2.2	2.1	-	3.2	1.9	-	29.4
Cost of Sales	192.4	60.2	95.3	33.7	37.3	21.8	153.5	594.2
Operating income (loss)	28.0	24.7	(17.9)	5.8	5.6	(4.9)	13.8	55.1

	Six months ended June 30, 2011							
	Robinson	Morrison	Franke	Carlota	Podolsky	McCreedy West	DMC	Total
Net revenues	193.8	107.6	55.6	40.0	55.4	27.9	50.3	530.6
Depreciation and amortization	12.2	19.2	11.5	6.9	16.1	4.8	1.7	72.4
Employee benefits expense	32.2	12.3	8.2	11.9	7.3	5.0	11.3	88.2
Raw materials, other consumables and energy	69.3	5.8	37.3	30.2	6.2	4.4	0.1	153.3
Office expenses	4.5	0.8	4.3	2.8	0.5	0.2	0.8	13.9
External services	7.7	6.1	12.4	3.9	8.0	7.1	29.6	74.8
Royalties	6.2	-	-	2.0	-	-	-	8.2
Inventory write down	-	-	-	-	-	-	-	-
Changes in Inventories	(6.7)	(0.9)	(16.0)	(7.9)	-	-	-	(31.5)
Distribution costs	14.1	1.7	2.2	0.1	3.3	2.2	-	23.6
Cost of Sales	139.5	45.0	59.9	49.9	41.4	23.7	43.5	402.9
Operating income (loss)	54.3	62.6	(4.3)	(9.9)	14.0	4.2	6.8	127.7

Cost of goods sold in Q2 2012 was significantly higher than Q2 2011 mainly due to higher costs sold at Robinson, Franke and DMC. Higher cost of goods sold at Robinson were mainly the result of additional stripping costs due to a change in mine plan as well as higher concentrate sales volumes, which contributed additional $19.1 million to the costs of goods sold. Higher cost of goods sold at Franke was a result of a $26 million leach pad inventory write down due to lower than predicted recovery rates on the leach pad inventory. Production costs of goods sold at DMC were significantly higher in the current quarter as contract mining activities increased in Q2 2012 compared to Q1 2011 (see "**Review of Operations and Projects**"). Cost of goods sold for the first six months of 2012 was significantly higher than the same period of 2011 due mainly to higher sales volumes and higher production costs at Morrison.

General & administrative and other expenses

General and administrative expenses for Q2 2012 were $7.0 million compared to $15.6 million for the same quarter of 2011. The decrease in general and administrative expenses in the current quarter was mainly due to the effect of capitalization of exploration related expenditures in accordance with IFRS 6. General and administrative expenses for the first six months of 2012 were $26.6 million compared to $24.0 million for the same period of 2011.

The Company recognized $6.2 million and $8.8 million respectively in finance income on short term investments in Q2 2012 and the first six months of 2012, compared to $0.2 million and $0.6 million respectively in Q2 2011 and the first six months of 2011. Higher finance income in Q2 2012 and the first six months of 2012 was a result of higher interest rate on Chilean Peso short term investments. These Chilean Peso investments are held as part of the Company's program to mitigate the effect of exchange rates on Sierra Gorda construction costs. Finance expenses for Q2 2012 and the first six months of 2012 were $10.7 million and $21.1 million respectively compared to $0.6 million and $1.2 million respectively for Q2 2011 and the first six months of 2011. Finance expenses for the current year were mainly interest expenses on the Senior Notes that were issued in March 2012.

Other income of $11.4 million in Q2 2012 was primarily comprised of the service fee from the Sierra Gorda JV and the unrealized gains from the decrease in fair value of derivative liabilities related to Franke long term supply contracts. In Q2 2011 other income of $34.2 million primarily resulted from the gain on the Company's investment in Far West Mining. During the first six months of 2011 the Company sold all of its 56,464,126 of common shares of Gold Wheaton to Franco-Nevada for total cash proceeds of $295 million or C$5.20 per share for a total pre-tax gain of $133.9 million.

The Company recorded a foreign exchange loss of $10.4 million in Q2 2012 due to the depreciation of the Canadian dollar and the Chilean Peso. These currencies are held to mitigate the risks related to costs incurred in those currencies. The Company incurred $27.3 million transaction costs in the first six months of 2012 in connection with the Plan of Arrangement.

The Company recorded income tax expenses of $10.1 million in the first six months of 2012 compared to $53.8 million in the same period of 2011. The tax expense for the current year has been recorded based on an estimated annual effective tax rate of 23% (2011 – 18%) excluding the effect of the tax rate increase in Canada and a certain one time tax event. The increase in effective tax rate in 2012 is largely caused by the increase in valuation allowance on tax losses.

REVIEW OF OPERATIONS AND PROJECTS

PRODUCTION SUMMARY

Production for the quarter and six months ended June 30, 2012 and 2011 from the Company's operating mines is summarized as follows:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Copper production (Mlbs)				
Robinson [2]	**30.9**	21.2	**55.0**	41.2
Morrison deposit [4]	**8.1**	10.3	**18.6**	18.5
Franke [3]	**8.8**	8.3	**18.2**	15.5
Carlota [3]	**5.5**	6.2	**11.0**	10.4
Podolsky [4]	**5.8**	6.4	**11.0**	11.8
McCreedy West [4]	**0.5**	2.3	**1.1**	3.4
	59.6	54.7	**114.9**	100.8
Nickel production (Mlbs)				
Morrison deposit [4]	**1.2**	1.7	**2.9**	3.3
Podolsky [4]	**0.2**	0.3	**0.4**	0.5
McCreedy West [4]	**0.9**	0.4	**2.0**	0.6
	2.3	2.4	**5.3**	4.4
TPM [1] (kozs)				
Robinson [2]	**9.7**	7.1	**17.0**	12.6
Morrison deposit [4]	**7.7**	8.2	**17.9**	14.0
Podolsky [4]	**5.5**	5.9	**10.3**	12.5
McCreedy West [4]	**0.4**	6.4	**0.1**	13.6
	23.3	27.6	**45.3**	52.7
Total copper equivalent (Mlbs) [5]	**74.7**	73.1	**146.7**	134.6

[(1)] *Total precious metal, including gold, platinum and palladium*
[(2] *Payable metals produced in concentrate*
[(3)] *Produced in cathode*
[(4)] *Shipped payable metal*
[(5)] *Copper equivalent amounts are based on previously announced LOM commodity prices: Cu at $2.50/lb, Ni at $7/lb, Pt at $1500/oz, Pd at US$400/oz, Au at $1000/oz and Mo at $12/lb and excludes the impact of the Franco Nevada Agreement.*

Robinson (Nevada, U.S.)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Copper production payable (Mlbs)	**30.9**	21.2	**55.0**	41.2
Gold production payable (kozs)	**9.7**	7.1	**17.0**	12.6
Ore mined (Mt)	**3.7**	3.1	**6.7**	6.3
Waste mined (Mt)	**16.4**	11.3	**36.4**	22.0
Ore milled (Mt)	**3.7**	3.2	**6.7**	6.6
Copper grade (%)	**0.53**	0.43	**0.54**	0.42
Gold grade (g/t)	**0.25**	0.17	**0.24**	0.17
Copper recovery (%)	**74.6**	73.0	**71.9**	71.3
Gold recovery (%)	**34.2**	44.2	**34.6**	36.9
Cash cost per pound of copper sold ($/lb)	**$2.69**	$2.80	**$2.72**	$2.52
Capital expenditure	**$3.9**	$28.9	**$10.8**	$49.8
Cost of goods sold*	**$99.6**	$73.9	**$172.2**	$127.5
Operating income	**$9.8**	$21.3	**$28.0**	$54.3

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

Copper production in Q2 2012 was significantly higher than Q2 2011 due to higher head grade and higher volumes of ore mined. Cash cost per pound of copper sold declined from $2.80/lb to $2.69/lb, with the higher copper production in part offset by the substantially higher mining rate. Higher mining rates continued in Q2 2012 due to an increase in the haulage fleet and decreased haul distances compared to 2011, although increased stripping (higher ore to waste ratio) meant that costs per tonne of ore and overall mining costs increased. Despite these improvements mine operating income declined as a result of lower realized copper prices. Gold production in Q2 2012 was modestly higher than Q2 2011 due to higher head grade and ore tonne mined partially offset by lower recovery. However, lower grade inventory sold and lower metal prices negatively impacted operating income.

Robinson production costs and capital expenditures

Cost of goods sold for Q2 and the first six months of 2012 were higher than the same periods of 2011 mainly due to higher concentrate sales volumes and higher operating costs due to a significant increase in waste mining volumes. Operating costs are comprised of onsite and offsite costs. Onsite costs are primarily driven by the volume of waste and ore mined, payroll costs, supplies, equipment maintenance costs and royalties. Onsite costs in Q2 and the first six months of 2012 were higher than the same periods of 2011 primarily due to increased waste stripping and resulting higher mining equipment maintenance costs, and increased blasting supplies and diesel fuel usage. The increased stripping was required to mitigate the Ruth pit north wall failure. The increase in equipment maintenance costs was primarily related to engine and transmission replacement in the hauling and loading fleets. Offsite costs are primarily driven by smelting and refining charges, the volume of concentrate transported, and rail and ocean freight rates. The increase in offsite costs in Q2 and the first six months of 2012 was primarily due to higher concentrate sales volume.

The cash cost per pound of copper sold is a non-IFRS term and consists of cost of goods sold, less by-product revenue, divided by copper pounds sold in the period (see **"Non-IFRS Financial Measures"**). The cash cost per pound of copper sold for Q2 2012 was $2.69 compared to $2.80 in Q2 2011. The decreased unit cost in Q2 2012 is mainly due to higher by-product revenues resulting from high by-product sales volumes. The cash cost per pound of copper sold for the first six months of 2012 was $2.72 compared to $2.52 in 2011. The increased cash cost for the current year was due to higher costs associated with increased mining activity and lower by-product revenues.

Capital expenditures at Robinson decreased significantly in Q2 2012 compared to Q2 2011. Costs incurred related to a ball mill pinion replacement, Ruth Pit dewatering, purchases on mining equipment, construction of the Liberty Pit Access Road and geotechnical drilling.

Robinson Outlook

For the remainder of 2012 Ruth pit production will continue to be from the Ruth 2nd West, on the pit's south side, and the Ruth East, and based on the mine plan developed to deal with the suspension of mining of the Ruth North wall in December 2011. Geotechnical and engineering work continued on establishing a recovery plan for the North wall, for implementation later in the Ruth mining sequence. Capital expenditures for 2012 are mainly for Ruth Pit development, dewatering and the Liberty Pit exploration drilling program.

Morrison deposit (Ontario, Canada)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Copper ore sold (kt)	**53.0**	52.2	**110.0**	102.2
Copper grade (%)	**8.2**	10.1	**9.1**	9.3
Nickel ore sold (kt)	**-**	6.0	**-**	10.3
Nickel grade (%)	**-**	3.5	**-**	3.5
Copper sold - payable (Mlbs)	**8.1**	10.3	**18.6**	18.5
Nickel sold - payable (Mlbs)	**1.2**	1.7	**2.9**	3.3
Gold sold - payable (kozs)	**1.7**	1.2	**3.4**	2.4
Platinum sold - payable (kozs)	**1.9**	2.3	**4.8**	3.6
Palladium sold - payable (kozs)	**4.1**	4.7	**9.7**	8.0
Cash cost per pound of copper sold ($/lb)	**$1.43**	$0.23	**$1.18**	-$0.02
Capital expenditure	**$4.1**	$8.5	**$10.1**	$14.6
Cost of goods sold*	**$16.2**	$14.2	**$35.9**	$26.8
Operating income	**$3.4**	$33.5	**$24.7**	$62.6

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

Full transition to the Craig Mine infrastructure was completed early in Q2 2012, with commissioning of the ore hoisting system completed in early May. Development of the first drill platform to the lower portion of the Morrison ore body (i.e., MD4) was completed and drilling started in July. Ore produced and sold for Q2 2012 was slightly higher than Q2 2011. However, ore copper grades were 19% below those mined in Q2 2011 and payable nickel was almost 30% lower. Lower grade in the current quarter was the result of the mining sequence in the lower MD3 stoping areas. The lower grades and lower prices resulted in a significant reduction in the quarter's operating profit.

Morrison production costs and capital expenditures

The cash cost of payable copper sold was $1.43/lb in Q2 2012 compared to $0.23/lb in Q2 2011 mainly as a result of the lower copper production and by-product revenues as well as higher production costs. Lower by-product revenues were driven by lower sales volumes and nickel prices. Copper production was lower than planned largely as a result of infrastructure issues. These were dominated by a transformer fire on the skip hoist at the Craig shaft that forced a reactivation of the use of the Levack #2 shaft for ore and waste hoisting, and by protracted backfill plant and distribution system challenges that limited access to planned production workplaces. Both issues have since been resolved and production is returning to planned levels. However, the use of the two shafts increased costs for the period.

Capital spending in Q2 2012 comprised of lateral development activities, Craig reactivation costs and waste haulage. The use of the Craig shaft eliminated $20 million of capital related to a new access to Levack #2 shaft and an underground workshop

Morrison deposit outlook

Diamond drilling to improve definition of the lower portion of the Morrison ore body commenced in July 2012. Development of additional drilling platforms as well as lower access to the deposit continues. Production volume and grades are expected to increase in the second half of 2012 as mining transitions to lower mining levels.

Franke (Chile)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Copper cathode production (Mlbs)	**8.8**	8.3	**18.2**	15.5
Ore mined (Mt)	**0.9**	0.8	**1.9**	0.0
Waste mined (Mt)	**0.9**	0.7	**2.1**	0.0
Ore placed (Mt)	**0.9**	0.8	**1.9**	0.0
Copper grade (%)	**0.78**	0.82	**0.80**	0.79
Cash cost per pound of copper sold ($/lb)	**$5.03**	$4.49	**$3.92**	$4.01
Capital expenditure	**$7.4**	$6.1	**$10.2**	$19.7
Cost of goods sold*	**$59.3**	$27.6	**$83.2**	$52.3
Operating loss	**-$26.1**	-$6.2	**-$17.9**	-$4.3

**Including royalties and excluding depreciation, depletion and amortization*

Despite lower ore grade, copper production in Q2 2012 was slightly higher than the same quarter in 2011 primarily due to the higher mining and pad loading rates. However, copper production in Q2 2012 was impacted by solution turbidity problems interfering with SX operations. Pre-stripping of waste material from the China orebody was completed during Q2 2012.

Franke production costs and capital expenditures

Cost of goods sold at Franke is mainly driven by onsite costs and sales volumes. Cost of goods sold in Q2 2012 was significantly higher than Q2 2011 due mainly to a $26 million leach pad inventory adjustment to reflect actual recovery on the copper placed on the pads. Higher sales volumes was also a factor of higher cost of goods sold in the current quarter.

The cash cost of copper sold increased from $4.49/lb in Q2 2011 to $5.03/lb in Q2 2012, mainly due to the inventory adjustment.

Capital expenditures in Q2 2012 primarily related to the China pit pre-stripping activities as well as infill drilling, maintenance workshop, dust control and centrifuge costs.

Franke Operations Outlook

Production from the China pit commenced on July 1, 2012. China ore will be blended with ore from the Franke pit on a 50/50 ratio. The combination of Franke and China ore is expected to produce higher recovery from Franke material and reduce overall acid consumption.

Capital spending in 2012 at Franke is primarily related to the pre-stripping of the China ore body, the new stacker and additional dust control installations on the crushing circuit.

McCreedy West (Ontario, Canada)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Copper ore sold (kt)	**4.6**	78.0	**9.5**	152.9
Copper grade (%)	**3.6**	1.6	**3.5**	1.3
Nickel ore sold (kt)	**67.5**	-	**155.5**	-
Nickel grade (%)	**1.3**	-	**1.3**	-
Copper sold - payable (Mlbs)	**0.5**	2.3	**1.1**	3.4
Nickel sold - payable (Mlbs)	**0.9**	0.4	**2.0**	0.6
Gold sold - payable (kozs)	**0.1**	0.9	**0.1**	1.5
Platinum sold - payable (kozs)	**0.1**	2.4	**-**	5.2
Palladium sold - payable (kozs)	**0.2**	3.1	**0.1**	6.9
Cash cost per pound of copper sold ($/lb)	**$2.80**	$1.39	**$3.79**	$2.41
Capital expenditure	**$2.6**	$3.8	**$4.4**	$7.5
Cost of goods sold*	**$8.0**	$8.8	**$17.2**	$18.8
Operating Income (loss)	**-$2.4**	$4.9	**-$4.9**	$4.2

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

Following the waiver by Vale of its right to process magnesium oxide Contact Nickel ores, McCreedy West continued mining Contact Nickel ores throughout Q2 2012 and delivered a total of 67,500 tonnes of nickel ores to the Xstrata mill during the quarter, lower than a total of 88,000 tonnes in Q1, 2012.

McCreedy West production costs and capital expenditures

Cost of goods sold for Q2 2012 was lower than Q2 2011 due mainly to lower processing costs as a result of lower sales volumes.

Capital expenditures for Q2 2012 related to footwall ramp development and capitalized diamond drilling.

McCreedy West outlook

2012 production at McCreedy West is expected to be mainly from the Contact Nickel ores. The Company is evaluating potential options for additional economic production for Contact Nickel ores from both the McCreedy West and Levack mines.

Carlota (Arizona, U.S.)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Copper cathode production (Mlbs)	**5.5**	6.2	**11.0**	10.4
Ore mined (Mt)	**1.3**	1.5	**2.5**	2.3
Waste mined (Mt)	**2.7**	4.4	**5.4**	9.7
Ore placed (Mt)	**1.3**	1.5	**2.5**	2.3
Total copper grade (%)	**0.60**	0.44	**0.50**	0.42
Cash cost per pound of copper sold ($/lb)	**$2.70**	$3.24	**$2.82**	$3.27
Capital expenditure	**0.1**	$0.5	**-**	$4.9
Cost of goods sold*	**$15.1**	$17.5	**$30.2**	$31.1
Operating (loss) income	**$3.5**	$0.7	**$5.8**	-$9.9

**Including royalties and excluding depreciation, depletion and amortization*

Carlota is implementing a mine-for-closure plan which optimizes cash flow while advancing activities related to the winding down of operations. Normal operations continue utilizing mining to advance concurrent reclamation activities using existing manpower and equipment to minimize long term environmental impact. Total tonnes mined in Q2 2012 were lower than the same period of 2011 mainly due to a planned reduction in the overall mining rate, resulting in a decrease in the amount of waste stripped, and tonnes of ore placed on the pad. Q2 2012 copper production benefited from improvement in recoveries in the conveyor stacked oxide ore placed in prior quarters.

Carlota production cost and capital expenditures

Cost of goods sold for Q2 2012 decreased compared to Q2 2011 reflecting decreased costs of manpower, fuel price and consumption, mine equipment maintenance and lower acid consumption.

Q2 2012 cash cost per pound of copper sold decreased from $3.24/lb in Q2 2011 to $2.70/lb mainly due to the increased recoverable copper pounds placed and the previously mentioned cost reductions.

Capital expenditures for Q2 2012 were minimal.

Carlota Outlook

Recovery of copper from the sulphide ores continues to improve with conveyor stacking. Pad percolation rates continue to be at or above the original design. The transition to stacking higher grade sulphide ore is underway with mainly sulphide ore mined for the remainder of 2012. As expected the rate of leaching of the sulphide ores is slower than the rate of leaching of oxide ores.

Carlota anticipates continuing its mine-for-closure plan.

Podolsky (Ontario, Canada)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Copper ore sold (kt)	**98.7**	91.0	**191.0**	190.3
Copper grade (%)	**3.1**	3.6	**3.1**	3.4
Copper sold - payable (Mlbs)	**5.8**	6.4	**11.0**	11.8
Nickel sold - payable (Mlbs)	**0.2**	0.3	**0.4**	0.5
Gold sold - payable (kozs)	**1.1**	1.0	**1.8**	2.0
Platinum sold - payable (kozs)	**1.9**	2.3	**3.8**	5.0
Palladium sold - payable (kozs)	**2.4**	2.7	**4.7**	5.6
Cash cost per pound of copper sold ($/lb)	**$2.00**	$1.67	**$2.20**	$1.74
Capital expenditure	**$0.3**	$3.8	**$0.4**	$7.8
Cost of goods sold*	**$11.5**	$12.4	**$25.1**	$25.5
Operating income	**$1.8**	$6.9	**$5.6**	$14.0

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

As previously announced production at Podolsky is expected to cease in 2012, although an evaluation is underway on possible short term extension into 2013. Ore production in Q2 2012 was higher than Q2 2011 as a result of strong results in May. Production in the first six months of 2012 was in line with 2011. Average grades have decreased in 2012 as the mine life comes to an end and ore quality decreases around the perimeter of the ore body. As a result, payable metals decreased in Q2 2012 and the first six months of 2012 compared to the same periods of 2011.

Podolsky production costs and capital expenditures

Cost of goods sold in Q2 decreased slightly compared to the same period of 2011. Lower cost of goods sold was due to declining backfill and development requirements and the reduction of workforce due to the reduced scope of work. Cash costs per pound of copper sold in Q2 and the first six months of 2012 was higher than the same periods of 2011 due to lower by-product sales volumes and prices. Capital expenditures in 2012 have been reduced

significantly from 2011 with no capital projects planned and only limited capital diamond drilling and associated analysis.

Podolsky outlook

Although copper grades are expected to be slightly higher in Q3 2012, production rates are expected to be slightly lower. However, additional opportunities are being studied to potentially extend the mine life into 2013. Capital diamond drilling for opportunity to extend the mine life is forecast to be complete by mid-August, with no additional capital projects planned for 2012.

PROJECTS UNDER DEVELOPMENT

Sierra Gorda Joint Venture (55% interest)

In January 2012, Sumitomo completed its initial contribution of $724 million to the JV, which covered 100% of costs from May 2011 until January 2012. Commencing February 2012, the Company and Sumitomo funded, proportionally, those JV costs not covered by borrowing.

In the first six months of 2012 the Sierra Gorda project incurred $467 million capital expenditures, including progress payments for mining and plant equipment, camp and infrastructure construction, and other project related payments. At June 30, 2012 the JV had cash of $531 million. Because the Company accounts for the JV using equity based accounting principles, the cash is not included in KGHMI's cash balance.

Sumitomo took the lead in efforts to arrange and guarantee project financing in the amount of $1.0 billion and during the first six months of 2012 the JV retained Sumitomo Mitsui Bank Corporation (SMBC) as the financial advisor for the project financing. On March 8, 2012 the JV signed the $1 billion Senior Project Loan agreement with a group of lenders led by Japan Bank for International Corporation. The project loan has a 9.5 year term with an interest rate of LIBOR plus a margin.

Sierra Gorda activities and outlook

At the end of Q2 2012, over 320 engineering, construction and service contracts have been awarded while 27 additional contracts are under bidding and evaluation process. Orders for key plant and process equipment continued during Q2 2012, with all anticipated deliveries meeting project schedule requirements. The JV has also continued to successfully recruit key management positions and recruiting of operating personnel will continue throughout the construction phase.

Plant earthworks activities are also in progress. There has been significant progress on site infrastructure facilities including: camp facilities, definitive truck shop and equipment laydown and assembly areas. Eleven haul trucks, two shovels and support equipment were turned over to the operation team during Q2 2012 and a total of 2.7 million tonnes of waste was mined in June 2012. Commencement of plant construction is on schedule to begin in Q3 2012.

The JV has been negotiating several of the major key outsourced operation contracts including the water supply, railway transportation, transmission lines, port facilities and power purchase agreement. These contracts were awarded during Q2 2012. Minimum commitments under these contracts totalled approximately $2,000 million for a period of 20 to 22 years subject to a certain escalations. Under the terms of these contracts, guarantees of up to $330 million are required.

The project remains on schedule to commence production in 2014. The total approved construction capital cost including contingency for Sierra Gorda was $2,877 million, and with working capital and project finance interest during construction the total was estimated at approximately $3.0 billion. A definitive cost estimate will be developed in Q4 2012, once the detailed engineering is 75% complete. This will take into account all aspects of the project including cost inflation and the scope changes required to meet project revised objectives.

As of June 30, 2012 the Sierra Gorda JV had made contract commitments of $1,627 million including purchase orders for mining equipment (including shovels, drills and trucks) and infrastructure. Approximately 50% of the total amount has been paid.

Victoria Project

During Q2 2012, the drilling program at the Victoria property focused on down plunge drilling. The exploration team also focused on the down dip extension of the mineralization at the historical ore bodies mined by Vale. The Company continues to advance the detailed engineering design and project execution plan for the Victoria project.

During Q2 2012 the Company also continued discussions on Impact Benefit Agreements with the Sagamok Anishnawbek and Atikameksheng Anishnawbek First Nations. The Company continues the preparation and submission for the necessary permits and agreements to commence construction.

Victoria Project Outlook

The Company continues to progress towards approval and granting of the required permits. Detailed engineering and definition of project execution will continue to advance, focusing on schedule, capital expenditure and constructability. Procurement for the main hoisting system, water treatment and power infrastructure continue.

The Company continues discussions with Vale, who has the off-take agreement for the production from Victoria and a back-in right. Resolution of these matters is required before a decision can be made to proceed with the project.

DMC MINING SERVICES

Revenues for the year continue ahead of budget. For the first six months of 2012, DMC completed more work than for the whole year of 2011 and earnings for the first six months were also greater than the full year of 2011.

Revenue for Q2 2012 was $94.9 million compared to $27.7 million in Q2 2011. Operating income for Q2 2012 was $8.9 million compared to $3.3 million for Q2 2011. Revenue for the first six months was $167.3 million compared to $50.3 million in 2011. Operating income for the first six months was $13.8 million versus $6.8 million in 2011. DMC is on target to complete the year on budget and has in excess of $500 million of work to be completed.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2012, the Company had cash and cash equivalents of $721 million. These amounts are comprised of cash deposits and highly liquid investments that are readily convertible to cash. The counter parties include banks, governments and government agencies. The Company also held marketable securities with a total fair value of $43.3 million.

The Company used cash in operating activities of $31.9 million for the first six months of 2012 compared to cash from operating activities of $109.4 million for the same period of 2011. The decrease in operating cash flow is largely driven by the lower operating income the first six months of 2012.

At June 30, 2012, the Company had working capital of $1,076 million as compared to $1,289 million at December 31, 2011. The decrease in working capital in the first six months of 2012 is primarily a result of the decreased cash position at June 30, 2012. At June 30, 2012, accounts receivable and revenues include approximately 38 million pounds of copper that has been provisionally valued at $3.44/lb. The final pricing for these provisionally priced sales is expected to occur between July and October 2012. Changes in the price of copper from the amounts used to calculate the provisional values will impact the Company's revenues and working capital position in Q3 2012.

Capital spending in the first six months of 2012 was $64.1 million for operations and projects. An additional $20.4 million was paid to increase environmental bonding for Robinson. In the first six months of 2012, the Company advanced $126.5 million to Sierra Gorda JV to complete the construction of the Sierra Gorda mine. Subject to the subordination conditions to the Senior Project Loans, interest and principal are payable on demand. In addition, the Company advanced $131.9 million to 0929260 BC Unlimited Liability Company, a wholly owned subsidiary of KGHM in connection with the Plan of Arrangement.

Liquidity Outlook

The Company's future profitability and cash position are highly dependent on the price of copper and to a lesser extent, precious metals and nickel. Future changes in the price of copper will also impact the final settlement price of provisionally priced sales. In the remainder of 2012 the Company expects to spend approximately $47 million on capital expenditures for its six operating mines. At current metal prices, the Company expects that it will be able to fund the 2012 capital requirements for all of its mines and projects from existing cash on hand and internally generated funds.

Commitments and contractual obligations

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Reclamation liabilities	$ 1.0	$ 3.2	$ 2.1	$ 0.6	$ 5.0	$ 114.1	$ 126.0
Franke Mine supply contracts	6.1	12.2	12.3	12.8	10.5	49.7	103.7
Robinson Mine power supply contract	4.6	-	-	-	-	-	4.6
Senior note including interests	19.4	38.8	38.8	38.8	38.8	596.6	771.2
Minimum lease payments (capital and operating)	5.2	9.1	4.6	2.7	2.1	12.3	36.0
Total	$ 36.3	$ 63.3	$ 57.8	$ 54.9	$ 56.4	$ 772.7	$1,041.5

Under the Sierra Gorda JV agreement, the Company expects to fund approximately $570 million of the construction budget in the next two years.

Reclamation liabilities

The Company has estimated total future reclamation costs of $126 million (undiscounted), which are primarily related to the closure of the Robinson, Carlota and Franke mines and the Sudbury operations. The accounting carrying value of this liability is $112 million at June 30, 2012 based on the estimated discounted future payments. To secure a portion of the closure costs related to Robinson, Carlota and Sudbury operations, the Company has posted environmental bonds and held cash in a reclamation trust totalling $102.6 million as at June 30, 2012. The Company revises the Reclamation plan and cost estimate for Robinson annually as required by the US Bureau of Land Management and adjusts the amount of the bond accordingly. The reclamation plan and cost estimate for Carlota is updated every five years as required by the regulator and the amount of the bond is adjusted accordingly. There is currently no environmental bonding in place at Franke. A closure plan for Podolsky has been submitted to the Ontario Government. Closure plans for the McCreedy West and Levack operations are governed by arrangements between the Ontario Government and Vale and between Vale and the Company.

Franke Mine supply contracts

The Company has a long-term supply contract for sulphuric acid for use in the copper extraction process at Franke. The minimum commitment under the contract is estimated to be $4.1 million per annum subject to adjustment based on the prevailing copper prices over the term of the contract which expires in 2022. The Company is committed to purchase 150,000 tonnes of sulfuric acid per annum at a base price of $27/tonne. The base price for acid in the contract is increased by $2.50/tonne for each $0.10/lb that the copper price exceeds $1.10/lb.

Franke also has a long-term supply contract for industrial water. The minimum commitment under the contract is estimated to be approximately $1.1 million per annum subject to adjustment based on the prevailing copper prices over the term of the contract which expires in 2020. The copper price adjustment requires, on an annualized basis, that approximately an additional $120 be paid for each $0.15/lb that the copper price exceeds a base price of $1.50/lb. The Company has also entered into various supply and other contracts for operation and development of Franke.

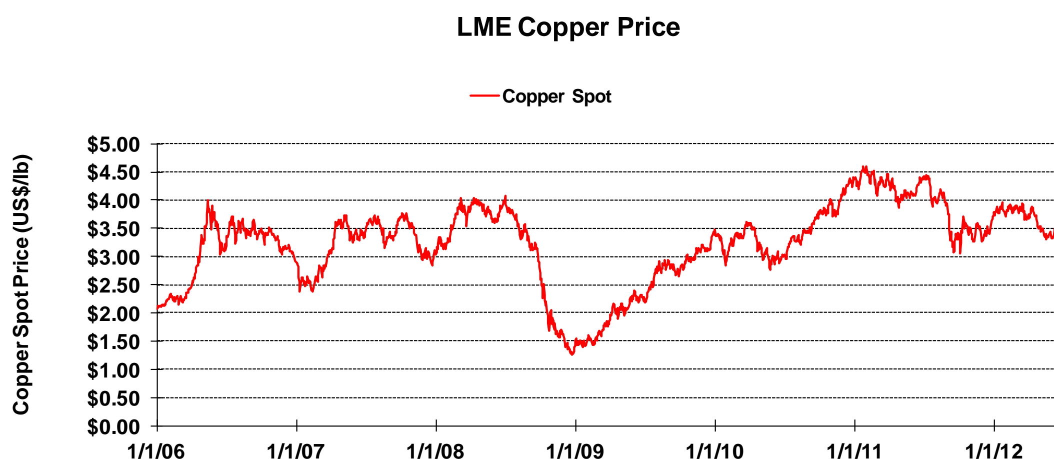
Robinson Mine power supply contract

Robinson has a three year supply contract for electricity. The minimum commitment under the contract is estimated to be $8.8 million plus service charges per annum over the term of the contact which expires in 2012.

MARKET TRENDS AND FUNDAMENTALS

Copper prices averaged $3.57/lb in Q2 2012, a decrease of approximately 5% over the average price in Q1 2012. Copper prices were pressured due to an intensification of the Euro zone debt crisis and slowing economic growth in China. Looking forward, the company believes the copper market fundamentals will remain strong: supported by continued underperformance in copper supply resulting from falling ore grades, aging large mines, project delays due in part to political, sovereignty and taxation issues and continued difficulties in funding large high cost technically challenging projects. In the short term, from a demand perspective, the Company recognizes headwinds due to the economic environment in Europe but expects a bottoming of economic growth in the second half of 2012 in China due to continued dovish monetary policy and an acceleration of government spending on infrastructure projects. Longer term, continued urbanization of emerging market countries such as China and continued gradual growth in OECD economies will provide a positive backdrop for copper demand.

The following graph shows the spot price of copper from 2006 to July 31, 2012 as published by the London Metal Exchange ("LME").



At June 30, 2012, the closing spot price was $3.49/lb. At July 31, 2012, the closing spot price was $3.43/lb. The reference price of copper metal is determined by trading on the LME, where the price is set in U.S. dollars at the end of each business day.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's revenues and cash flows are subject to fluctuations in the market price of copper and gold. In addition, there is a time lag between the time of initial payment on shipment and final pricing, and changes in the price of copper and gold during this period impact the Company's revenues and working capital position.

The following table summarizes the impact of the changes in copper price on the Company's after tax earnings for the remainder of 2012, excluding the impact of changes in fair value of copper put options:

Copper price	Impact on the after tax earnings (excluding derivatives)
+ $0.20/lb	23.1
- $0.20/lb	(23.1)

The Company is required to fund significant amount of capital asset investment in Chilean Pesos ("CLP"). The Company entered into a number of currency forwards to sell $200.0 million in exchange for 101,150 million CLP on various dates. If the CLP weakens against the U.S. dollar, the Company would have to pay the counterparty the difference between the hedged rate and the market rate. If the CLP strengthens against the U.S. dollar the counterparty would have to pay the Company the difference between the hedged rate and the market rate. In the first

six months of 2012, all of the currency forwards were settled and the Company received $3.5 million from the counterparty. To manage its CLP risk, the Company invested $200 million in CLP denominated short term investments.

CONTINGENCIES

(a) The Company 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 Company'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 company 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 Company 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 Company has not made any payments under such indemnifications and no amounts have been accrued in the financial statements with respect to these indemnification commitments.

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

TRANSACTIONS WITH RELATED PARTIES

Upon formation of the Sierra Gorda JV, the joint venture became a related party with the Company. The amount due from the Sierra Gorda JV is $0.4 million at June 30, 2012 (December 31, 2011 - $10.8 million). This amount is repayable in the normal course of business. The Company earned management fees of $12.5 from the Sierra Gorda JV in the first six months of 2012.

On March 5, 2012, the Company advanced $110.9 million to 0929260 B.C. Unlimited Liability Company ("Bidco"), a wholly owned subsidiary of KGHM for the purchase and exercise of warrants in conjunction with the Plan of Arrangement. The obligation with respect to the loan is evidenced by a promissory note payable to KGHM 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 first six months of 2012, $1.3 interest income was recognized in Statement of Comprehensive Income.

In Q2 2012, the Company made an interest free cash advance of $21 million to the Bidco to fund capital contributions to a project.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing financial statements management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and

reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ materially from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting policies and estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

Mineral Properties

Mineral property development costs, including exploration, mine construction, and stripping costs, are capitalized until production is achieved, and are then amortized over the remaining life of the mine based on proven and probable reserves. The determination of the extent of reserves is a complex task in which a number of estimates and assumptions are made. These involve the use of geological sampling and models as well as estimates of future costs. New knowledge derived from further exploration and development of the ore body may also affect reserve estimates. In addition the determination of economic reserves depends on assumptions on long-term commodity prices and in some cases exchange rates.

The carrying value of mineral properties is reviewed regularly and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized for a mineral property if its carrying value exceeds the higher of total discounted cash flows expected from its use and disposal ("value in use") or fair value less costs to sell. Discounted cash flows for mineral properties are estimated based on a number of assumptions including management's view of long-term commodity prices, proven and probable reserves, estimated value beyond proven and probable reserves, and estimates of future operating, capital, reclamation costs and discount rate. Based on management's view of future metal prices and cost assumptions, the carrying value of the Company's mineral properties was not impaired at June 30, 2012.

Leach Pad Inventory

Leach pad inventory is comprised of ore that has been extracted from the mine and placed on the heap leach pad for further processing. Costs are removed from leach pad inventory as cathode copper is produced, based on the average cost per recoverable pound of copper in process. The quantity of recoverable copper in process is an engineering estimate which is based on the expected grade and recovery of copper from the ore placed on the leach pad. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. However, the estimate of recoverable copper placed on the leach pad is reconciled to actual copper production, and the engineering estimates will be refined based on actual results over time.

Revenue Recognition

Sales are recognized and revenues are recorded at market prices when title transfers and the rights and obligations of ownership pass to the customer. The majority of the Company's product is sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. For sales of Robinson's concentrates and Sudbury's copper and nickel ores, final pricing is generally determined three to six months after the date of sale. For the sales of copper cathode, final pricing is generally determined in the month or the subsequent month after the date of sale. The Company estimates provisional pricing for its product based on forward prices for the expected date of the final settlement. Subsequent variations in price are recognized as revenue adjustments as they occur until the price is finalized. As a result, revenues include estimated prices for sales in that period as well as pricing adjustments for sales that occurred in the previous period. These types of adjustments can have a material impact on revenues.

Site Closure and Reclamation Provision

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. In 2011 and in previous years the Company has revised its estimate of the timing and amount of closure costs at its mines, which resulted in adjustments to the liability recorded in the Company's financial statements. The estimate of the total liability for future site restoration costs is subject to change based on cost inflation, amendments to laws and regulations and may also change as new information concerning the Company's operations becomes available. The Company is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future.

Financial Instruments

Financial instruments are designated as loans and receivables, available for sale and “fair value through profit and loss”. Financial instruments are recorded in the balance sheet as either an asset or liability with changes in fair value recognized in the consolidated comprehensive income. The estimate of fair value of all financial instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

Deferred Income Tax Assets

Management believes that uncertainty exists regarding the realization of certain deferred tax assets and therefore a valuation allowance has been recorded as of June 30, 2012. At June 30, 2012 the Company had additional available U.S. Alternative Minimum Tax Credits of $23.7 million, which have not been recognized due to the uncertainty of realization. The Company also has not recognized the benefit of certain non-capital losses. However, the Company has recognized a net current deferred income tax asset for other temporary differences created between the tax and accounting basis of assets and liabilities in the United States and the Company’s Sudbury operations. Management estimates that, using long term copper prices in line with its mine plan estimates, the future taxable income will be sufficient to utilize the deferred tax assets which have been recognized.

OUTSTANDING SHARE DATA

On March 5, 2012, KGHM acquired 100% of the issued and outstanding shares of the Company (193,334,154) and exercised 6,502,162 warrants. At June 30, 2012 and August 14, 2012, the total number of issued and outstanding shares of the Company was 199,836,316.

SUMMARY OF QUARTERLY OPERATING RESULTS

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

SUMMARY OF QUARTERLY FINANCIAL RESULTS

	2012		2011				2010	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Net revenues *								
Robinson	120	100	89	112	102	91	128	127
Carlota	20	20	25	26	22	18	30	22
Franke	42	36	29	42	26	30	41	41
Podolsky	20	23	22	23	28	28	42	24
Levack Complex [(1)]	40	62	52	54	73	62	54	21
DMC	95	72	54	49	28	23	18	12
Net revenues - Total	**337**	**312**	**272**	**305**	**278**	**253**	**312**	**248**
Operating (loss) income	(1.1)	56.2	46.2	(24.9)	64.4	63.2	114.2	69.6
Earnings (loss) before income taxes	(14.9)	30.0	(132.4)	119.3	72.2	213.0	(90.3)	40.7
Earnings (loss)	(27.7)	32.7	(107.7)	142.8	63.8	167.7	(31.5)	19.5
Basic earnings (loss) per share	-$0.14	$0.17	-$0.56	$0.75	$0.33	$0.88	-$0.17	$0.10
Diluted earnings (loss) per share	-$0.14	$0.17	-$0.56	$0.71	$0.33	$0.85	-$0.17	$0.10

[(1)] *Including Morrison deposit commercial production revenues*
***** See “**Financial Performance - Revenues**” section for description of payments process. Net revenues are net of treatment and refining charges.

SUMMARY OF QUARTERLY OPERATING RESULTS								
	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Robinson								
Cu produced payable (Mlbs)	30.9	24.1	27.2	26.7	21.2	19.9	25.4	25.4
Ore milled (Mt)	3.7	3.0	3.5	3.9	3.1	3.4	3.5	3.3
Au production payable (kozs)	9.7	7.3	7.9	9.2	7.1	5.5	14.9	14.5
Cu grade (%)	0.53	0.56	0.49	0.43	0.43	0.41	0.46	0.49
Au grade (g/t)	0.25	0.23	0.22	0.21	0.17	0.18	0.26	0.25
Cu recovery (%)	74.6	68.6	75.0	77.4	73.0	69.5	75.4	75.3
Au recovery (%)	34.2	34.9	33.7	38.8	44.2	30.4	53.3	58.2
Cu sales (Mlbs)	32.5	23.8	21.1	27.9	22.3	18.2	24.7	28.6
Average final settlement price ($/lb)	$3.65	$3.73	$3.40	$4.07	$4.13	$4.39	$3.79	$3.19
Cash cost per pound of payable copper sold ($/lb)	$2.69	$2.75	$2.19	$2.19	$2.80	$2.19	$1.81	$1.65
Carlota								
Cu production (Mlbs)	5.5	5.5	7.0	6.6	6.2	4.2	6.6	7.3
Ore placed (Mt)	1.3	1.2	1.2	1.3	1.5	0.8	1.5	2.3
Total Cu grade (%)	0.60	0.39	0.36	0.32	0.44	0.39	0.7	0.77
Cu sales (Mlbs)	5.6	5.1	7.4	6.6	5.4	4.1	7.7	6.6
Average realized price ($/lb)	$3.57	$3.85	$3.32	$3.99	$4.06	$4.37	$3.88	$3.29
Cash cost per pound of copper sold ($/lb)	$2.70	$2.96	$2.80	$3.12	$3.24	$3.37	$1.84	$1.74
Franke								
Cu production (Mlbs)	8.8	9.4	8.7	9.0	8.3	7.2	7.8	10.1
Ore placed (Mt)	0.9	1.0	0.9	0.8	0.8	0.5	0.7	1.0
Total Cu grade (%)	0.78	0.83	0.78	0.80	0.82	0.75	0.86	0.77
Cu sales (Mlbs)	11.8	9.4	8.4	10.5	6.1	6.9	10.3	12.8
Average realized price ($/lb)	$3.53	$3.79	$3.41	$3.96	$4.15	$4.38	$3.97	$3.23
Cash cost per pound of copper sold ($/lb)	$5.03	$2.54	$2.39	$3.33	$4.49	$3.57	$2.60	$2.60
Morrison								
Cu ore sold (kt) (1)	53.0	57.0	57.1	53.3	52.2	50.0	39.7	29.3
Cu grade (%)	8.2	10.0	8.6	9.6	10.1	8.4	9.5	11.2
Payable Cu sold (Mlbs)	8.1	10.5	9.2	10.1	10.3	8.2	7.1	6.3
Payable Ni sold (Mlbs)	1.2	1.7	1.3	1.4	1.7	1.6	1.5	1.2
Payable TPM sold (kozs) (2)	7.7	10.2	8.1	8.4	8.2	5.8	4.1	3.1
Average realized price ($/lb)	$3.23	$4.02	$3.52	$3.47	$4.14	$4.27	$4.37	$3.67
Cash cost per pound of copper sold ($/lb)	$1.43	$0.96	$0.86	$0.59	$0.23	-$0.33	-$0.34	-$0.04
Podolsky								
Cu ore sold (kt) (1)	98.7	92.3	93.4	112.2	91.0	99.2	118.0	97.2
Cu grade (%)	3.1	3.1	3.4	3.0	3.6	3.1	3.7	3.2
Payable Cu sold (Mlbs)	5.8	5.2	5.7	6.0	6.4	5.4	8.1	5.4
Payable Ni sold (Mlbs)	0.2	0.2	0.3	0.3	0.3	0.2	0.4	0.3
Payable TPM sold (kozs) (2)	5.4	4.8	5.9	7.2	6.0	6.6	10.6	5.4
Average realized price ($/lb)	$3.28	$4.06	$3.53	$3.42	$4.14	$4.28	$4.36	$3.82
Cash cost per pound of copper sold ($/lb)	$2.00	$2.42	$1.91	$1.89	$1.67	$1.80	$0.74	$1.67
McCreedy West								
Cu ore sold (kt) (1)	4.6	4.9	9.0	15.6	78.0	74.9	76.1	72.6
Cu grade (%)	3.6	3.5	3.0	1.6	1.6	1.0	0.8	0.9
Ni ore sold (kt) (1)	67.5	88.0	85.1	53.6	-	-	-	-
Ni grade (%)	1.3	1.3	1.2	1.6	-	-	-	-
Payable Cu sold (Mlbs)	0.5	0.6	0.8	0.9	2.3	1.1	1.1	1.2
Payable Ni sold (Mlbs)	0.9	1.1	1.0	1.3	0.4	0.2	0.2	0.2
Payable TPM sold (kozs) (2)	0.4	0.0	2.2	1.9	6.4	7.2	8.3	8.1
Average realized price ($/lb)	$3.21	$4.29	$3.56	$3.74	$4.12	$4.27	$4.46	$3.69
Cash cost per pound of copper sold ($/lb)	$2.80	$3.78	$0.63	-$0.38	$1.39	$4.55	$1.55	$2.83

(1) Converted into metric tonne from original short ton
(2) Total precious metal, including gold, platinum and palladium

The quarterly performance of Robinson varies as a result of changes in head grade, metal recovery and waste stripping requirements. Due to the complex nature of the Robinson ore body, volatility in metal prices, and industry cost pressures the results have varied from quarter to quarter and this is expected to continue in the future.

NON-IFRS FINANCIAL MEASURES

The cash cost per pound of copper, and onsite costs and offsite costs are non-IFRS financial measures that do not have a standardized meaning under IFRS, and as a result may not be comparable to similar measures presented by other companies. Management uses these statistics to monitor operating costs and profitability. Onsite costs include mining costs, equipment operating lease costs, mill costs, mine site general and administration costs, environmental costs and royalties. Offsite costs include the costs of transportation, smelting and refining of concentrate, and treatment costs for ores. By-product revenues from the Sudbury Operations reflect the actual cash price earned from sales of precious metals to Gold Wheaton. The following table shows a reconciliation of these non-IFRS financial measures to the consolidated statements of operations:

	Three months ended June 30, 2012						
	Robinson	**Carlota**	**Franke**	**Morrison**	**Podolsky**	**McCreedy West**	**Total**
Production costs of goods sold	**95.9**	**14.1**	**59.3**	**16.2**	**11.5**	**8.0**	**205.0**
Treatment and refining charges	**6.9**	**-**	**-**	**6.8**	**4.1**	**0.2**	**18.0**
Royalties	**3.7**	**1.0**	**-**	**-**	**-**	**-**	**4.7**
Total cash cost	**106.5**	**15.1**	**59.3**	**23.0**	**15.6**	**8.2**	**227.7**
By-product revenues	**(19.0)**	**-**	**-**	**(11.4)**	**(4.0)**	**(6.8)**	**(41.2)**
	87.5	**15.1**	**59.3**	**11.6**	**11.6**	**1.4**	**186.5**
Copper sold (million lbs)	**32.5**	**5.6**	**11.8**	**8.1**	**5.8**	**0.5**	**64.3**
Cash cost per pound of copper sold (US$/lb)[1]	**$ 2.69**	**$ 2.70**	**$ 5.03**	**$ 1.43**	**$ 2.00**	**$ 2.80**	**$ 2.90**

	Three months ended June 30, 2011						
	Robinson	**Carlota**	**Franke**	**Morrison**	**Podolsky**	**McCreedy West**	**Total**
Production costs of goods sold	70.7	16.3	27.6	14.2	12.4	8.8	150.0
Treatment and refining charges	3.7	-	-	9.0	4.5	2.1	19.3
Royalties	3.2	1.2	-	-	-	-	4.4
Total cash cost	77.6	17.5	27.6	23.2	16.9	10.9	173.7
By-product revenues	(15.1)	-	-	(20.8)	(6.2)	(7.7)	(49.8)
	62.5	17.5	27.6	2.4	10.7	3.2	123.9
Copper sold (million lbs)	22.3	5.4	6.1	10.3	6.4	2.3	52.8
Cash cost per pound of copper sold (US$/lb)[1]	$ 2.80	$ 3.24	$ 4.49	$ 0.23	$ 1.67	$ 1.39	$ 2.35

	Six months ended June 30, 2012						
	Robinson	**Carlota**	**Franke**	**Morrion**	**Podolsky**	**McCreedy West**	**Total**
Production costs of goods sold	**165.7**	**28.3**	**83.2**	**35.9**	**25.1**	**17.2**	**355.4**
Treatment and refining charges	**11.0**	**-**	**-**	**15.8**	**8.0**	**0.5**	**35.3**
Royalties	**6.5**	**1.9**	**-**	**-**	**-**	**-**	**8.4**
Total cash cost	**183.2**	**30.2**	**83.2**	**51.7**	**33.1**	**17.7**	**399.1**
By-product revenues	**(30.2)**	**-**	**-**	**(29.7)**	**(8.9)**	**(13.7)**	**(82.5)**
	153.0	**30.2**	**83.2**	**22.0**	**24.2**	**4.0**	**316.6**
Copper sold (million lbs)	**56.3**	**10.7**	**21.2**	**18.6**	**11.0**	**1.1**	**118.9**
Cash cost per pound of copper sold (US$/lb)[1]	**$ 2.72**	**$ 2.82**	**$ 3.92**	**$ 1.18**	**$ 2.20**	**$ 3.79**	**$ 2.66**

	Six months ended June 30, 2011						
	Robinson	**Carlota**	**Franke**	**Morrison**	**Podolsky**	**McCreedy West**	**Total**
Production costs of goods sold	121.3	29.1	52.3	26.8	25.5	18.8	273.8
Treatment and refining charges	7.6	-	-	16.5	8.5	3.3	35.9
Royalties	6.2	2.0	-	-	-	-	8.2
Total cash cost	135.1	31.1	52.3	43.3	34.0	22.1	317.9
By-product revenues	(33.1)	-	-	(43.7)	(13.5)	(13.9)	(104.2)
	102.0	31.1	52.3	(0.4)	20.5	8.2	213.7
Copper sold (million lbs)	40.5	9.5	13.0	18.5	11.8	3.4	96.7
Cash cost per pound of copper sold (US$/lb)[1]	$ 2.52	$ 3.27	$ 4.01	$ (0.02)	$ 1.74	$ 2.41	$ 2.21

[1] Robinson cash cost per pound of copper produced is based on payable copper sold

Cash flow from operating activities (before working capital changes) is also not a defined term under IFRS, and consists of cash provided from operating activities less net changes in non-cash working capital.

Adjusted EBITDA and adjusted EBITDA per share are non-IFRS measures which are calculated as income from mining operations plus amortization, depreciation and depletion, inventory write down, stock-based compensation and service fee from Sierra Gorda JV, minus general and administrative and exploration and evaluation costs. Management believes that these measures provide investors with ability to better evaluate underlying performance. The following table provides a reconciliation of earnings to adjusted earnings for the periods presented:

(All amounts in millions of United States dollars except per share amounts)	**Three months ended June 30, 2012**	**Three months ended June 30, 2011**	**Six months ended June 30, 2012**	**Six months ended June 30, 2011**
Income from mining operations	**(1.1)**	64.4	**55.1**	127.7
Adjusting items:				
Amortization, depreciation and depletion	**43.3**	36.3	**79.5**	68.3
Inventory write down	**26.0**	-	**26.0**	11.0
Stock-based compensation	**-**	1.1	**0.7**	2.7
General and administrative	**(7.0)**	(15.6)	**(26.6)**	(24.0)
Service fee from Sierra Gorda JV	**6.3**	-	**12.5**	-
	68.6	21.8	**92.1**	58.0
Adjusted EBITDA	**67.5**	86.2	**147.2**	185.7
Weighted-average number of shares outstanding -basic	**199.8**	190.9	**197.9**	190.7
Adjusted EBITDA per share	**$0.34**	$0.45	**$0.74**	$0.97

August 10, 2012

FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" that is based on the Company's expectations, estimates and projections as of the dates as of which those statements were made. This forward-looking information includes, among other things, statements with respect to the Company's business strategy, plans, outlook, financing plans, long-term growth in cash flow, earnings per share and shareholder value, projections, targets and expectations as to reserves, resources, results of exploration (including targets) and related expenses, property acquisitions, mine development, mine operations, mine production costs, drilling activity, sampling and other data, estimating grade levels, future recovery levels, future production levels, capital costs, costs savings, cash and total costs of production of copper, gold and other minerals, expenditures for environmental matters, projected life of the Company's mines, reclamation and other post closure obligations and estimated future expenditures for those matters, completion dates for the various development stages of mines, availability of water for milling and mining, future copper, gold, molybdenum and other mineral prices (including the long-term estimated prices used in calculating the Company's mineral reserves), end-use demand for copper, currency exchange rates, debt reductions, use of future tax assets, timing of expected sales and final pricing of concentrate sales, the percentage of anticipated production covered by option contracts or agreements, anticipated outcome of litigation and anticipated impact of converting to IFRS,. Generally, this forward-looking information can be identified by the use of forward-looking terminology such as "outlook", "anticipate", "project", "target", "believe", "estimate", "expect", "intend", "should", "scheduled", "will", "plan" and similar expressions. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the Company's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, and developed based on assumptions about such risks, uncertainties and other factors set out herein, including but not limited to:

- Fluctuations in metal prices;
- The ability to expand or replace depleted reserves and the possible recalculation or reduction of the reserves and resources;
- Actual capital costs, operating costs and expenditures, production schedules and economic returns from the Company's mining projects;
- Risks associated with the integration with KGHM Polska Miedź S.A.
- The need to attract and retain qualified personnel;
- Dewatering at the Robinson Mine in 2012 and beyond;
- The successful development of the Sierra Gorda Project, a large joint venture project with significant capital expenditure, permitting and infrastructure requirements;
- Inherent risks associated with joint ventures;
- Production estimates which may be materially different from actual mining performance and mineral recoveries;
- Underground mining at the Morrison deposit including reserves replacement, and risks associated with the transition to the use of the Craig shaft and other facilities;
- Geotechnical issues at all properties; specifically pit slope stability at open pit operations and structural issues at the underground mines;
- The mineralogy and block model assumptions at all mines and projects;
- The leaching rate and recoveries achievable at the Carlota Mine due to the high content of fines within the ore and other processing factors;
- The leaching rate and recoveries at the Franke and China deposits at the Franke Mine;
- The Vale offtake agreement, including the risk of potential adjustment to final payable metal and processing cost terms;
- The Vale buy back right, including Vale's right to acquire an interest in the Victoria Project;
- Potential challenges to title to the properties;
- The dependence on transportation facilities and infrastructure;
- Labour relations;
- The potential need for a temporary shutdown of any of our operations, such as related to unplanned maintenance or extreme climatic conditions;
- The actual costs of reclamation;
- The impact of the availability and cost of key operating supplies and services;
- Increased energy prices;
- The acquisition and integration of businesses and assets;
- Inherent hazards and risks associated with mining operations;
- Inherent uncertainties associated with mineral exploration;
- The mining industry is competitive;

- Being subject to government regulation, including changes in regulation;
- Being subject to extensive environmental laws and regulations, including change in regulation;
- Need for governmental licenses and permits;
- Derivative contracts and exposure to the credit risk of counter-parties;
- Taxation;
- Political and country risk;
- Conflicts of interest;
- Fluctuations in foreign currency exchange rates; and
- Global financial conditions.

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