



## **Quadra Mining Ltd.**

### **Consolidated Financial Statements**

September 30, 2008

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

(Unaudited)

**Quadra Mining Ltd.**

**CONSOLIDATED BALANCE SHEETS**

(US Dollars in Thousands)  
(Unaudited)

		<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	Note 4	266,384	263,586
Receivables		14,446	13,595
Inventory	Note 5	47,224	42,730
Other current assets	Note 6	51,262	29,578
Future income tax assets		8,375	12,090
<b>Total Current Assets</b>		<u>387,691</u>	<u>361,579</u>
Environmental trust and bond		54,874	46,391
Mineral properties, plant and equipment	Note 7	631,294	366,126
Other assets		7,573	15,123
<b>Total Assets</b>		<u><u>1,081,432</u></u>	<u><u>789,219</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	Note 14	91,030	44,986
Deferred gold consideration payable	Note 9	-	15,104
Other current liabilities	Note 10	20,837	14,315
<b>Total Current Liabilities</b>		<u>111,867</u>	<u>74,405</u>
Senior credit facility	Note 11	-	145,151
Asset retirement obligations		39,182	37,458
Obligations under capital leases		5,832	7,407
Future income tax liabilities		30,562	23,708
<b>Total Liabilities</b>		<u>187,443</u>	<u>288,129</u>
<b>Non-controlling interest</b>		146	2,711
<b>Shareholders' Equity</b>			
Share capital	Note 13(a)	577,973	336,031
Stock options and warrants	Note 13(b), (c)	33,085	27,034
Accumulated other comprehensive income (loss)	Note 6	(16,864)	599
Retained earnings		299,649	134,715
<b>Total Shareholders' Equity</b>		<u>893,843</u>	<u>498,379</u>
<b>Total Liabilities and Shareholders' Equity</b>		<u><u>1,081,432</u></u>	<u><u>789,219</u></u>

**Contingencies (Note 21), Commitments (Note 22), Subsequent Events (Note 23)**

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

**Quadra Mining Ltd.**

**CONSOLIDATED STATEMENTS OF EARNINGS  
AND COMPREHENSIVE INCOME**

(US Dollars in Thousands)  
(Unaudited)

		<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
		<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Revenues from concentrate sales	Note 14	115,957	134,587	494,559	412,181
Cost of sales		67,642	58,256	195,407	177,593
Amortization, depletion and depreciation		5,555	3,810	15,242	10,493
Accretion of asset retirement obligations		862	762	2,494	1,731
Royalties and mineral taxes		8,048	7,232	28,144	20,249
		<u>82,107</u>	<u>70,060</u>	<u>241,287</u>	<u>210,066</u>
Operating income		33,850	64,527	253,272	202,115
General and administrative		3,859	2,765	12,005	7,298
Stock-based compensation	Note 13(b)	1,722	1,500	6,909	4,779
Loss on settlement of debt	Note 11	-	-	15,940	11,039
Foreign exchange (gain) loss		1,452	(3,283)	2,140	(6,152)
(Gain) loss on derivatives	Note 12	(4,405)	1,743	6,255	14,522
Net interest and other income	Note 15	(1,397)	(1,937)	(5,481)	(3,758)
<b>Earnings before income taxes</b>		<u>32,619</u>	<u>63,739</u>	<u>215,504</u>	<u>174,387</u>
Income tax expense	Note 8	12,502	14,984	50,570	45,965
<b>Earnings for the period</b>		<u>20,117</u>	<u>48,755</u>	<u>164,934</u>	<u>128,422</u>
<b>Other comprehensive income</b>					
Unrealized (gain) loss on marketable securities	Note 6	16,864	(2,471)	16,864	(2,471)
Reversal of unrealized gain on marketable securities	Note 6	-	-	599	-
<b>Total comprehensive income</b>		<u>3,253</u>	<u>51,226</u>	<u>147,471</u>	<u>130,893</u>
<b>Earnings per share</b>					
Basic earnings per share		\$ 0.31	\$ 0.90	\$ 2.74	\$ 2.76
Diluted earnings per share		\$ 0.30	\$ 0.86	\$ 2.66	\$ 2.70
Weighted average shares outstanding - basic		65,915	54,331	60,158	46,543
Weighted average shares outstanding - diluted		67,376	56,397	62,059	47,605

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

**Quadra Mining Ltd.**

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

(US Dollars in Thousands)

(Unaudited)

	Nine months ended September 30, 2008	Year ended December 31, 2007
<b>Share capital</b>		
Balance - beginning of period	336,031	162,315
Shares issued for cash, net of issue costs (Note 13(a))	183,120	116,234
Shares issued for InterMoly acquisition (Note 7 (b))	16,324	37,714
Shares issued for water rights acquisition (Note 7 (c))	30,171	8,822
Stock options exercised	4,747	10,009
Warrants exercised	7,580	937
<b>Balance - end of period</b>	<b>577,973</b>	<b>336,031</b>
<b>Stock options and warrants</b>		
Balance - beginning of period	27,034	4,498
Stock-based compensation	8,533	6,582
Transfer to share capital for stock options and warrants exercised (Note 13(a))	(2,482)	(2,455)
Fair value of warrants issued	-	18,409
<b>Balance - end of period</b>	<b>33,085</b>	<b>27,034</b>
<b>Accumulated other comprehensive income (loss)</b>		
Balance - beginning of period	599	-
Realized gain on available-for-sale investments (Note 6)	(599)	-
Unrealized gain (loss) on available-for-sale investments (Note 6)	(16,864)	599
<b>Balance - end of period</b>	<b>(16,864)</b>	<b>599</b>
<b>Retained earnings</b>		
Balance - beginning of period	134,715	(1,697)
Earnings for the period	164,934	136,412
<b>Balance - end of period</b>	<b>299,649</b>	<b>134,715</b>
<b>Total shareholders' equity</b>	<b>893,843</b>	<b>498,379</b>

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

**Quadra Mining Ltd.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(US Dollars in Thousands)

(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES</b>				
Earnings for the period	20,117	48,755	164,934	128,422
Adjustment for items not involving cash:				
Stock-based compensation	1,722	1,500	6,909	4,779
Amortization, depletion, depreciation and accretion	6,417	4,572	17,736	12,224
Loss on settlement of debt	-	-	15,940	11,039
(Gain) loss on derivatives	(4,405)	1,743	6,255	(39,912)
Future income tax expense	3,680	4,970	4,296	29,499
Other	22	266	761	761
	<u>27,553</u>	<u>61,806</u>	<u>216,831</u>	<u>146,812</u>
Net changes in non-cash working capital:	81,744	(2,217)	31,707	(49,890)
<b>Cash provided from operating activities</b>	<b>109,297</b>	<b>59,589</b>	<b>248,538</b>	<b>96,922</b>
<b>INVESTING ACTIVITIES</b>				
Additions to mineral properties, plant and equipment	(63,217)	(40,765)	(220,333)	(100,195)
Investment in marketable securities, net	(54,557)	(8,657)	(45,040)	(8,657)
Increase in environmental bond and trust	(43)	(4,420)	(8,483)	(1,208)
Decrease (increase) in other assets	78	(127)	1,550	(563)
Refund of security deposit	-	-	14,900	-
Payment of deferred gold consideration	(5,429)	-	(16,912)	-
InterMoly acquisition	(646)	(191)	(727)	(2,326)
<b>Cash used in investing activities</b>	<b>(123,814)</b>	<b>(54,160)</b>	<b>(275,045)</b>	<b>(112,949)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from issue of common shares	19,240	1,939	192,965	136,405
Payment of senior credit facility	-	-	(150,000)	(50,000)
Payment of loan amendment and prepayment fees	-	-	(12,000)	(5,000)
Increase in senior credit facility	-	-	-	192,942
Decrease in obligations under capital leases	(494)	(620)	(1,660)	(1,316)
Decrease in bank indebtedness	-	-	-	(16,900)
Decrease in notes payable	-	-	-	(2,668)
<b>Cash provided by financing activities</b>	<b>18,746</b>	<b>1,319</b>	<b>29,305</b>	<b>253,463</b>
<b>Net increase in cash and cash equivalents during the period</b>	<b>4,229</b>	<b>6,748</b>	<b>2,798</b>	<b>237,436</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>262,155</b>	<b>278,462</b>	<b>263,586</b>	<b>47,774</b>
<b>Cash and cash equivalents, end of period</b>	<b>266,384</b>	<b>285,210</b>	<b>266,384</b>	<b>285,210</b>

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

## **Quadra Mining Ltd.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

#### **1. NATURE OF OPERATIONS**

Quadra Mining Ltd. ("Quadra" or the "Company") was incorporated on May 15, 2002 under the British Columbia Company Act and is continued under the British Columbia Business Corporations Act. The Company is in the business of developing and operating mines, with a focus on base metals, particularly copper. In 2004, the Company acquired the Robinson mine, an open pit copper mine, with gold and molybdenum by-product credits, located in Nevada in the United States. All of the Company's revenues and operating income to date has been generated by the Robinson mine. Construction of the Company's Carlota copper project is substantially complete, and the first production of copper from this new mine is expected before the end of 2008.

The Company also owns an advanced exploration project in Chile ("Sierra Gorda") and has a 99% interest in the Malmbjerg molybdenum project in Greenland.

#### **2. BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("Canadian GAAP"). They do not include all the disclosures required by Canadian GAAP for annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2007. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements.

Other than as described in Note 3, these financial statements are prepared using the same accounting policies and methods of application as those disclosed in Note 2 to the Company's consolidated financial statements for the year ended December 31, 2007.

Certain prior year balances have been reclassified to conform to the current year presentation.

#### **3. NEW ACCOUNTING POLICIES**

Effective January 1, 2008, the Company adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

##### **(a) Inventory – Section 3031**

This standard requires that inventories be measured at the lower of cost and net realizable value, and includes guidance on the determination of cost, including allocation of overheads and other costs. The standard also requires that similar inventories within a consolidated group be measured using the same method. It also requires the reversal of previous write-downs to net realizable value when there is a

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

subsequent increase in the value of inventories. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

#### (b) Capital Disclosures – Section 1535

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such noncompliance (Note 16).

#### (c) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)

These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation. They increase the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel (Note 17).

#### 4. CASH AND CASH EQUIVALENTS

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Cash deposits, bankers acceptances and term deposits	101,384	143,915
Government money market investments	165,000	119,671
Total	266,384	263,586

Cash equivalents consist of highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired. At September 30, 2008, the Company's cash and cash equivalents were yielding a weighted average interest rate of 1.72%. At September 30, 2008, the majority of the Company's cash and cash equivalents were denominated in U.S. dollars, and the Company also held Canadian dollars equivalent to \$8,842.

**Quadra Mining Ltd.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

**5. INVENTORY**

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Concentrate	24,683	24,879
Supplies	22,541	17,851
Total	47,224	42,730

**6. OTHER CURRENT ASSETS**

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Prepaid expenses	7,970	3,061
Derivative instrument assets (Note 12)	5,599	9,389
Security deposits	-	8,900
Marketable securities	37,693	8,228
Total other current assets	51,262	29,578

During the first quarter of 2008, the Company sold all of its available-for-sale marketable securities and recorded a related gain of \$1,888, which is included in other income (Note 15) on the consolidated statement of earnings. This gain included an amount of \$599 that was previously recorded in shareholders' equity as a component of other comprehensive income which was reversed upon the realization of the gain. During the three months ended September 30, 2008, the Company acquired additional available-for-sale marketable securities for a total cost of \$54,557. The fair value of these marketable securities decreased to \$37,693 at September 30, 2008, resulting in an unrealized loss of \$16,864. This unrealized loss has been recorded in shareholders' equity as a component of other comprehensive income.

**Quadra Mining Ltd.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

**7. MINERAL PROPERTIES, PLANT AND EQUIPMENT**

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Mineral property acquisition and development costs	492,562	241,845
Plant, buildings and equipment	150,251	120,601
Equipment under capital leases	11,370	11,926
Asset retirement cost	29,527	28,904
	683,710	403,276
Accumulated depreciation, depletion and amortization	(52,416)	(37,150)
	631,294	366,126

Mineral properties, plant and equipment are allocated by project as follows:

	<b>September 30, 2008</b>		<b>December 31, 2007</b>	
	Cost	Accumulated depreciation, depletion and amortization	Net book value	Net book value
Robinson mine (Nevada)	165,392	(51,989)	113,403	92,756
Carlota copper mine (Arizona) (a)	296,836	-	296,836	166,258
Malmbjerg molybdenum project (Greenland) (b)	98,486	(136)	98,350	72,337
Sierra Gorda (Chile) (c)	122,604	(102)	122,502	34,552
Other	392	(189)	203	223
	683,710	(52,416)	631,294	366,126

**(a) Carlota copper mine**

During the nine months ended September 30, 2008, the Company incurred \$122,456 related to project development costs and mining equipment for the Carlota mine and has capitalized interest and amortization of financing costs of \$7,038 associated with the Secured Credit Facility (Note 11) during the nine months ended September 30, 2008.

**(b) Malmbjerg molybdenum project**

On May 16, 2008, the Company acquired an additional 15.69% interest in International Molybdenum Ltd. ("InterMoly") in exchange for issuing a total of 650,529 common shares of Quadra. In August 2008, another 0.75% interest in InterMoly was acquired for a cash consideration of \$642. As a result of these

## **Quadra Mining Ltd.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

acquisitions, the Company increased its ownership interest in InterMoly, and its Malmbjerg molybdenum project, to 98.91%.

The transactions were treated as an asset acquisition with the only significant asset or liability of InterMoly being the Malmbjerg mineral property. A total of \$21,031 has been capitalized to this mineral property in the first nine months of 2008. This amount includes \$17,095 for the fair value of the purchase consideration including transaction costs, a \$6,273 future income tax liability which relates to the difference between the accounting value allocated to the mineral property and its tax basis, and a \$2,337 reduction for the non-controlling interest that was acquired.

#### **(c) Sierra Gorda**

The Sierra Gorda project is comprised of mineral properties acquired under eight option agreements. During the quarter ended June 30, 2008, the Company made scheduled option payments and accelerated option payments totaling \$24,853 to settle all eight option agreements. As a result of these transactions, the Company now has a 100% ownership interest in the Sierra Gorda project. Three of the Sierra Gorda option agreements are the subject of litigation (see Note 21(a)).

The Company also has two additional option agreements on ground contiguous to the Sierra Gorda project, one of which was entered into in June 2008.

On May 8, 2008, the Company completed the acquisition of pumping rights to 319 litres of water per second located near Calama, in Region II, northern Chile. These rights were acquired in exchange for a cash payment of \$10,000 and the issuance of 1,231,916 common shares for total consideration of \$40,307. In addition, the Company made option payments for other water rights totaling \$6,998 in the nine months of 2008. The acquisition cost of these water rights has been capitalized as a mineral property development cost.

During the nine months ended September 30, 2008, the Company incurred \$15,175 of exploration and development costs on the Sierra Gorda project.

#### **8. INCOME TAXES**

For the nine month period ended September 30, 2008, the Company recognized a current income tax expense of \$46,274 and a future income tax expense of \$4,296 based on a forecasted effective income tax rate of 23% for 2008 (2007: 28%). For the nine months ended September 30, 2007, the Company recognized current income tax expense of \$16,466 and a future income tax expense of \$29,499 respectively.

The forecast of the annual effective income tax rate includes assumptions regarding metal prices, mine production and costs during the remainder of 2008. Based on these assumptions, management believes that it will utilize certain U.S. Alternative Minimum Tax ("AMT") Credits in 2008, and has therefore recognized an income tax recovery of approximately \$3.6 million in the nine month period ended

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

September 30, 2008. These tax credits were earned in prior years, but the tax benefit was not recognized in prior years due to the uncertainty of realization. At September 30, 2008 the Company has an additional \$17 million of AMT credits, the tax benefit of which has not yet been recognized.

#### 9. DEFERRED GOLD CONSIDERATION

The deferred gold consideration relates to the Company's acquisition of the Carlota Copper Project in 2005. During the nine month period ended September 30, 2008, the Company paid the remaining 18,750 ounces of gold to the vendor.

#### 10. OTHER CURRENT LIABILITIES

	September 30, 2008	December 31, 2007
Tax payable	19,377	12,811
Obligations under capital lease - current portion	1,460	1,504
Total other current liabilities	20,837	14,315

#### 11. SENIOR CREDIT FACILITY

On June 9, 2008 the Company repaid its \$150 million First Lien Secured Credit Facility. This Credit Facility was scheduled to mature on March 2, 2012 and was bearing interest at LIBOR + 6.5%, payable quarterly. There were no mandatory principal payments required before the maturity date, however, the Company was obligated to make a semi-annual offer to repay a portion of the Credit Facility in an amount equal to 50% of Excess Cash Flow, as computed under the terms of the Credit Facility.

On March 24, 2008, the Company and the lenders agreed to an amendment of the Credit Facility under which the lenders waived their right to request repayment of the Excess Cash Flow for the last six months of 2007 in exchange for a cash payment of \$7,500 and an agreement to establish a minimum LIBOR floor of 3.75% for the remaining life of the Credit Facility. The cash payment of \$7,500 was added to the carrying amount of the debt in the first quarter of 2008.

When the Credit Facility was repaid in June 2008 the Company also paid a prepayment premium of \$4,500, representing 3% of the outstanding debt balance, in accordance with the terms of the Credit Facility. Unamortized costs related to the debt of \$11,440, were also expensed resulting in a total loss on settlement of debt of \$15,940 in the second quarter of 2008.

**Quadra Mining Ltd.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

**12. DERIVATIVE INSTRUMENTS**

Derivative instruments are carried on the balance sheet at fair value and are comprised as follows:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Copper puts (a)	5,518	8,774
Fuel contract (b)	-	486
Interest rate cap	81	129
Derivative instrument assets (Note 6)	5,599	9,389

The (gain) loss on derivatives is comprised as follows:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Copper and gold forward contracts	-	-	-	12,620
Copper puts (a)	(4,487)	1,314	5,721	2,787
Fuel contract (b)	-	55	486	(1,003)
Interest rate cap	82	374	48	118
(Gain) loss on derivatives	(4,405)	1,743	6,255	14,522

**(a) Copper Puts**

During the nine month period ended September 30, 2008, the Company purchased copper put options from various major international financial institutions at a total cost of \$2,465. As at September 30, 2008, none of these options had expired. Under the terms of the derivative contracts, if the average LME cash price for the month is less than the strike price, the Company will receive the difference in price for the contracted number of pounds.

At September 30, 2008 the following copper put options remain outstanding:

<b>Expiry</b>	<b>Pounds (millions)</b>	<b>Strike price</b>	<b>Fair value</b>
October to December 2008	31.0	\$ 2.15	276
January to March 2009	17.8	\$ 2.50	2,173
April to June 2009	17.2	\$ 2.50	3,069
Total	66.0	\$ 2.33	5,518

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

During the nine months ended September 30, 2008, a total of 149 million pounds of copper put options that the Company purchased in 2007 expired.

At as September 30, 2008, the fair value of the put options increased to \$5,518 and resulted in a gain of \$4,487 and a loss of \$5,721 for the three months and nine months ended September 30, 2008 respectively.

#### (b) Fuel Contract

In 2007, the Company entered into an agreement to purchase, on a take or pay basis, 504,000 gallons per month of diesel fuel. The contract expired on January 31, 2008, and the Company recorded a related derivative loss of \$486 in the first quarter of 2008.

## 13. SHARE CAPITAL

#### (a) Common Shares

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

	Number of Shares	Dollar Amount
Balance at January 1, 2008	55,115,736	336,031
Capital stock issued		
Shares issued for cash, net of issue costs	7,966,750	183,120
Shares issued for InterMoly acquisition (Note 7(b))	650,529	16,324
Shares issued for water rights acquisition (Note 7(c))	1,231,916	30,171
Stock options exercised	386,928	3,891
Warrants exercised	648,888	5,954
Transfer from contributed surplus:		
Stock options and warrants exercised		2,482
Balance at September 30, 2008	66,000,747	577,973

In June 2008 the Company completed a bought-deal equity financing with a syndicate of underwriters through which the Company issued 7,145,000 common shares at a price of C\$24.50 per share for gross proceeds of \$171,656 (C\$175,053). In connection with this financing, the underwriters were also granted an option to acquire up to an additional 1,071,750 common shares at a price of C\$24.50 per share until July 5, 2008. In July 2008, the underwriters exercised a portion of their option and acquired an additional 821,750 common shares for additional gross proceeds of \$19,757 (C\$20,133).

During the nine months ended September 30, 2008, warrants to purchase 648,888 common shares were exercised. These warrants were issued in connection with a debt financing in March 2007.

**Quadra Mining Ltd.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
 Nine months ended September 30, 2008  
 (Unaudited)

**(b) Stock options**

The Company 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 Company, by offering them an opportunity to participate in the Company's future performance through awards of options. The stock option plan is administered by the Compensation Committee, all of whom are members of the Board of Directors. 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 Company from time to 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 on the TSX on the trading day immediately preceding the day on which the option is granted. The options granted vest over a two year period and expire after five years.

The following table summarizes information relating to stock options outstanding and exercisable at September 30, 2008 (in Canadian dollars):

Exercise price per share	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price C\$	Number exercisable	Weighted-average exercise price C\$
\$4.60 - \$7.76	583,000	1.60	6.55	549,667	6.48
\$9.18 - \$11.91	622,204	2.87	10.59	498,102	10.70
\$12.40 - \$14.26	1,636,839	3.57	13.21	1,030,499	13.11
\$16.50 - \$20.86	608,000	4.18	18.78	225,668	18.50
\$20.90 - \$24.60	1,296,833	4.62	24.51	420,988	24.60
	4,746,876	3.60	15.85	2,724,924	13.55

The following tables summarize the stock option activity for the nine months ended September 30, 2008:

	2008	
	Options	Weighted-average exercise price (C\$)
Outstanding at January 1, 2008	3,536,073	11.76
Granted	1,749,000	23.10
Forfeited	(151,269)	19.10
Exercised	(386,928)	10.03
Outstanding at September 30, 2008	4,746,876	15.85

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

During the nine months ended September 30, 2008, 1,749,000 stock options were granted to employees and directors (nine months ended September 30, 2007: 1,950,500). The weighted-average fair value of these stock options is estimated to be \$6.43 each (nine months ended September 30, 2007: \$3.77 each). The total fair value of the stock options granted is amortized over the two year vesting period. The stock-based compensation amortization for the three and nine month periods ended September 30, 2008 was \$2,160 and \$8,533, respectively (September 30, 2007: \$1,500 and \$4,779 respectively) of which \$438 and \$1,623 respectively, was capitalized to mineral properties (September 30, 2007: \$Nil).

The fair value of each option is estimated as at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>2008</u>	<u>2007</u>
Expected volatility	47%	45%
Risk-free interest rate	3%	5%
Expected lives	2.0 years	2.6 years
Dividend yield	Nil	Nil

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

#### (c) Warrants

The following warrants were outstanding and exercisable at September 30, 2008:

	Common shares to be issued on exercise	Exercise price C\$	Expiry date
Traded warrants	5,980,000	20.00	May 9, 2010
Lender warrants	1,297,767	9.24	March 1, 2012
Exercisable at September 30, 2008	7,277,767	18.08	

**Quadra Mining Ltd.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

**14. REVENUES FROM CONCENTRATE SALES**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Copper revenues	151,228	109,509	439,173	327,093
Gold revenues	32,912	17,795	97,540	56,465
Molybdenum revenues	579	681	1,226	1,737
Price adjustments	(64,398)	12,847	(29,281)	49,998
Refining and treatment charges	(4,364)	(6,245)	(14,099)	(23,112)
	<b>115,957</b>	<b>134,587</b>	<b>494,559</b>	<b>412,181</b>

Revenues from concentrate 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 price adjustments as they occur until the price is finalized. At September 30, 2008, working capital and revenues include 51 million pounds of copper which has been provisionally valued at an average price of \$2.91 per pound (December 31, 2007 - 38.2 million pounds at \$3.04 per pound). Accounts payable includes a provision for negative price adjustments of \$49,092 at September 30, 2008 based on the average price of \$2.91 per pound. The final pricing for these provisionally priced sales is expected to occur between October 2008 and January 2009 (Note 23).

**15. NET INTEREST AND OTHER INCOME**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Interest income	(1,684)	(2,346)	(4,919)	(5,118)
Interest expense	422	557	1,574	2,442
Gain on sale of marketable securities	-	-	(1,888)	-
Other	(135)	(148)	(248)	(1,082)
	<b>(1,397)</b>	<b>(1,937)</b>	<b>(5,481)</b>	<b>(3,758)</b>

## **Quadra Mining Ltd.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

#### **16. MANAGEMENT OF CAPITAL RISK**

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

In the management of capital, the Company includes the components of shareholders' equity and loans payable, as well as cash and cash equivalents. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of investments.

In order to facilitate the management of its capital requirements, the Company 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 Board of Directors.

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

#### **17. MANAGEMENT OF FINANCIAL RISK**

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

##### **(a) Currency risk**

The Company's revenues from the sale of copper, gold and molybdenum are denominated in US dollars. The Company's operating expenses are primarily incurred in US dollars and its liabilities are primarily denominated in US dollars. The operating results and financial position of the Company are reported in US dollars in the Company's consolidated financial statements. However, the Company's corporate office is in Canada and the majority of general and administrative expenses are paid in Canadian dollars. The Company has not entered into any arrangements to hedge the currency risks.

##### **(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.

## **Quadra Mining Ltd.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

The Company's significant counterparty exposures are as follows:

- Sales contract 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 Company manages the credit risk for trade and other receivables through established credit monitoring activities.
- Cash and cash equivalents. The counter-parties primarily consist of banks, governments and government agencies.
- Derivative instruments. The counterparties consist of several large international financial institutions.

The Company monitors the concentration of exposure and where possible, if necessary, takes steps to limit exposures to any one counterparty.

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular forecasting and the management of its capital structure and financial leverage as described in Note 16. Accounts payable and accrued liabilities, and other current liabilities are due within the current operating period.

#### (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.

The risk that the Company will realize a loss as a result of a decline in the fair value of cash and cash equivalents is limited because of their short-term nature and because these investments are generally held to maturity.

#### (e) Commodity price risk

The value of the Company's mineral resource properties is related to the price of copper, gold and molybdenum and the outlook for these minerals. Copper, gold and molybdenum prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, levels of worldwide production, short-term changes in supply and demand related to speculative activities, central bank lending, forward sales by producers and speculators, and other factors.

The profitability of the Company's operations is highly correlated to the market price of copper, gold and molybdenum. The Company has purchased copper put options to reduce the copper price risk (Note 12). If metal prices decline more rapidly than the Company can change plans or for a prolonged period the Company's operations and development projects may not be economically feasible.

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

In addition, changes in the price of copper can have a significant impact on the value of receivables which include sales that have been provisionally valued, and not yet subject to final pricing. A change in the copper price of \$0.50 per pound at September 30, 2008, with all other variables held constant, would have impacted the value of provisionally priced revenues and receivables by \$25,493 and changed after tax earnings for the three months ended September 30, 2008 by \$19,374.

#### 18. SEGMENTED INFORMATION

The Company's operating segments are based on mineral properties (Note 7). All of the Company's operating income for the three and nine months ended September 30, 2008 and 2007 was generated by the Robinson mine. Detail as to capital assets and capital expenditures by geographic areas are included in Note 7. Total assets for each segment are as follows:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Robinson mine	386,209	286,520
Carlota project	317,066	184,387
Other mineral properties	221,715	107,417
Corporate and other	156,442	210,895
	<b>1,081,432</b>	<b>789,219</b>

#### 19. RELATED PARTY TRANSACTIONS

One of the directors of the Company is a partner of an affiliate of Blake, Cassels & Graydon LLP. During the three and nine months ended September 30, 2008, the Company incurred legal fees of \$94 and \$508, respectively, with that entity (three and nine months ended September 30, 2007: \$83 and \$844, respectively). All of the fees incurred were at normal business terms.

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

#### 20. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
(Increase) decrease in receivables	25,887	(5,948)	(851)	(28,888)
(Increase) decrease in inventory	3,746	2,132	(4,415)	4,162
Increase in other current assets	(4,343)	(2,651)	(9,639)	(6,630)
(Decrease) increase in accounts payable and accrued liabilities	50,484	408	41,398	(7,330)
(Decrease) increase in other current liabilities	5,970	3,842	5,214	(11,204)
Net changes in non-cash working capital	81,744	(2,217)	31,707	(49,890)
Other supplemental information:				
Interest paid	422	2,914	8,835	10,085
Income tax paid	3,013	8,327	38,428	22,327

#### 21. CONTINGENCIES

- (a) The Company has been served with four lawsuits that have been filed in Chilean courts against the Company's wholly-owned Chilean subsidiary, Minera Quadra Chile Limitada. The lawsuits were filed on August 13, 2007, April 2, 2008, June 20, 2008 and July 10, 2008. Based on advice of Chilean counsel, Quadra believes that the option agreements are valid and that the legal claims are without merit.

The plaintiffs are minority shareholders in the "sociedades legales mineras" (SLM) or legal mining companies that owned certain of the mining tenements that were optioned to Quadra in 2004. In three of the cases, the plaintiffs are requesting that the option agreements to purchase the mining tenements be declared null and void. The plaintiffs in these cases are claiming that the SLM's were not authorized to sell the mining tenements. In the fourth case, the plaintiffs argue that if any of the first three cases are successful, then further option agreements are invalid by virtue of the fact that the option agreements were intended to be exercised in either all or none of the cases.

The first three lawsuits relate to three of the ten option agreements that the Company entered into with respect to its Sierra Gorda mineral property. Although Quadra believes that the option agreements are valid and that the legal claims are without merit, the outcome is uncertain. The proceedings are subject to the procedural and substantive laws of Chile, and the allegations are based on the actions of the

## **Quadra Mining Ltd.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2008  
(Unaudited)

Optioners, in respect of which Quadra has no direct knowledge. The Company intends to vigorously defend these claims, however there is no assurance that it will be successful. A negative outcome in these proceedings could have a material adverse effect on Quadra.

- (b) In October 2007 the U.S. Court of Appeals ordered that the National Pollution Discharge Elimination System (NPDES) permit for the Company's Carlota copper project be "vacated". The Company is appealing this decision to the U.S. Supreme Court. The Company has modified the design of the Carlota mine site and management believes that this modification will obviate the need for a NPDES permit. This approach does have operational implications following a major storm event including potential interruptions to production and higher operating costs until the storm water is disposed of. Accordingly the Company is appealing the decision to the US Supreme Court. The permit remains valid during the appeal process.

#### **22. COMMITMENTS**

During the quarter ended September 30, 2008, the Company committed to acquire \$25,086 of equipment for the Carlota and Robinson mine.

#### **23. SUBSEQUENT EVENTS**

In October, the Company entered into NYMEX heating oil futures contracts for 7.8 million gallons at an strike price of \$2.51/gallon. The contracts were acquired at no cost but are subject to margin call. The settlement of these contracts will occur between December 2008 and November 2009. The Company will pay or receive cash based on the difference between the strike price and the actual cost of NYMEX heating oil in the month of settlement.

As of October 31, 2008 the copper price has declined to \$1.81. If this price decline is sustained, the Company would record additional negative price adjustments of \$50 million related to third quarter revenues, and would repay this amount to customers over the period to January 2009. As of October 31, 2008, the fair value of the Company's copper put options has increased to \$32 million as a result of the decline in copper prices.