



KGHM INTERNATIONAL LTD.
(Formerly “Quadra FNX Mining Ltd.”)
Condensed Interim Consolidated Financial Statements
September 30, 2012
(Expressed in millions of U.S. dollars, except where indicated)
(Unaudited)

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

**CONDENSED CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

(US Dollars in Millions)
(Unaudited)

	Notes	September 2012	December 31, 2011
ASSETS			
Current			
Cash and cash equivalents		683.6	1,005.5
Trade and other receivables	7	250.4	197.4
Inventory	6	167.0	198.7
Marketable securities	9	50.4	54.4
Current corporate tax receivables		31.0	21.9
Total Current Assets		1,182.4	1,477.9
Mineral properties, property, plant and equipment	10	961.6	982.8
Intangible assets	11	362.6	339.5
Investment in Sierra Gorda JV	5(a)	521.1	521.1
Subordinated loans receivable from Sierra Gorda JV	5(b)	286.1	-
Notes receivable	23	135.0	-
Environmental trust and bond		103.0	82.4
Other non-current assets	8	39.6	31.7
Deferred income tax assets		110.7	93.6
Total Non-Current Assets		2,519.7	2,051.1
Total Assets		3,702.1	3,529.0
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	12	134.7	123.6
Current provisions	13	8.2	7.0
Borrowing and financial lease liabilities		11.3	1.6
Derivative liabilities	17	11.0	13.5
Current portion of deferred revenue	14	16.4	17.9
Current corporate tax liabilities		3.3	25.6
Total Current Liabilities		184.9	189.2
Borrowing and financial lease liabilities	15	489.2	488.2
Deferred revenue	14	164.6	169.9
Provisions	16	112.8	88.6
Derivative liabilities	17	44.9	64.9
Deferred income tax liabilities		249.7	236.9
Total Non-Current Liabilities		1,061.2	1,048.5
Total Liabilities		1,246.1	1,237.7
Shareholders' Equity			
Share capital	18(a)	1,851.5	1,706.3
Contributed surplus		-	35.9
Accumulated other comprehensive loss		(19.3)	(15.2)
Retained earnings		623.8	564.3
Total Shareholders' Equity		2,456.0	2,291.3
Total Liabilities and Shareholders' Equity		3,702.1	3,529.0

Commitments (Note 25), Contingencies (Note 26)

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

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

**CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME**

(US Dollars in Millions)

(Unaudited)

	Notes	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net revenues	19	358.4	305.4	1,007.7	836.0
Cost of sales	19	293.7	492.4	887.9	895.3
Income (loss) from mining operations		64.7	(187.0)	119.8	(59.3)
General and administrative	21	16.7	16.1	43.2	40.1
Gain from joint venture formation	5(a)	-	(292.5)	-	(292.5)
Finance income	22(a)	(9.6)	(0.6)	(18.4)	(1.2)
Finance expense	22(b)	11.2	2.2	32.3	3.4
Other income	22(c)	(4.7)	(33.6)	(33.0)	(213.9)
Other expense		3.8	0.6	6.2	1.2
Foreign exchange (gain) loss		(21.8)	1.6	(22.0)	(0.9)
Transaction costs for merger and acquisition		0.3	-	27.6	-
Earnings before income taxes and other items		68.8	119.2	83.9	404.5
Income tax (expense) recovery	20	(14.3)	23.6	(24.4)	(30.2)
Earnings for the period		54.5	142.8	59.5	374.3
Other comprehensive income (loss)					
Unrealized gain (loss) on marketable securities, net of tax	9	7.0	(32.3)	(4.0)	(25.7)
Reversal of unrealized gain on marketable securities, net of tax		-	-	(0.1)	(28.7)
Total comprehensive income		61.5	110.5	55.4	319.9
Earnings per share					
Basic		\$ 0.27	\$ 0.75	\$ 0.30	\$ 1.96
Diluted		\$ 0.27	\$ 0.71	\$ 0.30	\$ 1.89
Weighted average shares outstanding - basic		199.8	191.4	198.9	190.9
Weighted average shares outstanding - diluted		199.8	192.8	198.9	192.7

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

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

(US Dollars in Millions)
(Unaudited)

	Notes	Share capital	Contrib. surplus	Accu. other comp. income	Retained earnings	Total
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		-	(14.3)	-	-	(14.3)
Exercise of converted FNX warrants		-	12.8	-	-	12.8
Transfer to share capital for stock options and warrants exercised		34.4	(34.4)	-	-	-
Reversal of realized gain on marketable securities		-	-	(0.1)	-	(0.1)
Unrealized loss on marketable securities, net of tax	9	-	-	(4.0)	-	(4.0)
Earnings for the period		-	-	-	59.5	59.5
Balances, September 30, 2012		1,851.5	-	(19.3)	623.8	2,456.0

	Notes	Share capital	Contrib. surplus	Accu. other comp. income	Retained earnings	Total
Balances, January 1, 2011		1,690.0	32.4	21.9	273.3	2,017.6
Stock options exercised		9.6	-	-	-	9.6
Stock-based compensation		-	4.3	-	-	4.3
Transfer to share capital for stock options		1.7	(1.7)	-	-	-
Reversal of realized gain on marketable securities		-	-	(28.7)	-	(28.7)
Unrealized gain on marketable securities, net of tax	9	-	-	(25.7)	-	(25.7)
Earnings for the period		-	-	-	374.3	374.3
Balances, September 30, 2011		1,701.3	35.0	(32.5)	647.6	2,351.4

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

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in Millions)

(Unaudited)

	Notes	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
OPERATING ACTIVITIES					
Earnings for the period		54.5	142.8	59.5	374.3
Adjustment for:					
Stock-based compensation		3.9	1.6	4.6	4.3
Amortization, depletion and depreciation		39.0	40.9	109.6	113.3
Inventory writedown	6	-	76.0	26.0	87.0
Impairment of non-current assets	10(a)	-	162.0	-	162.0
Gain from joint venture formation	5(a)	-	(292.5)	-	(292.5)
Unrealized loss (gain) on derivatives	17	1.6	(33.2)	(13.3)	(45.4)
Amortization of deferred revenue	14	(2.2)	(1.7)	(6.8)	(8.3)
Foreign exchange (gain) loss		(18.3)	12.5	(21.4)	9.3
Income tax expense (recovery)		14.3	(23.6)	24.4	30.2
Finance income	22(a)	(9.6)	(0.6)	(18.4)	(1.2)
Finance expense	22(b)	11.2	2.2	32.3	3.4
Other income	22(c)	(1.0)	(0.4)	(1.3)	(168.5)
Other expense		0.7	0.6	2.1	1.2
		94.1	86.6	197.3	269.1
Net changes in non-cash working capital	24	31.6	(6.2)	(31.7)	(78.0)
Interest received		0.5	0.2	1.6	0.8
Interest paid		-	-	(19.4)	-
Income taxes paid		(1.3)	(1.3)	(55.2)	(3.2)
Cash provided from operating activities		124.9	79.3	92.6	188.7
INVESTING ACTIVITIES					
Additions to mineral properties, plant and equipment		(30.1)	(123.2)	(94.1)	(309.6)
(Increase) decrease in other assets		1.6	(6.5)	(6.7)	(6.6)
(Increase) decrease in restricted cash		(0.9)	0.1	(1.2)	(0.7)
Payments on exercising marketable security warrants		-	-	-	(14.9)
Payments for environmental bond and trust		-	-	(20.4)	-
Proceeds from sale of marketable securities		-	-	0.3	11.4
Subordinated loan to Sierra Gorda JV	5	(151.1)	-	(277.6)	-
Notes receivable	23	-	-	(131.6)	-
Proceeds from sale of Gold Wheaton shares		-	-	-	295.0
Receipts (payments) for purchasing and settling derivatives		-	(0.7)	3.4	(3.7)
Cash used in from investing activities		(180.5)	(130.3)	(527.9)	(29.1)
FINANCING ACTIVITIES					
Proceeds from issue of common shares		-	2.4	110.8	9.6
Payments for settlement of stock options		-	-	(18.8)	-
Proceeds from issue of senior note net of issue costs		-	(0.7)	-	487.8
Payment from related party		-	100.7	-	100.7
Cash provided from financing activities		-	102.4	92.0	598.1
Effect of foreign exchange rate changes on cash and cash equivalents		18.3	(12.5)	21.4	(9.3)
Net (decrease) increase in cash and cash equivalents during the period		(37.3)	38.9	(321.9)	748.4
Cash and cash equivalents, beginning of period		720.9	1,028.3	1,005.5	318.8
Cash and cash equivalents, end of period		683.6	1,067.2	683.6	1,067.2

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

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Millions)
Nine months ended September 30, 2012
(Unaudited)

1. NATURE OF OPERATIONS

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

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

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

2. BASIS OF PRESENTATION

a) Basis of presentation and measurement

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim financial reporting as issued by the International Accounting Standards Board (“IASB”). The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and 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 November 9, 2012.

b) Basis of consolidation

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

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

**NOTES TO CONDENSED INTERIM CONSOLIDATED
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The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Intergroup balances and transactions are eliminated on consolidation.

c) Use of estimates and judgements

Areas of critical accounting estimates and judgements that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 2 of the Group’s consolidated financial statements as at and for the year ended December 31, 2011.

d) Comparative figures

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

	Exploration and evaluation assets	Mineral property acquisition and development	Machinery and equipment	Site closure and reclamation asset	Goodwill	Land and buildings	Water Rights	Software	Total
At December 31, 2011									
Cost	90.7	1,182.1	693.4	77.3	180.6	-	-	-	2,224.1
Accumulated depletion, depreciation and amortization	-	(264.1)	(159.7)	(37.0)	-	-	-	-	(460.8)
Accumulated impairment	-	(328.8)	(91.8)	(20.4)	-	-	-	-	(441.0)
Net book value	90.7	589.2	441.9	19.9	180.6	-	-	-	1,322.3
Reclassifications to new categories:									
Cost	-	19.5	(64.4)	(77.3)	-	57.7	57.8	6.7	-
Accumulated depletion, depreciation and amortization	-	(37.0)	26.9	37.0	-	(24.0)	-	(2.9)	-
Accumulated impairment	-	(20.4)	-	20.4	-	-	-	-	-
Other reclassifications:									
Cost	6.6	54.4	(61.0)	-	-	-	-	-	-
Reclassifications to impairment from accumulated amortization	-	105.1	(9.4)	-	-	-	-	-	95.7
Reclassifications to amortization from accumulated impairment	-	(17.0)	(78.7)	-	-	-	-	-	(95.7)
Accumulated impairment	-	-	20.8	-	-	(20.8)	-	-	-
Accumulated amortization	-	-	(5.8)	-	-	5.8	-	-	-
	6.6	104.6	(171.6)	(19.9)	-	18.7	57.8	3.8	-
At December 31, 2011									
Cost	97.3	1,256.0	568.0	-	180.6	57.7	57.8	6.7	2,224.1
Accumulated depletion, depreciation and amortization	-	(196.0)	(148.0)	-	-	(18.2)	-	(2.9)	(365.1)
Accumulated impairment	-	(366.2)	(149.7)	-	-	(20.8)	-	-	(536.7)
	97.3	693.8	270.3	-	180.6	18.7	57.8	3.8	1,322.3

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

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Nine months ended September 30, 2012
(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using the same accounting policies as those disclosed in Note 3 to the Group’s annual audited consolidated financial statements for the year ended December 31, 2011.

A number of new standards, amendments to standards, and interpretations are effective for annual periods beginning after January 1, 2013. These new standards and interpretations not yet adopted are disclosed in Note 3 to the Group’s annual audited consolidated financial statements for the year ended December 31, 2011.

4. ACQUISITION BY KGHM Polska Miedź S.A.

On March 5, 2012 KGHM, through its wholly owned subsidiary 0929260 BC Unlimited Liability Company (“Bidco”), acquired all of the issued and outstanding shares (193,334,154) of the Group for C\$2.9 billion. The transaction was structured as a court-approved Plan of Arrangement. Under the terms of the arrangement, Quadra FNX shareholders received C\$15.00 for each common share of Quadra FNX. All Quadra FNX trading warrants were acquired from warrant holders and exercised for common shares of Quadra FNX for C\$110.0 million. The purchase and exercise of these warrants was financed by a loan from Quadra FNX to Bidco in return of a promissory note with principal amount of \$110.9 bearing interest at 3.75% per annum, and maturing on March 5, 2013.

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

5. INVESTMENT IN SIERRA GORDA

(a) Investment in Sierra Gorda JV

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

Pursuant to the joint venture agreement, Sumitomo made an initial contribution of \$724.2 in exchange for a 45% interest in the Group’s subsidiary. As a result of the loss of control in the subsidiary the Group recorded a gain of \$292.5 in 2011. Commencing February 2012, the Group and Sumitomo fund proportionally those JV costs not covered by JV borrowings.

Sumitomo took the lead in efforts to arrange and guarantee project financing in the amount of \$1.0 billion. The JV retained Sumitomo Mitsui Bank Corporation (SMBC) as the financial advisor for the project financing and on March 8, 2012, the JV signed the \$1.0 billion Senior Project Loan agreement with a group of lenders led by Japan Bank for International Corporation. The project loans have a 9.5 year term with an interest rate of LIBOR plus a margin. Drawings under the Senior Project Loans have been received amounting to \$600.0 as at September 30, 2012.

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

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(b) Subordinated loan receivable from Sierra Gorda JV

As of September 30, 2012 the Group had funded \$286.1 to Sierra Gorda JV through a subordinated loan agreement. The balance as at September 30, 2012 includes accrued interest of \$8.5 (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 September 30, 2012, the Group’s proportionate 55% share of the contractual commitments at Sierra Gorda totaled \$678.2 including purchase orders for mining equipment and infrastructure. A portion of each of these amounts is expected to be funded from the \$1.0 billion Senior Project loan.

In the nine months ended September 30, 2012, Sierra Gorda JV signed some key contracts relating to the commercial operations for 2014, including construction of power line, supply of electricity, port and rail services. Under the terms of the electricity supply contract, the Group is required to provide guarantees up to \$138.0. New contracts signed in Q3 relate to the construction of the plant area and buildings. The Group’s 55% proportionate share of these contract commitments totaled \$220.0.

6. INVENTORY

	September 30,	December 31,
	2012	2011
Robinson copper concentrate	33.7	57.8
Carlota leach pad inventory	47.5	45.8
Franke leach pad inventory	26.9	37.5
Copper cathode	11.8	14.5
Supplies	40.5	39.8
Robinson ore stockpile	4.2	3.2
Sudbury crushed ore inventory	2.4	0.1
	167.0	198.7

For the nine months ended September 30, 2012, cost of sales includes \$26.0 of inventory write down at Franke due to a change in estimate in respect of the expected recovery from the leach pad.

During the three and nine months ended September 30, 2011 an adjustment of \$9.3 was required at Franke to reduce inventory to its net realizable value.

Due to a decline in copper prices and lower than expected recovery rates an adjustment of \$66.7 was required during the three months ended September 30, 2011 and a total adjustment of \$77.7 was required during the nine months ended months ended September 30, 2011 to reduce Carlota’s inventory to its net realizable value.

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**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Nine months ended September 30, 2012
(Unaudited)

7. TRADE AND OTHER RECEIVABLES

	September 30, December 31,	
	2012	2011
Trade receivables	221.3	162.3
Receivable from Sierra Gorda JV	7.3	10.8
Prepaid expenses and advances to suppliers	15.8	20.0
Other financial receivables	5.8	4.3
Other non-financial receivables	0.2	-
	<u>250.4</u>	<u>197.4</u>

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

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

8. OTHER NON-CURRENT ASSETS

	September 30, December 31,	
	2012	2011
Security deposits for equipment	1.4	4.4
Prepaid on long term contracts	8.0	-
Restricted cash	27.4	23.2
Other	2.8	4.1
	<u>39.6</u>	<u>31.7</u>

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

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

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9. MARKETABLE SECURITIES

As at September 30, 2012, the Group held available for sale securities with an original cost of \$69.0 (December 31, 2011 - \$69.2) and a fair value, based on their quoted market price, of \$50.4 (December 31, 2011 - \$54.4). For the nine months ended September 30, 2012, the decline in fair value of available for sale securities totaled \$4.0 net of tax, which has been recorded in shareholders' equity as a component of comprehensive income (nine months ended September 30, 2011 – decrease in fair value of \$25.7 net of tax).

10. MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Land and buildings	Mineral property acquisition and development	Machinery and equipment	Total
At December 31, 2011				
Cost	57.7	1,256.0	568.0	1,881.7
Accumulated depletion, depreciation and amortization	(18.2)	(196.0)	(148.0)	(362.2)
Accumulated impairment	(20.8)	(366.2)	(149.7)	(536.7)
Net book value	18.7	693.8	270.3	982.8

Period ended September 30, 2012

Change in Cost

Additions	1.5	15.5	52.2	69.2
Disposal	-	(5.0)	(2.4)	(7.4)
Increase in site closure and reclamation asset	-	20.9	-	20.9
Transfers	-	19.8	(19.8)	-
Subtotal	1.5	51.2	30.0	82.7

Change in Accumulative Amortization

Reversal of accumulated depletion, depreciation and amortization on disposal	-	3.9	0.9	4.8
Depletion, depreciation and amortization charge	(2.2)	(57.4)	(49.1)	(108.7)
Subtotal	(2.2)	(53.5)	(48.2)	(103.9)

At September 30, 2012

Cost	59.2	1,307.2	598.0	1,964.4
Accumulated depletion, depreciation and amortization	(20.4)	(249.5)	(196.2)	(466.1)
Accumulated impairment	(20.8)	(366.2)	(149.7)	(536.7)
Net book value	18.0	691.5	252.1	961.6

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

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**NOTES TO CONDENSED INTERIM CONSOLIDATED
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(Unaudited)

(a) Impairment of properties, plant and equipment

	Impairment	Future income tax adjustment	Net impairment
Carlota mine	121.5	-	121.5
Podolsky mine	40.5	(10.1)	30.4
Total	162.0	(10.1)	151.9

During Q3 2011, the Group reviewed the carrying value of Carlota’s properties, plant, and equipment (“PPE”) 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 PPE were impaired and an impairment charge of \$121.5 was recognized.

During Q3 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. An impairment loss of \$40.5 was recognized, which represented the carrying value of the inferred reserves.

11. INTANGIBLE ASSETS

	Exploration and evaluation assets	Water Rights	Software	Goodwill	Total
At December 31, 2011					
Cost	97.3	57.8	6.7	180.6	342.4
Accumulated depletion, depreciation and amortization	-	-	(2.9)	-	(2.9)
Net book value	97.3	57.8	3.8	180.6	339.5

Period ended September 30, 2012

Change in Cost

Additions	22.4	0.2	1.4	-	24.0
Subtotal	22.4	0.2	1.4	-	24.0

Change in Accumulative Amortization

Depletion, depreciation and amortization charge	-	-	(0.9)	-	(0.9)
Subtotal	-	-	(0.9)	-	(0.9)

At September 30, 2012

Cost	119.7	58.0	8.1	180.6	366.4
Accumulated depletion, depreciation and amortization	-	-	(3.8)	-	(3.8)
Net book value	119.7	58.0	4.3	180.6	362.6

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

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12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2012	December 31, 2011
Liabilities from deliveries and services	78.3	56.8
Liabilities from employee taxes and social security	3.4	2.3
Liabilities for wages	2.0	1.0
Other financial liabilities	0.8	1.6
Accrued expenses	50.2	61.9
	<u>134.7</u>	<u>123.6</u>

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

13. CURRENT PROVISIONS

	September 30, 2012	December 31, 2011
Tax provision	6.0	6.0
Site closure and reclamation provision (Note 16)	1.7	-
Other	0.5	1.0
	<u>8.2</u>	<u>7.0</u>

14. DEFERRED REVENUE

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

Balance - December 31, 2011	187.8
Recognized into revenue	(6.8)
Balance - September 30, 2012	181.0
Current	(16.4)
Non-current	<u>164.6</u>

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15. SENIOR NOTES

	September 30, 2012	December 31, 2011
Senior notes	500.0	500.0
Senior note issue costs	(12.3)	(12.3)
Cumulative amortization of senior note issue costs	1.5	0.5
	<u>489.2</u>	<u>488.2</u>

During June 2011, the Group issued \$500.0 aggregate principal amount of 7.75% senior unsecured notes (“Notes”) due 2019 in a private placement which is carried at amortized cost. The fair market value of the notes at September 30, 2012 is \$518 based on a trading price of \$103.6 per \$100.

Upon specified change of control events, each holder of a note will have the right to require the Group to purchase all or a portion of the Notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase. Subsequent to the acquisition of Quadra FNX by KGHM, on March 5, 2012, the Group issued Notices of Change of Control and Offer to Purchase to bondholders. The Offer to Purchase expired on May 3, 2012 at 12:00 am Eastern Standard Time. No senior notes were tendered under the Offer to Purchase.

At September 30, 2012, no mandatory principal repayments are required in the next five years.

16. PROVISIONS

	September 30, 2012	December 31, 2011
Site closure and reclamation provision	109.5	88.6
Carlota termination benefits	3.3	-
	<u>112.8</u>	<u>88.6</u>

Site closure and reclamation provisions are as under:

Balance at December 31, 2011	88.6
Change in estimated timing and amount of closure costs	21.6
Increase in provision due to change in discount rate	0.5
Reclamation work done to reduce liability	(0.9)
Unwinding of discount	1.4
Balance at September 30, 2012	<u>111.2</u>
Current	<u>(1.7)</u>
Non-Current	<u>109.5</u>

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Discount rates used in the estimation of the provision at September 30, 2012 were 0.8% - 1.7% for US operations, 2% for Chile operations and 1.3% - 1.7% for Canadian operations (for December 31, 2011 the discount rates used were 1.9%, 2.6% and 1.3% respectively).

During the nine months ended September 30, 2012, the Robinson mine revised its reclamation plan and cost estimates as required by the United States Bureau of Land Management. As a result, an increase in the provision of \$21.6 was recorded and environmental bond deposits were increased by \$20.4.

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

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

	September 30, 2012	December 31, 2011
Long-term supply contracts (a)	(55.9)	(54.3)
Warrants (b)	-	(20.3)
Foreign currency forward contracts (c)	-	(3.9)
Copper put options (d)	-	0.1
	<u>(55.9)</u>	<u>(78.4)</u>

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

	September 30, 2012	December 31, 2011
Derivative assets - current	-	0.1
Derivative liabilities - current	(11.0)	(13.6)
Derivative liabilities - non-current	(44.9)	(64.9)
	<u>(55.9)</u>	<u>(78.4)</u>

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Long-term supply contracts (a)	1.6	(9.7)	1.6	(12.2)
Warrants (b)	-	(20.7)	(7.6)	(34.1)
Foreign currency forward contracts (c)	-	-	(7.4)	-
Copper put options (d)	-	(4.8)	0.1	(1.6)
Fuel contracts	-	2.0	-	2.5
	1.6	(33.2)	(13.3)	(45.4)

(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 September 30, 2012, the fair value of the embedded derivative liabilities was determined to be \$55.9, based on the following significant assumptions:

- Copper price of \$3.74/lb to \$2.75/lb for 2012 to 2022.
- Discount rate: 12%

(b) Warrants

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

In connection with the Plan of Arrangement with KGHM, the warrants assumed in connection with the FNX merger (FNX Warrants) were purchased by the Bidco from all warrant holders for C\$12.6 million (7,473,749 FNX Warrants at C\$1.68 per warrant). All FNX Warrants were then immediately exercised by the Bidco in the amount of C\$97.1 million into common shares of former Quadra FNX.

For the nine months ended September 30, 2012, a gain of \$7.6 has been recognized from the retirement of the warrant derivative liability. As of September 30, 2012 no warrants remain outstanding.

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(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 nine month period ended September 30, 2012, the Group settled all of the foreign currency contracts and received \$3.5 from the counterparty resulting in a gain of \$7.4. As of September 30, 2012 no foreign currency forward contracts were outstanding.

(d) Copper put options

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

18. SHARE CAPITAL

(a) Common Shares

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

	Number of Shares	Amount
Balance at December 31, 2011	191,989,255	1,706.3
Capital stock issued:		
Stock options exercised	289,011	2.9
Lender warrants exercised	1,055,888	9.7
Warrants exercised in connection with Plan of Arrangement	6,502,162	98.2
Transfer from contributed surplus:		
Transactions in connection with Plan of Arrangement		34.4
Balance at September 30, 2012	199,836,316	1,851.5

(b) Stock Options and Share-Based Payments

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

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.

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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 period ended September 30, 2012

	Robinson (USA)^(a)	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda)^(a)	DMC	Corporate & Other	Total
Copper revenues	139.6	21.5	33.7	52.6	-	-	247.4
Nickel revenues	-	-	-	20.0	-	-	20.0
Other by - product revenues	18.4	-	-	8.7	-	-	27.1
Contract mining revenues	-	-	-	-	82.5	-	82.5
Treatment Charges	(7.2)	-	-	(11.4)	-	-	(18.6)
Net revenues	150.8	21.5	33.7	69.9	82.5	-	358.4
Depreciation and amortization	11.5	-	4.7	21.1	1.6	-	38.9
Employee benefits expense	18.3	4.5	7.2	12.3	9.2	-	51.5
Raw materials, other consumables and energy	43.8	9.3	20.2	12.7	0.1	-	86.1
Office expenses	2.3	1.3	1.3	(1.1)	0.4	-	4.2
External services	6.7	1.1	5.2	10.1	63.1	-	86.2
Royalties and mineral taxes	4.0	1.1	-	-	-	-	5.1
Changes in Inventories	11.6	(0.2)	(6.3)	(1.4)	-	-	3.7
Distribution costs	13.6	-	1.4	3.0	-	-	18.0
Income from operations	39.0	4.4	-	13.2	8.1	-	64.7
General and administrative	-	-	-	-	-	16.7	16.7
Finance income	-	-	-	-	-	(9.6)	(9.6)
Finance expense	-	-	-	-	-	11.2	11.2
Other income	-	-	-	-	-	(4.7)	(4.7)
Other expense	-	-	-	-	-	3.8	3.8
Foreign exchange loss	-	-	-	-	-	(21.8)	(21.8)
Transaction costs for merger and acquisition	-	-	-	-	-	0.3	0.3
Segment earnings before tax	39.0	4.4	-	13.2	8.1	4.1	68.8
Capital expenditures	7.6	-	2.9	7.6	1.7	10.2	30.0
Segment assets as at September 30, 2012	554.6	210.7	208.7	1,117.0	120.3	1,490.8	3,702.1

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	Robinson (USA) ^(a)	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda) ^(a)	DMC	Corporate & Other	Total
Copper revenues	97.2	26.2	41.6	57.2	-	-	222.2
Nickel revenues	-	-	-	25.2	-	-	25.2
Other by - product revenues	19.0	-	-	10.7	-	-	29.7
Contract mining revenues	-	-	-	-	49.1	-	49.1
Treatment Charges ⁽¹⁾	(4.5)	-	-	(16.3)	-	-	(20.8)
Net revenues	111.7	26.2	41.6	76.8	49.1	-	305.4
Depreciation and amortization	8.2	5.6	0.9	25.2	1.0	-	40.9
Employee benefits expense	14.2	5.1	5.1	11.8	5.9	-	42.1
Raw materials, other consumables and energy	37.8	11.4	21.3	7.1	-	-	77.6
Office expenses	3.5	1.0	2.1	0.7	0.6	-	7.9
External services	4.7	0.8	5.8	10.8	37.2	-	59.3
Impairment of non-current assets	-	121.5	-	40.5	-	-	162.0
Royalties and mineral taxes	4.0	1.3	-	-	-	-	5.3
Cost of sales inventory write-off	-	66.7	9.3	-	-	-	76.0
Changes in Inventories	6.2	-	3.0	0.7	-	-	9.9
Distribution costs	6.7	-	1.4	3.3	-	-	11.4
Income (loss) from operations	26.4	(187.2)	(7.3)	(23.3)	4.4	-	(187.0)
General and administrative ⁽²⁾	-	-	-	-	-	16.1	16.1
Gain from joint venture formation	-	-	-	-	-	(292.5)	(292.5)
Finance income	-	-	-	-	-	(0.6)	(0.6)
Finance expense	-	-	-	-	-	2.2	2.2
Other income ⁽³⁾	-	-	-	-	-	(33.6)	(33.6)
Other expense ⁽⁴⁾	-	-	-	-	-	0.6	0.6
Foreign exchange loss	-	-	-	-	-	1.6	1.6
Segment earnings (loss) before incomes taxes	26.4	(187.2)	(7.3)	(23.3)	4.4	306.2	119.2
Capital expenditures	24.8	(0.7)	8.3	12.7	2.0	70.3	117.4
Segment assets as at September 30, 2011	467.7	133.0	339.4	1,261.5	69.8	1,324.0	3,595.4

⁽¹⁾ Treatment charges and refining charges (TCRC) totaling to \$21.0 was reclassified from cost of sales to revenue.

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

⁽³⁾ Finance income of \$0.4 and gain on derivatives of \$33.2 has been reclassified to other income.

⁽⁴⁾ Finance expense of \$0.7 has been reclassified to other expense.

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	Robinson (USA) ^(a)	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda) ^(a)	DMC	Corporate & Other	Total
Copper revenues	340.8	61.0	111.1	164.8	-	-	677.7
Nickel revenues	-	-	-	59.8	-	-	59.8
Other by - product revenues	48.6	-	-	25.7	-	-	74.3
Contract mining revenues	-	-	-	-	249.8	-	249.8
Treatment Charges	(18.2)	-	-	(35.7)	-	-	(53.9)
Net revenues	371.2	61.0	111.1	214.6	249.8	-	1,007.7
Depreciation and amortization	29.8	-	12.8	62.9	3.7	-	109.2
Employee benefits expense	51.9	13.7	18.9	40.1	26.2	-	150.8
Raw materials, other consumables and energy	129.4	29.5	61.3	36.2	0.2	-	256.6
Office expenses	8.3	3.8	5.2	(1.0)	1.7	-	18.0
External services	17.9	3.2	13.8	29.9	196.3	-	261.1
Royalties and mineral taxes	10.5	3.0	-	-	-	-	13.5
Cost of sales inventory write-off	-	-	26.0	-	-	-	26.0
Changes in Inventories	22.7	(2.5)	(12.5)	(2.4)	-	-	5.3
Distribution costs	33.6	0.1	3.4	10.3	-	-	47.4
Income (loss) from operations	67.1	10.2	(17.8)	38.6	21.7	-	119.8
General and administrative	-	-	-	-	-	43.2	43.2
Finance income	-	-	-	-	-	(18.4)	(18.4)
Finance expense	-	-	-	-	-	32.3	32.3
Other income	-	-	-	-	-	(33.0)	(33.0)
Other expense	-	-	-	-	-	6.2	6.2
Foreign exchange loss	-	-	-	-	-	(22.0)	(22.0)
Transaction costs for merger and acquisition	-	-	-	-	-	27.6	27.6
Segment earnings (loss) before tax	67.1	10.2	(17.8)	38.6	21.7	(35.9)	83.9
Capital expenditures	18.4	-	13.1	22.5	10.3	29.1	93.4
Segment assets as at September 30, 2012	554.6	210.7	208.7	1,117.0	120.3	1,490.8	3,702.1

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	Robinson (USA)^(a)	Carlota (USA)	Franke (Chile)	Sudbury Operations (Cda)^(a)	DMC	Corporate & Other	Total
Copper revenues	265.6	66.3	97.2	198.9	-	-	628.0
Nickel revenues	-	-	-	76.3	-	-	76.3
Other by - product revenues	52.1	-	-	37.0	-	-	89.1
Contract mining revenues	-	-	-	-	99.4	-	99.4
Treatment Charges ⁽¹⁾	(12.1)	-	-	(44.7)	-	-	(56.8)
Net revenues	305.6	66.3	97.2	267.5	99.4	-	836.0
Depreciation and amortization	20.4	12.5	12.4	65.3	2.7	-	113.3
Employee benefits expense	46.4	17.0	13.3	36.4	17.2	-	130.3
Raw materials, other consumables and energy	107.1	41.6	58.6	23.5	0.1	-	230.9
Office expenses	8.0	3.8	6.4	2.2	1.4	-	21.8
External services	12.4	4.7	18.3	32.0	66.8	-	134.2
Impairment of non-current assets	-	121.5	-	40.5	-	-	162.0
Royalties and mineral taxes	10.2	3.3	-	-	-	-	13.5
Cost of sales inventory write-off	-	77.7	9.3	-	-	-	87.0
Changes in Inventories	(0.5)	(18.9)	(13.0)	(0.3)	-	-	(32.7)
Distribution costs	20.8	0.1	3.6	10.5	-	-	35.0
Income (loss) from operations	80.8	(197.0)	(11.7)	57.4	11.2	-	(59.3)
General and administrative ⁽²⁾	-	-	-	-	-	40.1	40.1
Gain from joint venture formation	-	-	-	-	-	(292.5)	(292.5)
Finance income	-	-	-	-	-	(1.2)	(1.2)
Finance expense	-	-	-	-	-	3.4	3.4
Other income ⁽³⁾	-	-	-	-	-	(213.9)	(213.9)
Other expense ⁽⁴⁾	-	-	-	-	-	1.2	1.2
Foreign exchange loss	-	-	-	-	-	(0.9)	(0.9)
Segment earnings (loss) before incomes taxes	80.8	(197.0)	(11.7)	57.4	11.2	463.8	404.5
Capital expenditures	74.6	4.2	28.0	42.6	5.1	154.9	309.4
Segment assets as at September 30, 2011	467.7	133.0	339.4	1,261.5	69.8	1,324.0	3,595.4

(a) Revenues at Robinson and Sudbury Operations are from concentrate and 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 September 30, 2012, 42.4 million pounds of copper have been provisionally valued at an average price of \$3.75 per pound. The final pricing for these provisionally priced sales is expected to occur between October 2012 and January 2013.

(1) Treatment charges and refining charges (TCRC) totaling to \$56.8 were reclassified from cost of sales to revenue.

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

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- (3) Gain on derivatives \$45.4, finance income of \$34.6, and gain on sale of Gold Wheaton shares \$ 133.9 has been reclassified to other income.
- (4) Finance expense of \$1.2 has been reclassified to other expense

20. INCOME TAXES

For the nine month period ended September 30, 2012, the Group recognized a current income tax expense of \$28.7 and a deferred income tax recovery of \$4.3 (for the nine months ended September 30, 2011 \$35.6 current income tax expense and \$5.4 deferred income tax recovery). The income tax expense for the nine months ended September 30, 2012 has been recorded based on a forecasted effective income tax rate of 29.08% (September 30, 2011 - 6.84%). 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 September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Employee benefits expenses	10.4	12.5	28.4	26.7
Legal and professional services	5.4	5.1	8.2	8.4
Office and communication expenses	0.9	(1.8)	6.1	4.3
Insurance expenses and property taxes	-	0.3	0.5	0.7
	16.7	16.1	43.2	40.1

22. FINANCE INCOME AND EXPENSE

(a) Finance Income

Finance income for the nine months ended September 30, 2012 of \$18.4 (September 30, 2011 - \$1.2) is primarily related to interest earned on short-term investments of \$7.5, interest on subordinate loans to Sierra Gorda JV of \$8.5 (Note 5) and notes receivable of \$2.4 (Note 23).

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**NOTES TO CONDENSED INTERIM CONSOLIDATED
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(US Dollars in Millions)
Nine months ended September 30, 2012
(Unaudited)

(b) Finance Expenses

Finance expense for the nine months ended September 30, 2012 of \$32.3 (September 30, 2011 - \$3.4) is primarily comprised of \$29.1 interest expense related to senior notes (Note 15).

(c) Other Income

Other Income for the nine months ended September 30, 2012 of \$33.0 (September 30, 2011 - \$213.9) is primarily comprised of gain on derivatives of \$13.3 (September 30, 2011 - \$45.4) (Note 17) and management fees from Sierra Gorda JV of \$18.8 (September 30, 2011 - \$Nil) (Note 23). For the nine months ended September 30, 2011, other income includes a \$133.9 gain from disposal of Gold Wheaton shares, \$28.7 realized gain on sale of marketable securities and \$5.5 gain on sale of held for trading securities.

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 \$7.3 at September 30, 2012 (December 31, 2011 - \$10.8) (Note 7). This amount is repayable in the normal course of business. The Group earned management fees of \$18.8 from the Sierra Gorda JV during the nine months ended September 30, 2012, 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 due March 5, 2013. As the loan is not expected to be repaid before September 30, 2013, this balance is classified as non-current. 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. For the nine months ended September 30, 2012, \$2.4 of related interest income was recorded

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 is payable on demand. The balance as at September 30, 2012 includes revaluation of \$1.0. As this note is not expected to be repaid before September 30, 2013, this balance is classified as non-current.

24. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Decrease (Increase) in receivables	28.2	(2.2)	(52.2)	(20.7)
Decrease (Increase) in inventory	6.8	7.4	5.7	(39.9)
(Decrease) Increase in accounts payable and accrued liabilities	(6.3)	(9.4)	11.9	(12.4)
Increase (decrease) in provisions	2.9	(2.0)	2.9	(5.0)
	31.6	(6.2)	(31.7)	(78.0)
Non-cash investing and financing activities:				
Mineral properties, plant and equipment purchases in accruals	0.3	5.8	2.4	0.2

**NOTES TO CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(US Dollars in Millions)
Nine months ended September 30, 2012
(Unaudited)

25. COMMITMENTS

As at September 30, 2012 the commitments of the Group were \$109.8 in relation to capital projects, rent, and contractual obligation. As at September 30, 2012, commitments of \$6.3 are due within a year, \$53.7 are due within one to three years and \$49.7 are due after five years.

26. CONTINGENCIES

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

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

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