



Quadra Mining Ltd.

December 31, 2006

(Audited)

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

Auditors' Report

to the Shareholders of Quadra Mining Ltd.

We have audited the consolidated balance sheets of Quadra Mining Ltd. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated 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, 2006 and 2005 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

February 23, 2007 (except for note 3 and note 24 which are as of May 1, 2007)

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.

Paul Blythe

Derek C. White

(signed)

(signed)

Chief Executive Officer

Chief Financial Officer

May 01, 2007

Quadra Mining Ltd.

CONSOLIDATED BALANCE SHEETS

(US Dollars in Thousands)

		As restated (Note 3)	
		December 31,	December 31,
		2006	2005
ASSETS			
Current			
Cash and cash equivalents		47,774	9,128
Receivables and prepaid expenses		6,645	24,438
Inventory	Note 5	38,067	33,683
Security deposits	Note 6	458	2,075
Future income tax assets	Note 12	22,146	6,890
Total Current Assets		115,090	76,214
Security deposits	Note 6	23,281	16,830
Environmental trust and bond	Note 7	43,391	31,235
Prepaid royalties		3,665	3,265
Mineral properties	Note 9	59,376	36,754
Property, plant and equipment	Note 10	69,192	67,410
Other assets and deferred charges	Note 11	14,822	16,340
Future income tax assets	Note 12	7,149	2,594
Total Assets		335,966	250,642
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	Note 13	16,900	35,000
Accounts payable and accrued liabilities		39,543	15,158
Derivative instrument liability	Note 14	46,468	41,564
Tax payable		15,275	406
Deferred gold consideration payable	Note 8	11,556	13,276
Notes payable - current portion		2,668	890
Obligations under capital leases - current portion	Note 22	1,379	1,118
Total Current Liabilities		133,789	107,412
Asset retirement obligations	Note 15	24,093	27,067
Deferred gold consideration payable	Note 8	3,777	11,180
Notes payable		-	2,131
Obligations under capital leases	Note 22	9,191	10,100
Total Liabilities		170,850	157,890
Shareholders' Equity			
Share capital	Note 16a	162,315	103,727
Stock options and warrants	Note 16b	4,498	5,155
Retained earnings (deficit)		(1,697)	(16,130)
Total Shareholders' Equity		165,116	92,752
Total Liabilities and Shareholders' Equity		335,966	250,642

Commitments (Note 22), Contingencies (Note 23), Subsequent events (Note 24)

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

Approved by the Board of Directors

(Signed) _____
Alexander Laird

(Signed) _____
Gregory Van Staveren

Quadra Mining Ltd.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(US Dollars in Thousands)

		As restated (Note 3)	
		Year ended December 31, 2006	Year ended December 31, 2005
Revenues from concentrate sales	Note 17	393,257	228,235
Cost of sales		206,910	159,405
Amortization, depletion and depreciation		11,260	9,506
Accretion of asset retirement obligations		2,159	2,000
Royalties and mineral taxes		18,720	1,108
		<u>239,049</u>	<u>172,019</u>
Operating income		154,208	56,216
General and administrative		7,516	5,391
Realized loss on derivatives		143,930	26,207
Stock-based compensation	Note 16b	2,399	1,890
Foreign exchange (gain) loss		106	(2)
Net interest and other expense		616	132
Earnings before other items		<u>(359)</u>	<u>22,598</u>
Unrealized loss on derivatives		7,453	32,463
Net gain on cancellation of AMP option	Note 18	(14,374)	-
Write down of Magistral property	Note 9	-	6,933
Contract termination fee	Note 22b	-	4,436
		<u>6,562</u>	<u>(21,234)</u>
Earnings (loss) before income taxes		6,562	(21,234)
Income tax - current	Note 12	11,939	85
Future income tax recovery	Note 12	(19,810)	(7,896)
		<u>14,433</u>	<u>(13,423)</u>
Earnings (loss) for the year		14,433	(13,423)
Deficit – beginning of year			
As previously reported		(4,730)	(2,707)
Retroactive application of EIC 160	Note 3	(11,400)	-
As restated		<u>(16,130)</u>	<u>(2,707)</u>
Deficit – end of year		<u>(1,697)</u>	<u>(16,130)</u>
Earnings (loss) per share			
Basic earnings (loss) per share		\$ 0.39	\$ (0.49)
Diluted earnings (loss) per share		\$ 0.39	\$ (0.49)
Weighted average number of shares outstanding - basic		36,608	27,315
Weighted average number of shares outstanding - diluted		37,157	27,384

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

Quadra Mining Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in Thousands)

	As restated (Note 3)	
	Year ended December 31, 2006	Year ended December 31, 2005
OPERATING ACTIVITIES		
Earnings (loss) for the period	14,433	(13,423)
Adjustment for items not involving cash:		
Stock-based compensation	2,399	1,890
Amortization, depletion, depreciation and accretion	13,419	11,506
Unrealized (gain) loss on derivatives	7,453	32,463
Current income tax expense	222	-
Future income tax recovery	(19,810)	(7,896)
Write down of Magistral property	-	6,933
	<u>18,116</u>	<u>31,473</u>
Net changes in non-cash working capital:	Note 21	46,845
Cash received from operating activities	64,961	9,376
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(15,927)	(11,129)
Increase in security deposits and environmental trust and bond	(16,990)	(8,271)
Additions to mineral properties	(13,869)	(9,861)
Investment in other assets and deferred charges	(648)	(494)
Decrease in deferred gold consideration payable	(14,326)	-
Increase in prepaid royalties	(400)	-
Acquisition of Carlota project	-	(16,348)
Cash used in investing activities	(62,160)	(46,103)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	(18,100)	35,000
Decrease in notes payable	(382)	(899)
Decrease in obligations under capital leases	(1,212)	(311)
Increase in deferred debt financing fee	-	(229)
Increase in share capital net of issuance costs	55,539	25
Cash provided by financing activities	35,845	33,586
Net increase (decrease) in cash and cash equivalents during the year	38,646	(3,141)
Cash and cash equivalents, beginning of year	9,128	12,269
Cash and cash equivalents, end of year	47,774	9,128

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

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NOTES TO FINANCIAL STATEMENTS

(US Dollars in Thousands)
Year ended December 31, 2006

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, an open pit copper mine, with gold and molybdenum by-product credits, located in Nevada 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 Solvent Extraction Electro Winning (SX-EW) copper project located in Arizona in the United States (Note 8).

The Company had cash and cash equivalents of \$47,774 and a working capital deficiency of \$21,317 at December 31, 2006. The Company generated positive cash flows from operations of \$64,961 for the year ended December 31, 2006 and fully expects to be in a position to settle liabilities as they fall due in 2007. In order to be able to initiate construction of the Carlota project and continue development of the Sierra Gorda project, the Company will be required to obtain additional financing.

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 subsidiaries, all of which are wholly owned. The principal subsidiaries are as follows:

Robinson Holdings (USA) Ltd. ("RHUSA")
Robinson Nevada Mining Company ("RNMC")
Carlota Copper Company ("Carlota")
Minera Quadra Chile Limitada
Wendover Bulk Transshipment Company ("WBTC")

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NOTES TO FINANCIAL STATEMENTS

(US Dollars in Thousands)
Year ended December 31, 2006

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
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 operating costs incurred net of 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.

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 recognized in the statement of operations. Management of the Company regularly reviews the net carrying value of each mineral property. Where information and conditions suggest impairment, undiscounted cash flows are estimated using future prices, proven and probable reserves, value beyond proven and probable reserves, and operating capital and reclamation costs on an undiscounted basis. If it is determined that the future cash flows are less than that carrying value, a write-down to the estimated fair value is recorded in the statement of operations.

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.

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NOTES TO FINANCIAL STATEMENTS

(US Dollars in Thousands)
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Recovery of capitalized costs is dependent upon successful development of economic mining operations or the sale or disposition of mineral properties for amounts at least equal to the Company's investment therein.

e) Exploration

General exploration costs are expensed as incurred. Exploration and development costs relating to specific properties are capitalised and deferred until the project to which they relate is sold, abandoned, impaired or placed into production.

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

The United States dollar is considered to be the functional currency of the Company because, the Company's primary assets are based in the United States, the Company's products are sold in United States dollars and the majority of the Company's transactions are denominated in the United States dollar.

Transactions denominated in currencies other than the Company's functional currency are translated using the exchange rate in effect on the transaction date or at an average rate. Under this method, monetary items are translated at the rate of exchange in effect at the balance sheet dates. Non-monetary items are translated at the historical rate. Exchange gains or losses on translation are charged against earnings.

h) Inventory

Inventories comprise final concentrate products 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,

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NOTES TO FINANCIAL STATEMENTS

(US Dollars in Thousands)
Year ended December 31, 2006

stripping costs 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. Subsequent variations in price are recognized as revenue adjustments as they occur until the price is finalized.

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.

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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(US Dollars in Thousands)
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l) Stock-based compensation plan

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 are marked to market. Changes in the fair value of derivatives are recognized immediately in the statement of operations.

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. The equipment under capital lease is amortized on a straight-line basis over the period of expected use

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 these estimates.

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3. CHANGES IN ACCOUNTING STANDARDS

Deferred stripping

The Emerging Issues Committee of the CICA issued Abstract 160 “Stripping Costs Incurred in the Production Phase of a Mining Operation” (EIC 160), which indicates that generally, stripping costs should be accounted for as variable production costs unless the costs result in a betterment of the mineral property by providing access to additional sources of ore, in which case they can be capitalized and amortized over the additional reserves directly impacted by the stripping activities. The new standard applies to fiscal years beginning on or after July 1, 2006. Effective January 1, 2007, the Company changed its method of accounting for stripping costs to the method described in EIC 160. Previously, the Company deferred stripping costs incurred in excess of the life-of-pit average strip ratio. This change in accounting policy has been applied retroactively and these financial statements for the years ended December 2006 and 2005 have been restated. A summary of the effect of this change is shown below:

Effect on consolidated balance sheet:

	December 31, 2006	December 31, 2005
Increase in concentrate inventory	2,618	3,400
Increase in future income tax assets	15,205	5,992
Decrease in other asset and deferred charges	<u>(47,014)</u>	<u>(20,792)</u>
Increase in deficit	<u>(29,191)</u>	<u>(11,400)</u>

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Effect on consolidated statements of operations:

	Year ended December 31, 2006	Year ended December 31, 2005
Increase in cost of sale		
and amortization, depletion and depreciation	27,004	17,392
Increase in future income tax recovery	9,213	5,992
Increase in loss/decrease in earnings	<u>17,791</u>	<u>11,400</u>

Effect on consolidated statement of cash flows:

	Year ended December 31, 2006	Year ended December 31, 2005
Decrease in cash received from/increase in		
cash used in operating activities	(25,591)	(20,294)
Decrease in cash used in investing activities	25,591	20,294

Financial Instruments – Recognition and Measurement, Section 3855

In January 2005, CICA issued Section 3855 “Financial Instruments – Recognition and Measurement”. This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. It also specifies how financial instrument gains and losses are to be presented. This standard is applicable for fiscal years beginning on or after October 1, 2006. The Company will be required to adopt the new standard effective January 1, 2007.

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NOTES TO FINANCIAL STATEMENTS

(US Dollars in Thousands)
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Comprehensive Income, Section 1530

The Company will be required to adopt Comprehensive Income, Section 1530 effective January 1, 2007. This new standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on certain investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized.

Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the existing AcG-13 “Hedging Relationships” and Section 1650 “Foreign Currency Translation”, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. This standard is applicable for fiscal years beginning on or after October 1, 2006. The Company does not currently apply hedge accounting to its derivative instruments and is accordingly not impacted by this standard on transition on January 1, 2007.

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 trust and 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, non-current security deposits, non-current obligations under capital lease and the non-current deferred gold consideration payable approximate their carrying value.

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Year ended December 31, 2006

5. INVENTORY

	As restated (Note 3)	
	December 31, 2006	December 31, 2005
Concentrate	27,080	28,003
Supplies	10,987	5,680
Total	38,067	33,683

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 \$19,764. In addition, during the year ended December 31, 2006, Carlota Copper Company (“Carlota”), the Company’s wholly owned subsidiary, signed a non-binding “letter of intent” with Road Machinery to purchase seven haul trucks and four crawler tractors for a total purchase price of \$21,052 and made a non-refundable security deposit of \$2,105. On March 3, 2006, Carlota also made a non-refundable deposit of \$450 to purchase a Hitachi EX5500 shovel (Note 22i).

	December 31, 2006	December 31, 2005
Security deposits - mining equipment	22,320	16,418
Security deposits - others	1,419	2,487
Total	23,739	18,905
Less: current portion (Note 22b)	458	2,075
Long-term	23,281	16,830

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(US Dollars in Thousands)
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7. ENVIRONMENTAL TRUST AND BOND

	December 31, 2006	December 31, 2005
Environmental bond - Robinson mine (a)	20,840	20,075
Cash in trust for Robinson reclamation (b)	15,376	11,160
Environmental bond - Carlota project (c)	7,125	-
Environmental bond - SALTS (d)	50	-
Total	43,391	31,235

(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, 2006, the amount of the bond increased to \$20,840.

(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 Inc. (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 is available to pay for qualified rehabilitation expenditures on the Robinson mine. During the year ended December 31, 2006, the total contributions to the trust reached \$20,000. The Company commenced royalty payments to Royal Gold Inc. in June 2006 and paid \$8,141 throughout the remainder of the year. The following table summarizes the movements in the trust balance as at December 31, 2006:

	Contributions to the trust	Reclamation costs paid by the trust	Net trust funds available
Balance as of January 1, 2006	16,060	(4,900)	11,160
Interest income	539	-	539
Contribution	3,677	-	3,677
Balance as of December 31, 2006	20,276	(4,900)	15,376

(c) During the year ended December 31, 2006, the Company put \$6,589 on deposit with the U.S. Forest Service in connection with reclamation costs supporting the permits for the Carlota project. In addition, the Company posted a \$200 and \$336 bond with the Arizona Department of

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Environmental Quality and Arizona State Mine Inspector respectively in relation to the development of the Carlota project.

(d) In order to operate the copper concentrate transshipment facility that the Company purchased during the year ended December 31, 2006 (Note 10), the Company was required to post a \$50 environmental bond.

8. ACQUISITION

Carlota Project

On December 21, 2005 the Company purchased from Iamgold Corporation (formerly 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 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.

During the year ended December 31, 2006, the Company delivered 25,000 ounces of gold to Iamgold Corporation. As at December 31, 2006, the balance of deferred gold consideration payable was 25,000 ounces with an estimated fair value of \$15,333 based on the average forward price of \$661 per ounce on December 31, 2006. The upward movement in the gold price during 2006 resulted in a loss on deferred gold consideration of \$5,857 which was capitalized to mineral property costs because the Carlota project has not yet reached commercial production.

The fair value of the deferred gold consideration payable is as follows:

	December 31, 2006	December 31, 2005
Deferred gold consideration payable	15,333	24,456
Gold payable	25,000 oz	50,000 oz
Average forward price	661	544

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

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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:

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

Consideration 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 confirmatory drilling program being successfully completed by December 31, 2006 and to certain grade requirements. The drilling program was successfully completed as at December 31, 2006 and the Company recorded this contingent consideration as additional purchase price consideration with additional costs allocated to mineral property acquisition costs.

During the year ended December 31, 2006 the Company spent \$8,141 to develop the Carlota project (Note 9).

Carlota Copper Company had estimated available tax pools of approximately \$68,000 which gave rise to a potential future income tax asset of approximately \$8,000. 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).

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9. MINERAL PROPERTIES

	Sierra Gorda	Carlota	Total
Balance at January 1, 2005	3,140	-	3,140
Option payments and acquisition costs	506	29,995	30,501
Project expenditures	2,957	156	3,113
Balance at December 31, 2005	6,603	30,151	36,754
Option payments and acquisition costs	829	9,641	10,470
Project expenditures	4,011	8,141	12,152
Balance at December 31, 2006	11,443	47,933	59,376

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, of which \$2,771 has been paid to date. 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. During the year ended December 31, 2006, the Company made a \$485 option payment. The next payment in the amount of \$917 is due on April 15, 2007.

During the year ended December 31, 2006, the Company signed an option agreement to purchase two additional properties located contiguous to the Sierra Gorda property for a total purchase price of \$5,000 payable over 4 years. The Company made an initial option payment of \$100. In addition, the Company entered into various option agreements with a cost of \$244. These option agreements give the company rights to purchase water rights in Calama, Chile in March 2008.

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:

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- 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 were 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 for the year ended December 31, 2005 related to the Magistral project was \$6,933.

10. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Plant and equipment	37,700	(7,193)	30,507
Equipment under capital leases	12,076	(2,477)	9,599
Asset retirement obligations	19,457	(6,064)	13,393
Buildings	16,296	(2,143)	14,153
Office equipment	2,572	(1,174)	1,398
Leasehold improvements	210	(68)	142
Total	88,311	(19,119)	69,192

Quadra Mining Ltd.

NOTES TO FINANCIAL STATEMENTS

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	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

On August 10, 2006, the Company's wholly owned subsidiary Wendover Bulk Transshipment Company ("WBTC") signed an Asset Purchase Agreement with Imco Recycling Utah Inc. ("IMCO") to purchase, for \$2,000, the transshipment facility that the company uses to store and load concentrate into rail cars. This purchase secures the access to this essential transshipment facility. Assets purchased are as set out below:

Assets acquired:

Building and land	1,851
Plant and equipment	149
Net assets acquired	2,000

Consideration paid:

Cash	1,500
Notes payable	500
Total	2,000

In connection with the Asset Purchase Agreement, WBTC issued a promissory note of \$500 payable to IMCO bearing an interest rate of 6.87% per annum. The principal and interest are payable on or before March 31, 2007.

Quadra Mining Ltd.

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11. OTHER ASSETS AND DEFERRED CHARGES

	As restated (Note 3)			
			December 31, 2006	December 31, 2005
	Cost	Accumulated Amortization	Net book Value	Net book Value
Robinson mine deferred start-up cost	17,922	(4,420)	13,502	15,284
Robinson mine deferred pit cost	597	(204)	393	537
Other long-term receivables	237	-	237	290
Deferred financing fee	690	-	690	229
Total	18,756	(4,624)	14,822	16,340

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:

	As restated (Note 3)	
	December 31, 2006	December 31, 2005
	\$	\$
Applicable statutory rate	34.12%	34.12%
Income tax expense (recovery) calculated using statutory rate	2,240	(7,245)
Increase (decrease) of valuation allowance	6,422	(537)
Difference in foreign tax rate	-	36
Depletion in excess of basis	(16,839)	-
Others	306	(65)
Taxation expense (recovery)	(7,871)	(7,811)
Current tax expense	11,939	85
Future income tax recovery	(19,810)	(7,896)

The components of recognized future tax assets as of December 31, 2006 are as follows:

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	As restated (Note 3)	
	December 31, 2006	December 31, 2005
	\$	\$
Resource assets	21,035	11,123
Other deductible tax pools	28,266	9,333
Non-capital losses	146	2,732
	49,447	23,188
Valuation allowance	(20,152)	(13,704)
Future income tax assets	29,295	9,484
Future income tax assets - current	22,146	6,890
Future income tax assets - non-current	7,149	2,594

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

During the year ended December 31, 2006, the Company's Canadian operations recognized tax benefits of \$222 arising from amortization of share issuance costs. As of December 31, 2006, the Company's U.S operations had loss carry forwards of approximately \$1,200, which will expire in 2026.

13. BANK INDEBTEDNESS

(a) Corporate Facility

On March 10 2005, RNMC arranged a revolving Working Capital Facility and hedge line of credit facility with Macquarie Bank Ltd. ("Macquarie"). The Working Capital Facility and the hedge line of credit are secured by all of the assets of RHUSA, including RNMC and a guarantee from the Company. Proceeds from the \$20,000 Working Capital Facility are available to provide additional liquidity for the Robinson mine between the production and final sales of metal concentrate. Each drawdown ("Concentrate Advance") under this facility is to be no greater than 90% of the net smelter return based on the hedged value of concentrate available for shipment under current sales contracts. The metal prices used in the estimated value are based on the hedged prices between each drawdown date and the first provisional payment made by customers pursuant to the terms of their individual sales contracts. Advances under the facility

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bear interest at LIBOR + 1.35%. At December 31, 2006 the Company had drawn down \$16,900 (December 31, 2005: \$20,000) under the facility. The facility is available until March 31, 2007.

(b) Bridge Loan

On February 10, 2006 RHUSA repaid the \$15,000 Bridge Loan facility with Macquarie that was entered on December 20, 2005 and the security related to the Bridge Loan has been released.

14. DERIVATIVE INSTRUMENTS

The Company entered into various short-term copper and gold forward sales contracts with Macquarie to hedge the copper price and gold price.

The following tables summarize the derivative positions and the associated realized and unrealized (gain) loss:

Derivative Liability Positions as at December 31, 2006

Forward Contracts	Metal under Contract	Average Forward Price	Liability after Mark-to-market Adjustment
Copper	67 million pounds	\$2.26/pound	41,485
Gold	24,000 ounces	\$429/ounce	4,983
Total			46,468

Derivative Liability Positions as at December 31, 2005

Forward Contracts	Metal under Contract	Average Forward Price	Liability after Mark-to-market Adjustment
Copper	133.5 million pounds	\$1.70/pound	36,760
Gold	48,000 ounces	\$413/ounce	4,804
Total			41,564

Quadra Mining Ltd.

NOTES TO FINANCIAL STATEMENTS

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Realized and Unrealized (Gain) Loss

Forward Contracts	2006 Realized Loss	2005 Realized Loss	2006 Unrealized (Gain) Loss	2005 Unrealized (Gain) Loss
Copper	139,256	25,686	7,681	29,557
Gold	4,674	521	(228)	2,906
Total	143,930	26,207	7,453	32,463

15. ASSET RETIREMENT OBLIGATIONS

	December 31, 2006	December 31, 2005
Balance at January 1, 2006	27,067	25,067
Accretion	2,159	2,000
Revision	(5,133)	-
Balance at December 31, 2006	24,093	27,067

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 original total undiscounted amount of the estimated closure costs was estimated to be \$68,000. In assessing the carrying amount for the asset retirement obligations, the Company used a credit-adjusted risk-free rate of 7.75% and an estimated inflation rate of 2%.

During the year ended December 31, 2006, the revised estimated mine life of the Robinson mine was extended by 2 years. The carrying value of the asset retirement obligations was re-assessed based on the revised mine plan, resulting a reduction in asset retirement obligations of \$6,490. In addition, the Company estimated an increase in undiscounted closure costs of \$4,400. In assessing the carrying amount for the incremental portion of the asset retirement obligations, the Company used a credit-adjusted risk-free rate of 11.5% and an estimated inflation rate of 3%, resulting an increase in asset retirement obligations of \$1,357, for an overall reduction of \$5,133.

As of December 31, 2006 the Company had posted an environmental bond and held cash in reclamation trust totaling \$36,216 (Note 7) to secure a portion of the closure costs related to the Robinson mine.

Quadra Mining Ltd.

NOTES TO FINANCIAL STATEMENTS

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16. 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, 2005	27,156,000	102,553
Issued in the period:		
To Inca Pacific	183,264	1,141
Employee stock options exercised	6,667	33
Balance at December 31, 2005	27,345,931	103,727
	Number of Shares	Dollar Amount
Balance at January 1, 2006	27,345,931	103,727
Capital stock issued		
Shares issued for cash	8,280,000	45,544
Stock options exercised	1,053,733	5,563
Warrants exercised	1,449,360	7,507
Transfer from contributed surplus:		
Stock options exercised		1,653
Warrants exercised		1,403
Issue costs		
Cash payment		(3,304)
Tax benefits recognized (Note 12)		222
Balance at December 31, 2006	38,129,024	162,315

On January 31, 2006 the Company filed a short form prospectus to issue 8,280,000 common shares at CAD\$6.30 per share for gross proceeds of \$45,544.

(b) Stock options and warrants

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Stock options

The following tables summarize the stock option activity for the year ending December 31, 2006 and 2005 (in Canadian dollars):

	Options	Weighted-average exercise price C\$
Outstanding at January 1, 2006	2,653,500	6.13
Granted	1,029,100	10.17
Forfeited	(161,501)	6.96
Exercised	(1,053,733)	5.89
Outstanding at December 31, 2006	2,467,366	7.86
Exercisable at December 31, 2006	1,444,300	7.08

	Options	Weighted-average exercise price C\$
Outstanding at January 1, 2005	1,724,167	5.92
Granted	1,021,000	6.93
Forfeited	(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

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2006 (in Canadian dollars):

Quadra Mining Ltd.

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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 - \$4.91	50,000	2.41	4.81	50,000	4.81
\$5.16 - \$5.75	350,000	3.68	5.31	169,334	5.26
\$6.00 - \$7.40	1,159,766	3.04	6.60	936,766	6.45
\$9.18 - \$12.40	907,600	4.57	10.62	288,200	10.58
	2,467,366	3.68	7.86	1,444,300	7.08

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 have a two-year vesting period and expire after five years.

During the year ended December 31, 2006, there were 161,501 options forfeited with a value of \$152 previously recognized as stock-based compensation cost. Such amount was eliminated from the stock-based compensation cost for the year.

During the year ended December 31, 2006, the Company granted 1,029,100 stock options to directors and employees. For accounting purposes, the estimated weighted-average fair value per stock option is \$3.03 for a total value of \$3,116. 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:

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	<u>2006</u>	<u>2005</u>
Expected volatility	30%	30%
Risk-free interest rate	5.00%	5.00%
Expected lives	4 years	5 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.

Warrants

During the year ended December 31, 2006, all broker warrants (1,449,360) were exercised at CAD\$6.00 per share. No warrants are outstanding as at December 31, 2006.

The following table summarizes the movement in the stock options and warrants account for the year ended December 31, 2006 and December 31, 2005:

	Stock options and warrants
Balance at January 1, 2005	3,273
Stock-based compensation	1,890
Stock options exercised	(8)
Balance at December 31, 2005	5,155
Stock-based compensation	2,399
Stock options exercised	(1,653)
Warrants exercised	(1,403)
Balance at December 31, 2006	4,498

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NOTES TO FINANCIAL STATEMENTS

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17. REVENUES FROM CONCENTRATE SALES

	Year ended December 31, 2006	Year ended December 31, 2005
Copper revenues	348,517	202,340
Gold revenues	42,127	33,093
Molybdenum revenues	6,075	-
Adjustments for final settlement	79,474	9,271
Marked to market adjustments	(36,134)	14,542
Refining and treatment charges	(46,802)	(31,011)
	<u>393,257</u>	<u>228,235</u>

18. GAIN ON CANCELLATION OF AMP OPTION

On July 19, 2006, the Company announced its intention to make an offer to acquire all of the issued and outstanding shares of Equatorial Mining Limited (“Equatorial”) for AUS\$9.23 cash per share which would have resulted in an acquisition price for Quadra of AUS\$449 million for 100% of Equatorial.. The Company also entered into a Call Option Deed with a subsidiary (the “AMP Subsidiary”) of AMP Life Limited, the major shareholder of Equatorial, in respect of approximately 19.99% of the shares of Equatorial. In order to finance the acquisition, the Company signed a bank financing commitment letter with UBS Loan Finance LLC and UBS Securities LLC to enter into a seven year loan for \$350 million.

On August 15, 2006, Antofagasta PLC submitted an offer of AUS\$11.20 cash per share for Equatorial and entered into a similar call option agreement with the AMP Subsidiary. The Company chose not to match the higher offer from Antofagasta PLC and announced on August 23, 2006 that it received notice from the AMP Subsidiary that it had exercised its right under the Call Option Deed to cancel that agreement. As a result, the AMP Subsidiary was required to pay the Company a fee of AUS\$31,922 (equivalent to \$24,194). Direct expenses related to the Equatorial offer including consulting fee, due diligence fee, bank commitment fee and legal fee amounted to \$9,820, resulting in a net gain on cancellation of AMP option of \$14,374.

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NOTES TO FINANCIAL STATEMENTS

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19. SEGMENTED INFORMATION

The Company's reportable 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.

South America Exploration (Chile)

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

Carlota Project (United States)

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

Corporate (Canada)

Head office operations are located in Vancouver, British Columbia.

As at December 31, 2006, segmented information is presented as follows:

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NOTES TO FINANCIAL STATEMENTS

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	As restated (Note 3)				
	Year ended December 31, 2006				
	Robinson Mine	South America Exploration (Chile)	Carlota Project	Corporate	Total
Revenues	393,257	-	-	-	393,257
Cost of sales	207,161	-	-	-	207,161
Amortization, depletion and depreciation	10,939	18	-	52	11,009
Other operating expenses	20,879	-	-	-	20,879
Operating income (loss)	154,278	(18)	-	(52)	154,208
Interest expense	3,680	-	-	-	3,680
Other (income) expense	150,299	96	-	(6,429)	143,966
Earnings (loss) before taxes	299	(114)	-	6,377	6,562
Total assets	252,528	11,704	59,510	12,224	335,966
Total liabilities	167,227	117	(1,135)	4,641	170,850

Quadra Mining Ltd.

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				As restated (Note 3)	
				Year ended December 31, 2005	
	Robinson Mine	South America Exploration (Chile)	Carlota Project	Corporate	Total
Revenues	228,235	-	-	-	228,235
Cost of sales	159,808	-	-	-	159,808
Amortization, depletion and depreciation	9,065	11	-	27	9,103
Other operating expenses	3,108	-	-	-	3,108
Operating income (loss)	56,254	(11)	-	(27)	56,216
Interest expense	1,157	-	-	-	1,157
Other (income) expense	63,992	49	-	12,252	76,293
Earnings (loss) before taxes	(8,895)	(60)	-	(12,279)	(21,234)
Total assets	199,308	6,772	41,445	3,117	250,642
Total liabilities	115,501	102	39,937	2,350	157,890

All of the Company's revenues to December 31, 2006 have been generated from concentrate sales at the Robinson Mine.

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 ended December 31, 2006 the Company incurred legal fees of \$569 and recruiting and human resources consulting fees of \$496 respectively to those entities (December 31, 2005: \$814 and \$263 respectively).

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21. SUPPLEMENTARY CASH FLOW INFORMATION

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

	As restated (Note 3)	
	Year ended December 31, 2006	Year ended December 31, 2005
(Increase) decrease in receivables and prepaid expenses	17,792	(22,172)
Decrease in short-term investments	450	-
Increase in inventory	(4,100)	(13,962)
Increase in accounts payable and accruals	32,704	14,037
Net changes in non-cash working capital	<u>46,846</u>	<u>(22,097)</u>
Interest and taxes paid		
Interest paid	3,680	1,157
Income tax paid	5,412	-

22. COMMITMENTS

- (a) 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 of \$6,250 are payable over 7 years.

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- (b) 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”).

- (c) 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 amount of interest expense in 2006 was \$1,576.

- (d) On February 1, 2006 Robinson leased a P & H 28 yard Bucket (“Bucket”) from CAT as part of the lease agreement signed on October 21, 2005. The total lease payments of the Bucket are \$708 and the fair value is \$564. The amount of interest expense in the year ending December 31, 2006 was \$38.

The following schedule summarizes the future minimum lease payments under the capital lease ((c) and (d)) expiring December 31, 2011.

	December 31, 2006
2007	2,817
2008	2,817
2009	2,817
2010	6,333
2011	89
Total minimum lease payments	14,873
Amount representing notional interest	(4,303)
Balance of the obligation	10,570
Current portion	(1,379)
Long-term portion	9,191

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

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	2007	2008	2009	2010	2011
BE 495 Shovel and Dipper	2,203	2,203	2,203	1,683	89
16 Trucks	5,430	5,430	5,430	5,430	5,094
Hitachi EX5500 Shovel	978	978	978	978	876
Light Vehicles	200	75	-	-	-
	8,811	8,686	8,611	8,092	6,059

The total amount of lease payments made in 2006 was \$9,742 (2005: \$8,874).

- (f) 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.
- (g) As at December 31, 2006, Robinson entered sales agreements regarding future sales of concentrate at fixed terms with five companies for a period of one to three years ending December 2009. Under these agreements Robinson will sell 200,000 dry metric tonnes of copper concentrate in 2007 contracted at adjusted market based pricing.
- (h) 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 is paid to Royal Gold. In 2006, the Company incurred \$8,141 in royalty expense.
- (i) 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) (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

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(3) A 0.225% royalty on net smelter returns of all minerals extracted from the Robinson Mine.

During the year ended December 31, 2006, RNMC paid \$1,390 in royalties to Franco Nevada.

- (j) Carlota has a 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 utilize the claim; payment of \$15 six months thereafter; and continuing payments of \$20 every 6 months prior to commencement of construction. After commencement of commercial production, terms call for additional 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 maximum royalty amount price of \$3,000.
- (k) 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 relating to these claims will be subjected to a 5% net smelter return royalty. Minimum advance royalty payments of \$3,665 have been paid by Carlota and will be credited against future royalty payments.
- (l) On March 3, 2006 Carlota entered into an agreement to purchase a Hitachi EX5500 shovel for \$6,945 and made a non refundable down payment of \$450. The shovel is expected to be delivered in May 2007.
- (m) WBTC signed an Industrial Special Use Lease Agreement with State of Utah ("Lessee") on September 29, 2006 on the use of land. Under the agreement, WBTC shall pay to the Lessee a base rent of \$40 per annum on or before August 1, 2006 and ending July 31, 2011, and \$45 per annum for the period beginning August 1, 2011 and ending July 31, 2016.

In addition to the base rent, WBTC shall pay to the Lessee royalties on a quarterly basis in the amount of \$0.05 per tonne for all copper concentrate which is received on the subject property.

- (n) On June 21, 2006 Carlota signed a letter of intent with DynaPower Corporation to purchase key electrical equipment for a total purchase price of \$2,295. As at December 31, 2006, \$1,835 of progress payments have been made (Note 10). The remaining balance of \$460 will be payable in 2007.

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23. CONTINGENCIES

- (a) Certain litigation is pending in connection with one key permit 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.
- (b) On March 16 2006 Katie Davis and LeRoy Davis, on their own behalf and on behalf of their minor daughter Araya Davis, (collectively, the "Davises") filed a lawsuit against RNMC and BHP Copper Inc. ("BHP Copper") (Collectively, the "Defendants") in the Seventh Judicial District Court, White Pine County, Nevada. Katie Davis is the daughter and Araya Davis is the granddaughter of Marilyn and Danny Cooper, with whom similar litigation was settled by the Defendants prior to RNMC's acquisition of the Robinson Mine. The Davises have claimed, among other matters, that the Defendants permitted the Robinson Mine to contaminate well water on the Coopers' property and that the Defendants failed to disclose the existence of the pollutants to the Coopers. As a result, the Davises claim that their daughter ingested contaminated water, suffered a condition known as anoxia and was twice airlifted to hospital where on one occasion she had surgery. The Davises have made a claim for: damages for the personal injury and emotional distress sustained by the Davises as a result of the Defendant's negligence; damages resulting from Defendant's fraudulent or negligent misrepresentation; punitive damages; reimbursement of reasonable attorney fees; and such other relief as the Court deems just and proper in the circumstances. The Company was not in possession of the Robinson Mine at the time of the events in question. BHP Copper has made a claim of indemnity against the Company claiming that, under the terms of the purchase agreement pursuant to which the Company acquired RNMC, the Company has an obligation to indemnify and hold harmless BHP Copper and its affiliates from any liability arising pursuant to the Davises' lawsuit. The Company has rejected BHP Copper's claim for indemnity. The Company has made a similar claim of indemnity against BHP Copper. BHP Copper has rejected the Company's claim for indemnity. As the Company was not the owner of the Robinson Mine at the time of the occurrence of the events in question and is not currently aware of all of the facts, and because no discovery has been conducted in this litigation, it is not possible at this time for the Company to assess its potential liability in this matter or whether it has an obligation of indemnity to or a right of indemnity from BHP Copper.
- (c) BLM requires that RNMC recalculate the amount of the Environmental Bond on an annual basis. Initial estimates, which have not been approved by the BLM or the state of Nevada, indicate that the amount of the bond may increase from the current amount of \$20,840 to

NOTES TO FINANCIAL STATEMENTS

(US Dollars in Thousands)
Year ended December 31, 2006

\$22,000 in 2007. This increase addresses the annual BLM cost update and minor modification for South Tripp Dump expansion only. The December 2006 reclamation plan update also included costs associated with the potential D-Pad heap leach expansion which if approved for construction will further adjust the bond amount.

24. SUBSEQUENT EVENTS

- (a) Subsequent to December 31, 2006 the Mine entered into an agreement to purchase, on a take or pay basis, 504,000 gallons per month of diesel fuel at a price of \$2.00 per gallon for the 12 month period beginning February 1, 2007.
- (b) On March 6, 2007, the Company completed a \$200,000 syndicated private loan financing, which consists of a \$150,000 First Lien Senior Secured Credit Facility (the "First Facility") and a \$50,000 Second Lien Junior Secured Credit Facility (the "Second Facility") (together, the "Facilities"). The First Facility has a 5 year term and bears interest at LIBOR + 650 basis points. The Second Facility has a 7 year term and bears interest at LIBOR + 1,000 basis points. The Second Facility lenders received 2,027,776 warrants to purchase common shares of the Company at an exercise price of CAD\$9.24 per share that expire March 1, 2012.
- (c) On April 19, 2007, the Company purchased a three year interest rate cap with a strike rate at 5.35%, on a notional amount of \$100,000.
- (d) On April 25, 2007, the Company filed a preliminary prospectus with the British Columbia Securities Commission in connection with the previously announced CAD\$131,040 bought deal financing arranged by a syndicate of underwriters.
- (e) On April 27, 2007, further to the announcement made on March 30, 2007 of recommended offers (the "Offers") by the Company to acquire the whole of the issued and to be issued share capital and traded warrants of International Molybdenum Plc ("InterMoly"), the Company posted the offer document containing the full terms and conditions of the Offers to InterMoly Shareholders and InterMoly Warrantholders, together with the prospectus equivalent document and two forms of acceptance. The Offers are initially open for acceptance until May 18, 2007.