

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR AND FOURTH QUARTER ENDED DECEMBER 31, 2011**

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

	Three months ended December 31			Year ended December 31		
	2011	2010	Change	2011	2010	Change
FINANCIAL HIGHLIGHTS						
Revenues	286	332	-14%	1,179	958	23%
Income from mining operations	46	114	-60%	146	302	-52%
Adjusted EBITDA ⁽¹⁾	64	154	-58%	330	378	-13%
Adjusted EBITDA per share (basic)	0.33	0.82	-59%	1.72	2.44	-29%
(Loss) earnings for the period	(108)	(32)	242%	267	80	235%
(Loss) earnings per share (basic)	(0.56)	(0.17)	238%	1.39	0.26	436%
Cash	1,006	319	215%	1,006	319	215%
Working capital	1,289	760	70%	1,289	760	70%

⁽¹⁾ See "Non-IFRS Financial Measures"

HIGHLIGHTS:

2011 Annual

- Total revenues increased 23% to \$1,179 million in the year compared to \$958 million in 2010.
- After adjustments to leach pad inventories at Carlota and Franke totalling \$87 million, earnings from mining operations was \$146 million.
- Earnings increased 235% to \$267 million compared to \$80 million in 2010.
- Adjusted EBITDA decreased 13% to \$330 million from \$378 million in 2010.
- Total production for the year was 218 million pounds of copper and 103 ounces of total precious metals (TPMs). Cash costs were \$2.18 per pound of copper.
- The Company formed a 55%/45% joint venture ("JV") with Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation (collectively "Sumitomo") to develop the Sierra Gorda project in Chile with the Company retaining the 55%. As a result of this transaction the Company recognized a pre-tax gain of \$293 million in the year.
- Partially offsetting the gain on the Sierra Gorda JV formation was \$289 million in impairment losses on the Carlota, Franke and Podolsky mines.
- The Company completed the Sierra Gorda Feasibility Study and filed the related National Instrument 43-101 (NI 43-101) compliant Technical Reports.
- The Company received approval of the Environmental Impact Assessment ("EIA"), the master environmental permit for Sierra Gorda, and commenced construction in July.
- The Company completed a \$500 million bond financing due 2019 bearing interest at 7.75% per annum.
- For the Victoria project in Sudbury, Ontario the Company filed an NI 43-101 report on the Inferred Mineral Resource and subsequent to year-end, the Company released an updated resource showing a tonnage increase of 16%, relative to the original NI 43-101 resource.
- The Company and Xstrata Nickel signed a lease agreement to utilize Xstrata's Craig mine shaft and related underground infrastructure to further develop and operate the Company's Levack mine, including the Morrison deposit.

This Management Discussion and Analysis ("MD&A") of KGHM International Ltd. (formerly Quadra FNX Mining Ltd.) and its subsidiaries ("Quadra FNX" or the "Company") has been prepared as at March 29, 2012 and is intended to be read in conjunction with the accompanying 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.

Fourth Quarter

- Total revenues decreased 14% to \$286 million in the quarter compared to \$332 million in 2010.
- A loss of \$108 million was posted due to a \$126 million write down of the Franke mine, compared to a loss of \$32 million in 2010.
- Adjusted EBITDA decreased 58% to \$64 million from \$154 million in 2010.
- Income from mining operations decreased 60% to \$46 million compared to \$114 million in 2010.
- Total production for the quarter was 59 million pounds of copper and 24 thousand ounces of TPMs. Copper cash costs were \$2.05 per pound compared with \$2.18 for the year.
- The Company ended Q4 2011 with \$1 billion of cash.

ACQUISITION BY KGHM POLSKA MIEDŹ S.A. (“KGHM”)

On November 28, 2011 KGHM advised the Company of their intention to make an unsolicited bid for all the outstanding shares of Quadra FNX. A formal offer was submitted to Quadra FNX shareholders on December 6, 2011. The directors of Quadra FNX formed a special advisory committee comprised of those members of the board who were independent and retained special legal counsel and independent financial advisors to evaluate the offer. The takeover was structured as a court-approved plan of arrangement. Under the terms of the arrangement, Quadra FNX shareholders would receive C\$15 for each common share of Quadra FNX. The transaction was contingent on Quadra FNX shareholders and Investment Canada approvals, which were received subsequent to year-end. On March 5, 2012, the transaction closed and the Company ceased to be a publicly-traded company shortly thereafter. On March 12, 2012, the Company changed its name to KGHM International Ltd.

FINANCIAL PERFORMANCE

Earnings

The Company recorded earnings of \$266.5 million or \$1.39 per share (basic) for 2011 compared to \$79.5 million or \$0.26 per share (basic) for 2010. The increased earnings in 2011 were primarily driven by a \$292.5 million dilution gain from the formation of the JV with Sumitomo (see “**Review of Operations and Projects**”), a \$23.7 million gain on derivatives (see “**Financial Instruments and Other Instruments**”) and a \$133.9 gain from the sale of Gold Wheaton shares partially offset by \$87 million inventory write down at the Carlota and Franke mines and \$288.5 million impairment loss on the Carlota and Franke mines (see “**Review of Operations and Projects**”). In 2011, the Company sold 211.6 million pounds of copper at an average price of \$3.85/lb and 107 thousand ounces of total precious metals (“TPMs”) compared to 220.4 million pounds of copper in 2010 at an average price of \$3.41/lb and 146.2 thousand ounces of TPMs.

Revenues

	Year ended December 31, 2011							
	Robinson	Carlota	Franke	Morrison	Podolsky	McCreedy West	DMC	Total
Copper sales (million lbs)	89.5	23.8	31.9	37.8	23.5	5.1	-	211.6
(in millions of U.S. dollars)								
Copper	342.8	90.8	125.8	145.5	89.9	20.0	-	814.8
Nickel	-	-	-	61.1	11.3	25.7	-	98.1
Other by product ⁽¹⁾	66.8	-	-	15.2	16.8	13.8	-	112.6
Contract mining	-	-	-	-	-	-	153.5	153.5
Total	409.6	90.8	125.8	221.8	118.0	59.5	153.5	1,179.0

Year ended December 31, 2010 ⁽³⁾

	Robinson	Carlota	Franke	Morrison ⁽²⁾	Podolsky	McCreedy West	DMC	Total
Copper sales (million lbs)	107.6	31.6	41.2	9.9	25.3	4.8	-	220.4
(in millions of U.S. dollars)								
Copper	385.6	106.7	141.3	39.9	66.1	11.0	-	750.6
Nickel	-	-	-	22.9	9.7	4.1	-	36.7
Other by product ⁽¹⁾	103.5	-	-	1.3	15.8	15.2	-	135.8
Contract mining	-	-	-	-	-	-	34.6	34.6
Total	489.1	106.7	141.3	64.1	91.6	30.3	34.6	957.7

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

⁽²⁾ For the period after September 1, 2010, the day of commencement of commercial production

⁽³⁾ For accounting purposes, the financial results of the Morrison deposit, Podolsky, McCreedy West and DMC have been consolidated commencing May 21, 2010, the day after the closing date of the merger of Quadra and FNX.

Revenues, other than from contract mining, are generated by the sale of copper concentrate, copper cathode 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 period end, as well as pricing adjustments for sales that occurred in the previous period, based on the difference between actual price received and the price at period end for sales from the previous period that were not settled in that period. 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; as such, final payment terms could differ from those reported. Contract mining revenues are generated from services performed and are based on invoices issued.

Revenues in 2011 were higher than 2010 mainly due to higher sales volumes from the Morrison deposit, which reached commercial production on September 1, 2010, and higher average copper price partially offset by lower sales volumes from the Robinson, Carlota and Franke mines. Increased contract revenue at DMC also had a positive impact on 2011 revenues.

2011 revenues at the Morrison deposit, McCreedy West and Podolsky included non-cash revenue of \$10.1 million representing the amortization of the deferred revenue liability related to the Company's obligation to sell 50% of the gold, platinum and palladium contained in ore mined and shipped from certain deposits to Franco Nevada (formerly Gold Wheaton). Pursuant to an agreement with Gold Wheaton dated July 15, 2008, the Company receives a cash payment equal to the lower of \$400 per gold equivalent ounce (subject to a 1.0% annual inflationary adjustment commencing July 1, 2011) and the prevailing market price per ounce of gold, for each gold equivalent ounce sold to Franco Nevada.

Mine operating expenses and operating income

Year Ended December 31, 2011

	Robinson	Carlota	Franke	Morrison	Podolsky	McCreedy West	DMC	Total
Revenues	409.6	90.8	125.8	221.8	118.0	59.5	153.5	1,179.0
Production costs	(264.2)	(67.7)	(107.2)	(85.4)	(67.7)	(45.2)	(136.0)	(773.4)
Inventory write down	-	(77.7)	(9.3)	-	-	-	-	(87.0)
AD&D ⁽³⁾	(30.6)	(13.3)	(15.5)	(42.5)	(34.4)	(15.4)	(3.8)	(155.5)
Royalties	(12.3)	(4.6)	-	-	-	-	-	(16.9)
Operating expenses	(307.1)	(163.3)	(132.0)	(127.9)	(102.1)	(60.6)	(139.8)	(1,032.8)
Operating income (loss)	102.5	(72.5)	(6.2)	93.9	15.9	(1.1)	13.7	146.2

	Year Ended December 31, 2010								
	Robinson	Carlota	Franke	Morrison ⁽²⁾	Podolsky	McCreedy West	DMC	Total	
Revenues	489.1	106.7	141.3	64.1	91.6	30.3	34.6	957.7	
Production costs	(251.9)	(51.7)	(100.9)	(22.6)	(42.5)	(22.2)	(30.5)	(522.3)	
Inventory write down	-	(33.4)	-	-	-	-	-	(33.4)	
AD&D ⁽³⁾	(20.1)	(10.5)	(19.7)	(9.3)	(14.4)	(3.8)	(2.0)	(79.8)	
Royalties	(15.1)	(5.4)	-	-	-	-	-	(20.5)	
Operating expenses	(287.1)	(101.0)	(120.6)	(31.9)	(56.9)	(26.0)	(32.5)	(656.0)	
Operating income	202.0	5.7	20.7	32.2	34.7	4.3	2.1	301.7	

⁽¹⁾Amortization, depletion and depreciation

⁽²⁾The Morrison deposit reached commercial production on September 1, 2010.

Production costs in 2011 were higher compared to 2010 due mainly to the contribution from the Morrison deposit and from DMC as contract mining activities ramped up in 2011. As a result of the less than previously predicted copper recoverable from the ores stacked on the pad in previous quarters and to a lesser extent, the decline in copper price, Carlota inventory was written down by \$77.7 million to its net realizable value. The \$9.3 million inventory write down at the Franke mine was mainly due to lower copper price at the end of Q3 2011. Amortization, depletion and depreciation (“AD&D”) were higher in 2011 compared to 2010, mainly due to higher AD&D at Morrison, Podolsky and McCreedy West as a result of full year operation in 2011. Royalties in 2011 were lower than in 2010 mainly a result of lower revenues at the Robinson and Carlota mines.

Operating income decreased in 2011 compared to 2010 primarily due to the inventory write down at Carlota and Franke as well as the decrease in by-product revenues and increase in operating costs at Robinson partially offset by higher operating income from the Morrison deposit (see “**Review of Operations and Projects**”).

General & administrative and other expenses

General and administrative expenses for 2011 were \$48 million compared to \$43 million for 2010. The increased general and administrative expenses in the current year reflect the company’s full year office and communication costs after the merger with FNX. In 2011, the Company recognized a gain of \$23.7 million on derivatives compared to a loss of \$48.7 million in 2010. The gain in the current quarter was mainly due to the decrease in the fair value of the Company’s issued and outstanding warrants, which are treated as derivative liabilities under IFRS (see “**Conversion to IFRS**”) and the copper price linked long-term acid and water contracts at the Franke mine as a result of the decrease in copper prices. The loss for 2010 was mainly due to the increase in the fair value of the Company’s issued and outstanding warrants and long-term acid and water contracts.

On September 14, 2011 the Company formed a JV with Sumitomo to develop the Sierra Gorda project in Chile (see “**Review of Operations and Projects**”). The Company retained a 55% beneficial interest in the JV. As a result of the reduction in ownership in the subsidiary the Company recorded a gain of \$292.5. The gain, after costs, represents 55% of the initial contribution by Sumitomo less 45% of the historic cost.

During 2011, the Company reviewed the carrying value of its Carlota mine in light of the major revision of mine plan that reduced the life of mine. It is indicated that the Carlota property is impaired. As a result, the Company recorded an impairment loss of \$122.1 million in 2011 (see “**Review of Operations and Projects**”). In addition, the Company wrote off the exploration value of the Podolsky mine of \$40.0 million due to the exploration programs to date being unable to expand reserves (see “**Review of Operations and Projects**”). The Company also reviewed the Franke mine plan and the carrying value of the Franke mine. As a result of the review, an impairment loss of \$126.4 was recorded to write down the Franke mine to its recoverable amount (see “**Review of Operations and Projects**”).

During 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. Finance income in 2011 of \$45.5 million primarily resulted from the net gain on the Company’s investment in Far West Mining (see “**Liquidity and Capital Resources**”).

The Company recorded income tax expense of \$2.9 million in 2011 compared to income tax recovery of \$8.8 million in 2010. The tax expense for 2011 has been recorded based on an annual effective tax rate of 1% (2010 – -14%). The 2011 effective tax rate is impacted by the accounting gain from joint venture formation being non-taxable, as well as lower tax rate on the gain from the sale of Gold Wheaton shares.

FOURTH QUARTER FINANCIAL PERFORMANCE

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

SUMMARY OF QUARTERLY FINANCIAL RESULTS								
	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues *								
Robinson	92	116	106	95	132	130	95	133
Carlota	25	26	22	18	30	22	24	31
Franke	29	42	26	30	41	41	25	34
Podolsky	27	28	32	32	48	28	15	-
Levack Complex ⁽¹⁾	61	66	84	71	63	26	5	-
DMC	54	49	28	23	18	12	5	-
Revenues - Total	287	326	298	269	332	259	169	197
Operating (loss) income	46.2	(24.9)	63.5	61.4	114.2	69.6	32.6	85.3
Earnings (loss) before income taxes	(132.4)	119.3	71.3	211.2	(90.3)	40.7	40.2	71.2
Earnings (loss)	(107.7)	142.8	63.8	167.7	(31.5)	19.5	36.5	55.0
Basic earnings (loss) per share	-\$0.56	\$0.75	\$0.33	\$0.88	-\$0.17	\$0.10	\$0.26	\$0.55
Diluted earnings (loss) per share	-\$0.56	\$0.71	\$0.33	\$0.85	-\$0.17	\$0.10	\$0.21	\$0.54

⁽¹⁾ Including Morrison deposit commercial production revenues

* See “Financial Performance - Revenues” section for description of payments process.

Earnings

The Company recorded a loss of \$107.7 million or \$0.56 per share (basic) for Q4 2011, compared to \$31.5 million or \$0.17 per share (basic) for Q4 2010. Q4 2011 earnings were impacted by lower revenues due to lower sales volumes and copper prices as well as an impairment loss of \$126.4 million from its Franke mine (see “General & administrative and other expenses”). The loss in Q4 2010 was mainly due to the impairment loss of \$152.5 on the Carlota mine.

Revenues

Revenues in Q4 2011 were lower than the same quarter of 2010 mainly due to lower sales volumes (timing of shipments) and lower copper prices. In Q4 2011, copper prices slightly increased from \$3.24/lb at September 30, 2011 to \$3.43/lbs at December 31, 2011. However, in Q4 2010, copper prices increased \$0.77/lb from \$3.65/lb at September 30, 2010 to \$4.42/lb at December 31, 2010 resulting in positive pricing adjustments in Q4 2010. Q4 2011 revenues at Morrison, Podolsky and McCreedy West also included non-cash revenue of \$1.8 million for the amortization of a deferred revenue liability related to Franco Nevada.

At December 31, 2011, receivables at the Robinson mine and Sudbury operations include 19 million of copper which has been provisionally valued at \$3.43/lb.

Operating expenses and operating income

Operating expenses in Q4 2011 were \$240 compared to \$217.8 in the same period of 2010 due primarily to higher production costs (see “Review of Operations and Projects”) and increased contract mining activities at DMC. Operating expenses in Q4 2010 were impacted by a \$33.4 million leach pad inventory write down at the Carlota mine. Operating income decreased to \$46.2 million in Q4 2011 from \$114.1 million. The decrease in operating income in Q4 2011 was a combination of lower sales volumes due to timing of shipments, lower average copper prices and higher production costs.

General & administrative and other expenses

General and administrative expenses for Q4 2011 were in line with the same quarter of 2010. The Company recognized a loss on derivatives of \$21.7 million in Q4 2011 compared to \$34.3 million in Q4 2010. The loss in Q4 2011 was mainly as a result from the change in fair value of the copper put options, Franke long-term supply contracts and warrants. The loss in Q4 2010 was primarily due to the increase in derivative liabilities associated with the Franke long-term supply contracts and warrants. In Q4 2011 the Company reviewed the carrying value of the Franke mine due to a significant reduction in reserves and a write down of \$126.4 million was required to reduce the Franke mine's carrying value to its recoverable amount. The impairment loss in Q4 2010 was due to the write down of the Carlota mine which resulted from the transition to IFRS. Finance and other income in Q4 2011 was mainly due to the service fee earned from providing support to the Sierra Gorda JV. Finance expense in Q4 2011 was primarily related to the interest expense on the senior note.

REVIEW OF OPERATIONS AND PROJECTS

PRODUCTION SUMMARY

*****Note: Production and operating statistics in this section are reported for historical periods for all of the Company's mines, including periods prior to the merger of Quadra and FNX. For accounting purposes, the financial results of the Sudbury Operations have been consolidated commencing from May 21, 2010, the date immediately following the closing date of the merger of Quadra and FNX.**

Production for the quarter and year ended December 31, 2011 from the Company's operating mines is summarized as follows:

	Three months ended December 31, 2011	Year ended December 31, 2011
Copper production (Mlbs)		
Robinson ⁽²⁾	27.2	95.1
Carlota ⁽³⁾	7.0	23.6
Franke ⁽³⁾	8.7	33.2
Morrison deposit ⁽⁴⁾	9.2	37.8
Podolsky ⁽⁴⁾	5.7	23.5
McCreedy West ⁽⁴⁾	0.8	5.1
	58.6	218.3
Nickel production (Mlbs)		
Morrison deposit ⁽⁴⁾	1.3	6.0
Podolsky ⁽⁴⁾	0.3	1.1
McCreedy West ⁽⁴⁾	1.0	2.9
	2.6	10.0
TPM ⁽¹⁾ (kozs)		
Robinson ⁽²⁾	7.9	29.7
Morrison deposit ⁽⁴⁾	8.1	30.4
Podolsky ⁽⁴⁾	5.9	25.6
McCreedy West ⁽⁴⁾	2.2	17.7
	24.1	103.4
Total copper equivalent (Mlbs) ⁽⁵⁾	75.0	288.0

⁽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.*

U.S OPERATIONS

Robinson (Nevada)

	Three months ended December 31		Year ended December 31	
	2011	2010	2011	2010
Copper production payable (Mlbs)	27.2	25.4	95.1	104.2
Gold production payable (kozs)	7.9	14.9	29.7	70.2
Ore mined (Mt)	3.5	3.3	13.7	14.0
Waste mined (Mt)	19.0	11.4	53.4	46.5
Ore milled (Mt)	3.5	3.5	14.0	13.7
Copper grade (%)	0.49	0.46	0.44	0.49
Gold grade (g/t)	0.22	0.26	0.19	0.26
Copper recovery (%)	75.0	75.4	73.8	70.8
Gold recovery (%)	33.7	53.3	36.2	62.3
Cash cost per pound of copper produced (\$/lb)	\$2.21	\$1.80	\$2.37	\$1.58
Capital expenditure	\$11.5	\$21.5	\$86.1	\$46.9
Production costs of goods sold	\$58.8	\$62.4	\$264.2	\$251.9
Operating income	\$24.3	\$63.2	\$102.5	\$202.0

Robinson's 2011 ore production was sourced from the Ruth pit. Both copper and gold production in 2011 were lower than in 2010 due primarily to lower head grade in the Ruth pit ore. Total tonnes mined increased in 2011 as a result of the addition of five haul trucks transferred from Carlota and the implementation of several business improvement initiatives which resulted in improved efficiencies. During September, the mill also achieved a monthly record, averaging approximately 44,680 tonnes (48,000 tons) per day. Robinson also recorded a one day record ex-pit mining rate of 366 thousand tonnes (402 thousand tons) in November.

Slope stability in the Ruth pit improved during Q4 2011; however, localized movements in the north wall in early December impacted ore delivery to the mill. Despite the impact of lower ore volumes in December, copper production in Q4 2011 was higher than in 2010 due to higher head grade. Gold production in Q4 2011 was lower compared to the same quarter in 2010 due to lower grades and recoveries.

Robinson production costs and capital expenditures

Production costs of goods sold in 2011 was higher than 2010 mainly due to higher operating costs in the current year resulting from higher input costs and higher 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 2011 were higher than in 2010, primarily due to the higher diesel fuel costs and additional operating and maintenance costs for the five haulage units from Carlota. Onsite costs for Q4 2011 were higher than the same quarter of 2010 primarily due to increased fuel costs and increased costs related to the five Carlota haulage units. Production costs of goods sold for Q4 2011 was slightly lower than 2010 due to lower sales volumes partially offset by higher onsite costs. Offsite costs are primarily driven by smelting and refining charges, the volume of concentrate transported, and rail and ocean freight rates. Offsite costs for 2011 were in line with 2010.

The cash cost per pound of copper produced is a non-IFRS term and consists of onsite and offsite costs, less by-product revenue, divided by the pounds of payable copper produced in the period (see "Non-IFRS Financial Measures"). The cash cost per pound of copper produced was \$2.37 compared to \$1.50 in 2010. The increased unit cost in 2011 is due to lower copper production, lower by-product revenues and higher onsite costs.

Capital expenditures at Robinson in 2011 were primarily related to the completion of the Ruth pit mud removal project, building a secondary access into the Ruth pit to provide for mining flexibility, dewatering of the Ruth pit and site-wide exploration.

Robinson Outlook

Wall structural weakness on the north wall of the Ruth pit as a result of the presence of the Chainman shale lithology, has caused the operation to suspend mining of this wall and material, pending a full review of the associated geoscience and economics. This review is planned to be completed by the end of June. Pending this, a mine plan has been developed and implemented that does not mine north wall ore. Capital expenditures for 2012 are mainly for Ruth pit development and Liberty pit drilling program.

Carlota (Arizona)

	Three months ended December 31		Year ended December 31	
	2011	2010	2011	2010
Copper cathode production (Mlbs)	7.0	6.6	23.6	29.5
Ore mined (Mt)	1.2	1.5	5.1	6.4
Waste mined (Mt)	2.7	5.6	17.8	21.3
Ore placed (Mt)	1.2	1.5	5.1	6.4
Total copper grade (%)	0.36	0.67	0.38	0.59
Cash cost per pound of copper sold (\$/lb)	\$2.80	\$1.84	\$3.04	\$1.81
Capital expenditure	-	-\$4.9	\$4.2	\$13.3
Production costs of goods sold	\$19.4	\$12.7	\$67.7	\$51.7
Operating (loss) income	\$3.0	-\$20.4	-\$72.5	\$5.7

During 2011, Carlota concluded a revision in the long term mine plan, resulting in a reduction in the overall tonnes mined. The new life-of-mine plan focuses on mining readily available oxide ores followed by residual leaching.

As a result of the revisions made to Carlota's life-of-mine plan, the Company has reviewed the carrying value of the property and recorded an impairment loss of \$122 million to reduce its carrying value to zero. Notwithstanding the impairment decision, the Company is continuing to evaluate the leaching of sulphides, the mining of the Edar deposit on the Carlota property, as well as other strategic options.

Total tonnes mined in Q4 2011 were lower than the same period of 2010 mainly due to a planned reduction in the mining rate which impacted the strip ratio by decreasing both ore tonnes mined and waste stripped. Despite the decrease in the grade and tonnes of ore placed, Q4 2011 copper production benefited from improvement in recoveries in the conveyor stacked oxide ore placed in the prior quarters and copper production increased to 7.0 million pounds of copper from the 6.6 million pounds produced in Q4 2010.

Carlota production cost and capital expenditures

Production costs of good sold in 2011 increased compared to 2010 mainly due to lower recoverable copper pounds on the leach pad. Production costs for Q4 2011 increased mainly due to higher acid prices and consumption, as well as higher operating costs associated with conveyor stacking, partially offset by lower fuel consumption and labour costs.

The cash cost per pound of payable copper increased from \$1.81/lb in 2010 to \$3.04/lb in 2011 mainly due to the decreased production, pad inventory and increased production costs of goods sold.

As a result of the less than previously predicted copper recoverable from the ores stacked on the pad in previous quarters and to a lesser extent, the decline in copper price during 2011, Carlota inventory was written down by \$77.7 million to its net realizable value.

Capital expenditures in 2011 declined primarily related to the completion of the Phase 2 leach pad construction and the transfer of five haul trucks to Robinson.

Carlota Outlook

Carlota is implementing a mine-for-closure plan which optimizes cash flow while advancing activities related to the winding down of operations. Based on the current mine plan the mining of oxide material is expected to be completed in 2013, followed by residual leaching for approximately two years and then reclamation of the property.

Carlota continues to evaluate various methods to improve sulphide recoveries, the mining of the Edar deposit, as well as other strategic options.

CHILE OPERATIONS

Franke

	Three months ended Dec 31		Year ended December 31	
	2011	2010	2011	2010
Copper cathode production (Mlbs)	8.7	7.8	33.2	37.2
Ore mined (Mt)	0.9	0.8	3.0	3.8
Waste mined (Mt)	1.3	1.6	3.8	4.9
Ore placed (Mt)	0.9	0.7	2.9	3.2
Copper grade (%)	0.78	0.86	0.79	0.85
Cash cost per pound of copper sold (\$/lb)	\$2.39	\$2.60	\$3.36	\$2.45
Capital expenditure	\$10.4	\$7.7	\$38.4	\$24.5
Production costs of goods sold	\$20.1	\$26.8	\$107.2	\$100.9
Operating loss/income	\$5.4	\$9.3	-\$6.2	\$20.7

The transition to owner mining and maintenance was completed during Q2 2011 and the workforce was expanded to include additional mine operators and maintenance personnel. However, total tonnes mined and cathode production in 2011 was lower than 2010 due to the transition.

During Q4 2011 the mine operated at record throughput level and, despite lower ore grade leached, copper cathode production was higher than Q4 2010 due to a strong performance in December. Initial problems with turbidity in the solution fed to the SX plant, which impacted solvent extraction in October, were offset by higher recoveries.

Franke production costs and capital expenditures

Production costs at Franke are mainly driven by onsite costs, sales volumes and projected recoveries from the leach pads. Production costs of goods sold for 2011 were higher than 2010 due to the transition to owner mining, higher acid, power, and fuel costs. Production costs of goods sold for Q4 2011 was lower than 2010 due to lower sales volumes.

The cash cost per pound increased from \$2.45/lb in 2010 to \$3.46/lb in 2011 mainly due to higher production costs of sales and lower production.

Capital expenditures were primarily related to equipment purchases and optimization projects, as well as additional costs associated with the transition to owner mining.

Due to the high carbonated content of Franke ore and the resulting decision to transition to China pit, the Franke mine was reviewed for impairment during Q4 2011. As a result of the review, a write down of \$126.5 million was required to reduce the carrying value of the Franke mine to its recoverable amount.

Franke Operations Outlook

Testwork and engineering studies evaluating parallel mining from the Franke pit and the China pit (50% from each) are ongoing and are expected to conclude in the second quarter of 2012. This approach should increase mine life.

Capital spending in 2012 at Franke is related to the pre-stripping of the China orebody and additional dust control installations on the crushing circuit.

CANADIAN OPERATIONS

Note: Production statistics in the following tables are reported for all historical periods, including the period prior to the merger of Quadra and FNX on May 20, 2010.

Morrison deposit

	Three months ended Dec 31		Year ended December 31	
	2011	2010	2011	2010
Copper ore sold (kt) ⁽¹⁾	57.1	39.7	212.6	101.8
Copper grade (%)	8.6	9.5	9.2	9.4
Nickel ore sold (kt) ⁽¹⁾	2.4	4.0	14.7	18.5
Nickel grade (%)	2.1	3.2	2.9	2.9
Copper sold - payable (Mlbs)	9.2	7.1	37.8	18.5
Nickel sold - payable (Mlbs)	1.3	1.5	6.0	4.5
Gold sold - payable (koz)	1.5	0.7	5.6	1.4
Platinum sold - payable (koz)	2.1	1.0	7.9	2.4
Palladium sold - payable (koz)	4.5	2.4	17.0	6.0
Cash cost per pound of copper sold (\$/lb) ⁽²⁾	\$0.86	-\$0.34	\$0.35	-\$0.19
Capital expenditure ⁽²⁾	\$6.0	\$10.3	\$28.1	\$28.7
Production costs of goods sold ⁽²⁾	\$21.7	\$16.1	\$85.4	\$22.6
Operating income ⁽²⁾	\$13.2	\$29.8	\$93.9	\$32.2

⁽¹⁾ Converted to metric tonnes from short tons

⁽²⁾ The Morrison deposit commenced commercial operations on September 1, 2010. The Morrison deposit commenced commercial production in September 2010 and as such operating results for only four month were recorded for 2010. Therefore, 2010 results are not comparable.

During Q4 2011, the Company and Xstrata Nickel signed the Craig Mine Lease Agreement which allows Quadra FNX to utilize the underground infrastructure of the Craig Mine to further develop and mine the Morrison deposit. The Company expects that the use of Xstrata Nickel's Craig infrastructure will significantly improve the operational flexibility of the Morrison deposit and provide additional mining and drill access in the lower portions of this high grade ore body. As a result of the Craig Mine lease Agreement, the Company ceased the development of the 3900 Level ramp and is focused on development to depth below the 4200 Level.

Operating performance in Q4 2011 continued to improve, offsetting an expected decrease in mine grades. Lateral development performance declined versus previous quarters in 2011 due partially to the suspension of the 3900 ramp as a result of the Craig Mine Lease Agreement.

Morrison production costs and capital expenditures

Production costs of goods sold were higher in Q4 2011 compared to Q4 2010 primarily due to backfilling costs as backfill activities did not commence until Q1 2011.

The cash cost per pound of payable copper increased from \$0.59/lb in Q3 2011 to \$0.86/lb in Q4 2011. Although operating costs were in line with Q3, the increase was mainly due to lower payable copper production and by-product revenues for the quarter.

Capital spending in Q4 2011 comprised lateral development activities, waste haulage and construction of the 3900 dewatering infrastructure.

Morrison deposit outlook

Work has commenced on re-activating the Craig infrastructure. Development activities from the Craig infrastructure started in the Q1 2012 and have continued as planned. The development from Craig infrastructure is expected to allow for diamond drilling to take place in order to complete the definition of the MD4 portion of the ore body and provide lower access to Morrison. The Company expects the transition to the Craig Mine to be completed in Q2 2012.

Podolsky

	Three months ended Dec 31		Year ended December 31	
	2011	2010	2011	2010
Copper ore sold (kt) ⁽¹⁾	93.4	118.0	395.8	415.4
Copper grade (%)	3.4	3.7	3.3	3.3
Copper sold - payable (Mlbs)	5.7	8.1	23.5	25.3
Nickel sold - payable (Mlbs)	0.3	0.4	1.1	1.6
Gold sold - payable (kozs)	1.1	1.9	4.2	5.7
Platinum sold - payable (kozs)	2.1	4.3	9.9	13.4
Palladium sold - payable (kozs)	2.7	4.4	11.5	13.6
Cash cost per pound of copper sold (\$/lb)	\$1.91	\$0.74	\$1.82	\$0.83
Capital expenditure	-\$1.2	\$4.6	\$9.4	\$8.5
Production costs of goods sold	\$16.3	\$17.4	\$67.7	\$42.5
Operating income	\$2.0	\$25.2	\$15.9	\$34.7

⁽¹⁾ *Converted to metric tonnes from short tons*

Ore production in Q4 2011 was lower than Q4 2010 due to a delay in backfill activities. Copper production was lower in Q4 2011 compared to Q4 2010 due mainly to lower throughput and head grade. Copper production for 2011 was in line with 2010. Lateral development and backfill production remained at and above plan levels.

Podolsky production costs and capital expenditures

Production costs of goods sold for 2011 was higher than 2010 mainly due to higher operating costs. Cash costs per pound of payable copper for 2011 were higher than 2010 due to lower copper production, as well as reduced by-product revenues.

While a number of exploration targets had been identified at Podolsky the 2011 exploration program was completed with no material additional reserves identified. As a result during Q3 2011 the Company took a \$40 million impairment related to the exploration potential at Podolsky.

Capital expenditures for 2011 were primarily associated with exploration drilling and development.

Podolsky outlook

Production at Podolsky is expected to cease at the end of Q3 2012 once the 2000 Deposit is mined out.

McCreedy West

	Three months ended Dec 31		Year ended December 31	
	2011	2010	2011	2010
Copper ore sold (kt) ⁽¹⁾	9.0	76.1	177.5	283.5
Copper grade (%)	3.0	0.8	1.4	0.9
Nickel ore sold (kt) ⁽¹⁾	85.1	-	138.8	-
Nickel grade (%)	1.2	-	1.3	-
Copper sold - payable (Mlbs)	0.8	1.1	5.1	4.8
Nickel sold - payable (Mlbs)	1.0	0.2	2.9	0.8
Gold sold - payable (kozs)	0.4	0.9	2.4	4.2
Platinum sold - payable (kozs)	0.8	2.7	6.7	10.5
Palladium sold - payable (kozs)	1.0	4.6	8.6	17.7
Cash cost per pound of copper sold (\$/lb)	\$0.63	\$1.55	\$1.65	\$1.59
Capital expenditure	\$1.3	\$5.6	\$11.2	\$10.0
Production costs of goods sold	\$11.1	\$8.5	\$45.2	\$22.2
Operating Income (loss)	-\$4.2	\$6.0	-\$1.1	\$4.3

⁽¹⁾ Converted to metric tonnes from short tons

In Q3 2011 McCreedy West transitioned from mining copper-rich and precious metal-rich footwall ores to mining contact nickel ores. This change in mining type was accomplished with the same workforce and equipment.

Following the waiver by Vale of its right to the magnesium oxide contact nickel ores, the Company delivered contact nickel ore from McCreedy West to Xstrata mill on a trial basis. Discussions with Xstrata for the treatment of additional ore continued as Contact Nickel ores were mined and stockpiled at the McCreedy West site during the first week of Q4 2011. In mid-November the stockpiled ore was crushed, sampled and delivered to the Xstrata mill for processing. A total of 85,000 tonnes of nickel ores were delivered to the Xstrata in Q4 2011 for a total delivery of 139,000 tonnes in 2011.

McCreedy West production costs and capital expenditures

Production costs of goods sold for 2011 were higher than 2010 due mainly to higher tonnage volumes mined and shipped. Cash cost per pound of copper sold increased from \$1.59/lb in 2010 to \$1.65/lb in 2011 as a result of higher operating costs.

Capital expenditures for 2011 were related to waste rock removal, development and replacement of underground trucks.

McCreedy West outlook

2012 production at McCreedy West is expected to be mainly from the Contact Nickel zone.

PROJECTS UNDER DEVELOPMENT

Sierra Gorda Joint Venture (55% interest)

On May 16, 2011 the Company entered into a definitive agreement with Sumitomo to form the Sierra Gorda JV to develop the Sierra Gorda copper-molybdenum project in Chile. The formation of the JV was completed on September 14, 2011. The JV operates through a jointly-controlled entity owned 55% by the Company and 45% by Sumitomo.

As part of its initial contribution, Sumitomo made a \$360 million cash payment into the JV on closing and contributed an additional \$364 million for a total of \$764 million, 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. During 2011, the Company recognized a gain of \$293 million on the formation of the JV.

Cash calls by the JV fund three months of capital costs and thus at December 31, 2011 the JV had cash of \$239 million. Because the JV is accounted for using equity based accounting principles, this cash is not included in the Company's cash balances. In 2011 the Sierra Gorda project had incurred \$386 million capital expenditures, including progress payments for mining and plant equipment, camp and infrastructure construction, and other project related payments. The Company funded \$33 million of costs for 2011 prior to May 2011 and provided \$17 million of cash for working capital. Full credit for these amounts was made in arriving at the JV contributions.

Sumitomo has taken the lead in efforts to arrange, and guarantee, project financing in the amount of \$1.0 billion. The JV has retained Sumitomo Mitsui Bank Corporation (SMBC) as the financial advisor for the project financing. On March 8, 2012 the JV signed the \$1 billion project loan agreement with a group of syndicated banks led by Japan Bank for International Corporation. The project loan has a 9.5 year term with an interest rate of LIBOR plus a range of 0.11% to 0.975%

Sierra Gorda activities and outlook

Fluor has been retained as the EPCM contractor for process plant and related construction activities and by the end of Q4 2011, over 140 engineering, construction and service contracts have been awarded while eight additional contracts are under bidding and evaluation process. Orders for key plant and process equipment continued, with all anticipated deliveries meeting project schedule requirements. The project has also successfully recruited key management positions while recruiting of operating personnel will continue throughout the construction phase.

Mass earthworks activities are in progress. Some facilities have had significant progress such as: project offices, camp facilities, potable water and sewage facilities, mine electrical loop and equipment laydown and assembly areas. The first two Bucyrus shovels and the first seven haul trucks were delivered to site and assembly is ongoing. Commencement of pre-stripping is on schedule to begin in Q2 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. The terms of the majority of these contracts are expected to be finalized during Q1 2012.

The total capital cost including contingency for Sierra Gorda is unchanged at \$2,877 million, and with working capital and interest during construction the total continues to be estimated at approximately \$3.0 billion. The project remains on schedule to commence production in 2014.

As of December 31, 2011 the Sierra Gorda JV has made contract commitments of \$317 million. In addition, purchase orders for mining equipment (including shovels, drills and trucks) and infrastructure of \$458 million have been made.

Victoria Project

During Q4 2011, the drilling program at the Victoria property focused on infill and step out drilling of Zone 4, completion of the shaft pilot hole, and targeting exploration targets proximal to Zone 4.

The Company is in the process of completing an engineering study and continues to advance the detailed engineering design for the Victoria project. During Q4 2011 the Company signed Memoranda of Understanding 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

Subsequent to the quarter end, the Company released an updated inferred resource for Victoria. The new resource of 14.5 million tonnes grading 2.5% Ni, 2.5% Cu and 7.6 g/t TPM's, represents a 16% increase in tonnage and 32%, 26% and 4% increase in contained Ni, Cu and TPMs, respectively, relative to the NI 43-101 resource which was previously released in June, 2011. Borehole geophysics and an intersection of mineralization down-plunge of Zone 4 also provided added confidence that the mineralization continues below the cut-off of the current inferred resource

The exploration approach during Q1 2012 continued to be focused on the expansion of Zone 4 in the up and down plunge directions, testing for mineralization proximal to Zone 4, as well as exploration for new orebodies down-plunge of the historic 4 Orebody, located in the historical Victoria mine.

The Company has also engaged Vale, who has the offtake agreement for the production from Victoria and a back-in right to acquire 51% of the project by bringing Victoria into production. All of these activities are required before a decision can be made to proceed with the project.

DMC MINING SERVICES

Work volume continues to grow in Canada and the United States with the total contract work to be completed now exceeding \$440 million.

DMC engineers are working diligently on the shaft for BHP Billiton's Jansen Project in Saskatchewan where ground freezing commenced for both the production and services shafts in early October. Revenue for Q4 2011 was \$54.1 million and \$153.5 million for 2011. Operating income for Q4 was \$2.5 million and \$13.7 million for 2011. DMC is on target to meet or exceed all budget expectations for the year.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2011, the Company had cash and cash equivalents of \$1,006 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 \$54.4 million. During 2011 the Company sold all of its 56,464,126 common shares of Gold Wheaton to Franco-Nevada for total cash proceeds of \$295 million or C\$5.20 per share. The proceeds included top-up cash received when Franco-Nevada successfully acquired the remaining shares of Gold Wheaton effective March 14, 2011.

The Company generated cash flow from operating activities of \$200.1 million for the current year compared to \$245.2 million for 2010. The decrease in operating cash flow in 2011 is largely driven by the lower sales volumes and higher production costs in the current year.

At December 31, 2011, the Company had working capital of \$1,288.9 million as compared to \$759.8 million at December 31, 2010. The increase in working capital in 2011 is primarily the result of the increase in cash and cash equivalent from the proceeds of the issue of the senior notes and the sale of Gold Wheaton shares. At December 31, 2011, accounts receivable and revenues include approximately 19 million pounds of copper that have been provisionally valued at \$3.43/lb. The final pricing for these provisionally priced sales is expected to occur between January and March 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 the first quarter of 2012.

During June 2011, the Company issued, through private placement, \$500 million aggregate principal amount of 7.75% senior unsecured notes ("Notes") due 2019. These Notes contain certain covenants that limit the Company's ability, and the ability of certain subsidiaries, to incur additional indebtedness and issue preferred stock; create liens; make restricted payments; create or permit to exist restrictions on the ability of the Company or certain subsidiaries to make certain payments and distributions; engage in amalgamations, mergers or consolidations; make certain dispositions and transfers of assets; and engage in transactions with affiliates.

The Company may redeem, prior to June 15, 2014, up to 35% of the Notes with the net proceeds of certain equity offerings at a redemption price equal to 107.75% of the principal amount plus accrued interest. Prior to June 15, 2015, the Company may redeem the Notes in whole or in part at 100.0% of their principal amount, plus accrued interest, and an amount equal to the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the June 15, 2015 redemption price plus required interest payments through June 15, 2015 over the principal amount of the note.

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

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

Upon specified change of control events, each holder of a note will have the right to require the Company 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. At December 31, 2011 no mandatory principal repayments are required in the next five years.

Capital spending in 2011 was \$349.0 million for operations and projects, which included \$22 million of capitalized Ruth pit mud removal costs and \$141 million on the Sierra Gorda project before the formation of the JV. An additional \$23.3 million was paid to increase environmental bonding for Carlota performance bonding for DMC. After the formation of the JV, the Company received a net payment of \$84.6 million from the JV for the repayment of the loan which was advanced by the Company to the JV from May 1 to September 14, 2011.

In 2011, the Company purchased additional copper put options under the price protection program at a cost of \$3.7 million. In addition, the Company exercised the Far West warrants with a total exercise price of \$14.9 million. This resulted in the Company acquiring additional shares in Far West which were then converted, along with the originally held Far West shares, to cash of \$11.4 million and Capstone Mining Corp. (“Capstone”) shares after Far West was acquired by Capstone.

Liquidity Outlook

The Company’s future profitability and cash position is highly dependent on the price of copper and to a lesser extent, precious metals and nickel. Future changes in the price of copper will also impact the final settlement price of provisionally priced sales. The Company has purchased copper put options to protect a minimum floor price for a portion of its future copper production (see “**Financial Instruments**”). In addition, the Company expects to spend approximately \$80 million on capital expenditures and \$20 million on environmental bond at its six operating mines in 2012. 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	\$ 5.2	\$ 91.2	\$ 103.3
Franke Mine supply contracts	12.3	12.3	12.7	10.4	9.3	49.7	106.7
Robinson Mine power supply contract	9.2	-	-	-	-	-	9.2
Senior note	38.8	38.8	38.8	38.8	38.8	596.6	790.6
Minimum lease payments (capital and operating)	19.1	7.5	4.5	2.7	2.1	12.3	48.2
Total	\$ 80.4	\$ 61.8	\$ 58.1	\$ 52.5	\$ 55.4	\$ 749.8	\$1,058.0

Under the Sierra Gorda JV agreement, the Company expects to fund approximately \$650 million of the construction budget in the next three years.

Reclamation liabilities

The Company has estimated total future reclamation costs of \$103.3 million (undiscounted), which primarily relate to the closure of the Robinson, Carlota and Franke mines and the Sudbury operations. The accounting carrying value of this liability is \$88.6 million at December 31, 2011 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 \$82.4 million as at December 31, 2011. 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 McCreeley 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.

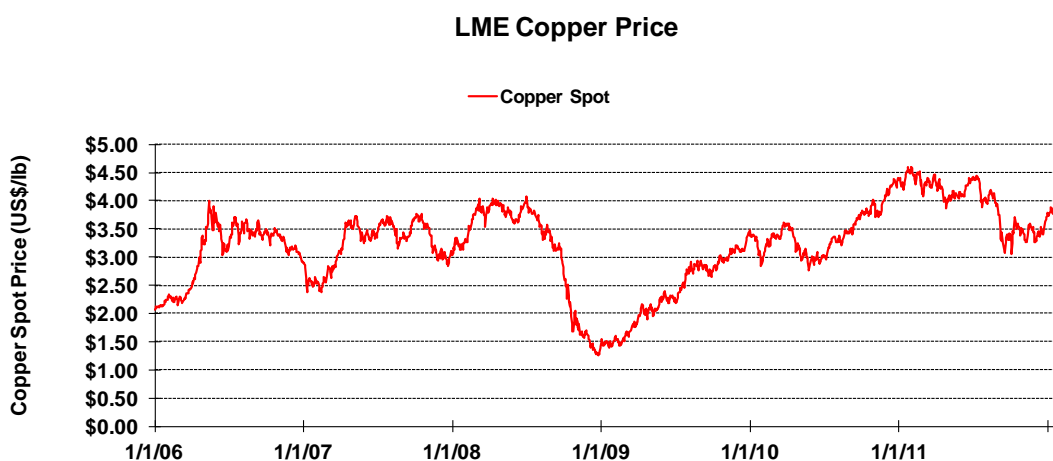
Robinson Mine power supply contract

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 price averaged \$3.42/lb in Q4 2011 rebounding from a September low of \$3.00/lb largely partially due to efforts by European officials to stave off a banking and credit crises. For 2011, copper prices averaged \$4.00/lb the highest average nominal price ever and the highest real price in 44 years. 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 and slowing economic activity in parts of China. 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 February 29, 2012 as published by the London Metal Exchange (“LME”).



At December 31, 2011, the closing spot price was \$3.43/lb. At February 29, 2012, the closing spot price was \$3.85/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 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	37.6
- \$0.20/lb	(37.6)

The Company has a floor price protection program in place for a portion of its anticipated copper sales of January 2012. During 2011, the Company purchased additional copper put options for 124 million pounds of copper at an average strike price of \$2.74/lb at a cost of \$3.7 million. A total of 201 million pounds of copper put options expired unexercised.

At December 31, 2011, the Company had 18 million pounds of copper puts outstanding with an average strike price of \$3.00/lb. The expiry dates of these put options are in January 2012.

Under the terms of these contracts, if the average LME cash price for the month is less than the strike price of the put option the Company will receive the difference in price between the average LME cash price and the strike price for the contracted number of pounds. The counter parties consist of several international financial institutions. The Company monitors its counter party exposures and does not believe there are any credit or collection issues at the current time. The change in fair value of these instruments is recorded as a derivative gain or loss on the statement of earnings.

The following table summarizes the impact of different copper prices on the Company's cash flows from copper put options in 2012:

Copper price	Cash flows from copper put options
\$1.50/lb	27.0
\$2.00/lb	18.0
\$2.50/lb	9.0
\$3.00/lb	-

The Company has entered into NYMEX heating oil futures contracts and collar contracts in order to manage the price risk associated with diesel fuel. During 2011, the Company settled 8.1 million gallons of NYMEX heating oil contracts resulting in a cash receipt of \$5.6 million to the Company, which has been recorded in cost of sales on the statement of earnings. At December 31, 2012, the Company had no NYMEX heating oil futures contracts outstanding.

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.

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 which are not disclosed on the grounds that they are not believed to be material.

TRANSACTIONS WITH RELATED PARTIES

One of the individuals who was a director of the Company during 2011 is a partner of an affiliate of the Company's primary legal counsel. During 2011, the Company incurred legal fees of \$2.1 million (December 31, 2010 - \$1.8 million), all of which were at normal business terms.

Upon formation of the Sierra Gorda JV, it became a related party with the Company. The amount due from the Sierra Gorda JV is \$10.8 million. The Company earned management fees of \$8.3 million from the Sierra Gorda JV in 2011.

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, mineral reserves and cost assumptions, the carrying value of the Carlota mine and Franke mine mineral properties was impaired and a \$121.5 million and \$126.4 million respectively impairment loss was recorded in 2011.

Leach Pad Inventory

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

Revenue Recognition

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

Site Closure and Reclamation Provision

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. In previous years the Company has revised its estimate of the timing and amount of closure costs at its mines, which resulted in adjustments to the liability recorded in the Company's financial statements. The estimate of the total liability for future site restoration costs is subject to change based on 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 December 31, 2011. At December 31, 2011 the Company had additional available U.S. Alternative Minimum Tax Credits of \$21.4 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

The Company had 191,989,255 common shares issued and outstanding at December 31, 2011. On March 5, 2012, KGHM acquired 100% issued and outstanding shares of 193,334,154 of the Company.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

Effective January 1, 2011 Canadian publicly listed companies were required to prepare financial statements in accordance with IFRS for interim and annual periods.

The IFRS project team has completed the conversion implementation. Post-implementation will continue in future periods. The following outlines the IFRS transitional impacts and the on-going impact of IFRS on the Company's financial results.

Significant accounting impacts of conversion to IFRS

As a result of the accounting policy differences on conversion from Canadian GAAP to IFRS, the Company recorded a reduction in the shareholders' equity of approximately \$36 million as at January 1, 2010. The following table summarizes the adjustments to Shareholders' Equity on adoption of IFRS on January 1, 2010, and at December 31, 2010 for comparative purposes:

	January 1, 2010	December 31, 2010
Equity under Canadian GAAP	1,005.4	2,195.0
Site closure and reclamation provisions	(19.1)	(23.5)
Impairment of long-lived assets	-	(152.5)
Financial instruments	(11.0)	(47.0)
Deferred income taxes	(8.5)	70.1
Total IFRS adjustments to equity	(38.6)	(152.9)
Equity under IFRS	966.8	2,042.1

In transition to IFRS, the Company recorded a decrease in earnings of approximately \$153 million for the year ended December 31, 2010. The following table summarizes the adjustments to previous reported Canadian GAAP earnings for the three months and the year ended December 31, 2010 under IFRS:

	Three month period ended December 31, 2010	Year ended December 31, 2010
Earnings under Canadian GAAP	57.9	172.5
Site closure and reclamation provisions	(2.3)	(4.3)
Impairment of long-lived assets	(152.5)	(152.5)
Financial instruments	(12.3)	(14.8)
Deferred income taxes	77.7	78.6
Total IFRS adjustments to earnings	(89.4)	(93.0)
Earnings under IFRS	(31.5)	79.5

The transition to IFRS has resulted in numerous comprehensive income presentation changes in the financial statements, most significantly on the consolidated statement of comprehensive income. The changes to the balance sheet relate only to the further break-out of balances on the face of the balance sheet including provisions and deferred income taxes. The following is a summary of the significant changes to the Company's consolidated statement of comprehensive income:

- Expenses by function – the Company's statement of earnings presents expenses by function. Accordingly, depreciation and amortization is no longer presented as a separate item on the statement of comprehensive income but is included in cost of sales.
- Finance expense – under IFRS, finance expense includes interest on debt, accretion expense for site closure and reclamation and other provisions.
- Finance income – finance income under IFRS includes interest income and gain on marketable securities.

The above changes are reclassifications within the statement of comprehensive income so there is no net impact to the Company's earnings as a result of these changes.

Business Activities

The impact of the IFRS conversion project on our compensation arrangements has been assessed. Such arrangements are calculated based on financial information disclosed in the financial statements. The project team continues to work with the human resources department to ensure that all compensation arrangements are amended for the applicable IFRS changes in accordance with compensation policies. There is no significant impact to existing compensation arrangements due to the IFRS conversion project. The Company's budgeting and forecasting models have been amended to reflect the IFRS changes in accounting policies, reclassifications, and measurements of applicable financial statement line items.

Controls and Procedures

The conversion to IFRS does not have a significant impact on the Company's internal controls (including information technology systems), and accounting processes. However, the extent of change in accounting framework has required the Company to update its internal controls, disclosure controls and procedures to ensure they are appropriately designed and operated effectively for reporting under IFRS. These include: training/communication – to ensure IFRS knowledge is transferred from subject matter experts to the entire organization; documentation – to ensure corporate accounting policies are updated for IFRS, and transitional analysis and decisions are adequately supported; and review – to ensure segregation of duties in the review and approval of IFRS information from preparer to management, and ultimately by the Audit Committee. As a result of these incremental internal control enhancements, the impact of the conversion from Canadian GAAP to IFRS on the Company's risk management or other business activities are reduced.

Ongoing Activities

The completion of the Implementation and commencement of Post-Implementation phases will involve continuous monitoring of the changes implemented to date to ensure completeness and accuracy of our IFRS financial reporting. In particular, there may be additional new or revised IFRSs or IFRICs in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases, employee benefits, revenue recognition and stripping costs in the production phase of a surface mine. The Company also notes that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company's financial statements primarily in the areas of capitalization of exploration costs and disclosures. There are processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC Interpretations will be evaluated as they are drafted and published.

SUMMARY OF QUARTERLY OPERATING RESULTS

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

SUMMARY OF QUARTERLY OPERATING RESULTS								
	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Robinson								
Cu produced payable (Mlbs)	27.2	26.7	21.2	19.9	25.4	25.4	22.7	30.7
Ore milled (Mt)	3.5	3.9	3.2	3.4	3.5	3.3	3.6	3.3
Au production payable (koz) s	7.9	9.2	7.1	5.5	14.9	14.5	14.7	26.0
Cu grade (%)	0.49	0.43	0.43	0.41	0.46	0.49	0.40	0.59
Au grade (g/t)	0.22	0.21	0.17	0.18	0.26	0.25	0.20	0.31
Cu recovery (%)	75.0	77.4	73.0	69.5	75.4	75.3	73.5	72.2
Au recovery (%)	33.7	38.8	44.2	30.4	53.3	58.2	66.3	78.1
Cu sales (Mlbs)	21.1	27.9	22.3	18.2	24.7	28.6	26.6	27.8
Average final settlement price (\$/lb)	\$3.40	\$4.07	\$4.13	\$4.39	\$3.79	\$3.19	\$3.19	\$3.37
Cash cost per pound of payable copper produced (\$/lb)	\$2.21	\$2.13	\$2.78	\$2.49	\$1.89	\$1.66	\$1.67	\$1.14
Carlota								
Cu production (Mlbs)	7.0	6.6	6.2	4.2	6.6	7.3	7.4	8.2
Ore placed (Mt)	1.2	1.3	1.5	0.8	1.5	2.3	1.6	1.0
Total Cu grade (%)	0.36	0.32	0.44	0.39	0.7	0.77	0.39	0.35
Cu sales (Mlbs)	7.4	6.6	5.4	4.1	7.7	6.6	7.7	9.5
Average realized price (\$/lb)	\$3.32	\$3.99	\$4.06	\$4.37	\$3.88	\$3.29	\$3.13	\$3.25
Cash cost per pound of copper sold (\$/lb)	\$2.80	\$3.12	\$3.24	\$3.37	\$1.84	\$1.74	\$1.89	\$1.76
Franke								
Cu production (Mlbs)	8.7	9.0	8.3	7.2	7.8	10.1	10.4	8.9
Ore placed (Mt)	0.9	0.8	0.8	0.5	0.7	1.0	0.8	0.8
Total Cu grade (%)	0.78	0.80	0.82	0.75	0.86	0.77	0.86	0.91
Cu sales (Mlbs)	8.4	10.5	6.1	6.9	10.3	12.8	7.8	10.3
Average realized price (\$/lb)	\$3.41	\$3.96	\$4.15	\$4.38	\$3.97	\$3.23	\$3.24	\$3.25
Cash cost per pound of copper sold (\$/lb)	\$2.39	\$3.33	\$4.49	\$3.57	\$2.60	\$2.60	\$2.60	\$1.99
Morrison								
Cu ore sold (kt) ⁽¹⁾	57.1	53.3	52.2	50.0	39.7	29.3	20.0	12.7
Cu grade (%)	8.6	9.6	10.1	8.4	9.5	11.2	9.1	5.8
Payable Cu sold (Mlbs)	9.2	10.1	10.3	8.2	7.1	6.3	3.5	1.6
Payable Ni sold (Mlbs)	1.3	1.4	1.7	1.6	1.5	1.2	0.9	0.9
Payable TPM sold (koz) s ⁽²⁾	8.1	8.4	8.2	5.8	4.1	3.1	1.9	0.9
Average realized price (\$/lb)	\$3.52	\$3.47	\$4.14	\$4.27	\$4.37	\$3.67	\$2.89	\$3.49
Cash cost per pound of copper sold (\$/lb)	\$0.86	\$0.59	\$0.23	-\$0.33	-\$0.34	-\$0.04	-\$2.70	-\$7.39
Podolsky								
Cu ore sold (kt) ⁽¹⁾	93.4	112.2	91.0	99.2	118.0	97.2	128.9	71.3
Cu grade (%)	3.4	3.0	3.6	3.1	3.7	3.2	3.7	2.6
Payable Cu sold (Mlbs)	5.7	6.0	6.4	5.4	8.1	5.4	8.6	3.2
Payable Ni sold (Mlbs)	0.3	0.3	0.3	0.2	0.4	0.3	0.6	0.3
Payable TPM sold (koz) s ⁽²⁾	5.9	7.2	5.9	6.6	10.6	5.4	11.5	5.3
Average realized price (\$/lb)	\$3.53	\$3.42	\$4.14	\$4.28	\$4.36	\$3.82	\$2.88	\$3.63
Cash cost per pound of copper sold (\$/lb)	\$1.91	\$1.89	\$1.67	\$1.80	\$0.74	\$1.67	\$1.07	\$1.69
McCreedy West								
Cu ore sold (kt) ⁽¹⁾	9.0	15.6	78.0	74.9	76.1	72.6	67.5	67.3
Cu grade (%)	3.0	1.6	1.6	1.0	0.8	0.9	1.1	1.1
Ni ore sold (kt) ⁽¹⁾	85.1	53.6	-	-	-	-	-	-
Ni grade (%)	1.2	1.6	-	-	-	-	-	-
Payable Cu sold (Mlbs)	0.8	0.9	2.3	1.1	1.1	1.2	1.2	1.3
Payable Ni sold (Mlbs)	1.0	1.3	0.4	0.2	0.2	0.2	0.2	0.2
Payable TPM sold (koz) s ⁽²⁾	2.2	1.9	6.4	7.2	8.3	8.1	8.3	7.7
Average realized price (\$/lb)	\$3.56	\$3.74	\$4.12	\$4.27	\$4.46	\$3.69	\$2.84	\$3.25
Cash cost per pound of copper sold (\$/lb)	\$0.63	-\$0.38	\$1.39	\$4.55	\$1.55	\$2.83	\$3.15	\$1.23

⁽¹⁾ Converted into metric tonne from original short ton

⁽²⁾ Total precious metal, including gold, platinum and palladium

⁽³⁾ Production and operating statistics in this table are reported for historical periods for all of the Company's mines, including periods prior to the merger of Quadra and FNX on May 20, 2010

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

SELECTED ANNUAL INFORMATION

	2011	2010	2009
Statement of operations			
Revenues	1,179	958	479
Earnings	266.5	79.5	80.5
Basic earnings per share	\$1.39	\$0.26	\$0.89
Diluted earnings per share	\$1.36	\$0.25	\$0.89
Financial positions			
Total assets	3,546	2,759	1,263
Total long-term financial liabilities	1,065	550	139
Dividends	n/a	n/a	n/a

Note: 2009 revenues, earnings, basic earnings per share and diluted earnings per share are in Canadian GAAP.

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. Costs of sales, as reported on the statement of comprehensive income, is different than the costs of production because of changes in inventory levels. The following table shows a reconciliation of these non-IFRS financial measures to the consolidated statements of operations:

	Three months ended December 31, 2011						Total
	Robinson	Carlota ⁽²⁾	Franke	Morrison	Podolsky	McCreedy West	
Production costs of goods sold	58.8	19.4	20.1	21.7	16.3	11.1	147.4
Adjustment for change in inventory	13.8	-	-	-	-	-	13.8
Royalties	2.1	1.3	-	-	-	-	3.4
Total cash cost	74.7	20.7	20.1	21.7	16.3	11.1	164.6
By-product revenues	(14.7)	-	-	(13.8)	(5.4)	(10.6)	(44.5)
	60.0	20.7	20.1	7.9	10.9	0.5	120.1
Copper produced/sold (million lbs)	27.2	7.4	8.4	9.2	5.7	0.8	58.7
Cash cost per pound of copper (US\$/lb)⁽¹⁾	\$ 2.21	\$ 2.80	\$ 2.39	\$ 0.86	\$ 1.91	\$ 0.63	\$ 2.05

**Three months ended
December 31, 2010**

	Robinson	Carlota	Franke	Morrison ⁽³⁾	Podolsky ⁽³⁾	McCreedy West ⁽³⁾	Total
Production costs of goods sold	62.4	12.7	26.8	16.1	17.4	8.5	143.9
Adjustment for change in inventory	3.2	-	-	-	-	-	3.2
Royalties	4.5	1.5	-	-	-	-	6.0
Total cash cost	70.1	14.2	26.8	16.1	17.4	8.5	153.1
By-product revenues	(22.1)	-	-	(18.5)	(11.4)	(6.8)	(58.8)
	48.0	14.2	26.8	(2.4)	6.0	1.7	94.3
Copper produced/sold (million lbs)	25.4	7.7	10.3	7.1	8.1	1.1	59.7
Cash cost per pound of copper (US\$/lb)⁽¹⁾	\$ 1.89	\$ 1.84	\$ 2.60	\$ (0.34)	\$ 0.74	\$ 1.55	\$ 1.58

**Year ended
December 31, 2011**

	Robinson	Carlota ⁽²⁾	Franke	Morrison	Podolsky	McCreedy West	Total
Production costs of goods sold	264.2	67.7	107.2	85.4	67.7	45.2	637.4
Adjustment for change in inventory	16.0	-	-	-	-	-	16.0
Royalties	12.3	4.6	-	-	-	-	16.9
Total cash cost	292.5	72.3	107.2	85.4	67.7	45.2	670.3
By-product revenues	(66.8)	-	-	(72.0)	(25.0)	(36.8)	(200.6)
	225.7	72.3	107.2	13.4	42.7	8.4	469.7
Copper produced/sold (million lbs)	95.1	23.8	31.9	37.8	23.5	5.1	217.2
Cash cost per pound of copper (US\$/lb)⁽¹⁾	\$ 2.37	\$ 3.04	\$ 3.36	\$ 0.35	\$ 1.82	\$ 1.65	\$ 2.16

**Year ended
December 31, 2010**

	Robinson	Carlota	Franke	Morrison ⁽³⁾	Podolsky ⁽³⁾	McCreedy West ⁽³⁾	Total
Production costs of goods sold	251.9	51.7	100.9	22.6	42.5	22.2	491.8
Adjustment for change in inventory	1.0	-	-	-	-	-	1.0
Royalties	15.2	5.4	-	-	-	-	20.6
Total cash cost	268.1	57.1	100.9	22.6	42.5	22.2	513.4
By-product revenues	(103.5)	-	-	(24.5)	(21.6)	(14.5)	(164.1)
	164.6	57.1	100.9	(1.9)	20.9	7.7	349.3
Copper produced/sold (million lbs)	104.2	31.6	41.2	9.9	25.3	4.8	217.0
Cash cost per pound of copper (US\$/lb)⁽¹⁾	\$ 1.58	\$ 1.81	\$ 2.45	\$ (0.19)	\$ 0.83	\$ 1.59	\$ 1.61

¹²⁾ Robinson cash cost per pound of copper produced is based on payable copper

²¹⁾ Carlota cash cost per pound of copper sold does not include the amount of inventory write down.

³⁾ For the period after May 20, 2010, the day after the merger with FNX.

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 and stock-based compensation, 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:

	Three months ended <u>Dec 31, 2011</u>	Three months ended <u>Dec 31, 2010</u>	Year ended <u>Dec 31, 2011</u>	Year ended <u>Dec 31, 2010</u>
(All amounts in millions of United States dollars except per share amounts)				
Income from mining operations	46.2	114.2	146.2	301.7
Adjusting items:				
Amortization, depreciation and depletion	41.4	18.1	155.5	79.8
Inventory write down	-	33.4	87.0	33.4
Stock-based compensation	1.1	1.4	5.4	6.5
General and administrative	(13.7)	(12.7)	(47.9)	(43.0)
Exploration and evaluation	(10.9)	-	(16.7)	-
	<u>17.9</u>	<u>40.2</u>	<u>183.3</u>	<u>76.7</u>
Adjusted EBITDA	<u>64.1</u>	<u>154.4</u>	<u>329.5</u>	<u>378.4</u>
Weighted-average number of shares outstanding -basic	191.4	189.9	191.1	154.9
Adjusted EBITDA per share	\$0.33	\$0.81	\$1.72	\$2.44

March 29, 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;
- ❖ 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 Levack Mine 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, 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.