KGHM INTERNATIONAL LTD.
(Formerly Quadra FNX Mining Ltd.)
Consolidated Annual Financial Statements
For the years ended December 31, 2011 and 2010
(Expressed in millions of U.S. dollars, except where indicated)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Quadra FNX Mining Ltd.

We have audited the accompanying consolidated financial statements of Quadra FNX Mining Ltd., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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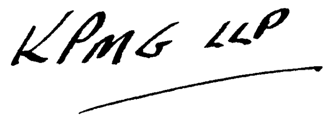
KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.



Chartered Accountants

March 29, 2012
Vancouver, Canada

KGHM International Ltd.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(US Dollars in Millions)

	Notes	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current				
Cash and cash equivalents		1,005.5	318.8	133.2
Receivables	*8*	199.5	145.7	20.8
Inventory	*6*	198.7	214.2	186.8
Investment in Gold Wheaton	*7*	-	161.1	-
Derivative assets	*18*	0.1	3.0	1.6
Other current assets	*9*	74.2	84.4	33.3
Total Current Assets		1,478.0	927.2	375.7
Mineral properties, plant and equipment	*10*	1,141.7	1,512.7	804.8
Investment in Sierra Gorda JV	*5*	521.1	-	-
Goodwill		180.6	180.6	-
Environmental trust and bond	*11*	82.4	72.0	59.7
Other non-current assets	*9*	31.7	32.2	9.4
Deferred income tax assets	*21*	93.6	34.6	12.9
Total Non-Current Assets		2,051.1	1,832.1	886.8
Total Assets		3,529.1	2,759.3	1,262.5
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	*12*	125.0	121.9	65.9
Franke debt facility		-	-	34.2
Provisions	*13*	7.0	12.0	11.0
Derivative liabilities	*18*	13.6	13.1	32.8
Current portion of deferred revenue	*15*	17.9	16.5	-
Other current liabilities	*14*	25.8	3.9	13.1
Total Current Liabilities		189.3	167.4	157.0
Senior Notes	*16*	488.2	-	-
Deferred revenue	*15*	169.9	181.4	-
Site closure and reclamation provision	*17*	88.6	68.5	93.4
Derivative liabilities	*18*	64.9	96.5	36.6
Other non-current liabilities	*14*	-	-	2.9
Deferred income tax liabilities	*21*	236.9	203.4	5.8
Total Non-Current Liabilities		1,048.5	549.8	138.7
Total Liabilities		1,237.8	717.2	295.7
Shareholders' Equity				
Share capital	*19(a)*	1,706.3	1,690.0	715.3
Stock options		35.9	32.4	23.3
Accumulated other comprehensive (loss) income		(15.2)	21.9	9.9
Retained earnings		564.3	297.8	218.3
Total Shareholders' Equity		2,291.3	2,042.1	966.8
Total Liabilities and Shareholders' Equity		3,529.1	2,759.3	1,262.5

Commitments (Note 27), Contingencies (Note 28), Subsequent Events (Note 32)

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

Approved by the Board of Directors:

(Signed) *(Signed)*

Herbert Wirth **Paul Blythe**

KGHM International Ltd.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(US Dollars in Millions)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
Revenues		1,179.0	957.7
Cost of sales inventory writedown	*22*	87.0	33.4
Cost of production & other selling expenses	*22*	945.8	622.6
Total cost of sales		1,032.8	656.0
Income from mining operations		146.2	301.7
General and administrative	*23*	47.9	43.0
Exploration and evaluation		16.7	-
(Gain) loss on derivatives	*18*	(23.7)	48.7
Gain from joint venture formation	*5*	(292.5)	-
Impairment of non-current assets	*10 (a)*	288.5	152.5
Gain from disposal of Gold Wheaton shares	*7*	(133.9)	-
Finance and other income	*24*	(45.5)	(13.8)
Finance expense	*24*	15.2	14.4
Foreign exchange gain		(0.9)	(12.1)
Transaction costs for merger and acquisition		5.0	7.2
Earnings before income taxes and other items		269.4	61.8
Income tax recovery (expense)	*21*	(2.9)	8.8
Share of earnings of equity investee	*7*	-	8.9
Earnings for the year		266.5	79.5
Other comprehensive income			
Unrealized (loss) gain on marketable securities, net of tax	*9*	(12.9)	14.2
Reversal of unrealized gain on marketable securities, net of tax		(24.2)	(2.2)
Total comprehensive income		229.4	91.5
Earnings per share			
Basic	*19 (c)*	$ 1.39	$ 0.51
Diluted	*19 (c)*	$ 1.36	$ 0.51
Weighted average shares outstanding - basic	*19 (c)*	191.1	154.9
Weighted average shares outstanding - diluted	*19 (c)*	192.6	157.3

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

KGHM International Ltd.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(US Dollars in Millions)

	Notes	Share capital	Stock options	Accu. other comp. income	Retained earnings	Total
Balances, January 1, 2010		**715.3**	**23.3**	**9.9**	**218.3**	**966.8**
Stock options exercised		18.2	-	-	-	18.2
Shares issued for FNX merger, net of issue costs		952.1	-	-	-	952.1
Stock-based compensation		-	6.8	-	-	6.8
Transfer to share capital for stock options exercised		4.4	(4.4)	-	-	-
Stock options issued for FNX merger		-	6.7	-	-	6.7
Realized gain on marketable securities		-	-	(2.2)	-	(2.2)
Unrealized gain on marketable securities, net of tax		-	-	14.2	-	14.2
Earnings for the period		-	-	-	79.5	79.5
Balances, January 1, 2011		**1,690.0**	**32.4**	**21.9**	**297.8**	**2,042.1**
Stock options and warrants exercised		14.3	-	-	-	14.3
Stock-based compensation		-	5.5	-	-	5.5
Transfer to share capital for stock options exercised		2.0	(2.0)	-	-	-
Reversal of realized gain on marketable securities, net of tax		-	-	(24.2)	-	(24.2)
Unrealized gain on marketable securities, net of tax	*9*	-	-	(12.9)	-	(12.9)
Earnings for the year		-	-	-	266.5	266.5
Balances, December 31, 2011		**1,706.3**	**35.9**	**(15.2)**	**564.3**	**2,291.3**

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

KGHM International Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in Millions)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
OPERATING ACTIVITIES			
Earnings for the year		266.5	79.5
Adjustment for:			
Stock-based compensation		5.4	6.5
Amortization, depletion and depreciation		155.5	79.8
Impairment of inventory	*6*	87.0	33.4
Impairment of non-current assets	*10 (a)*	288.5	152.5
Gain from disposal of Gold Wheaton shares	*7*	(133.9)	-
Gain from joint venture formation	*5*	(292.5)	-
Unrealized loss (gain) on derivatives		(23.7)	48.7
Amortization of deferred revenue		(10.1)	(9.4)
Share of earnings of equity investee		-	(8.9)
Foreign exchange loss (gain)		4.5	(3.8)
Income tax expense	*21*	2.9	(8.8)
Finance income	*24*	(45.5)	(13.8)
Finance expense	*24*	15.2	14.4
		319.8	370.1
Net changes in non-cash working capital	*26*	(87.2)	(82.2)
Interest received		1.6	0.9
Interest paid		(19.2)	(2.9)
Income taxes paid	*21*	(14.9)	(40.7)
Cash provided from operating activities		**200.1**	**245.2**
INVESTING ACTIVITIES			
Additions to mineral properties, plant and equipment		(349.0)	(185.7)
Cash acquired on merger with FNX		-	205.0
Increase in other assets		(10.2)	(16.8)
Increase in restricted cash		(12.7)	(5.1)
Payment on exercising marketable security warrants		(14.9)	-
Increase in environmental bond and trust		(10.6)	(6.2)
Proceeds from sale of marketable securities		11.4	2.1
Payment from related party		84.6	-
Proceeds from sale of Gold Wheaton shares	*7*	295.0	-
Payments for purchasing and settling derivatives		(4.5)	(31.3)
Cash used in investing activities		**(10.9)**	**(38.0)**
FINANCING ACTIVITIES			
Proceeds from issue of common shares		14.3	18.0
Proceeds from issue of senior note net of issue costs		487.7	-
Drawdown on project debt facility, net of issue costs of $0.4		-	12.5
Repayment of project debt facilities		-	(50.5)
Decrease in obligations under capital leases		-	(5.4)
Cash provided from (used in) financing activities		**502.0**	**(25.4)**
Effect of foreign exchange rate changes on cash and cash equivalents		**(4.5)**	**3.8**
Net increase in cash and cash equivalents during the year		**686.7**	**185.6**
Cash and cash equivalents, beginning of year		**318.8**	**133.2**
Cash and cash equivalents, end of year		**1,005.5**	**318.8**
Cash and cash equivalents comprise of:			
Cash deposits, bankers acceptances and term deposits		501.9	193.6
Government money market investments		503.6	125.2
		1,005.5	318.8

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Years ended December 31, 2011 and 2010

1. NATURE OF OPERATIONS

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

The Group is in the business of developing and operating mines, with a focus on base metals, particularly copper. The Group's principal place of business is Canada. KGHM's head office is located at Four Bentall Centre, 1055 Dunsmuir Street, Suite 2414, Vancouver, British Columbia, V7X 1K8. The Group has six operating mines: the Robinson mine in Nevada; the Levack mine, including the Morrison deposit, in Ontario; the Franke mine in Chile; the Carlota mine in Arizona; and the Podolsky and McCreedy West mines in Ontario. On September 14, 2011, the Group formed a joint venture ("Sierra Gorda JV") with Sumitomo Metal Mining Co. Ltd. and Sumitomo Corporation (collectively "Sumitomo") to develop the Sierra Gorda development project in Chile (note 5). The Group also owns an advanced exploration project ("Victoria") in Sudbury, Ontario.

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

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements for the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These are the Group's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1, *First Time Adoption of International Reporting* ("IFRS 1") has been applied. Previously, the Group prepared its consolidated annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Group adopted IFRS on January 1, 2011 (the "Transition Date").

An explanation of the impact of the transition from Canadian GAAP to IFRS on the Group's consolidated statement of financial position as at January 1, 2010 and December 31, 2010 and the consolidated statement of comprehensive income for the year ended December 31, 2010 is disclosed in Note 31.

These consolidated financial statements were approved for issue by the Board of Directors ("BoD") on March 29, 2012.

b) Basis of measurement

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

c) Basis of consolidation

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

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

d) Use of estimates and judgements

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

The accounting for the Franco Nevada (formerly "Gold Wheaton") metal sales contract (Notes 3(g) and 15) involves judgements in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

These accounting policies described below have been applied consistently to all periods presented and in preparing the opening IFRS Consolidated Statements of Financial Position at January 1, 2010 for transition purposes.

a) Business combinations

On transition to IFRS, the Group elected not to restate business combinations prior to January 1, 2010. Accordingly, amounts recognized in these consolidated financial statements for those acquisitions are based on Canadian GAAP.

For acquisitions on or after January 1, 2010, the acquisition method is applied to all business combinations whereby the identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition.

The fair value of the consideration transferred for the acquisition of a business is the fair value of the assets transferred, the liabilities assumed, and the equity interests issued by the Group at the date of exchange. Goodwill is initially measured at fair value being the excess of the fair value of the consideration transferred over the fair value of the acquiree's net identifiable assets acquired. When the consideration transferred is less than the fair value of the net identifiable assets, a gain is recognized immediately in profit or loss.

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

b) Interest in a joint venture

The group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its interest in the joint venture using the equity method. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group. The investment is presented as a non-current asset on the statement of financial position. The Group's aggregate share of profit or loss from the jointly controlled entity is recognized in profit or loss.

c) Exploration and evaluation expenditures

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

Recognition and measurement

Acquisition costs to acquire exploration and evaluation assets are capitalized. Exploration and evaluation expenditures include costs of conducting geological surveys, and exploratory drilling and sampling. These types of costs when incurred are recognized as expense for the period unless there is evidence of a resource and management expects the expenditures to be recovered. Amounts capitalized include administrative and other general overhead costs associated with finding specific mineral resources. Capitalized exploration and evaluation costs are classified as a component of mineral property plant and equipment. Expenditures incurred prior to the Group obtaining legal rights to explore an area are recognized as an expense in the period.

Upon completion of a technical feasibility study and when commercial viability is demonstrated, capitalized exploration and evaluation assets are transferred to and classified as mineral property acquisition and development costs.

Impairment

Management reviews the carrying value of capitalized exploration and evaluation expenditures at least annually. The review is based on the Group's intentions for development of an undeveloped property. If a project does not prove viable, all unrecoverable costs associated with the project net of any impairment provisions are written off. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project.

d) Mineral properties, plant and equipment

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

Recognition and measurement

Mineral property acquisition and development costs, including exploration and evaluation assets transferred, mine construction costs, and overburden and waste removal costs, are capitalized until production is achieved, or the property is sold, abandoned or impaired. Development costs are net of proceeds from the sale of metal extracted during the development phase prior to the date mining assets are operating in the way intended by management.

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

The cost of removing overburden to access ore is capitalized during the development phase. During the production phase, such costs are capitalized if the costs are incurred to provide access to sources of reserves that will be produced in future periods and would not otherwise be accessible.

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

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

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

Subsequent costs

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

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

Depreciation

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

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

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

Goodwill

Goodwill is not amortized; instead it is tested annually for impairment at year end. In addition, at each reporting period we assess whether there is an indication that goodwill is impaired and, if there is such an indication, we would test for goodwill impairment at that time. Goodwill is allocated to an individual cash generating unit ("CGU").

The recoverable amount of the CGU is the higher of value-in-use and fair value less costs to sell. Goodwill impairment is recognized for any excess of the carrying amount of the segment over its recoverable amount. Any goodwill impairment is recognized in the consolidated statement of income in the reporting period in which it occurs. Goodwill impairment charges are not reversible.

e) Impairment of non-current assets

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

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

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

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

f) Revenue recognition

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

For sales of concentrates, final pricing is generally determined three to four months after the date of sale. For sales of ore, final pricing is generally determined three to six months after the date of sale. For sales of copper cathode, final pricing is generally determined in the same month as, or the month subsequent to, the date of sale. Revenues are recorded provisionally at the time of sale based on preliminary assays and forward prices for the expected date of the final settlement. Subsequent variations in price and volumes are recognized as revenue adjustments as they occur until the price is finalized. Contract mining revenues are earned on a fixed price contract basis, on a cost reimbursement basis or on a unit-of-production basis such as metres drilled, metres of advance on underground development, tonnes of ore mined and hourly charges for work performed, and are recognized at the time that the service has been performed.

g) Deferred revenue

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

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

h) Inventory

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

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

i) Financial instruments

The Group designates its financial assets, other than derivative assets, as loans and receivables, available for sale and "fair value through profit and loss". Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Financial assets designated as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are comprised of cash and cash equivalents, restricted cash, environmental bonds, and trade and other receivables, except for provisionally priced receivables which are designated as derivatives, and are initially measured at fair value and subsequently at amortized cost less any impairment losses. When these assets are impaired, the carrying amount of the financial asset is reduced by the impairment loss directly, except for receivables. The carrying amount of receivables is reduced through the use of an allowance account and changes to the carrying amount of this account are recognized in profit or loss.

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

Financial assets designated as "fair value through profit and loss" are comprised of investments in warrants and are measured at fair value with unrealized gains and losses recognized in profit or loss.

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

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

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

j) Income taxes

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

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

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

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

k) Foreign currency translation

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

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

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

l) Provisions

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

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

m) Site closure and reclamation provision

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

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

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

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

n) Earnings per share

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

Diluted earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period adjusted for the effects of all dilutive potential common shares, which comprise options granted to employees and warrants. The dilutive effect of options and warrants is determined using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings or loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. When a loss has been incurred, basic and diluted loss per share is the same because the exercise of options and warrants would be anti-dilutive.

o) Share-based payments

The Group accounts for share-based payments, including stock options, at their fair value on the grant date and recognize the cost as an employee expense over the period that the employees become entitled to the award. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date. A corresponding increase is recognized in shareholders' equity for these costs.

Share-based payments expense relating to restricted stock units and performance share units are accrued over the vesting period of the units based on the quoted market value of the Group's common shares with a corresponding increase in liabilities. As these awards will be settled in cash, the liability is re-measured at each reporting period and at the settlement date. Changes in the fair value of the liability are recognized as employee benefit expense in the Consolidated Statements of Comprehensive Income.

p) Leases

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

q) Cash equivalents

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

r) Share capital

The Group records proceeds from share issuances net of issue costs and any tax effects in shareholders' equity. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares was concluded.

s) Employee benefits

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

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

t) Finance income and expense

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and realized and unrealized gains on investment in warrants. Interest income is recognized as it accrues using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is established. Finance income is considered an operating activity for cash flow purposes.

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

u) New standards and interpretations not yet adopted

A number of new standards, amendments to standards, and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these consolidated financial statements.

Financial instruments
In November 2009, the IASB issued IFRS 9 - *Financial Instruments* which simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis for classification is dependent on an entity's business model and the cash flow of the financial asset. In August 2011, the IASB issued an exposure draft that proposes adjusting the mandatory effective date of IFRS 9 from January 1, 2013 to January 1, 2015. The Group is still assessing the impact of adopting IFRS 9.

Financial instruments disclosure

In October 2010, the IASB issued amendments to IFRS 7 - *Financial Instruments: Disclosures* to enhance the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Group does not anticipate that this amendment will have a significant impact on its consolidated financial statements.

Income taxes

In December 2010, the IASB issued an amendment to IAS 12 - *Income Taxes* to provide a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after January 1, 2012, with earlier application permitted. The Group does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Consolidation

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* ("IFRS 10"), superseding SIC 12 and the requirements relating to consolidated financial statements in IAS 27 - *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. IFRS 10 establishes control as the basis for an investor to consolidate its investees; and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

IASB issued IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12") which combines and enhances the disclosure requirements for the Group's subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Group's interests in other entities, and the effects of those interests on the Group's consolidated financial statements.

Concurrently with the issuance of IFRS 10, existing IAS 27 and IAS 28 were revised and reissued as IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures* to align with the new consolidation guidance. The Group continues to evaluate the impact of these standards on its consolidated financial statements.

Joint ventures

In May 2011, the IASB issued IFRS 11 - *Joint Arrangements* ("IFRS 11"), which supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method. The Group continues to evaluate the impact that IFRS 11 will have on its consolidated financial statements.

Fair value measurement

In May 2011, as a result of the convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 - *Fair Value Measurement* ("IFRS 13"). IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized. The Group does not anticipate that the application of IFRS 13 will have a material impact on its consolidated financial statements.

Financial statement presentation

In June 2011, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements* ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Group does not anticipate that the amendments to IAS 1 will have a material impact on its consolidated financial statements.

Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 - *Employee Benefits* ("IAS 19") that introduced changes to the accounting for defined benefit plans and other employee benefits. The amendments include elimination of the options to defer, or recognize in full in earnings, actuarial gains and losses and instead mandates the immediate recognition of all actuarial gains and losses in other comprehensive income and requires use of the same discount rate for both the defined benefit obligation and expected asset return when calculating interest cost. Other changes include modification of the accounting for termination benefits and classification of other employee benefits. The Group does not anticipate that the amended IAS 19 will have a material impact on its consolidated financial statements.

Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the IASB issued IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity: useable ore and improved access to other ore bodies that can be mined in future periods. IFRIC 20 must be applied commencing January 1, 2013 with early adoption permitted. The Group is currently assessing the impact of adopting IFRIC 20 on our consolidated financial statements.

4. ACQUISITIONS

Merger of Quadra and FNX

On May 20, 2010, Quadra Mining Ltd. and FNX completed a merger of the two companies. The merger was structured as a court-approved plan of arrangement (the "Transaction") under the Business Corporations Act (Ontario) pursuant to which the Group acquired all of the issued and outstanding common shares of FNX. Under the terms of the Transaction, former shareholders of FNX received 0.87 common shares of Quadra FNX and $0.0001 in cash for each common share of FNX held. Outstanding options and warrants to acquire FNX shares were converted into options and warrants to acquire Quadra FNX shares, adjusted in accordance with the same exchange ratio. A total of 88,880,670 common shares were issued to former FNX shareholders, and options and warrants to acquire 2,913,339 and 6,503,249 common shares, respectively, were issued on conversion of FNX options and warrants.

Upon completion of the merger, former Quadra Mining Ltd. and FNX shareholders owned approximately 52% and 48% of the combined company, respectively, on a fully diluted basis. The merger has been accounted for as a business combination with the Group considered to be the acquirer for accounting purposes. The total purchase consideration for accounting purposes was $980.2, based on the fair value of the issued common shares and other consideration as of May 20, 2010, the closing date of the merger. FNX's assets and liabilities have been re-measured at their individual fair values estimated as of that day, and FNX's financial results have been consolidated commencing from May 21, 2010. Management finalized the purchase price allocation in the fourth quarter of 2010. The final allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed of FNX is as follows:

Purchase price:	
Common shares issued	952.2
Stock options and warrants issued	28.0
Total	980.2
Fair value of assets and liabilites acquired:	
Cash and cash equivalents	205.0
Accounts receivable	92.0
Other current assets	14.8
Investment in Gold Wheaton	99.1
Note receivable due from Gold Wheaton	51.6
Mineral properties, plant and equipment	798.5
Goodwill	180.6
Reclamation deposits	6.1
Total assets acquired	1,447.7
Accounts payable and accruals	(44.7)
Deferred revenue	(207.3)
Asset retirement obligations	(2.7)
Future income tax liabilities	(212.8)
Total liabilities assumed	(467.5)
Net assets acquired	980.2

As Quadra FNX was obliged to replace the FNX stock options and warrants under the terms of the Transaction, it accounted for the exchange of instruments as a modification of the outstanding FNX share-based payment awards. The purchase consideration includes a portion of the fair value of the Quadra FNX replacement options that relates to services prior to the merger and the remainder will be amortized as stock-based compensation expense in future periods. The fair value of the replacement options and warrants were determined using the Black Scholes option pricing model. Weighted average assumptions for volatility, risk free rate and expected life were 57%, 2% and 1.7 years respectively for stock options and 59%, 2% and 2.7 years respectively for warrants.

The acquired goodwill of $140.6 relates to the Sudbury Mine operating segment and none of it is deductible for tax purposes.

From the closing date of the merger to December 31, 2010, revenues of $220.5 and earnings of $62.5 were generated by the former FNX operations. If this merger had taken place January 1, 2010, the Group's pro forma consolidated revenue would have been $287.5 and pro forma consolidated earnings would have been $58.3 for the year ended December 31, 2010. The Group incurred total transaction costs of $7.2 related to the merger with FNX, and these amounts were expensed in the year ended December 31, 2010.

5. INVESTMENT IN SIERRA GORDA

On May 16, 2011, Quadra FNX entered into a definitive agreement with Sumitomo to form the Sierra Gorda Joint Venture (JV) to develop the Sierra Gorda copper-molybdenum project in Chile. The formation of the JV was completed on September 14, 2011. The joint venture operates through a jointly-controlled entity owned 55% by the Group and 45% by Sumitomo and is being accounted for using the equity method.

As part of its initial contribution, Sumitomo made a $360.0 cash payment into the JV on closing and contributed an additional $364.2 for a total of $724.2, essentially covering 100% of development costs incurred from May 2011 to January 2012. This initial contribution of $724.2 was fully funded by January 2012. Commencing February 2012, the Group and Sumitomo fund proportionally those JV costs not covered by JV borrowings.

Sumitomo has arranged project financing in the amount of $1,000.0 as of March 8, 2012. If project financing had not been satisfactorily arranged, Sumitomo would have provided a shareholder back-up loan for $800.0 to the JV with no recourse to the Group.

The Group earns a service fee for operational and technical support over the life of mine. Sumitomo has the right and the obligation to purchase 50% of the copper concentrate and the Group can direct the sale of the remaining 50%.

Sumitomo's initial contribution of $724.2 is being paid to a subsidiary of the Group in exchange for shares in the subsidiary for its 45% interest. As a result of the reduction in ownership in the subsidiary the Group recorded a gain of $292.5. The gain, after costs, represents 55% of the initial contribution by Sumitomo less 45% of the historical cost. The assets and liabilities essentially contributed by the Group to the joint venture within the wholly-owned subsidiary were cash, mineral property interests, plant and equipment, prepaid expenses, accounts payable and accrued liabilities.

Upon closing of the JV agreement the JV paid $166.8 to the Group for expenses paid by the Group on behalf of the JV during the joint venture closing period. As the JV is accounted for using the equity method the cash held by the JV of $66.1 was removed from the cash balances of the Group.

The investment of Sierra Gorda at December 31, 2011 is $521.1.

As of December 31, 2011, the Group's proportionate 55% share of the contractual commitments at Sierra Gorda totaled $175.6. In addition, the Group's proportionate 55% share of the purchase orders for mining equipment and infrastructure totaled $252.1.

Summary financial information of the joint venture, not adjusted for the percentage ownership held by the Group is as follows:

	December 31, 2011
	100%
Current assets	299.0
Non-current assets	536.0
Total assets	835.0
Current liabilities	32.0
Non-current liabilities	-
Total liabilities	32.0

One of the six Sierra Gorda land option agreements is the subject of litigation.

The JV was originally served with six lawsuits that were filed in Chilean courts. These lawsuits seek to invalidate certain of the option agreements under which the JV acquired mining tenements that comprise a significant part of the Sierra Gorda project. The plaintiffs in the lawsuits are or were shareholders in the "Sociedades Legales Mineras" ("SLM") or legal mining companies that owned certain of the mining tenements that were optioned to the JV in 2004. The JV is aware that the same plaintiffs are attempting to initiate additional lawsuits seeking to declare null and void the option agreements relating to the mineral properties that are already the subject of the first case. However, the JV believes it fully complied with the terms of all option agreements and the plaintiffs accepted all option payments until April 2008.

Three cases have been settled as of December 31, 2011. In 2009, the JV settled one case for an immaterial sum and a court dismissed the plaintiff's appeal in another case. In a third case an arbitrator found the contracts were valid.

Three cases are still pending. Chilean courts have ruled in favor of the JV in the first and second pending cases, and awarded the JV costs. The plaintiff appealed the second pending case decision and is trying to take the case before the Supreme Court. The two other pending cases are in preliminary stages before first instance courts.

Although the JV believes, based on advice from Chilean counsel, that the disputed option agreements are valid and that the legal claims are without merit, the outcome is uncertain. These lawsuits are subject to the procedural and substantive laws of Chile and the allegations are based on the actions of SLM management, in respect of which the JV has no direct knowledge. The JV is vigorously defending these lawsuits; however, there is no assurance that it will be successful.

6. INVENTORY

	December 31, 2011	December 31, 2010	January 1, 2010
Carlota leach pad inventory	45.8	112.9	88.2
Franke leach pad inventory	37.5	24.1	16.8
Copper concentrate	57.8	40.3	38.9
Copper cathode	14.5	8.0	16.6
Robinson ore stockpile	3.2	-	-
Sudbury crushed ore inventory	0.1	1.6	-
Supplies	39.8	27.3	26.3
	198.7	214.2	186.8

Due to a decline in copper prices and prolonged lower than expected recovery rates, the Group recognized inventory impairment charges of $77.7 during the year ended December 31, 2011 to reduce Carlota's inventory to its net realizable value. (December 31, 2010 – reduction of $33.4) The calculation of the net realizable value assessed the estimated recoverable pounds on the leach pad using future copper prices with a range of $3.40-$3.75. Carlota and Franke inventory values are carried at net realizable value.

In addition, due to a decline in copper prices in the third quarter of 2011, an adjustment of $9.3 was required to reduce Franke's inventory to its net realizable value. The calculation of the net realizable value assessed the estimated recoverable pounds on the leach pad using a future copper price of $3.40.

7. INVESTMENT IN GOLD WHEATON

As of December 31, 2010, the Group owned 34.5% or 56,464,126 common shares of Gold Wheaton. The Group accounted for this investment using the equity method, and recognized equity earnings of $8.9 for the year ended December 31, 2010.

During the year ended December 31, 2011, the Group sold all of its interest in Gold Wheaton to Franco-Nevada Corporation ("Franco-Nevada") for total cash proceeds of $295.0 (C$293.6) or C$5.20 per share for a total pre-tax gain of $133.9.

8. RECEIVABLES

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	162.3	142.3	18.9
Advances to suppliers	0.2	0.1	0.7
Receivables from Sierra Gorda JV (Note 25)	10.8	-	-
VAT/GST/income tax receivables	25.9	3.0	1.0
Interest receivable	0.3	0.3	0.2
	199.5	145.7	20.8

The net carrying value of trade and other receivables approximates fair value. The carrying values are the Group's maximum credit risk associated with each classification of receivables. These receivables are neither collateralized nor secured.

The Group has multiple terms of payment with its customers depending on type of product shipped. As at December 31, 2011, trade and other receivables will be settled and paid as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Less than 1 month	70.4	35.0	17.0
1 to 2 months	63.0	71.1	3.5
Greater than 2 months	66.1	39.6	0.3
	199.5	145.7	20.8

The period from the financial reporting date to the payment due date was used to determine the above period ranges. Although trade receivables are due and settled in the future, none of the amounts are impaired.

9. OTHER ASSETS

	December 31, 2011	December 31, 2010	January 1, 2010
Current			
Marketable securities	54.4	57.2	26.8
Prepaid expenses and advances to suppliers	15.4	27.2	4.9
Investmnet tax credits receivable	4.4	-	-
Prepaid royalties	-	-	1.6
	74.2	84.4	33.3
Non-current			
Security deposits on equipment	4.4	18.1	2.6
Restricted cash	23.2	10.5	4.8
Other	4.1	3.6	2.0
Total	31.7	32.2	9.4

In 2009 Quadra FNX acquired approximately 5 million shares and 5 million warrants in Far West Mining Ltd. ("Far West") for $10.1. On June 8, 2011, Quadra FNX exercised all its warrants for an additional cost of $14.9 bringing its holdings in Far West shares to approximately 10 million shares. On June 17, 2011, Capstone Mining Corp. ("Capstone") acquired all of the issued and outstanding common shares of Far West and Quadra FNX tendered all its Far West shares for cash and shares in Capstone. This resulted in a realized gain of $28.7 for the year ended December 31, 2011.

As at December 31, 2011, the Group held marketable securities with an original cost of $69.2 (December 31, 2010 - $19.7, January 1, 2010 - $9.2) and a fair value, based on their quoted market price, of $54.4 (December 31, 2010 - $57.2, January 1, 2010 - $26.8). For the year ended December 31, 2011, the change in fair value of all the investments totaled $12.9 net of tax which has been recorded in shareholders' equity as a component of comprehensive income.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Years ended December 31, 2011 and 2010

10. MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Mineral property acquisition and development	Plant, buildings and equipment	Equipment under capital lease	Site closure and reclamation asset	Total
At January 1, 2011						
Cost	77.1	1,248.9	589.6	1.7	55.5	1,972.8
Accumulated depletion, depreciation and amortization	-	(167.5)	(103.0)	(1.6)	(35.5)	(307.6)
Accumulated impairment	-	(99.6)	(52.9)	-	-	(152.5)
Net book value	**77.1**	**981.8**	**433.7**	**0.1**	**20.0**	**1,512.7**
Year ended December 31, 2011						
Change in Cost						
Additions	13.6	221.3	104.2	(1.7)	-	337.4
Contribution to Sierra Gorda JV	-	(288.1)	(0.4)	-	-	(288.5)
Increase in site closure and reclaimation asset	-	-	-	-	21.8	21.8
Asset Impairment	-	(229.2)	(38.9)	-	(20.4)	(288.5)
Subtotal	13.6	(296.0)	64.9	(1.7)	1.4	(217.8)
Change in Accumulative Amortization						
Reversal of accumulated depletion, depreciation and amortization on disposal	-	-	-	1.6	-	1.6
Depletion, depreciation and amortization charge	-	(96.6)	(56.7)	-	(1.5)	(154.8)
Subtotal	-	(96.6)	(56.7)	1.6	(1.5)	(153.2)
At December 31, 2011						
Cost	90.7	1,182.1	693.4	-	77.3	2,043.5
Accumulated depletion, depreciation and amortization	-	(264.1)	(159.7)	-	(37.0)	(460.8)
Accumulated impairment	-	(328.8)	(91.8)	-	(20.4)	(441.0)
Net book value	**90.7**	**589.2**	**441.9**	**-**	**19.9**	**1,141.7**

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	Exploration and evaluation assets	Mineral property acquisition and development	Plant, buildings and equipment	Equipment under capital lease	Site closure and reclamation asset	Total
At January 1, 2010						
Cost	-	528.1	396.2	11.4	76.1	1,011.8
Accumulated depletion, depreciation and amortization	-	(121.0)	(49.8)	(7.6)	(28.6)	(207.0)
Impairment	-	-	-	-	-	-
Net book value	**-**	**407.1**	**346.4**	**3.8**	**47.5**	**804.8**
Year ended December 31, 2010						
Change in Cost						
Additions	11.2	118.2	61.0	-	-	190.4
Acquisition of subsidiary	65.9	602.6	127.3	-	2.7	798.5
Disposals	-	-	(4.6)	-	-	(4.6)
Decrease in site closure and reclaimation asset	-	-	-	-	(23.3)	(23.3)
Impairment charge	-	(99.6)	(52.9)	-	-	(152.5)
Transfers between categories	-	-	9.7	(9.7)	-	-
Subtotal	77.1	621.2	140.5	(9.7)	(20.6)	808.5
Change in Accumulative Amortization						
Reversal of accumulated depletion, depreciation and amortization on disposal	-	-	2.6	-	-	2.6
Depletion, depreciation and amortization charge	-	(46.5)	(49.8)	-	(6.9)	(103.2)
Transfers between categories	-	-	(6.0)	6.0	-	-
Subtotal	-	(46.5)	(53.2)	6.0	(6.9)	(100.6)
At December 31, 2010						
Cost	77.1	1,248.9	589.6	1.7	55.5	1,972.8
Accumulated depletion, depreciation and amortization	-	(167.5)	(103.0)	(1.6)	(35.5)	(307.6)
Accumulated impairment	-	(99.6)	(52.9)	-	-	(152.5)
Net book value	**77.1**	**981.8**	**433.7**	**0.1**	**20.0**	**1,512.7**

(a) Impairment of mineral properties, plant and equipment

	Impairment	Future income tax adjustment	Net impairment
Carlota mine	121.5	(42.5)	79.0
Franke mine	126.5	-	126.5
Podolsky mine	40.5	(10.1)	30.4
Total	**288.5**	**(52.6)**	**235.9**

During 2011, the Group reviewed the carrying value of Carlota's mineral properties, plant, and equipment ("MPPE") due to a major revision of Carlota's mine plan with a significant reduction in mine life. As a result of the review, it was determined that Carlota's MPPE were impaired and an impairment charge of $121.5 was recognized to reduce the carrying value to its recoverable amount. The recoverable amount was determined based on value in use by discounting estimated future cash flows using a discount rate of 12%. The future cash flows were estimated using future copper prices with a range of $3.25-$3.85.

In the fourth quarter of 2011, the Group reviewed the carrying value of Franke's MPPE due to a significant reduction in mineral reserves. As a result of the review, it was determined that Franke's MPPE were impaired and an impairment charge of $126.5 was recognized to reduce the carrying value to its recoverable amount, which was determined based on value in use by discounting estimated future cash flows using a discount rate of 12%. The future cash flows were estimated using future copper prices with a range of $2.75-$3.85.

In 2011, the Podolsky mine plan was reviewed for viability. It was determined that the life of the mineral deposit could only be extended if the inferred reserves could be economically mined. After extensive testing it was determined that the inferred reserves for the Podolsky mine were not viable to mine and as a result, an impairment charge of $40.5, which represents the carrying value of the inferred reserves, was recognized.

During 2010, the Carlota mine leaching operations experienced lower than expected leaching and recovery rates due to the existence of "fines" in the ore body. Accordingly, the Group performed an impairment assessment at December 31, 2010 and as a result an impairment charge of $152.5 was recognized for the year ended December 31, 2010. The impairment charge was determined by discounting estimated future cash flows using a discount rate of 13.1%. The cash flows were estimated using future copper prices with a range of $2.50 to $4.50.

11. ENVIRONMENTAL TRUST AND BOND

	December 31, 2011	December 31, 2010	January 1, 2010
Environmental bonds (a)	66.2	55.8	43.5
Cash in trust for Robinson reclamation (b)	16.2	16.2	16.2
	82.4	72.0	59.7

(a) The Group posted environmental bonds for their mines in Canada and the US. The Group revises the reclamation plan and cost estimate for their mines annually and adjusts the amount of the bonds accordingly. During the year ended December 31, 2011, the value of the bonds increased by $10.4 (2010: $12.3) to $66.2 (2010: $55.8).

(b) Under the terms of the Kennecott Royalty Agreement that the Group assumed on the acquisition of the Robinson Mine, a 3% net smelter return royalty is payable to Royal Gold Inc. (formerly to Kennecott). The agreement required that the first royalty payments be paid into a trust until such time that $20.0, with accumulated interest, was available to pay for qualified rehabilitation expenditures on the Robinson mine. The trust account was fully funded in 2006. As of December 31, 2011, net trust funds available were $16.2.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	50.3	41.6	18.7
Accrued payroll, benefits and withholding tax	9.2	10.6	6.0
Accrued liabilities	62.8	66.7	38.6
Accrued royalties	1.1	3.0	2.6
Accrued interest	1.6	-	-
	125.0	121.9	65.9

13. PROVISIONS

	December 31, 2011	December 31, 2010	January 1, 2010
Tax provision	6.0	6.0	6.0
Other	1.0	6.0	5.0
	7.0	12.0	11.0

During the years ended December 31, 2011 and 2010, the other provisions decreased due to changes in estimates after review by management.

14. OTHER LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Taxes payable	25.6	3.3	7.7
Obligations under capital lease - current portion	-	0.1	5.4
Other	0.2	0.5	-
	25.8	3.9	13.1
Non-current			
Raw material purchase commitment	-	-	2.9
	-	-	2.9

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15. DEFERRED REVENUE

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

Acquired on May 20, 2010	207.3
Recognized into revenue	(9.4)
Balance - December 31, 2010	197.9
Recognized into revenue	(10.1)
Balance - December 31, 2011	187.8
Current	(17.9)
Non-current	169.9

16. SENIOR NOTES

	December 31, 2011	December 31, 2010	December 31, 2009
Senior notes	500.0	-	-
Senior note issue costs	(12.3)	-	-
Cumulative amortization of senior note issue costs	0.5	-	-
	488.2	-	-

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

These Notes contain certain covenants that limit the Group'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 Quadra FNX or certain subsidiaries to make certain payments and distributions, engage in amalgamations, mergers or consolidations, make certain dispositions and transfers of assets, or engage in transactions with affiliates.

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

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

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

Upon specified change of control events, each holder of a note will have the right to require the Group to purchase all or a portion of the Notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase. At December 31, 2011, no mandatory principal repayments are required in the next five years.

17. SITE CLOSURE AND RECLAMATION PROVISION

Balance at January 1, 2010	93.4
New obligations raised or acquired	2.7
Change in estimated timing and amount of closure costs	(33.6)
Increase in provision due to discount rate	2.7
Reclamation performed during year	(0.5)
Unwinding of discount	3.8
Balance at December 31, 2010	68.5
Change in estimated timing and amount of closure costs	8.2
Increase in provision due to change in discount rate	10.7
Reclamation work done to reduce liability	(0.9)
Unwinding of discount	2.1
Balance at December 31, 2011	88.6

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

	December 31, 2011	December 31, 2010	January 1, 2010
Robinson mine	50.1	41.8	74.3
Carlota mine	21.7	11.8	8.5
Franke mine	8.5	8.9	9.8
Sudbury operations	7.5	5.2	-
Other mineral properties	0.8	0.8	0.8
	88.6	68.5	93.4

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

	December 31, 2011	December 31, 2010	January 1, 2010
Robinson mine	58.7	54.8	112.4
Carlota mine	24.2	15.3	11.2
Franke mine	10.7	12.7	13.3
Sudbury operations	8.9	7.6	-
Other mineral properties	0.8	0.8	0.8
	103.3	91.2	137.7

Key assumptions used to estimate site closure and reclamation provisions are as follows:

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

As a result of changes to the mine plan of Carlota (note 10 (a)) it was determined that an increase in the provision of $11.3 was required as a result of the change in the timing of the cash flows and additional estimated costs.

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

	December 31, 2011	December 31, 2010	January 1, 2010
Discount rates			
United States	1.9%	3.3%	3.9 - 4.6%
Chile	2.6%	4.1%	3.1%
Canada	1.3%	3.1%	-
Expected closure date of mines	2013 - 2031	2019 - 2031	2019 - 2031

18. DERIVATIVE INSTRUMENTS

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

	December 31, 2011	December 31, 2010	January 1, 2010
Long-term supply contracts (a)	(54.3)	(62.5)	(33.8)
Copper put options (c)	0.1	0.5	0.2
Warrants (d)	(20.3)	(47.1)	(11.0)
Foreign currency forward contracts (f)	(3.9)	-	0.2
Fuel contracts (b)	-	2.5	1.2
Copper collars	-	-	(24.6)
	(78.4)	(106.6)	(67.8)

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

	December 31, 2011	December 31, 2010	January 1, 2010
Derivative assets - current	0.1	3.0	1.6
Derivative liabilities - current	(13.6)	(13.1)	(32.8)
Derivative liabilities - non-current	(64.9)	(96.5)	(36.6)
	(78.4)	(106.6)	(67.8)

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

	Year ended December 31, 2011	Year ended December 31, 2010
Long-term supply contracts (a)	(8.2)	28.7
Fuel contracts (b)	2.5	(1.3)
Copper put options (c)	4.1	9.8
Warrants (d)	(26.8)	14.7
Foreign currency forward contracts (f)	4.7	-
Interest rate cap	-	0.2
Copper collars (e)	-	(3.4)
	(23.7)	48.7

(a) Long-term supply contracts

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

These copper price escalation clauses create embedded derivatives in the acid and water supply contracts. As of December 31, 2011, the fair value of the embedded derivative liabilities was determined to be $54.3, based on the following significant assumptions:

- Copper price of $2.75/lb to $3.50/lb for 2012 to 2022.
- Discount rate: 12%

(b) Fuel Contracts

The Group had entered into NYMEX heating oil futures contracts and collar contracts in order to manage the price risk associated with diesel fuel used in operations. During the year ended December 31, 2011, the Group settled 8.1 million gallons of NYMEX heating oil contracts resulting in a cash receipt of $5.6 to the Group, which has been recorded as a reduction of cost of sales in the Consolidated Statements of Comprehensive Income. At December 31, 2011, there were nil NYMEX heating oil futures contracts as the diesel price risk management program was discontinued in November 2010.

During the year ended December 31, 2010, the Group settled 10.9 million gallons of NYMEX heating oil contracts resulting in a cash payment of $0.6 to the Group, which has been recorded in cost of sales on the statement of earnings. At December 31, 2010, the Group had 8.1 million gallons of NYMEX heating oil futures contracts outstanding with an average strike price of $2.25/gallon.

(c) Copper Put Options

The Group's risk management strategy includes a floor price protection program for a portion of its anticipated copper sales. During the year ended December 31, 2011, the Group purchased additional copper put options for 124.4 million pounds of copper at an average strike price of $2.74/lb at a cost of $3.7. A total of 201.0 million pounds of copper put options expired unexercised during the year. At December 31, 2011, the Group had 18.0 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.

During 2010, the Group purchased copper put options for 190 million pounds of copper at an average strike price of $2.52/lb at a cost of $10.1. During 2010, a total of 175 million pounds of copper put options expired unexercised. At December 31, 2010, the Group had 95 million pounds of copper puts outstanding with an average strike price of $2.65/lb. The expiry dates of these put options were between January 2011 and July 2011.

(d) Warrants

The Group's warrants are accounted for as a derivative financial liability. Although the exercise price of the warrants is fixed in Canadian dollars, the functional currency of the Group is the US dollar. Accordingly, the foreign exchange effect results in the warrants being classified as a derivative financial liability as the Group will report a variable amount of cash in US dollars. The warrants assumed in connection with the FNX merger were valued using the quoted market price at December 31, 2011 of C$1.90 (2010 - C$4.80) as these warrants are publically traded. Lender warrants were valued using the Black Scholes pricing model using the following assumptions: share price C$15.08 (2010 C$16.75); expected life 0.17 (2010 - 1.17), volatility 60% (2010 - 61%), discount rate 0.83% (2010 - 1.67%).

The following warrants were outstanding and exercisable at December 31, 2011:

	Number outstanding	Exercise price C$	Expiry date
Lender warrants	1,096,444	9.24	March 1, 2012
Warrants converted in connection with FNX merger	7,473,749	14.94	September 9, 2012
Exercisable at December 31, 2011	8,570,193		

(e) Copper collars

Under the terms of the Franke project debt facility, the Group was required to enter into a copper price protection program in order to establish a minimum floor price for a portion of anticipated copper sales from the Franke mine. During the year ended December 31, 2010, the Group settled the remaining 19.8 million pounds of copper collar contracts with cash payments of $21.2. There were no copper collar contracts outstanding at December 31, 2011 and 2010.

(f) Foreign currency forward contracts

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

The foreign currency contracts have been recognized at fair value and recorded on the consolidated balance sheet. The change in the fair value of the contract for the year ended December 31, 2011 is included in the consolidated statement of comprehensive income. For the year ended December 31, 2011, a loss of $4.7 was recognized.

19. SHARE CAPITAL

(a) Common Shares

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

	Number of Shares	Amount
Balance at January 1, 2010	99,508,530	715.3
Capital stock issued		
Shares issued in exchange for FNX shares, net of issue costs	88,880,670	952.1
Stock options and warrants exercised	2,026,294	18.2
Transfer from contributed surplus:		
Stock options exercised		4.4
Balance at December 31, 2010	190,415,494	1,690.0
Capital stock issued:		
Stock options and warrants exercised	1,573,761	14.3
Transfer from contributed surplus:		
Stock options exercised		2.0
Balance at December 31, 2011	191,989,255	1,706.3

(b) Stock Options and Share-Based Payments

(i) Stock Options

The Group has a stock option plan to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Group by offering them an opportunity to participate in the Group's future performance through awards of options. The stock option plan is administered by the Compensation Committee, all of whom are members of the BoD. The total number of shares reserved and available for issuance shall not exceed in the aggregate a number of shares equal to 10% of the issued and outstanding shares of the Group at any time. The exercise price per option shall be determined by the Compensation Committee, but such price shall not be less than the closing price of the shares listed on the TSX on the trading day immediately preceding the day on which the option is granted. The options granted vest over a three year period and expire after five years from date of grant.

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2011 (in Canadian dollars):

	Options outstanding			**Options exercisable**	
Exercise price per share	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price C$	Number exercisable	Weighted-average exercise price C$
$3.45 - $7.76	1,522,066	2.18	6.46	1,242,506	6.62
$7.77 - $11.91	264,767	0.75	10.51	264,767	10.51
$11.92 - $15.35	2,945,058	2.83	13.15	1,538,763	13.21
$15.36 - $20.86	567,416	1.16	19.22	567,416	19.22
$20.87 - $24.60	1,024,180	1.20	24.44	1,024,180	24.44
$24.61 - $43.14	740,340	1.19	31.62	740,340	31.62
	7,063,827	2.07	15.67	5,377,972	16.86

The following table summarizes the stock option activity for the years ended December 31, 2011 and 2010 (in Canadian dollars):

	Options	Weighted-average exercise price (C$)
Outstanding at January 1, 2010	7,037,222	13.56
Granted	1,325,981	13.25
Issued for FNX acquisition	2,913,339	15.63
Forfeited	(370,004)	16.23
Exercised	(2,025,207)	9.18
Expired	(97,440)	15.72
Outstanding at December 31, 2010	8,783,891	15.16
Granted	772,449	13.16
Forfeited	(872,332)	18.93
Exercised	(1,372,428)	9.05
Expired	(247,753)	15.00
Outstanding at December 31, 2011	7,063,827	15.67

The total fair value of the stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model and is amortized over their vesting periods, and adjusted to reflect the actual number of stock options that are expected to vest. The following weighted average assumptions were used:

	2011	2010
Share price	$13.30	$14.18
Expected volatility	63%	57%
Risk-free interest rate	1%	2%
Expected life	3.2 years	2.8 years
Dividend yield	Nil	Nil
Forfeiture rate	7%	6%

The weighted average grant-date fair value of the options granted was $6.47 for the year ended December 31, 2011 (2010 - $5.37). The weighted average share price at the date of exercise for options that were exercised in the year ended December 31, 2011 was $14.67 (2010 - $13.22).

The stock-based compensation expense for the year ended December 31, 2011 was $5.5 (2010 - $6.8) of which $0.1 was capitalized to inventory (2010 - $0.3).

Option pricing models require the input of subjective assumptions including the expected price volatility and expected life of the options. Changes in these assumptions can materially affect the estimated fair value of options granted.

(ii) Restricted Stock Units (“RSU”)

During 2009, the Group implemented a Restricted Stock Unit (“RSU”) plan as a long term incentive to directors and certain employees in an effort to foster a responsible balance between short-term and long-term results. RSU’s are granted to participants in such numbers as the Group may determine as a bonus or similar payment in respect of services rendered during the year. RSU’s were granted to employees and non-management members of the Board. Each RSU entitles the participant to receive, once vested, a cash payment equal to the fair market value of one share on the applicable vesting date. Fair market value is defined as the volume-weighted average closing price of the Group’s shares on the TSX for the calendar month immediately preceding the vesting date. RSU’s vest on the third anniversary of the grant date and are paid out within 60 days after vesting. The Group may determine other terms or conditions of any RSU’s, including, without limitation, any additional conditions.

The following table summarizes the RSU liability activity for the years ended December 31, 2011 and 2010:

	2011	2010
Outstanding at January 1	408,630	165,700
Granted	222,035	351,515
Forfeited	-	(12,235)
Settled	(215,476)	(96,350)
Outstanding at December 31	415,189	408,630

The weighted average grant-date fair value of the RSU’s granted was $13.54 CDN for the year ended December 31, 2011 (2010 $12.86 CDN). RSU’s are measured at their fair market value on an ongoing basis and the settlement obligations accrued over the vesting period. For the year ended December 31, 2011, the RSU expense was $2.4 (2010 - $2.2) of which, $0.6 was capitalized to inventory (2010 - $0.8).

The fair value of each RSU was determined by the product of the closing share price of the Group as at the financial reporting date, number of units granted, and a probability which adjusts the liability for attrition, and participant’s performance in meeting objectives and goals as per Group’s short-term incentive plan. For 2011, this factor was 2% (2010 - 2%).

(iii) Performance Share Units ("PSU")

Under this plan, the Group credits a PSU to an eligible participant and the right to receive a cash payment equal to the fair market value of one share of the Group upon achievement of certain PSU vesting criteria. The Board approves the granting of PSU's to certain employees and their numbers based on recommendations from the Compensation Committee. PSU's can vest based on one or more of the following factors: the market price of the Group's shares at specified times and/or return to shareholders; achievement of corporate or individual performance objectives; and other discretionary terms and conditions the Group may determine. The Compensation Committee has focused on relative return to shareholders over a two year period in assessing the vesting of the PSU grants. Similar to RSU's, once vested; a participant is entitled to a cash payment equal to the fair market value of one share on the applicable vesting date. Fair market value is defined as the volume-weighted average closing price of the Group's shares on the TSX for 60 days immediately preceding the vesting date.

The following table summarizes the PSU liability activity for the years ended December 31, 2011 and 2010:

	2011	**2010**
Outstanding at January 1	98,882	-
Granted	103,724	98,882
Forfeited	(1,569)	-
Expired	(98,882)	-
Outstanding at December 31	102,155	98,882

The weighted average fair value of the PSU's granted was $9.48 for the year ended December 31, 2011 (2010 -$8.12). For accounting purposes, PSU's are measured at their fair market value on an ongoing basis and the settlement obligations accrued over the vesting period. For the year ended December 31, 2011, the PSU recovery was $0.2 (2010 – expense of $0.4).

(c) Earnings per Share

(in 000 000's of shares and US dollars except per share data)	**December 31, 2011**	**December 31, 2010**
Earnings for the period for basic earnings per share	266.5	79.5
Gain on warrants	(4.7)	-
Earnings for the period adjusted for the efffect of dilution	261.8	79.5
Basic weighted average shares outstanding	191.1	154.9
Share options	1.2	2.0
Lender warrants	0.3	0.4
Diluted weighted average shares outstanding	192.6	157.3
Basic EPS	**1.39**	**0.51**
Diluted EPS	**1.36**	**0.51**

The out of the money options were 2,479,436 that were excluded from the diluted earnings per share calculation as their effects would be anti-dilutive. 7,473,749 warrants were excluded from the EPS calculation because their impact was anti-dilutive.

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20. SEGMENTED INFORMATION

The Group's reportable operating segments are individual mine operations and development projects, being Robinson, Carlota, Franke, Sudbury Operations, DMC, other mineral properties and Corporate. The corporate segment is responsible for the evaluation and acquisition of new mineral properties and corporate administration. The Sudbury operations of the Group holds the goodwill established during the merger with FNX. As at December 31, 2011, goodwill was not impaired based on a range of future copper price of \$2.75-\$3.85/lb, a range of future nickel price of \$8.00-\$10.00/lb and a discount rate of 11%.

	Robinson (USA) [a]	**Carlota (USA)**	**Franke (Chile)**	**Sudbury Operations (Cda)** [a]	**DMC**	**Corporate & Other**	Total
Copper revenues	342.8	90.8	125.8	255.4	-	-	814.8
Nickel revenues	-	-	-	98.1	-	-	98.1
Other by-product revenues	66.8	-	-	45.8	-	-	112.6
Contract mining revenues	-	-	-	-	153.5	-	153.5
Revenues	**409.6**	**90.8**	**125.8**	**399.3**	**153.5**	**-**	**1,179.0**
Production costs of goods sold	264.2	67.7	107.2	198.3	136.0	-	773.4
Amortization, depletion, and depreciation	30.6	13.3	15.5	92.3	3.8	-	155.5
Royalties and mineral taxes	12.3	4.6	-	-	-	-	16.9
Inventory write down	-	77.7	9.3	-	-	-	87.0
Income (loss) from operations	**102.5**	**(72.5)**	**(6.2)**	**108.7**	**13.7**	**-**	**146.2**
General and administrative expense	-	-	-	-	-	47.9	47.9
Foreign exchange (gain)	-	-	-	-	-	(0.9)	(0.9)
Impairment of non-current assets	-	121.5	126.5	40.5	-	-	288.5
(Gain) on derivatives	-	-	-	-	-	(23.7)	(23.7)
Exploration and valuation	-	-	-	-	-	16.7	16.7
Gain from joint venture formation	-	-	-	-	-	(292.5)	(292.5)
Gain from disposal of Gold Wheaton shares	-	-	-	-	-	(133.9)	(133.9)
Finance income	-	-	-	-	-	(45.5)	(45.5)
Finance expense	-	-	-	-	-	15.2	15.2
Transaction costs for merger and acquisition						5.0	5.0
Segment earnings (loss) before tax	**102.5**	**(194.0)**	**(132.7)**	**68.2**	**13.7**	**411.7**	**269.4**

Capital expenditures	86.1	4.2	38.4	48.7	7.5	159.8	344.7
Segment assets as at December 31, 2011	495.4	203.7	205.2	1,293.3	92.7	1,238.8	3,529.1

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For the year ended December 31, 2010

	Robinson (USA) [a]	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda) [a]	DMC	Corporate & Other	Total
Copper revenues	385.6	106.7	141.3	117.0	-	-	750.6
Nickel revenues	-	-	-	36.7	-	-	36.7
Other by-product revenues	103.5	-	-	32.3	-	-	135.8
Contract mining revenues	-	-	-	-	34.6	-	34.6
Revenues	**489.1**	**106.7**	**141.3**	**186.0**	**34.6**	**-**	**957.7**
Production costs of goods sold	251.9	51.7	100.9	87.3	30.5	-	522.3
Amortization, depletion, and depreciation	20.1	10.5	19.7	27.5	2.0	-	79.8
Royalties and mineral taxes	15.1	5.4	-	-	-	-	20.5
Inventory write down	-	33.4	-	-	-	-	33.4
Income from operations	**202.0**	**5.7**	**20.7**	**71.2**	**2.1**	**-**	**301.7**
General and administrative expense	-	-	-	-	-	43.0	43.0
Foreign exchange gain	-	-	-	-	-	(12.1)	(12.1)
Impairment of non-current assets	-	152.5	-	-	-	-	152.5
Loss on derivatives	-	-	-	-	-	48.7	48.7
Finance income	-	-	-	-	-	(13.8)	(13.8)
Finance expense	-	-	-	-	-	14.4	14.4
Transaction costs for merger and acquisition						7.2	7.2
Segment earnings before incomes taxes	**202.0**	**(146.8)**	**20.7**	**71.2**	**2.1**	**(87.4)**	**61.8**
Capital expenditures	46.9	13.3	24.5	29.8	0.1	74.1	188.7
Segment assets as at December 31, 2010	403.3	310.8	274.5	1,142.6	46.9	581.2	2,759.3

(a) Revenues at Robinson and Sudbury Operations are from concentrate and ore sales and are recorded provisionally at the time of sale based on forward prices for the expected date of the final settlement. Subsequent variations in price are recognized as revenue adjustments as they occur until the price is finalized. At December 31, 2011, 19.0 million pounds of copper have been provisionally valued at an average price of $3.43 per pound. The final pricing for these provisionally priced sales is expected to occur between January and March 2012 for Robinson, and January and May 2012 for all provisionally priced metal for the Sudbury Operations.

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21. INCOME TAXES

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

	2011	2010
Current tax (expense) recovery		
Current income tax (expense) recovery	(24.6)	30.1
Withholding taxes, State income tax and others	(0.5)	-
	(25.1)	30.1
Deferred tax (expense) recovery		
Change in deferred income tax assets and liabilities	25.4	(21.3)
Reversal of deferred income tax expense from other comprehensive income	(3.2)	-
	22.2	(21.3)
Income tax (expense) recovery	(2.9)	8.8

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

	2011	2010
Earnings before income taxes and other items	269.4	61.8
Income tax rate	26.50%	28.50%
Income tax expense calculated using statutory rate	(71.4)	(17.6)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	(1.5)	(1.7)
Non-taxable portion of accounting gain	115.4	-
Ontario mining tax and other tax credits	(8.2)	(2.5)
Different tax rates in foreign jurisdictions	6.0	(10.0)
Depletion allowance	13.4	19.5
Others, net	(11.4)	18.0
Benefits of deferred tax assets not recognized in the current period	(45.2)	3.1
Income tax (expense) recovery	(2.9)	8.8

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

Deferred tax assets	2011	2010
Mineral properties, plant and equipment	86.9	20.0
Net operating losses	12.1	-
Reclamation liabilities	1.7	3.8
Ontario resource tax credits	-	7.4
Other	9.3	3.4
Set off of tax	(16.4)	-
	93.6	34.6
Deferred tax liabilities		
Mineral properties, plant and equipment	(161.7)	(125.0)
Ontario Mining Tax	(59.4)	(48.7)
Reclamation assets	(1.6)	-
Deferred revenue	(14.3)	(29.7)
Other	(16.3)	-
Set off of tax	16.4	-
	(236.9)	(203.4)
Recognized deferred tax assets (liabilities), net	(143.3)	(168.8)

Income tax recognized in other comprehensive income

	Gain (loss) before tax	Tax (expense) recovery	Net of tax
Accumulated other comprehensive income (loss) - January 1, 2010	11.6	(1.7)	9.9
Unrealized gain (loss) on marketable securities	16.2	(2.0)	14.2
Reversal of unrealized gain on marketable securities	(2.2)	-	(2.2)
Accumulated other comprehensive income (loss) - December 31, 2010	25.6	(3.7)	21.9
Unrealized gain (loss) on marketable securities	(11.7)	(1.2)	(12.9)
Reversal of unrealized gain on marketable securities	(28.7)	4.50	(24.2)
Accumulated other comprehensive income (loss) - December 31, 2011	(14.8)	(0.4)	(15.2)

Unrecognized deferred tax assets

	2011	2010
Deferred tax assets have not been recognized in respect of the following items:		
Tax losses	25.4	22.8
Alternative Minimum Tax Credits	21.4	7.0
Ontario Corporate Minimimum Tax and Transitional Tax Credits	10.4	0.1
Derivative liabilities	9.7	-
Mineral properties, property, plant and equipment	9.2	6.6
Other deferred tax assets	16.2	10.7
	92.3	47.2

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

As of December 31, 2011, the Group has loss carry-forwards in the following jurisdictions for deduction against future years' taxable income as follows:

Country	Amount	Expiry
Canada	68.2	2025-2031
Chile	147.0	indefinite

As of December 31, 2011, the Group has available Alternative Minimum Tax credits of $8.2 (2010: $7.0) which can be carried forward indefinitely and applied to reduce regular taxes payable in the United States.

The Group has foreign subsidiaries that have undistributed earnings of $833.8. The Group can control the timing of the repatriation of undistributed earnings, and it is probable that these earnings will not be repatriated in the foreseeable future. Therefore, deferred income taxes have not been provided in respect of these earnings.

22. COST OF SALES

	Year ended December 31, 2011	Year ended December 31, 2010
Material, supplies, parts and maintenance	232.0	188.6
Outside services	189.1	88.7
Employee expenses	163.2	107.2
Amortization, depletion, and depreciation	155.5	79.8
Treatment Charges	92.8	50.8
Utilities	41.0	35.0
Transportation	30.5	31.6
Office expenses	24.8	20.4
Royalties and mineral taxes	16.9	20.5
Cost of sales inventory writedown	87.0	33.4
	1,032.8	656.0

23. GENERAL AND ADMINISTRATIVE

	Year ended December 31, 2011	Year ended December 31, 2010
Employee expenses	26.4	30.5
Office and communication costs	12.2	4.4
Legal and professional services	7.3	7.1
Insurance expenses and property taxes	1.0	0.8
Other	1.0	0.2
	47.9	43.0

24. FINANCE AND OTHER INCOME AND EXPENSE

Finance income for the year ended December 31, 2011 of $45.5 (2010 - $13.8) is primarily related to the gain on investment in Far West securities of $28.7 and the $8.3 service fees earned from Sierra Gorda JV as the operator of the Sierra Gorda project (Note 25). Finance expense is primarily comprised of unwinding of the discount of $2.1 (2010 - $3.7) related to the site closure and reclamation provision and interest expense primarily related to senior notes of $11.3 (2010 - $3.2).

25. RELATED PARTY TRANSACTIONS AND BALANCES

One of the directors of the Group is a partner of an affiliate of the Group's primary legal counsel. During the year ended December 31, 2011, the Group incurred legal fees of $2.1 (2010 - $1.8), all of which were at normal business terms. The balance owing to this related party was $1.0 (2010 - $0.4).

Upon formation of the Sierra Gorda JV, the joint venture became a related party with the Group. The amount due from the Sierra Gorda JV is $10.8 at December 31, 2011. This amount is repayable in the normal course of business. Upon completion of the joint venture agreement the Group received a net amount of $84.6 for the settlement of a loan from the Group. The loan repayment is offset by the cash held by the JV which the Group no longer has title to. The group earned management fees of $8.3 from the Sierra Gorda JV in 2011.

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

(a) Relationships with subsidiaries

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

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

(b) Transactions with key management personnel

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

Short-term employee benefits

This includes base salary, health and disability benefits, and annual bonus for each executive. Annual bonuses are paid based on participation in the Group's Short-Term Incentive Plan ("STIP"), which provides the opportunity for executives to earn a cash incentive on the achievement of specific KPI's established during the annual Performance, Planning and Review Process. In addition to annual bonuses, and at the discretion of the BoD, payments of extraordinary bonuses are allowed to recognize exceptional performance and results for the Group. Directors of the Group receive various directors' fees such as retainers, lead director role, and travel for their advisory services.

Post-employment benefits

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

A director has an Individual Pension Plan ("IPP") sponsored by the Group, and a portion of his fees earned is contributed to the IPP by the Group.

Termination benefits

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

Other long-term benefits

The Group does not have a deferred compensation plan or other long-term benefits program.

Share-based payments

Directors and Executive Officers participate in the Group's stock option plan. Options are granted based on recommendations of the Compensation Committee.

PSUs are granted to key management personnel. RSUs were granted to employees and non-management members of the board. Under this plan, the participant may receive as a bonus or similar payment an amount equal to the fair market value of one share of the Group on the applicable vesting date. RSU's vest on the third anniversary of the grant date, and are paid one month following the vesting date.

There were no grants for stock options and RSU's during the period for key management personnel. There were RSUs granted to the BoD.

Key management personnel compensation for the years ended December 31 is comprised:

	2011	2010
Short-term employee benefits	5.4	3.8
Post-employment benefits	0.2	0.2
Termination benefits	-	4.0
Share-based payment transactions	4.2	6.1
	9.8	14.1

Key management personnel transactions and balances

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

Some members of the key management personnel group, or their related parties, hold positions, or own shares in other entities that result in them having control or significant influence over the financial or operating policies of these entities. These entities may transact with the Group in the future.

26. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Year ended December 31, 2011	Year ended December 31, 2010
Increase in receivables	(52.4)	(32.3)
Increase in inventory	(70.5)	(42.3)
Decrease (increase) in other current assets	10.2	(19.8)
Increase in accounts payable and accrued liabilities	19.9	5.9
Increase (decrease) in provisions	(5.0)	1.0
Increase in other current liabilities	10.6	5.3
	(87.2)	(82.2)
Non-cash investing and financing activities:		
Mineral properties, plant and equipment purchases in accruals	4.3	(3.2)

27. COMMITMENTS

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

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

	2011	**2010**
Within one year	19.1	14.2
After one year but not more than five years	16.8	18.5
More than five years	12.3	-
	48.2	32.7

(b) The Group has purchase contracts for various capital items. Future minimum purchase contracts are as follows:

	2011	**2010**
Within one year	23.1	55.9
After one year but not more than five years	56.8	67.6
More than five years	49.7	51.1
	129.6	174.6

28. CONTINGENCIES

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

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

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

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

29. MANAGEMENT OF CAPITAL RISK

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

The Group's includes the components of shareholders' equity and long term debt in the management of capital. The capital structure is managed, and adjustments are made to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may issue new common shares, issue new debt, repay debt, and acquire or dispose of assets or investments.

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

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

30. FINANCIAL INSTRUMENTS

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

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

At December 31, 2011 and 2010, the carrying value of financial instruments were approximately their fair value except for senior note with a carrying value of $488.2 and a fair value of $565.0 at December 31, 2011. The fair value hierarchy for the Group's financial instruments at December 31, 2011 and 2010 was as follows:

- Level 1: Marketable securities and traded warrants
- Level 2: Receivable for provisionally priced metal sales, lender warrants, derivative assets, derivatives and embedded derivatives liabilities

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

(a) Currency risk.

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

dollars, marketable securities are generally denominated in Canadian dollars, and some operating expenses and accounts payable are denominated in Canadian dollars.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at December 31, 2011 are as follows:

	December 31, 2011
Financial Assets	
Canadian dollar	248.6
Chilean peso	4.2
	252.8

	December 31, 2011
Financial Liabilities	
Canadian dollar	86.0
Chilean peso	25.7
	111.7

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

	December 31, 2011
Increase (decrease) in earnings	
10% appreciation of the Canadian dollar	(16.3)
10% appreciation of the Chilean peso	2.2
	(14.1)

(b) Credit risk

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

- Sales contracts with its customers; the payment terms of the trade receivables are defined in the contracts and provide for the majority of payments to be made shortly after shipment. The Group manages the credit risk for trade and other receivables through established credit monitoring activities.
- Cash and cash equivalents; the counterparties primarily consist of banks, governments and government agencies with a minimum long term credit rating or higher.
- Derivative instruments; the counterparties consist of several large international financial institutions.

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

(c) Liquidity risk

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

The following table details the Group's expected remaining contractual maturities for its financial liabilities as at December 31, 2011. The amounts presented are undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to satisfy the liabilities.

	Less than 1 year	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**After 5 years**	**Total**
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
Accounts payable	125.0	-	-	-	-	-	125.0
Senior Notes	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	205.4	61.8	58.1	52.5	55.4	749.8	1,183.0

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. To manage this risk, the Group manages its proportion of fixed to variable rate borrowings within limits approved by the BoD by utilizing interest rate swaps. The interest rate risk is not considered material for the Group given its fixed rate debt and marginal returns on interest bearing assets.

(e) Commodity price risk

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

The profitability of the Group's operations is highly correlated to the market price of copper and gold. The Group's main source of revenues is from the sale of copper and gold. If metal prices decline significantly, or for a prolonged period, the Group's operations and development projects may not be economically feasible. To the extent possible, this risk is mitigated by the Group acquiring copper put options. These financial instruments are contracted with different international financial institutions to help reduce commodity price risk.

In addition, changes in commodity prices can have a significant impact on accounts receivable, which includes sales that have been provisionally valued, and not yet subject to final pricing. At December 31, 2011, accounts receivable and revenues include approximately 19.0 million pounds of copper provisionally valued at $3.43 per pound. The final pricing of these provisionally priced sales is expected to occur between January 2012 and February 2012. Changes in the price of copper from the amounts used to calculate the provisional values will impact the Group's revenues and working capital position for the remainder of 2012.
The following table summarizes the impact of the change in commodity price on the Group's financial instruments at December 31, 2011 with all other variables held constant:

	A change of:	**2011** **Increase (decrease) in carrying value of assets**	**2011** **Increase (decrease) in earnings for the period**
Change in copper price (per pound)	$ 0.50		
Receivables		9.5	6.7
Franke long-term supply contracts		13.1	10.8

(f) Equity price risk

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

The Group holds marketable securities and is exposed to risk from changes in the share price of the marketable securities. A simultaneous 10% fluctuation in the share price would affect short-term investments for the year by approximately $5.4 with a corresponding change to accumulated other comprehensive income.

31. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Prior to January 1, 2011, the Group prepared its consolidated financial statements in accordance with Canadian GAAP. These consolidated financial statements are prepared in accordance with IFRS.

IFRS 1 was applied in preparing these consolidated financial statements. This standard governs and provides guidance to first-time adopters of IFRS, and generally requires IFRS accounting policies to be applied retroactively as if the accounting policies have always been in effect unless certain exemptions are applied. This requires adjustment to amounts reported previously under Canadian GAAP for assets and liabilities with corresponding adjustments to retained earnings as at the Transition Date. Further, IFRS 1 provides exemptions, which allow the Group to elect not to retrospectively apply certain standards. The Group has chosen the following exemptions in its transition to IFRS:

- Not to apply IFRS 3, *Business* Combinations and restate business combinations that occurred prior to the Transition Date.
- Not to apply the recognition and measurement requirements of IFRS 2, *Share-based Payments* to equity instruments granted after November 7, 2002 and vested prior to Transition Date.
- To apply the simplified method of calculating the net book value of the site closure and reclamation provision recognized in mineral property, plant and equipment. As such, the Group has re-measured the provision for asset retirement obligations as at the Transition Date under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using best estimates of the historical discount rates, and re-calculated the accumulated depreciation under IFRS up to the Transition Date.

The transition to IFRS has resulted in significant changes to reported financial position and results of operations of the Group. As a result of the transition to IFRS, some amounts were reclassified between investing and operating activities in the consolidated statements of cash flows. Reconciliations from Canadian GAAP to IFRS are presented overleaf:

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Consolidated Reconciliations from Canadian GAAP to IFRS
Statement of Financial Position

	Note	At January 1, 2010			
		Cdn GAAP	Effect of Transition to IFRS	Reclass	IFRS
ASSETS					
Current					
Cash and cash equivalents		133.2	-	-	133.2
Receivables		20.8	-	-	20.8
Inventory		186.8	-	-	186.8
Derivative assets		1.6	-	-	1.6
Other current assets		33.3	-	-	33.3
Total Current Assets		375.7	-	-	375.7
Mineral properties, plant and equipment	*(i)*	780.8	24.0	-	804.8
Environmental trust and bond		59.7	-	-	59.7
Other non-current assets		9.4	-	-	9.4
Deferred income tax assets	*(iv)*	21.4	(8.5)	-	12.9
Total Non-Current Assets		871.3	15.5	-	886.8
Total Assets		1,247.0	15.5	-	1,262.5
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities		70.9	-	(5.0)	65.9
Franke debt facility		34.2	-	-	34.2
Provisions		-	-	11.0	11.0
Derivative liabilities		32.8	-	-	32.8
Other current liabilities		19.1	-	(6.0)	13.1
Deferred income tax liabilities		5.8	-	(5.8)	-
Total Current Liabilities		162.8	-	(5.8)	157.0
Site closure and reclamation provision	*(i)*	50.3	43.1	-	93.4
Derivative liabilities	*(iii)*	25.6	(7.4)	18.4	36.6
Other non-current liabilities		2.9	-	-	2.9
Deferred income tax liabilities		-	-	5.8	5.8
Total Non-Current Liabilities		78.8	35.7	24.2	138.7
Total Liabilities		241.6	35.7	18.4	295.7
Shareholders' Equity					
Share capital		715.3	-	-	715.3
Stock options		41.7	-	(18.4)	23.3
Accumulated other comprehensive income		9.9	-	-	9.9
Retained earnings		238.5	(20.2)	-	218.3
Total Shareholders' Equity		1,005.4	(20.2)	(18.4)	966.8
Total Liabilities and Shareholders' Equity		1,247.0	15.5	-	1,262.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Years ended December 31, 2011 and 2010

Consolidated Reconciliations from Canadian GAAP to IFRS Statement of Financial Position	Note	At December 31, 2010			
		Cdn GAAP	Effect of Transition to IFRS	Reclass	IFRS
ASSETS					
Current					
Cash and cash equivalents		318.8	-	-	318.8
Receivables		145.7	-	-	145.7
Inventory		214.2	-	-	214.2
Investment in Gold Wheaton		161.1	-	-	161.1
Derivative assets		3.0	-	-	3.0
Other current assets		78.4	-	6.0	84.4
Deferred income tax assets		0.3	-	(0.3)	-
Total Current Assets		921.5	-	5.7	927.2
Mineral properties, plant and equipment	*(i)*	1,657.7	7.5	-	1,512.7
	(ii)		(152.5)		
Goodwill	*(iv)*	140.6	40.0	-	180.6
Environmental trust and bond		72.0	-	-	72.0
Other non-current assets		32.2	-	-	32.2
Deferred income tax assets	*(iv)*	10.5	46.8	(22.7)	34.6
Total Non-Current Assets		1,913.0	(58.2)	(22.7)	1,832.1
Total Assets		2,834.5	(58.2)	(17.0)	2,759.3
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities		127.9	-	(6.0)	121.9
Provisions		-	-	12.0	12.0
Derivative liabilities		13.1	-	-	13.1
Current portion of deferred revenue		16.5	-	-	16.5
Other current liabilities		3.9	-	-	3.9
Deferred income tax liabilities		4.8	-	(4.8)	-
Total Current Liabilities		166.2	-	1.2	167.4
Deferred revenue		181.4	-	-	181.4
Site closure and reclamation provision	*(i)*	37.5	31.0	-	68.5
Derivative liabilities	*(iii)*	49.5	7.3	39.7	96.5
Deferred income tax liabilities	*(iv)*	204.9	16.7	(18.2)	203.4
Total Non-Current Liabilities		473.3	55.0	21.5	549.8
Total Liabilities		639.5	55.0	22.7	717.2
Shareholders' Equity					
Share capital		1,690.0	-	-	1,690.0
Stock options	*(iii)*	72.1	-	(39.7)	32.4
Accumulated other comprehensive income		21.9	-	-	21.9
Retained earnings		411.0	(113.2)	-	297.8
Total Shareholders' Equity		2,195.0	(113.2)	(39.7)	2,042.1
Total Liabilities and Shareholders' Equity		2,834.5	(58.2)	(17.0)	2,759.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Years ended December 31, 2011 and 2010

Consolidated Reconciliations from Cdn GAAP to IFRS
Statement of Comprehensive Income

	Note	Year Ended December 31, 2010			
		Cdn GAAP	Effect of Transition to IFRS	Reclass	IFRS
Revenues		957.7	-	-	957.7
Cost of sales		522.2	-	133.8	656.0
Carlota start-up inventory writedown (recovery)		33.4	-	(33.4)	-
Amortization, depletion and depreciation	*(i)(ii)*	74.6	5.2	(79.8)	-
Accretion of asset retirement obligations	*(i)*	4.7	(0.9)	(3.8)	-
Royalties and mineral taxes		29.8	-	(29.8)	-
Income from operations		293.0	(4.3)	13.0	301.7
General and administrative		34.7	-	8.3	43.0
Stock-based compensation		8.3	-	(8.3)	-
Foreign exchange loss (gain)		1.2	-	(13.3)	(12.1)
(Gain) loss on derivatives	*(iii)*	33.9	14.8	-	48.7
Net interest and other income		(3.1)	-	3.1	-
Finance income		-	-	(13.8)	(13.8)
Finance expense		-	-	14.4	14.4
Transaction costs for FNX merger		7.2	-	-	7.2
Impairment of non-current assets	*(ii)*	-	152.5	-	152.5
Earnings before income taxes and other items		210.8	(171.6)	22.6	61.8
Income tax expense	*(iv)(a)*	(47.2)	1.9	(22.6)	8.8
	(ii)		53.4		
	(iv)(b)		28.6		
	(iv)(c)		(5.3)		
Share of earnings of equity investee		8.9	-	-	8.9
Earnings for the period		172.5	(93.0)	-	79.5
Other comprehensive income					
Unrealized gain on marketable securities, net of tax		14.2	-	-	14.2
Realized gain on marketable securities		(2.2)	-	-	(2.2)
Comprehensive income		184.5	(93.0)	-	91.5

Notes to reconciliations from Canadian GAAP to IFRS

(i) Adjustment for site closure and reclamation provision

The adjustment to the site closure and reclamation provision was due to the differences mainly between discount rates used under Canadian GAAP and IAS 37. Under Canadian GAAP, the site closure and reclamation provision is measured initially using the Group's credit adjusted, risk free interest rate. Subsequent re-measurement occurs in the event of changes in the amount, or timing of cash flows required to settle the liability. Upward revision in cash flow estimates are discounted using a current credit adjusted risk free interest rate, whereas, downward revisions are discounted at the rate prevailing at the time of recognition of the original provision.

In accordance with IAS 37, the site closure and reclamation provision is measured using a pre-tax risk free rate specific to the liability. The provision, including revisions in estimated future cash flows is re-measured at each reporting date using the current pre-tax discount rate. Since the range for pre-tax discount rates (from 3.4% to 7.3%) for the Group's obligations are lower than credit adjusted risk free rates (from 8.3% to 14.5%) applied for Canadian GAAP, the site closure and reclamation provision and related asset on the Transition Date were higher under IFRS resulting in higher depreciation charges. Unwinding of the discount is required to be presented as a finance expense under IFRS, whereas, under Canadian GAAP, the Group previously presented accretion charges as a separate line item.

The key assumptions used to estimate the adjustments were as follows:

	As at January 1, 2010					
	Estimated reclamation	Estimated closure	Discount	Site Closure Provision		
Mineral property	cost	date	rate	IFRS	Cdn GAAP	Difference
Robinson mine	112.4	2031	4.6%	74.3	39.0	35.3
Carlota mine	11.2	2021	3.9%	8.5	4.5	4.0
Franke mine	13.3	2020	3.1%	9.8	6.0	3.8
Other mineral properties	0.8		Nil	0.8	0.8	-
				93.4	50.3	43.1

	As at December 31, 2010					
	Estimated reclamation	Estimated closure	Discount	Site Closure Provision		
Mineral property	cost	date	rate	IFRS	Cdn GAAP	Difference
Robinson mine	54.8	2020	3.3%	41.8	20.3	21.5
Carlota mine	15.3	2021	3.3%	11.8	6.9	4.9
Franke mine	12.7	2020	4.1%	8.9	6.5	2.4
Sudbury operations	7.6	2022	3.1%	5.2	3.0	2.2
Other mineral properties	0.8		Nil	0.8	0.8	-
				68.5	37.5	31.0

As a result of changes to the discount rate, both the site closure and reclamation asset, including accumulated amortization as of the transition date, and the provision have new carrying amounts established for future amortization of the asset and unwinding of the discount related to the provision under IFRS.

(ii) Account for warrants as derivative liability

Under Canadian GAAP, warrants are classified as equity instruments within Shareholders' Equity and measured at their fair value on the issue date but are not re-measured subsequently. Under IFRS, although the exercise price of the warrants is fixed in Canadian dollars, the functional currency of the Group is U.S. dollars. As a result, the cash flows received on exercise are not fixed in US dollars and the warrants are considered a derivative and are classified as liabilities. Derivative financial liabilities are re-measured at fair value at each financial reporting date and changes in fair value are recognized in profit or loss.

(iii) Impairment of non-current assets

Under Canadian GAAP impairment of a non-current asset is initially assessed on an undiscounted cash flow basis. If the carrying value exceeds the aggregate undiscounted cash flows, an impairment loss is measured as the amount by which the carrying value exceeds fair value. Under IFRS, impairment testing and loss recognition is based on discounted cash flows. Impairment losses are recognized when the carrying value exceeds the recoverable amount.

An asset impairment assessment is required only when indicators exist to indicate potential impairment to long-lived assets. No impairment indicators were identified on the transition date. During 2010, the Carlota mine leaching operations experienced lower than expected leaching and recovery rates due to the existence of "fines" in the ore body. Accordingly, the Group performed an impairment assessment at December 31, 2010 in accordance with IFRS and as a result an impairment charge of $152.5 was recognized for the year ended December 31, 2010. The impairment charge was determined by discounting estimated future cash flows using a discount rate of 13.1%.

(iv) Income taxes

The transition to IFRS resulted in the following adjustments to deferred income tax assets and liabilities:

	January 1, 2010	December 31, 2010
Deferred income tax assets		
Share-based payments (iv)(a)	0.9	1.8
Asset purchase deferred income taxes (iv)(d)	(10.8)	(10.8)
Site closure and reclamation provisions (i)	1.4	2.4
Impairment of non-current assets (iii)	-	53.4
	(8.5)	46.8
Deferred income tax liabilities		
Foreign exchange on income taxes (iv)(b)	-	16.7
	-	16.7

a) *Impact on Share-Based Payments*

Stock option awards issued to employees in U.S. are tax deductible when the employee exercises the stock options. Under Canadian GAAP, the Group recognized a deferred tax asset based on the stock-based compensation cost for financial reporting purposes. Under IFRS, the temporary difference is based on the intrinsic value of the option which is the estimated amount the tax authorities will permit as a deduction in future periods. To the extent that the tax benefit determined based on the intrinsic value of the options exceeds the amount determined based on the cumulative stock-based compensation recognized, the excess benefit is recognized in equity.

b) *Functional currency*

Under Canadian GAAP, no deferred tax assets or liabilities are recognized for temporary differences arising from the difference between the functional currency in which an asset or liability is reported and its tax basis as determined in its local currency, translated at current exchange rates. Under IFRS deferred tax assets and liabilities are recognized for such temporary differences.

c) *Provincial mining taxes*

Canadian GAAP provided an exemption in relation to temporary differences associated with certain mining taxes, such as the Ontario Mining Tax. This exemption does not exist under IFRS. The impact was a $40.0 increase in the value of goodwill created by the FNX transaction as at December 31, 2010 with a corresponding increase in deferred income tax liability during the year ended December 31, 2010.

d) *Asset purchase deferred income taxes*

Under Canadian GAAP, deferred income tax assets of $10.8 were recognized associated with mineral property, plant and equipment acquired as part of the Franke acquisition which was accounted for as an asset acquisition. Under IFRS deferred income tax is not recognized on temporary differences if the transaction is not a business combination and the transaction neither affects accounting or taxable income.

32. SUBSEQUENT EVENT

On November 28, 2011 KGHM Polska Miedź S.A. advised the Group 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 CAD$15 dollar 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.