



KGHM INTERNATIONAL LTD.
Condensed Interim Consolidated Financial Statements
March 31, 2013
(Expressed in millions of U.S. dollars, except where indicated)
(Unaudited)

**CONDENSED CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

(US Dollars in Millions)
(Unaudited)

	Notes	March 31, 2013	December 31, 2012
ASSETS			
Current			
Cash and cash equivalents		318.4	537.4
Trade and other receivables	7	237.7	306.0
Inventory	6	190.5	140.8
Marketable securities	9	42.3	46.9
Current corporate tax receivables		22.6	22.5
Total Current Assets		811.5	1,053.6
Mineral properties, property, plant and equipment	10	916.2	938.5
Intangible assets	11	369.5	366.9
Sierra Gorda JV- Investment	5(a)	521.6	521.1
Sierra Gorda JV- Subordinated loans	5(b)	621.5	474.2
Notes receivable	23	102.1	101.2
Environmental trust and bond		102.8	102.9
Other non-current assets	8	178.1	41.3
Deferred income tax assets		90.7	90.7
Total Non-Current Assets		2,902.5	2,636.8
Total Assets		3,714.0	3,690.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	12	118.5	139.6
Current provisions	13	2.9	6.6
Other current liabilities		11.1	1.6
Derivative liabilities	17	10.0	10.7
Current portion of deferred revenue	14	9.3	15.9
Current corporate tax liabilities		1.5	9.6
Total Current Liabilities		153.3	184.0
Senior Notes	15	489.8	489.5
Deferred revenue	14	166.2	162.7
Provisions	16	96.6	93.4
Derivative liabilities	17	46.6	46.0
Deferred income tax liabilities		227.1	217.4
Total Non-Current Liabilities		1,026.3	1,009.0
Total Liabilities		1,179.6	1,193.0
Shareholders' Equity			
Share capital	18	1,851.5	1,851.5
Accumulated other comprehensive loss		-	(22.2)
Retained earnings		682.9	668.1
Total Shareholders' Equity		2,534.4	2,497.4
Total Liabilities and Shareholders' Equity		3,714.0	3,690.4
Commitments (Note 25), Contingencies (Note 26)			

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

**CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME**

(US Dollars in Millions)
(Unaudited)

	Notes	Three months ended March 31, 2013	Three months ended March 31, 2012
Net revenues	19	272.0	312.4
Cost of sales	19	208.1	256.2
Income from mining operations		<u>63.9</u>	<u>56.2</u>
General and administrative	21	17.7	19.6
Finance income	22(a)	(16.6)	(2.6)
Finance expense	22(b)	11.0	10.1
Other income	22(c)	(6.4)	(16.9)
Other expense		2.1	0.3
Impairment of marketable securities	9	26.8	-
Foreign exchange gain		(0.4)	(10.6)
Transaction costs for merger and acquisition		-	26.3
Earnings before income taxes		<u>29.7</u>	<u>30.0</u>
Income tax (expense) recovery	20	(14.9)	2.7
Earnings for the period		<u>14.8</u>	<u>32.7</u>
Other comprehensive income (loss)			
Unrealized (loss) gain on marketable securities	9	(4.6)	1.3
Reversal of unrealized gain on marketable securities		-	(0.1)
Impairment of marketable securities	9	26.8	-
Total comprehensive income		<u>37.0</u>	<u>33.9</u>
Earnings per share			
Basic		\$ 0.07	\$ 0.17
Diluted		\$ 0.07	\$ 0.17
Weighted average shares outstanding - basic		199.8	194.7
Weighted average shares outstanding - diluted		199.8	194.7

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

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY**

(US Dollars in Millions)
(Unaudited)

	Notes	Share capital	Contrib. surplus	Accu. other comp. income	Retained earnings	Total
Balances, January 1, 2013		1,851.5	-	(22.2)	668.1	2,497.4
Unrealized (loss) gain on marketable securities		-	-	(4.6)	-	(4.6)
Impairment of marketable securities	9	-	-	26.8	-	26.8
Earnings for the period		-	-	-	14.8	14.8
Balances, March 31, 2013		1,851.5	-	0.0	682.9	2,534.4

	Notes	Share capital	Contrib. surplus	Accu. other comp. income	Retained earnings	Total
Balances, January 1, 2012		1,706.3	35.9	(15.2)	564.3	2,291.3
Stock options exercised		2.9	-	-	-	2.9
Warrants exercised		107.9	-	-	-	107.9
Stock-based compensation		-	(18.2)	-	-	(18.2)
Exercise of converted FNX warrants		-	12.8	-	-	12.8
Transfer to share capital for stock options and warrants exercised		30.5	(30.5)	-	-	-
Reversal of realized gain on marketable securities		-	-	(0.1)	-	(0.1)
Unrealized gain on marketable securities	9	-	-	1.3	-	1.3
Earnings for the period		-	-	-	32.7	32.7
Balances, March 31, 2012		1,847.6	-	(14.0)	597.0	2,430.6

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

KGHM International Ltd.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in Millions)

(Unaudited)

	Notes	Three months ended March 31, 2013	Three months ended March 31, 2012
OPERATING ACTIVITIES			
Earnings for the period		14.8	32.7
Adjustment for:			
Stock-based compensation		-	0.7
Amortization, depletion and depreciation		31.2	35.0
Impairment of marketable securities	9	26.8	-
Gain on derivatives	17	(0.1)	(9.6)
Amortization of deferred revenue	14	(3.1)	(2.6)
Foreign exchange (gain) loss		(1.4)	4.5
Income tax expense (recovery)	20	14.9	(2.7)
Finance income	22(a)	(14.7)	(0.9)
Finance expense	22(b)	10.2	10.1
Other income		-	(0.1)
Other expense		2.0	0.3
		<u>80.6</u>	<u>67.4</u>
Net changes in non-cash working capital	24	(32.5)	(14.5)
Income taxes paid		<u>(13.4)</u>	<u>(27.0)</u>
Cash provided from operating activities		34.7	25.9
INVESTING ACTIVITIES			
Additions to mineral properties, plant and equipment		(19.5)	(29.5)
Proceeds from disposal of mineral properties, plant and equipment		0.4	-
Increase in other assets		-	(8.7)
Increase in restricted cash		(137.1)	(0.6)
Redemptions (deposits) for environmental bond and trust		0.1	(0.4)
Proceeds from sale of marketable securities		-	0.3
Sierra Gorda JV- Subordinated loans	5	(133.6)	(74.3)
Notes receivable	23	34.6	(110.9)
Receipts from settling derivatives		-	3.4
Cash used in from investing activities		(255.1)	(220.7)
FINANCING ACTIVITIES			
Proceeds from issue of common shares		-	110.8
Proceeds from issue of senior note net of issue costs		-	(18.8)
Cash provided from financing activities		-	92.0
Effect of foreign exchange rate changes on cash and cash equivalents		1.4	(4.5)
Net decrease in cash and cash equivalents during the period		(219.0)	(107.3)
Cash and cash equivalents, beginning of year		537.4	1,005.5
Cash and cash equivalents, end of period		318.4	898.2

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

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Three months ended March 31, 2013
(Unaudited)

1. NATURE OF OPERATIONS

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

The Group is in the business of developing and operating mines, with a focus on base metals, particularly copper. The Group's principal place of business is Canada. KGHMI's head office is located at Suite 500-200 Burrard Street, Vancouver, British Columbia, V6C 3L6. The Group has six operating mines: the Robinson mine in Nevada; the Levack mine, including the Morrison deposit, in Ontario; the Franke mine in Chile; the Carlota mine in Arizona; and the Podolsky and McCreedy West mines in Ontario. On September 14, 2011, the Group formed a joint venture ("Sierra Gorda JV") with Sumitomo Metal Mining Co. Ltd. and Sumitomo Corporation (collectively "Sumitomo") to develop the Sierra Gorda copper-molybdenum project in Chile (Note 5). The Group also owns an advanced exploration project ("Victoria") in Sudbury, Ontario.

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

2. BASIS OF PRESENTATION

a) Basis of presentation and measurement

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim financial reporting as issued by the International Accounting Standards Board ("IASB"). The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

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

These condensed interim consolidated financial statements were approved for issuance by the board of directors on May 7, 2013.

b) Basis of consolidation

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

**NOTES TO CONDENSED INTERIM CONSOLIDATED
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(US Dollars in Millions)
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c) Use of estimates and judgements

Areas of critical accounting estimates and judgments that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 2(c) of the Group's consolidated financial statements as at and for the year ended December 31, 2012.

d) Comparative figures

Certain prior year balances have been reclassified to comply with KGHM presentation requirements. Refer to Note 19 for reclassification of certain expenses.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using the same accounting policies as those disclosed in Note 3 to the Group's annual audited consolidated financial statements for the year ended December 31, 2012.

A number of new standards, amendments to standards, and interpretations are effective for annual periods beginning after January 1, 2014. These new standards and interpretations not yet adopted are disclosed in Note 3 to the Group's annual audited consolidated financial statements for the year ended December 31, 2012.

4. ACQUISITION BY KGHM POLSKA MIEDŹ S.A.

On March 5, 2012 KGHM, through its wholly owned subsidiary 0929260 BC Unlimited Liability Company ("Bidco"), acquired all of the issued and outstanding shares (193,334,154) of the Group for C\$2.9 billion. The transaction was structured as a court-approved Plan of Arrangement. Under the terms of the arrangement, Quadra FNX shareholders received C\$15.00 for each common share of Quadra FNX. All Quadra FNX trading warrants were acquired from warrant holders and exercised for common shares of Quadra FNX for C\$110.0 million. The purchase and exercise of these warrants was financed by a loan from Quadra FNX to Bidco in return of a promissory note with principal amount of \$110.9 bearing interest at 3.75% per annum (Note 23).

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

5. SIERRA GORDA JV

(a) Sierra Gorda JV- Investment

The Group and Sumitomo formed a joint venture on September 14, 2011 to develop the Sierra Gorda copper-molybdenum project in Chile. The joint venture operates through a jointly-controlled entity owned 55% by the Group and 45% by Sumitomo and is being accounted for using the equity method.

**NOTES TO CONDENSED INTERIM CONSOLIDATED
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On March 8, 2012, the JV signed the \$1.0 billion Senior Project Loan agreement with a group of lenders led by Japan Bank for International Cooperation. The project loans have a 9.5 year term with an interest rate of LIBOR plus a margin. Drawings under the Senior Project Loans have been received amounting to \$800.0 as at March 31, 2013.

The Group's investment in Sierra Gorda at March 31, 2013 is \$521.6 (December 31, 2012 - \$521.1).

(b) Sierra Gorda JV- Subordinated loan

As of March 31, 2013 the Group had funded \$621.5 (December 31, 2012- \$474.2) to Sierra Gorda JV through a subordinated loan agreement. The balance as at March 31, 2013 includes accrued interest of \$31.5 (Note 22(a)). Subject to the subordinated conditions to the Senior Project loans, interest and principal of the subordinated loan are payable on demand. The subordinate loan forms part of the security arrangement under the Senior Project loans.

(c) Contractual Commitments

As of March 31, 2013, the Group's proportionate 55% share of the contractual commitments at Sierra Gorda totaled \$2,072.0 including purchase orders for mining equipment, infrastructure and mine operating commitments after commencement of production. A portion of these commitments are expected to be funded from the \$1.0 billion Senior Project loan.

6. INVENTORY

	March 31,	December 31,
	2013	2012
Robinson copper concentrate	23.0	12.0
Carlota leach pad inventory	52.7	49.8
Franke leach pad inventory	19.4	22.7
Copper cathode	17.7	7.4
Supplies	49.8	43.4
Robinson ore stockpile	26.1	5.2
Sudbury crushed ore inventory	1.8	0.3
	190.5	140.8

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
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(Unaudited)

7. TRADE AND OTHER RECEIVABLES

	March 31, December 31,	
	2013	2012
Trade receivables	212.9	252.0
Receivable from Sierra Gorda JV (Note 23)	8.4	3.5
Receivable from Bidco (Note 23)	-	34.6
Prepaid expenses and advances to suppliers	12.6	11.2
Other receivables	3.8	4.7
	237.7	306.0

The net carrying value of trade and other receivables approximates fair value. The Group has multiple terms of payment with its customers depending on type of product shipped, and as such, the carrying values are the Group's maximum credit risk associated with each classification of receivables. These receivables are neither collateralized nor secured.

8. OTHER NON-CURRENT ASSETS

	March 31, December 31,	
	2013	2012
Security deposits for equipment	1.8	1.8
Prepaid on long term contracts	7.4	7.7
Restricted cash	165.1	28.0
Other	3.8	3.8
	178.1	41.3

During the three months ended March 31, 2013 the Group provided a cash backed letter of credit amounting to \$137.5 to secure a power purchase agreement for the Sierra Gorda JV. The amount will be released upon commencement of commercial production of the project as defined under the terms of the contract. The other 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.

9. MARKETABLE SECURITIES

As at March 31, 2013, the Group held available for sale securities with an original cost of \$69.0 (December 31, 2012 - \$69.0) and a fair value, based on their quoted market price of \$42.3 (December 31, 2012 - \$46.9). For the three months ended March 31, 2013, the decline in fair value of available for sale securities totaled \$4.6 (March 31, 2012 - gain \$1.3) which has been recorded in shareholders' equity as a component of comprehensive income. During the three month ended March 31, 2013, the Group recognized an impairment of \$26.8 due to the fair value of marketable securities being below cost for a prolonged period.

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Three months ended March 31, 2013
(Unaudited)

10. MINERAL PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mineral property acquisition and development	Machinery and equipment	Total
At December 31, 2012				
Cost	60.2	1,304.1	609.1	1,973.4
Accumulated depletion, depreciation and amortization	(20.9)	(270.5)	(206.8)	(498.2)
Accumulated impairment	(20.8)	(366.2)	(149.7)	(536.7)
Net book value	18.5	667.4	252.6	938.5

Period ended March 31, 2013

Change in Cost

Additions	-	7.3	4.3	11.6
Disposal	-	-	(3.0)	(3.0)
Increase in site closure and reclamation asset	-	(0.7)	-	(0.7)
Transfers	-	2.2	(2.2)	-
Subtotal	-	8.8	(0.9)	7.9

Change in Accumulated Amortization

Reversal of accumulated depletion, depreciation and amortization on disposal	-	-	0.7	0.7
Depletion, depreciation and amortization charge	(0.6)	(16.0)	(14.2)	(30.8)
Subtotal	(0.6)	(16.0)	(13.5)	(30.1)

At March 31, 2013

Cost	60.2	1,312.8	608.2	1,981.2
Accumulated depletion, depreciation and amortization	(21.5)	(286.5)	(220.3)	(528.3)
Accumulated impairment	(20.8)	(366.2)	(149.7)	(536.7)
Net book value	17.9	660.1	238.2	916.2

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Three months ended March 31, 2013
(Unaudited)

11. INTANGIBLE ASSETS

	Exploration and evaluation assets	Water Rights	Software	Goodwill	Total
At December 31, 2012					
Cost	124.0	58.0	8.5	180.6	371.1
Accumulated depletion, depreciation and amortization	-	-	(4.2)	-	(4.2)
Net book value	124.0	58.0	4.3	180.6	366.9
Period ended March 31, 2013					
Change in Cost					
Additions	1.6	1.1	0.3	-	3.0
Subtotal	1.6	1.1	0.3	-	3.0
Change in Accumulated Amortization					
Depletion, depreciation and amortization charge	-	-	(0.4)	-	(0.4)
Subtotal	-	-	(0.4)	-	(0.4)
At March 31, 2013					
Cost	125.6	59.1	8.8	180.6	374.1
Accumulated depletion, depreciation and amortization	-	-	(4.6)	-	(4.6)
Net book value	125.6	59.1	4.2	180.6	369.5

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2013	December 31, 2012
Liabilities from deliveries and services	56.5	65.3
Liabilities from employee taxes and social security	4.6	3.6
Liabilities for wages	2.7	1.9
Other financial liabilities	4.0	2.9
Accrued expenses	50.7	65.9
	118.5	139.6

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Three months ended March 31, 2013
(Unaudited)

13. CURRENT PROVISIONS

	March 31, 2013	December 31, 2012
Site closure and reclamation provision (Note 16)	1.4	5.4
Other	1.5	1.2
	2.9	6.6

14. DEFERRED REVENUE

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

Balance - December 31, 2012	178.6
Recognized into revenue	(3.1)
Balance - March 31, 2013	175.5
Current	(9.3)
Non-current	166.2

15. SENIOR NOTES

	March 31, 2013	December 31, 2012
Senior notes	500.0	500.0
Senior note issue costs	(12.3)	(12.3)
Cumulative amortization of senior note issue costs	2.1	1.8
	489.8	489.5

During June 2011, the Group issued \$500.0 aggregate principal amount of 7.75% senior unsecured notes ("Notes") due 2019 in a private placement which is carried at amortized cost. The fair market value of the notes at March 31, 2013 is \$526.5 (December 31, 2012 - \$522.0) based on a trading price of 105.3 (December 31, 2012 -104.3) per 100.

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Three months ended March 31, 2013
(Unaudited)

16. PROVISIONS

	March 31, 2013	December 31, 2012
Site closure and reclamation provision	94.0	90.6
Carlota termination benefits	2.6	2.8
	96.6	93.4

Site closure and reclamation provisions are as follows:

Balance at December 31, 2012	96.0
Decrease in provision due to change in discount rate	(0.9)
Reclamation work done to reduce liability	(0.1)
Unwinding of discount	0.4
Balance at March 31, 2013	95.4
Current	1.4
Non-Current	94.0

Discount rates used in the estimation of the provision at March 31, 2013 were 1.2% - 1.9% for US operations, 2.5% for Chile operations and 1.8% for Canadian operations (for December 31, 2012 the discount rates used were 1.2-1.8%, 2.6% and 1.8% respectively).

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

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.

17. DERIVATIVE INSTRUMENTS

As at March 31, 2013 the Group's derivative instruments comprised of long-term supply contracts as noted in 17(a) below.

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Long-term supply contracts (a)	(0.1)	5.3
Warrants (b)	-	(7.6)
Foreign currency forward contracts (c)	-	(7.4)
Copper put options	-	0.1
	(0.1)	(9.6)

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)

Three months ended March 31, 2013

(Unaudited)

(a) Long-term supply contracts

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

These copper price escalation clauses create embedded derivatives in the acid and water supply contracts. As of March 31, 2013, the fair value of the embedded derivative liabilities was determined to be \$56.7, based on the following significant assumptions:

- Copper price of \$2.90/lb to \$3.59/lb for 2013 to 2022.
- Discount rate: 11%

(b) Warrants

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

During the three months ended March 31, 2012, 1,055,888 Lender Warrants were exercised for proceeds of C\$9.8 million, resulting in a gain of \$7.6 from the retirement of the warrant derivative liability. The remaining 40,556 Lender Warrants expired unexercised. The Group did not issue any warrants after March 31, 2012.

(c) Foreign currency forward contracts

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

The foreign currency contracts were recognized at fair value and recorded on the consolidated balance sheet. During the three month period ended March 31, 2012, the Group settled all of the foreign currency contracts and received \$3.4 from the counterparty resulting in a gain of \$7.4. The Group did not enter into any forward currency contracts after March 31, 2012.

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
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18. SHARE CAPITAL

(a) Common Shares

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

	Number of Shares	Amount
Balance at January 1, 2013	199,836,316	1,851.5
Capital stock issued	-	-
Balance at March 31, 2013	199,836,316	1,851.5

(b) Stock Options and Share-Based Payments

The Group’s stock option plan, RSU plan and PSU plan were cancelled on March 5, 2012 in connection with the Plan of Arrangement. These plans were replaced with a long term incentive plan with a threshold of 8% growth per year. The expenses related to this plan are included in employee benefit expenses (Note 21).

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

On March 5, 2012, \$18.8 was paid to settle “in-the-money” stock options with the remaining “out-of-the-money” stock options cancelled immediately thereafter. On March 5, 2012, \$6.2 was paid to settle all 415,189 RSUs outstanding and \$1.5 was paid to settle all 102,155 PSUs outstanding.

**NOTES TO CONDENSED INTERIM CONSOLIDATED
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19. SEGMENTED INFORMATION

The Group's reportable operating segments are individual mine operations and development projects, being Robinson, Carlota, Franke, Sudbury Operations, DMC, other mineral properties and Corporate. The corporate segment is responsible for the oversight of the Group's mineral properties and corporate administration. The Sudbury operations of the Group holds the goodwill established during the merger with FNX Mining Ltd. on May 20, 2010.

For the three months ended March 31, 2013

	Robinson	Carlota	Franke	Sudbury		Corporate	
	(USA)^(a)	(USA)	(Chile)	Operations	DMC	& Other	Total
				(Cda)^(a)			
Copper revenues	86.5	20.2	27.5	43.2	-	-	177.4
Nickel revenues	-	-	-	17.7	-	-	17.7
Other by - product revenues	19.2	-	-	10.4	-	-	29.6
Contract mining revenues	-	-	-	-	63.5	-	63.5
Treatment Charges	(6.2)	-	-	(10.0)	-	-	(16.2)
Net revenues	99.5	20.2	27.5	61.3	63.5	-	272.0
Depreciation and amortization	7.9	-	5.3	16.6	1.1	-	30.9
Employee benefits expense	17.6	4.3	7.5	11.3	11.3	-	52.0
Raw materials, other consumables and energy	40.6	9.8	18.6	11.6	-	-	80.6
Office expenses	3.2	0.8	2.6	2.0	0.6	-	9.2
External services	4.5	1.2	4.8	9.5	41.4	-	61.4
Royalties and mineral taxes	3.0	1.0	-	-	-	-	4.0
Changes in Inventories	(32.4)	(2.6)	(7.2)	(1.5)	-	-	(43.7)
Distribution costs	10.5	-	0.3	2.9	-	-	13.7
Income (loss) from operations	44.6	5.7	(4.4)	8.9	9.1	-	63.9
General and administrative				-		17.7	17.7
Finance income				-		(16.6)	(16.6)
Finance expense				-		11.0	11.0
Other income				-		(6.4)	(6.4)
Other expense				-		2.1	2.1
Impairment of marketable securities						26.8	26.8
Foreign exchange loss				-		(0.4)	(0.4)
Segment earnings (loss) before tax	44.6	5.7	(4.4)	8.9	9.1	(34.2)	29.7
Capital expenditures	4.6	-	(0.7)	8.1	0.5	2.0	14.5
Segment non-current assets as at March 31, 2013	287.3	87.1	128.4	779.4	42.0	1,578.3	2,902.5
Segment assets as at March 31, 2013	486.5	158.2	195.6	920.7	130.3	1,822.7	3,714.0

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For the three months ended March 31, 2012

	Robinson	Carlota	Franke	Sudbury		Corporate	
	(USA)	(USA)	(Chile)	Operations	DMC	& Other	Total
	(Cda)						
Copper revenues	92.7	19.5	35.7	65.6	-	-	213.5
Nickel revenues	-	-	-	23.2	-	-	23.2
Other by - product revenues	11.2	-	-	9.3	-	-	20.5
Contract mining revenues	-	-	-	-	72.4	-	72.4
Treatment Charges ⁽¹⁾	(4.1)	-	-	(13.1)	-	-	(17.2)
Net revenues	99.8	19.5	35.7	85.0	72.4	-	312.4
Depreciation and amortization	9.5	-	2.3	20.3	0.9	-	33.0
Employee benefits expense	16.8	4.8	5.9	15.0	7.6	-	50.1
Raw materials, other consumables and energy	43.6	10.5	20.2	12.1	-	-	86.4
Office expenses	2.6	1.1	2.1	2.0	0.6	-	8.4
External services	6.1	1.1	3.8	9.4	58.4	-	78.8
Royalties and mineral taxes	2.8	0.9	-	-	-	-	3.7
Changes in Inventories	(8.0)	(1.2)	(7.7)	(0.2)	-	-	(17.1)
Distribution costs	8.2	-	0.9	3.8	-	-	12.9
Income from operations	18.2	2.3	8.2	22.6	4.9	-	56.2
General and administrative ⁽²⁾	-	-	-	-	-	19.6	19.6
Finance income	-	-	-	-	-	(2.6)	(2.6)
Finance expense	-	-	-	-	-	10.1	10.1
Other income ⁽³⁾	-	-	-	-	-	(16.9)	(16.9)
Other expense	-	-	-	-	-	0.3	0.3
Foreign exchange loss	-	-	-	-	-	(10.6)	(10.6)
Transaction costs for merger and acquisition	-	-	-	-	-	26.3	26.3
Segment earnings before incomes taxes	18.2	2.3	8.2	22.6	4.9	(26.2)	30.0
Capital expenditures	6.9	(0.1)	2.8	7.9	4.8	6.8	29.1
Segment non-current assets as at March 31, 2012	260.1	140.8	131.4	826.4	41.3	733.7	2,133.7
Segment assets as at March 31, 2012	506.3	204.1	215.0	1,145.8	107.4	1,461.7	3,640.3

(a) Revenues at Robinson and Sudbury Operations are from concentrate and ore sales are recorded provisionally at the time of sale based on forward prices for the expected date of the final settlement. Subsequent variations in price are recognized as revenue adjustments as they occur until the price is finalized. At March 31, 2013, 31.5 million pounds of copper have been provisionally valued at an average price of \$3.45 per pound. The final pricing for these provisionally priced sales is expected to occur between April 2013 and June 2013.

- (1) Treatment charges and refining charges (TCRC) totaling to \$17.2 were reclassified from cost of sales to net revenue.
- (2) Exploration and evaluation costs are included in general and administrative expenses.
- (3) Gain on derivatives of \$9.6 has been reclassified to other income.

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20. INCOME TAXES

For the three month period ended March 31, 2013, the Group recognized a current income tax expense of 5.2 (March 31, 2012- \$14.3 current income tax expense) and a deferred income tax expense of 9.7 (March 31, 2012- \$17.0 deferred income tax recovery). The income tax expense for the three months ended March 31, 2013 has been recorded based on a forecasted effective income tax rate of 33% (March 31, 2012- 9%). The forecast of the annual effective income tax rate includes assumptions regarding metal prices, mine production and costs.

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

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

21. GENERAL AND ADMINISTRATIVE

	Three months ended March 31, 2013	Three months ended March 31, 2012
Employee benefits expenses	9.3	15.2
Legal and professional services	4.7	0.5
Office and communication expenses	3.9	3.6
Insurance expenses and property taxes	(0.2)	0.3
	17.7	19.6

22. FINANCE INCOME AND EXPENSE**(a) Finance Income**

Finance income for the three months ended March 31, 2013 of \$16.6 (March 31, 2012- \$2.6) is primarily related to interest earned on short-term investments of \$1.9 (March 31, 2012-\$1.7), interest on subordinate loans to Sierra Gorda JV of \$13.7 (March 31, 2012-\$0.9) and interest on notes receivable of \$1.0 (March 31, 2012-\$nil) (Note 23).

(b) Finance Expenses

Finance expense for the three months ended March 31, 2013 of \$11.0 (March 31, 2012- \$10.1) is primarily comprised of \$9.8 interest expense related to senior notes (March 31, 2012-\$9.6) (Note 15).

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(c) Other Income

Other Income for the three months ended March 31, 2013 of \$6.4 (March 31, 2012- \$16.9) is primarily comprised of management fees from Sierra Gorda JV of \$6.3 (March 31, 2012 -\$6.3) (Note 23).

23. RELATED PARTY TRANSACTIONS AND BALANCES

Upon formation of the Sierra Gorda JV, the joint venture became a related party with the Group. The amount due from the Sierra Gorda JV is \$8.4 at March 31, 2013 (December 31, 2012 - \$3.5) (Note 7). This amount is repayable in the normal course of business. The Group earned management fees of \$6.3 (December 31, 2012 - \$6.3) from the Sierra Gorda JV during the three months ended March 31, 2013, which were included in other income (Note 22(c)).

On March 5, 2012, the Group loaned \$110.9 to Bidco for the purchase and exercise of FNX Warrants in conjunction with the Plan of Arrangement. The obligation with respect to the loan is evidenced by a promissory note payable to the Group. In Q1 2013, the maturity date was extended to March 5, 2014. Interest on the outstanding principal is calculated at 3.75% per annum payable in arrears on the maturity date, or on the date which the principal amount is paid by Bidco. Bidco repaid \$13.2 of the above principal and interest on February 28, 2013.

The balance as at March 31, 2013, includes principal of \$98.2 and accrued interest of \$4.0. The remaining principal and interest is not expected to be received during the next twelve months.

In the second quarter of 2012, the Group loaned \$20.7 in the form of a Canadian dollar promissory note to Bidco to fund its capital investment. The note is non-interest bearing and was payable on demand. The balance as at December 31, 2012 included a foreign exchange revaluation of \$0.7. Bidco repaid the note on February 28, 2013.

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24. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Decrease (increase) in receivables	33.7	(9.1)
Increase in inventory	(49.7)	(19.0)
Decrease in other current assets	0.3	-
Increase (decrease) in accounts payable and accrued liabilities	(16.8)	7.8
Increase in provisions	-	5.8
	(32.5)	(14.5)
Non-cash investing and financing activities:		
Decrease (increase) in Mineral properties, plant and equipment related purchases in accruals	4.9	(0.4)

25. COMMITMENTS

As at March 31, 2013 the commitments of the Group were \$140.4 in relation to capital projects, rent and contractual obligation. Commitments of \$17.8 are due within one year, \$65.5 are due within one to three years and \$57.1 are due after three years.

Commitments that pertain to Sierra Gorda are disclosed in Note 5(c).

26. CONTINGENCIES

- (a) The Group sells ore produced from its Sudbury operations to a principle long-term 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.

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