



Quadra Mining Ltd.

December 31, 2005

(Audited)

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These financial statements have been prepared by the management of the company. The consolidated financial statements have been prepared in accordance with General Accepted Accounting Principles in Canada and, where appropriate, reflect management's best estimates and judgments based on currently available information.

The Audit Committee of the Board of Directors, which consists of three independent directors, meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, who are appointed by the shareholders, conducted an audit in accordance with Canadian Generally Accepted Auditing Standards to allow them to express an opinion on the consolidated financial statements.

A system of internal control is maintained to provide reasonable assurance that financial information is accurate and reliable. Management conducts ongoing reviews of these controls and reports on their findings to the Audit Committee.

William H. Myckatyn

Derek C. White

(signed)

(signed)

Chief Executive Officer

Chief Financial Officer

March 9, 2006

Auditors' Report

to the Shareholders of Quadra Mining Ltd.

We have audited the consolidated balance sheets of Quadra Mining Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
March 3, 2006

Quadra Mining Ltd.

CONSOLIDATED BALANCE SHEETS

[US Dollars in Thousands]

		December 31, 2005	December 31, 2004
ASSETS			
Current			
Cash and cash equivalents		9,128	12,269
Receivables and prepaid expenses		24,438	2,022
Inventory	Note 5	30,283	19,279
Security deposits	Note 6	2,075	4,339
Total Current Assets		65,924	37,909
Security deposits	Note 6	16,830	13,486
Environmental trust and bond	Note 7	31,235	23,612
Prepaid Royalties	Note 8	3,265	-
Mineral properties	Note 9	36,754	3,140
Property, plant and equipment	Note 10	67,410	43,171
Other assets and deferred charges	Note 11	37,132	17,912
Future income tax assets	Note 12	3,492	1,587
Total Assets		262,042	140,817
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	Note 13	35,000	-
Accounts payable and accrued liabilities		15,564	8,297
Derivative instrument liability	Note 14	41,564	1,899
Notes payable - current portion	Note 21f	890	353
Deferred gold consideration payable	Note 8	13,276	-
Obligations under capital leases-current portion	Note 21e	1,118	-
Total Current Liabilities		107,412	10,549
Asset retirement obligations	Note 16	27,067	25,067
Notes payable	Note 21f	2,131	2,082
Deferred gold consideration payable	Note 8	11,180	-
Obligations under capital leases	Note 21e	10,100	-
Total Liabilities		157,890	37,698
Shareholders' equity			
Share capital	Note 17a	103,727	102,553
Stock options and warrants	Note 17b	5,155	3,273
Deficit		(4,730)	(2,707)
Total Shareholders' Equity		104,152	103,119
Total Liabilities and Shareholders' Equity		262,042	140,817

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

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

Approved by the Board of Directors

(Signed) _____
Alexander Laird

(Signed) _____
Ken Williamson

Quadra Mining Ltd.**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

[US Dollars in Thousands]

		Year ended December 31, 2005	Year ended December 31, 2004
Net revenues from concentrate sales		228,235	11,932
Cost of sales		142,416	11,214
Amortization, depletion and depreciation		9,103	439
Accretion of asset retirement obligations		2,000	477
Royalties and mineral taxes		1,108	23
		<u>154,627</u>	<u>12,153</u>
Operating income (loss)		73,608	(221)
General and administrative		5,392	3,906
Realized loss on derivatives	Note 14	26,207	-
Stock-based compensation	Note 17b	1,890	1,870
Foreign exchange gain		(2)	(904)
Net interest and other (income) expense		132	(530)
Income (loss) before other items		<u>39,989</u>	<u>(4,563)</u>
Write down of Magistral property	Note 9	6,933	-
Unrealized loss on derivatives	Note 14	32,463	1,899
Contract termination fee	Note 21d	4,436	-
Break fee		-	(2,500)
		<u>3,843</u>	<u>3,962</u>
Loss before income taxes		3,843	3,962
Future income tax recovery	Note 12	(1,820)	(1,587)
		<u>2,023</u>	<u>2,375</u>
Loss for the period		2,023	2,375
Deficit – beginning of period		2,707	332
Deficit – end of period		4,730	2,707
Loss per share			
Basic and diluted loss per share	Note 18	0.07	0.11

Quadra Mining Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[US Dollars in Thousands]

	Year ended December 31, 2005	Year ended December 31, 2004
OPERATING ACTIVITIES		
Loss for the period	(2,023)	(2,375)
Adjustment for items not involving cash:		
Foreign exchange loss	-	(674)
Stock-based compensation	1,890	1,870
Amortization, depletion, depreciation and accretion	11,103	923
Unrealized loss on derivatives	39,665	1,899
Future income tax recovery	(1,905)	(1,587)
Write down of Magistral property	6,933	-
	<u>55,663</u>	<u>56</u>
Net changes in non-cash working capital:	(25,993)	(12,772)
Cash received (used) from operating activities	29,670	(12,716)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(11,129)	(7,056)
Increase in security deposits and environmental trust and bond	(8,271)	(36,134)
Additions to mineral properties	(9,861)	(3,140)
Investment in other assets and deferred charges	(20,788)	(17,531)
Acquisition of Robinson mine	-	(15,707)
Acquisition of Carlota project	(16,348)	-
Cash used in investing activities	(66,397)	(79,568)
FINANCING ACTIVITIES		
Increase in bank indebtedness	35,000	-
Decrease in notes payable	(899)	-
Decrease in obligations under capital leases	(311)	-
Increase in deferred debt financing fee	(229)	-
Increase in share capital	25	103,879
Cash provided by financing activities	33,586	103,879
Net increase (decrease) in cash and cash equivalents during the period	(3,141)	11,595
Effect of foreign exchange rates on cash and cash equivalents	-	674
Cash and cash equivalents, beginning of period	12,269	-
Cash and cash equivalents, end of period	9,128	12,269

Quadra Mining Ltd.

NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]
Year ended December 31, 2005

1. NATURE OF OPERATIONS

Quadra Mining Ltd. ("Quadra" or the "Company") was incorporated on May 15, 2002 under the British Columbia Business Corporations Act. The Company is in the business of developing and operating mines, with a focus on copper. In 2004, the Company acquired the Robinson mine (Note 8), an open pit copper mine, with gold and molybdenum by product credits, located in the United States. The Company also has an advanced exploration project in Chile (Note 9). In addition, on December 21, 2005 the Company acquired the Carlota copper project ("Carlota"). Carlota is a development ready SX-EW copper project located near Phoenix, Arizona in the United States (Note 8). In order to construct the Carlota project, the Company will be required to obtain additional financing. Some of the required financing was completed subsequent to December 31, 2005 (Note 23a).

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts are presented in thousands of United States dollars unless otherwise indicated. The significant accounting policies are as follows:

a) Basis of consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries. The principal subsidiaries are as follows:

b) Cash equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash with maturities of three months or less when purchased.

c) Property, plant and equipment

Property, plant and equipment are carried at cost. Amortization of property, plant and equipment is provided for at the following annual rates:

Mine equipment	Unit-of-production
Mine buildings	Unit-of-production
Other equipment	Straight line over 3 to 7 years

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NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]
Year ended December 31, 2005

Computer equipment	30% declining balance
Office equipment	20% declining balance
Leasehold improvement	Straight line over the lease term

d) Mineral properties and deferred start up costs

The costs of operations incurred and revenues earned prior to the commencement of commercial production are deferred and amortized over the expected life of the mine on a unit-of-production basis. The Robinson mine commenced commercial production on October 1, 2004.

Where the Company's activities relate to the acquisition of mining claims, permits, exploration, development and construction thereon, all expenditures directly related thereto have been capitalized on an area of interest basis. These expenditures will be charged against income, through unit of production depletion, when properties have reached commercial production. The costs of abandoned areas of interest are charged against income. If a mineral property becomes impaired, it will be written down to the estimated fair value in the period the impairment is determined.

Where the Company's exploration commitments for an area of interest are performed by third parties under option agreements, any option payments received under such agreements will be applied to the area of interest to the extent of costs incurred. The amount shown for mineral properties represents costs to date and does not necessarily reflect present or future values.

Recovery of capitalized costs is dependent upon successful development of economic mining operations or the sale or disposition of such property for amounts at least equal to the Company's investment therein.

e) Exploration

General exploration costs are expensed in the period incurred. Significant property acquisition, exploration and development costs relating to specific properties are deferred until the project to which they relate is sold, abandoned, impaired or placed into production.

Quadra Mining Ltd.

NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]
Year ended December 31, 2005

f) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between accounting carrying values and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the assets will not be realized.

g) Foreign currency translation

During the year ended December 31, 2004, the Company changed its reporting currency from the Canadian dollar to the United States dollar. This was done because management considers the United States dollar to be the functional currency of the Company because the Company's primary assets are based in the United States, the Company's products will be sold in United States dollars and the majority of the Company's transactions will be denominated in the United States dollar.

The Company's operations with measurement currencies other than US dollar are considered to be integrated and, accordingly, have been translated using the temporal method. Under this method, monetary items are translated at the rate of exchange in effect at the balance sheet dates, and non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the average rate of exchange in effect during the quarter in which they occur. Gains or losses on translation are charged against earnings.

h) Inventory

Inventories comprise final concentrate product and supplies. Concentrate inventories are valued at the lower of average cost and net realizable value. Supplies are valued at the lower of cost and replacement cost. Costs include all direct costs incurred in production including freight and amortization, depreciation and depletion charges relating to the production of inventory.

i) Revenue recognition

Sales are recognized and revenues are recorded at market prices when title transfers and the rights and obligations of ownership pass to the customer. The majority of the Company's concentrate is sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. These concentrates are provisionally priced (at the time of sale) based on forward prices for the expected date of the final settlement.

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[US Dollars in Thousands]
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Subsequent variations in price are recognized as revenue adjustments as they occur until the price is finalized. Treatment and refining charges are deducted from the gross revenues in accounting for net revenues.

j) Asset retirement obligations

The fair value of asset retirement obligations is recognized in the period in which the liability is incurred or acquired. When a liability is initially recorded, a corresponding increase to the carrying amount of the related asset is recorded (ARO asset).

The liability is increased over time (accreted) by the discount factor that was applied in the initial measurement of fair value and the asset is amortized over the estimated life of the related asset. The amount of the liability will be subject to re-measurement at each reporting period. Any adjustment to this liability other than accretion will impact the related asset. Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total liability for future site restoration costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. The Company is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future.

The Company, where possible, has estimated the future environmental clean up costs based on current best practice. These estimates are subject to changes in environmental legislation and the Company's ability to accurately forecast the costs associated with closure and site reclamation.

k) Earnings (loss) per share

Earnings (loss) per share are calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method whereby all "in the money" options and warrants are assumed to have been exercised at the beginning of the year and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the year. When a loss has been incurred, basic and diluted loss per share are the same because the exercise of options and warrants would be anti-dilutive.

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NOTES TO FINANCIAL STATEMENTS

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l) Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in Note 17(b). The Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date using the Black-Scholes valuation model and recognized over the vesting period of the options granted.

m) Derivative instruments and hedging arrangements

The Company may from time to time, use derivative instruments to manage its exposure to commodity prices and foreign exchange movements. Hedge accounting has not been applied and consequently all derivatives have been marked to market at December 31, 2005.

n) Leases

Leases are classified as capital or operating depending on the terms and conditions of the contracts. Payments under operating leases are expensed in the period in which they are incurred. Asset values recorded under capital leases are amortized on a straight line basis over the period of expected use. Obligations under capital lease are reduced by lease payments, net of computed interest.

o) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. The key estimates relate to revenue settlements, recoverability of assets, asset retirement obligations, trade receivables, inventory valuation, stock-based compensation, derivatives, deferred stripping, accruals and future income taxes. Actual results may differ from those estimates.

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NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]
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3. CHANGES IN ACCOUNTING STANDARDS

Deferred stripping

Mining costs related to waste rock removal in excess of the life-of-pit average strip ratio (ratio of waste extracted to ore extracted) are deferred and charged to earnings on the basis of the average stripping ratio. When the waste rock extracted in a given period is less than the life-of-pit average, a charge against earnings for historical stripping is made.

The Emerging Issues Committee of the CICA issued “Accounting for Stripping Costs in the Mining Industry” (EIC 160), which only allows the capitalization of stripping costs which result in a betterment of the asset by providing access to additional sources of ore. EIC 160 also allows pre existing deferred stripping capitalized to be amortized using the unit of production method. The Company is currently assessing how it will adopt this policy.

4. FINANCIAL INSTRUMENTS

The Company’s financial instruments are comprised of cash and cash equivalents, receivables, security deposits, bank indebtedness, accounts payable, notes payable, prepaid royalties, environmental bond, deferred gold consideration, derivatives and obligations under capital lease. The fair value of current financial instruments approximates their carrying values due to the immediate or short-term maturity of those instruments. Management also estimates that the fair value of the notes payable and the non-current security deposits approximate their carrying value.

5. INVENTORY

	December 31, 2005	December 31, 2004
Concentrate	24,603	18,069
Supplies	5,680	1,210
Total	30,283	19,279

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NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]
Year ended December 31, 2005

6. SECURITY DEPOSITS

The Company has entered into agreements related to the leasing of mining mobile equipment. These lease arrangements require prepayment and security deposits of \$16,418. Other security deposits mainly comprise \$2,075 deposit for the power contract, which will be ended May 2006.

	December 31, 2005	December 31, 2004
Security deposits - mining equipment	16,418	11,479
Security deposits - others	2,487	2,007
Margin deposit	-	4,339
Total	18,905	17,825
Less: Current portion	2,075	4,339
Long-term	16,830	13,486

7. ENVIRONMENTAL TRUST AND BOND

	December 31, 2005	December 31, 2004
Environmental bond (a)	20,075	17,990
Cash in trust for reclamation (b)	11,160	5,622
Total	31,235	23,612

(a) The Company has posted an environmental bond with the US Bureau of Land Management (BLM). On March 25, 2005, the BLM approved the revised reclamation plan and cost estimate for the Robinson Mine and required the Company to increase the amount of the bond. During the year ended December 31, 2005, the amount of the bond increased to \$20,075 including cumulative interest earned of \$595. On January 31, 2006 the bond was increased by a further \$976.

(b) Under the terms of the Kennecott Royalty Agreement that was assumed by the Company on the acquisition of the Robinson Mine, a 3% net smelter return royalty is payable to Royal Gold (formerly Kennecott). The agreement provides that the first royalty payments with accumulated interest will be paid into a trust until such time that \$20,000 funds are available to pay for

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NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]
Year ended December 31, 2005

qualified rehabilitation expenditures on the Robinson mine. As part of the Robinson mine acquisition, the Company acquired cash in trust of \$5,302. The following table summarizes the movements in the trust balance as at December 31, 2005:

	Contributions to the trust	Reclamation costs paid by the trust	Net trust funds available
On acquisition of Robinson mine	10,202	4,900	5,302
Interest income	184	-	184
Since acquisition of Robinson mine	5,674	-	5,674
Total	16,060	4,900	11,160

8. ACQUISITIONS

Robinson Mine

On April 8, 2004, the Company acquired all of the issued and outstanding shares and all of the common share options of BHP Nevada Mining Company and BHP Nevada Railroad Company for a purchase consideration of \$15,707. The primary asset acquired in the purchase was the Robinson Mine in Nevada. The Robinson Mine was previously owned by BHP Billiton and had been under care and maintenance since 1999.

The mine restarted operations in May 2004 and achieved commercial production on October 1, 2004. The acquisition has been accounted for by the purchase method with the fair value of the consideration paid being allocated to the identifiable assets acquired and liabilities assumed on the closing date as set out below.

Assets and liabilities acquired:

Prepaid Expenses	111
Cash in reclamation trust	5,302
Plant and equipment and asset retirement obligations asset	34,920
Account payable and accruals	(36)
Asset retirement obligations	(24,590)
	15,707
Consideration paid	
Purchase price	14,763
Cost of acquisition	944
Total	15,707

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[US Dollars in Thousands]
Year ended December 31, 2005

Originally contemplated in the acquisition was also the purchase of a 33.57% interest in the Highland Valley Copper Mine located in British Columbia, Canada. This purchase was pre-empted by the exercise of a right of first refusal of the majority partner. The Company received a break fee of \$2,500 as a result of this option exercise. All identifiable costs of the Highland Valley Copper transaction have been expensed and included in general and administrative costs.

Carlota Project

On December 21, 2005 the Company purchased from Cambior Inc. all of the shares of Cambior USA, Inc., the parent company of Carlota Copper Company, which holds the Carlota project. The purchase consideration was \$15,000 in cash and 50,000 ounces of gold in deferred consideration. The gold is expected to be payable in equal tranches quarterly from March 31, 2006 to December 31, 2007. The fair value of the 50,000 ounces of gold was initially estimated at \$23,325 based on the average forward price of \$520 per ounce on the closing date.

In addition, the Company is required to pay Cambior a working capital adjustment and reimbursement of expenses of \$450. The amount was outstanding as of December 31, 2005.

Included in the purchase price are ten used 190 ton trucks, one used P&H 2800 shovel and a solvent extraction plant. The acquisition has been accounted for by the purchase method with the fair value of the consideration paid being allocated to the identifiable assets acquired and liabilities assumed on the closing date as set out below.

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NOTES TO FINANCIAL STATEMENTS

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Year ended December 31, 2005

Assets and liabilities acquired:

Net working capital	276
Mineral property (Note 22b)	28,413
Prepaid royalties	3,265
Plant and equipment	7,750
Net assets acquired	39,704

Considerations paid:

Cash	15,000
Working capital and reimbursement of expenses payable	450
Deferred gold consideration payable	23,325
Direct costs of acquisition	929
Total	39,704

Under the Share Purchase Agreement, the Company is required to pay an additional \$4,000 of contingent consideration related to an estimated potential 3.8 million tonnes of additional material that is subject to a future confirmatory drilling program to be completed by December 31, 2006 and to certain grade requirements. The Company considers this contingent consideration to be too uncertain to be recorded as purchase price consideration at this time.

Since acquisition, the Company had spent \$156 to develop the Carlota project. The amount was capitalized under mineral properties.

As of December 31, 2005 the fair value of the 50,000 ounces of gold was estimated as \$24,456 based on the average forward price of \$544 per ounce on December 31, 2005 result in a loss on deferred gold consideration of \$1,131 which was capitalized to mineral property costs prior to the commencement of commercial production.

Carlota Copper Company had estimated available tax pools of approximately \$68,000. The excess over the purchase price results in a potential future income tax asset of approximately \$10,000. Management believes that sufficient uncertainty exists regarding the realization of this future income tax asset such that a full valuation allowance is required (Note 12 and Note 22b).

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NOTES TO FINANCIAL STATEMENTS

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Year ended December 31, 2005

9. MINERAL PROPERTIES

	December 31, 2005	December 31, 2004
Sierra Gorda - option payments	2,286	1,780
Sierra Gorda - exploration	4,317	1,360
Carlota (Note 8)	30,151	-
Total	36,754	3,140

Sierra Gorda

On April 15, 2004, Quadra entered into six agreements (the "Option Agreement") with six separate vendors under which Quadra could elect to purchase six contiguous mining properties (the "Sierra Gorda") in Chile. The Option Agreements have differing terms, conditions and adjustments. The total purchase price of all six properties is \$24,975. The payment schedules are structured so that there are initial payments, further payments upon entering into the Option Agreements and annual and semi-annual payments thereafter until the full purchase price is paid. The initial amount paid upon entering into the Option Agreements was \$1,675 with an additional \$105 paid in 2004. During the year ended December 31, 2005, the Company made a \$506 option payment. The next payment is due on April 15, 2006 in the amount of \$466.

Magistral

During the quarter ended March 31, 2005, Quadra entered into an agreement with Inca Pacific Resources Inc. ("Inca") to earn a 50.1% interest for the Magistral copper-molybdenum project in Peru.

The costs of entering the agreement were as follows:

- i) Investment in shares in Inca
- Recorded at fair market value: \$598
- ii) Mineral properties - Magistral: \$2,514 (including 183,264 common shares issued at a value of \$1,141)

On October 26, 2005 the Company made an election not to continue in the development of the project. As a result, the investment and costs incurred in developing the project of \$6,681 have been written off and charged against earnings. In addition, the investment in Inca has been disposed of for net proceeds of \$346 resulting in a loss of \$252. The total loss related to the Magistral project was \$6,933 for the year ended December 31, 2005.

Quadra Mining Ltd.

NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]
Year ended December 31, 2005

10. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value
Plant and equipment	33,513	(2,887)	30,626
Equipment under capital leases	11,529	(347)	11,182
Asset retirement obligations	24,590	(3,619)	20,971
Buildings	3,174	(467)	2,707
Office equipment	2,338	(573)	1,765
Leasehold improvements	188	(29)	159
Total	75,332	(7,922)	67,410

	December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value
Plant and equipment	14,950	(455)	14,495
Asset retirement obligations	24,590	(482)	24,108
Land and buildings	3,174	(62)	3,112
Office equipment	1,360	(61)	1,299
Leasehold improvements	159	(2)	157
Total	44,233	(1,062)	43,171

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11. OTHER ASSETS AND DEFERRED CHARGES

			December 31, 2005	December 31, 2004
	Cost	Accumulated amortization	Net book value	Net book value
Robinson mine deferred start-up costs	17,922	(2,638)	15,284	17,557
Deferred pit cost	586	(49)	537	-
Deferred stripping	20,792	-	20,792	-
Deferred financing fee	229	-	229	-
Other long-term receivables	290	-	290	355
Total	39,819		37,132	17,912

12. INCOME TAXES

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

	December 31, 2005	December 31, 2004
	\$	\$
Income tax recovery at the statutory rate of 34.12% (2004 – 35.62%)	(1,318)	(1,411)
Increase (decrease) in income taxes resulting from:		
Permanent difference	(359)	226
Tax benefits recognized	(482)	(817)
Difference in foreign tax rate	36	14
Tax benefits not recognized	303	401
Taxation recovery	(1,820)	(1,587)

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The components of recognized future tax assets as of December 31, 2005 are as follows:

	December 31, 2005	December 31, 2004
	\$	\$
Resource assets	3,717	8,193
Other deductible tax pools	10,747	2,034
Non-capital losses	2,732	8,112
	17,196	18,339
Valuation allowance	(13,704)	(16,751)
Future income tax assets	3,492	1,587

The Company has not recognized the tax benefits arising from Canadian and Chilean operations and Carlota Copper Company (Note 8).

As of December 31, 2005, the Company and subsidiaries included in these consolidated financial statements had loss carry forwards of approximately \$8,000, of which \$6,000 is attributed to the Canadian operations and will expire between 2009 and 2015, and \$2,000 is attributed to the U.S. operations and will expire in 2025.

13. BANK INDEBTEDNESS

(a) Corporate Facility

On March 10, 2005, Robinson arranged a revolving Working Capital Facility for \$20,000 and hedge line of credit facility with Macquarie Bank Ltd. ("Macquarie"). Proceeds from the Working Capital Facility are available to provide additional liquidity for the Robinson Mine between the production and final settlement of sales of metal concentrate. Each drawdown under this facility will be no greater than 90% of the outstanding net smelter return based on the hedged value of concentrate shipments under current sales contracts.

By agreement dated December 19, 2005, the Company amended the terms of the Working Capital Facility to include a Corporate Facility and arranged a Bridge Loan (b) to cover the initial installment of the Carlota purchase consideration. The amendment, to the Working

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Capital Facility, which is valid until June 30, 2006, permits Robinson to borrow up to a total of \$20,000 in corporate advances. After June 30, 2006 and until March 31, 2007, the facility reverts to the \$20,000 Working Capital Facility. The Company was required to hedge all inventory produced and unsold at the end of November and all production the sale of which would be finally settled in 2006. The Company hedged in total 65,000 tonnes of Copper at an average price of \$1.70 per pound sold. As at December 31, 2005 the Company had fully drawn down on the \$20,000 facility.

The Working Capital Facility and the Corporate Facility are collateralized by a charge over the shares in and assets of Robinson. Advances under the Working Capital Facility bear interest at LIBOR plus 1.35% while advances under the Corporate Facility bear interest at LIBOR plus 2.35%. During the term of the Corporate Facility the ability of Robinson to make distributions to Quadra is restricted to certain agreed upon amounts.

(b) Bridge Loan

On December 20, 2005, Robinson Holdings (USA) Ltd. ("RHUSA"), a subsidiary of the Company entered into a Bridge Loan with Macquarie to finance the initial \$15,000 installment of the purchase consideration of Cambior USA Inc. The Bridge Loan bears interest at a rate of LIBOR plus 2.35% and is repayable on or before March 31, 2006. As security for the repayment of the credit facility in (a), and the Bridge Loan, the Company has granted a security interest in all of the assets of RHUSA, and a second charge against the shares and assets of Carlota Copper Company. On February 10, 2006 RHUSA repaid the \$15,000 Bridge Loan facility and the security related to the Bridge Loan has been released.

14. DERIVATIVE INSTRUMENTS

The Company buys gold forward sales contracts. As at December 31, 2005, the weighted-average price on the forward contracts was \$413 per ounce and the quantity was 48,000 oz. The realized loss resulting from the settlement of the contracts was \$520 during the year. As at December 31, 2005 the unrealized loss from the mark-to-market adjustment of the contracts was \$4,804 (2004: \$1,899).

During the year ended December 31, 2005 the Company entered into various short-term copper forward sales contracts with Macquarie to hedge the copper price. The realized loss from the copper forward contracts was \$25,687 for the year ended December 31, 2005, of which \$7,202 will be paid during the first quarter of 2006. As at December 31, 2005 the weighted-average price on the outstanding forward contracts was \$1.70 per pound for a total of 65,000 tonnes of

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copper metal. The unrealized loss from the mark-to-market adjustment as at December 31, 2005 was \$29,558.

15. STATEMENT OF CASH FLOWS

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

	Year ended December 31, 2005	Year ended December 31, 2004
Increase in receivables and prepaid expenses	(22,172)	(2,243)
Increase in inventory	(10,656)	(18,480)
Increase in payables and accruals	6,835	7,951
Net changes in non-cash working capital	<u>(25,993)</u>	<u>(12,772)</u>

16. ASSET RETIREMENT OBLIGATIONS

	December 31, 2005	December 31, 2004
Balance at beginning of period	25,067	-
Acquisition of Robinson mine	-	24,590
Accretion	2,000	477
Balance at end of period	<u>27,067</u>	<u>25,067</u>

On the acquisition of the Robinson mine in April 2004, the Company assumed substantially all the environmental liabilities related to the Robinson mine. The Company obtained an independent study to evaluate the fair value of the expected closure costs of the Robinson mine. The total undiscounted amount of the estimated closure costs is estimated to be \$68,000. In assessing the carrying amount for the asset retirement obligations, the Company used a credit-

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adjusted risk-free rate of 7.75% and an estimated inflation rate of 2%. The mine is expected to close in ten years.

As of December 31, 2005 the Company had posted an environmental bond and held cash in reclamation trust totaling \$31,235 (Note 7) to secure a portion of the closure costs related to the Robinson mine.

17. SHARE CAPITAL

(a) Common Shares

The Company has authorized capital of 1,000,000,000 common shares with no par value.

	Number of Shares	Dollar Amount
Balance at January 1, 2004	2,000,000	77
Issued in 2004:		
Special warrant exercised	1,000,000	1,549
Initial Public Offering	24,156,000	100,927
Balance at December 31, 2004	27,156,000	102,553
Issued in 2005:		
To Inca Pacific	183,264	1,141
Employee stock options exercised	6,667	33
Balance at December 31, 2005	27,345,931	103,727

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(b) The following tables summarize the stock option activity for the year ending December 31, 2005 and 2004 (in Canadian dollars):

	Options	Weighted-average exercise price \$
Outstanding at January 1, 2005	1,724,167	5.92
Granted	1,021,000	6.93
Cancelled	(85,000)	6.33
Exercised	(6,667)	4.70
Outstanding at December 31, 2005	2,653,500	6.13
Exercisable at December 31, 2005	1,451,166	6.07

	Options	Weighted-average exercise price \$
Outstanding at January 1, 2004	-	-
Granted	1,737,500	5.91
Cancelled	(13,333)	4.70
Outstanding at December 31, 2004	1,724,167	5.92
Exercisable at December 31, 2004	645,833	5.92

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The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2005 (in Canadian dollars):

Exercise price per share	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price \$	Number exercisable	Weighted-average exercise price \$
\$4.60 - \$4.91	110,000	3.42	4.83	56,666	4.81
\$5.16 - \$5.35	382,000	4.67	5.21	127,333	5.21
\$6.00 - \$7.40	2,161,500	3.58	6.35	1,267,166	6.21

During the year ended December 31, 2005, the Company granted 1,021,000 stock options to directors and employees. For accounting purposes, the estimated weighted-average fair value per stock option is \$1.87 for a total value of \$1,910. All options have a two-year vesting period and expire after five years. 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>2005</u>	<u>2004</u>
Expected volatility	30%	30%
Risk-free interest rate	5.00%	5.00%
Expected lives	5 year	5 year
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.

On April 8, 2004 the Company issued 1,449,360 brokers warrants as part of the initial public offering. These warrants have an exercise price of CAD\$6.00 and expire on April 8, 2006. No warrants were exercised during the year ended December 31, 2005.

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The following table summarizes the movement in the stock options and warrants account for the year ended December 31, 2005 and December 31, 2004:

	Stock options and warrants
Balance at January 1, 2004	-
Stock option expense in 2004	1,870
Warrant issued in 2004	1,403
Balance at December 31, 2004	3,273
Stock option expense in 2005	1,890
Options exercised in 2005	(8)
Balance at December 31, 2005	5,155

18. LOSS PER SHARE

Basic loss per share is computed by dividing loss attributed to common shareholders by the weighted average number of common shares outstanding for the year. Basic and diluted loss per share are the same because the exercise of options or warrants would be anti-dilutive.

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	Year Ended December 31, 2005	Year Ended December 31, 2004
Basic and diluted loss per share		
Numerator		
Loss for the period	2,023	2,375
Denominator (000s)		
Basic weighted average shares outstanding	27,315	20,867
Basic and diluted loss per share	\$ 0.07	\$ 0.11

19. SEGMENTED INFORMATION

The Company's reportable geographic segments are as follows:

Robinson Mine (United States)

The Robinson Mine is an open pit copper and gold mine located in Ely, Nevada. All of the Company's revenues are generated from production at the Robinson Mine.

Carlota Project (United States)

The Carlota project is a permitted late-stage development copper project located in the Globe-Miami Mining District of Arizona.

Exploration (Chile)

The Company has entered into option agreements for six contiguous properties that make up the Sierra Gorda project in Chile.

Corporate (Canada)

Head office operations are located in Vancouver, British Columbia.

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As at December 31, 2005, segmented information is presented as follows:

	December 31, 2005				
	Robinson Mine	Exploration (Chile)	Carlota Project	Corporate	Total
Cash	6,520	55	31	2,522	9,128
Other current assets	56,353	10	249	184	56,796
Long-term assets	147,835	6,707	41,165	411	196,118
Total assets	210,708	6,772	41,445	3,117	262,042
Current liabilities	76,203	102	28,757	2,350	107,412
Long-term liabilities	39,298	-	11,180	-	50,478
Total liabilities	115,501	102	39,937	2,350	157,890
Earnings (Loss)	4,452	(6,762)	(114)	401	(2,023)

	December 31, 2004				Total
	Robinson Mine	Exploration (Chile)	Corporate		
Cash	3,567	54	8,648		12,269
Other current assets	20,670	21	4,949		25,640
Long-term assets	99,518	3,301	89		102,908
Total assets	123,755	3,376	13,686		140,817
Current liabilities	7,897	69	2,583		10,549
Long-term liabilities	27,149	-	-		27,149
Total liabilities	35,046	69	2,583		37,698
Earnings (Loss)	1,472	105	(3,952)		(2,375)

20. RELATED PARTY TRANSACTIONS

One of the Directors of the Company is a Partner of an affiliate of Blake, Cassels & Graydon LLP and one is a partner of Chancellor Partners Management Consultants Inc. During the year

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ended December 31, 2005 the Company paid legal fees of \$814 and recruiting and human resources consulting fees of \$263 respectively to those entities (December 31, 2004: \$733 and \$211 respectively).

21. COMMITMENTS

- (a) As at December 31, 2005, Robinson entered sales agreements regarding future sales of concentrate at fixed terms with five companies for a period of one to two years ending December 2007. Under these agreements Robinson will sell 210,000 dry metric tonnes of copper concentrate in 2006 contracted at adjusted market based pricing.
- (b) On September 1, 2004 Robinson entered into a lease agreement with Caterpillar Financial Services Corporation (“CAT”) to lease sixteen trucks, one electric shovel and spare dipper. Under the terms of the agreement, Robinson has an amount payable of \$3,919 (promissory note) due to CAT. The principal is repayable annually over three years and the interest is payable monthly at an annual interest rate of 6.6% over 39 months with the first payment commencing October 1, 2004. The total lease payment of the sixteen trucks amounts to \$37,672 and is payable over 7 years and the payments for the electric shovel and spare dipper are \$12,459 payable over 6 years. In addition, Robinson signed a seven year lease agreement with Wells Fargo Equipment Finance, Inc. (“Wells Fargo”) to lease one Hitachi EX5500 hydraulic shovel and one spare dipper. The total lease payments in the amount of \$6,250 is payable over 7 years.
- (c) On June 13, 2005 Robinson signed a five year agreement with Snyder Transport, Inc. (“Snyder”) to transport copper concentrates from the mine site to a trans-loading facility effective March 3, 2005. Robinson advanced \$200 to Snyder as security deposits for the transportation equipment. In accordance with the agreement, Snyder will return the \$200 security deposit to Robinson in September 2006.
- (d) On August 9, 2005 Robinson signed an agreement with Washington Group international (“WGI”), the mining contractor, to take over all mining operations at the Robinson mine from WGI.

The agreement required Robinson to pay a fee of \$4,436 to WGI and acquire certain equipment (“WGI equipment”). In addition, the parties are negotiating a final settlement of all outstanding contractual amounts which may result in the recovery of certain costs.

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- (e) On October 21, 2005 Robinson signed a capital lease agreement with CAT to lease WGI equipment. The lease term is 60 months and the total lease payment amounts to \$17,448. The fair value of the equipment is \$11,529. The equipment under capital lease is amortized on a straight-line basis over the period of expected use. The amount of interest expense in 2005 was \$139.

The following schedule summarizes the future minimum lease payments under the capital lease expiring December 31, 2010.

	Year ended December 31, 2005
2006	2,696
2007	2,696
2008	2,696
2009	2,696
2010	6,216
Total minimum lease payments	17,000
Amount representing notional interest	(5,782)
Balance of the obligation	11,218

- (f) The following table summarizes the obligations under the operating and capital leases in the next five years:

	2006	2007	2008	2009	2010
BE495 Shovel & Dipper	2,081	2,081	2,081	2,081	1,561
16 Trucks	5,382	5,382	5,382	5,382	5,382
Promissory Notes	890	2,131	-	-	-
Hitachi EX5500 Shovel	978	978	978	978	978
WGI equipment	2,696	2,696	2,696	2,696	6,216
Light Vehicles	76	-	-	-	-
	12,311	13,493	11,153	11,137	10,068

The total amount of lease payments made in 2005 was \$8,874.

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- (g) Production at the Robinson Mine is subject to a three percent net smelter return royalty (the "Kennecott Royalty"). The proceeds of the Kennecott Royalty are required to be contributed to the Robinson Restoration Trust until a total of \$20,000 in principal, credits and interest have been accumulated (Note 7), after which the royalty will be charged to expense.
- (h) Newmont Mining Corporation of Canada Limited, a subsidiary of Newmont Mining Corporation and the successor in interest to Franco Nevada Mining Corporation Limited ("Franco Nevada"), is entitled to receive royalties from the production of the Robinson Mine. The royalties payable to Franco Nevada consist of:
 - (1) A 10% royalty on net smelter returns on 51% of the production of gold from the Robinson Mine in excess of 60,000oz per calendar year;
 - (2) A royalty on 51% of copper production in excess of 130 million pounds of copper, payable in any calendar year in which the price of copper exceeds \$1.00 per pound at the end of the year (adjusted for inflation from 1990, estimated at \$1.50 at December 31, 2004) (the "Trigger Price"), in an amount equal to \$0.05 per pound plus an incremental amount equal to 40% of the amount by which the price of copper exceeds the Trigger Price; and
 - (3) A 0.225% royalty on net smelter returns of all minerals extracted from the Robinson Mine.
- (i) Carlota has an existing royalty agreement with Sherwood Owens, the owner of the 12 unpatented claims. Terms of the agreement call for a payment of \$10 upon exercising the option to lease (August 1989); payment of \$15 six months thereafter; and continuing payments of \$20 every 6 months prior to commencement of construction. No payments are due during construction. Upon commencement of commercial production, additional lease terms call for minimum monthly payments of \$3, which are credited towards a 5% net smelter return royalty on production with all payments after start of commercial production credited toward a purchase price of \$3,000.
- (j) On March 31, 1993 Carlota entered into a purchase agreement with BHP Copper (formerly Magma Copper Company, Inc.) whereby Carlota purchased 19 unpatented and 23 patented mining claims from BHP Copper. BHP Copper reserves will be subjected to a 5% net smelter return royalty on these claims. Minimum advance royalty payments of \$3,265 made by Carlota will be used as a credit against future production royalty payments to BHP Copper.

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22. CONTINGENCIES

- (a) The Company is required to enter into a financial security arrangement with the U.S. Forest Service (“Forest Service”) to provide financial security regarding potential reclamation of the program of works submitted to the Forest Service relating to the Carlota project. Previously, Cambior USA had arranged, through Cambior, a financial guaranty of \$6,800 with the Forest Service. The Company, in the short term, will need to submit a new proposed program of works and agree with the Forest Service the necessary financial security arrangements which may require a guaranty or other assurance arrangement.
- (b) Certain litigation is pending in connection with two key permits for the Carlota project. A court may render a decision which may delay or prevent development of the Carlota project or change the requirements of the Carlota project to the extent that it is no longer economically viable, which could have a material adverse effect on the Company.

23. SUBSEQUENT EVENTS

- (a) On January 31, 2006 the Company filed a short form prospectus to issue 8,280,000 common shares for net proceeds of CAD\$48,850, which will be used primarily in repayment of Bridge Facility, deferred acquisition payments for the Carlota project and development of the Carlota project.
- (b) On July 7, 2005 Gerald Metals Inc. declared it will not be accepting delivery on the remaining tonnage of their 2005 allotment of approximately 31,700 tonnes due to a strike at the receiving smelter. The Company sold these materials in the open market at less favourable terms in the fourth quarter of 2005. The Company disputes the position taken by Gerald Metals Inc. in regard to the sale contract and on February 17, 2006 the Company has filed a compliant in the Nevada courts to recover its losses.
- (c) During February 2006 RHUSA bought 12,500 ounces of gold at an average price of \$554 per ounce. This gold will be delivered to Cambior Inc. on March 31, 2006 and June 30, 2006 to settle two deferred gold consideration payments (Note 8). In addition, in order to cap the cost of the gold to be delivered in September 2006 and December 2006, RHUSA purchased gold calls in February and March which give RHUSA the right to buy 6,250 ounces of gold at a price of \$594 per ounce on September 11, 2006 and 6,250 ounces of gold at a price of \$600 per ounce on December 11, 2006.