

Financial Statements

**Quadra Mining Ltd.**

December 31, 2003

## AUDITORS' REPORT

To the Shareholders of  
**Quadra Mining Ltd.**

We have audited the balance sheets of **Quadra Mining Ltd.** as at December 31, 2003 and 2002 and the 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst & Young LLP*

Toronto, Canada,  
May 7, 2004.

Chartered Accountants

**Quadra Mining Ltd.**

**BALANCE SHEETS**

[Canadian dollars]

As at December 31

	2003	2002
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	—	63,640
Restricted cash [note 4[b]]	250,000	—
Receivables	30,112	—
<b>Total current assets</b>	<b>280,112</b>	<b>63,640</b>
Mineral properties	33,729	—
Property, plant and equipment [note 3]	7,189	5,667
	<b>321,030</b>	<b>69,307</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	400,661	7,168
Liability to issue shares [note 4[b]]	250,000	—
<b>Total current liabilities</b>	<b>650,661</b>	<b>7,168</b>
<b>Shareholders' equity (deficiency)</b>		
Share capital [note 4]	100,000	100,000
Deficit	(429,631)	(37,861)
<b>Total shareholders' equity (deficiency)</b>	<b>(329,631)</b>	<b>62,139</b>
	<b>321,030</b>	<b>69,307</b>

See accompanying notes

On behalf of the Board:

(Signed) WILLIAM H. MYCKATYN  
Director

(Signed) PAUL M. BLYTHE  
Director

**Quadra Mining Ltd.**

**STATEMENTS OF OPERATIONS AND DEFICIT**

[Canadian dollars]

	Year ended December 31, 2003 \$	Period from incorporation, May 15, 2002 to December 31, 2002 \$
<b>REVENUE</b>		
Interest and other income	24,332	39
<b>EXPENSES</b>		
Amortization	2,193	594
Consulting	137,776	7,984
General and administration	208,686	15,234
Interest and bank charges	40	20
Promotion	4,690	1,461
Telephone	7,264	2,853
Travel	55,453	9,754
	416,102	37,900
<b>Net loss for the period</b>	<b>(391,770)</b>	<b>(37,861)</b>
Deficit, beginning of period	(37,861)	—
<b>Deficit, end of period</b>	<b>(429,631)</b>	<b>(37,861)</b>
<b>Basic and diluted loss per share [note 6]</b>	<b>(0.20)</b>	<b>(0.02)</b>

*See accompanying notes*

**Quadra Mining Ltd.****STATEMENTS OF CASH FLOWS**

[Canadian dollars]

	Year ended December 31, 2003 \$	Period from incorporation, May 15, 2002 to December 31, 2002 \$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(391,770)	(37,861)
Adjustment for item not involving cash		
Amortization	2,193	594
	(389,577)	(37,267)
Changes in non-cash working capital		
Increase in receivables	(30,112)	—
Increase in accounts payable and accrued liabilities	393,493	7,168
<b>Cash received (used) operating activities</b>	<b>(26,196)</b>	<b>(30,099)</b>
<b>INVESTING ACTIVITIES</b>		
Increase in mineral properties	(33,729)	—
Additions to property, plant and equipment	(3,715)	(6,261)
<b>Cash used in investing activities</b>	<b>(37,444)</b>	<b>(6,261)</b>
<b>FINANCING ACTIVITIES</b>		
Shares issued	—	100,000
Increase in restricted cash	(250,000)	—
Increase in liability to issue shares	250,000	—
<b>Cash provided by financing activities</b>	<b>—</b>	<b>100,000</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		
during the period	(63,640)	63,640
Cash and cash equivalents, beginning of period	63,640	—
<b>Cash and cash equivalents, end of period</b>	<b>—</b>	<b>63,640</b>

*See accompanying notes*

## **Quadra Mining Ltd.**

# **NOTES TO FINANCIAL STATEMENTS**

December 31, 2003

## **1. NATURE OF OPERATIONS**

### **Nature of operations**

Quadra Mining Ltd. ["Quadra" or the "Company"] was incorporated on May 15, 2002 under the British Columbia Company Act, Canada and commenced operation on that date. The Company is in the business of acquiring mineral properties, with the intention of mine development and operations. Subsequent to year-end, the Company completed the acquisition of the Robinson Mine [note 7(a)].

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These financial statements do not reflect any adjustments related to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern. The continued operations of the Company is dependent upon the ability of the Company to obtain financing and to complete the activation of the Robinson mine and the profitable operation of that mine.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are presented in Canadian dollars unless otherwise indicated. The significant accounting policies are as follows:

### **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. Actual results may differ from those estimates.

## **Quadra Mining Ltd.**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Cash equivalents**

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

#### **Property, plant and equipment**

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

Computer equipment	30% declining balance
Office equipment	20% declining balance

#### **Mineral properties**

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

Where the Company's exploration commitments for an area of interest are performed under option agreements with a third party, the option payments under such agreements have been 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 and sale or disposition of such property for amounts at least equal to the Company's investment therein.

#### **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 financial reporting 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 asset will not be realized.

## Quadra Mining Ltd.

### NOTES TO FINANCIAL STATEMENTS

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#### Foreign currency translation

Transactions in foreign currencies are translated at rates of exchange at the time of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at current foreign exchange rates with the resultant gains or losses included in income.

#### Stock based compensation plan

The Company has a stock-based compensation plan, which is described in Note 4. 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. As at December 31, 2003, no options had been granted by the Company.

### 3. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	Cost \$	Accumulated depreciation \$	Net book value \$	Cost \$	Accumulated depreciation \$	Net Book value \$
Computer equipment	8,692	2,659	6,033	6,261	594	5,667
Office equipment	1,284	128	1,156	—	—	—
<b>Net book value</b>	<b>9,976</b>	<b>2,787</b>	<b>7,189</b>	6,261	594	5,667

### 4. SHARE CAPITAL

	2003 \$	2002 \$
<b>Authorized</b> 1,000,000,000 common shares with no par value.		
<b>Issued</b> 2,000,000 common shares [2002: 2,000,000]	100,000	100,000

## Quadra Mining Ltd.

### NOTES TO FINANCIAL STATEMENTS

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[a] On December 23, 2003 Quadra amended its articles to (a) consolidate the authorized capital of 1,000,000,000 common shares without par value into 200,000,000 common shares without par value, each issued and unissued share being consolidated on a one-for-five basis and thereafter create 800,000,000 post-consolidation shares resulting in an authorized capital of 1,000,000,000 common shares without par value, and (b) remove the restriction on the sale of securities to the public. All shares and per share figures have been restated to give effect of the one-for-five consolidation.

[b] On January 5, 2004 Quadra issued 1,000,000 Special Warrants to investors at a price of \$2.00 per Special Warrant for aggregate gross proceeds of \$2,000,000. Each Special Warrant was exercisable by the holder into one common share of the Company for no additional consideration upon the completion of an initial public offering of common shares of the Company. The Company completed an initial public offering during April 2004 [note 4[c]] and all of the outstanding Special Warrants were converted into common shares at that time.

Cash payments received in advance of the Special Warrant issue date of January 5, 2004, have been recognized in the financial statements as restricted cash. The associated liability has been recognized on the balance sheet as Liability to issue shares.

[c] On April 1, 2004 the Company filed a final prospectus for the offering of 24,156,000 common shares [the "Offering"]. This Offering was completed on April 8, 2004. The common shares were issued at \$6.00 per share for gross proceeds of \$144,936,000. The expenses of the Offering are estimated to be \$10,770,000.

[d] On December 17, 2003 the board of directors and shareholders of Quadra adopted the Company's Stock Option Plan [the "Plan"] to be effective upon the completion of the Offering [note 4[c]]. The board adopted the Plan in order to have a stock option plan in place that complies with the rules and policies of the Toronto Stock Exchange ["TSX"] upon completion of the Offering.

The Plan provides that the total number of Common Shares that may be issued pursuant to the Plan shall not exceed a number of Common Shares equal to 10% of the issued and outstanding Common Shares on the closing of the Offering; provided however, that if the stock exchange upon which the common shares are listed permits a "rolling" maximum number of common shares issuable, the total number of common shares which may be issued pursuant to the Plan shall not exceed a number of common shares equal to 10% of the issued and outstanding shares from time to time.

## Quadra Mining Ltd.

### NOTES TO FINANCIAL STATEMENTS

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Concurrent with the completion of the Offering, on April 8, 2004, Quadra issued the following stock options under the terms of its Stock Option Plan as described below, each with an expiry date of five years from the date of issue and an exercise price equal to the Offering price of the Common Shares:

<b>Class of Optionee (Number of Optionees in Class)</b>	<b>Number of Common Shares Under Options</b>	<b>Exercise Price</b>
Executive officers as a group (four)	900,000	\$6.00
Directors who are not also executive officers as a group (five)	230,000	\$6.00
Employees and Consultants (one)	260,000	\$6.00
<b>Total – All options</b>	<b>1,390,000</b>	<b>\$6.00</b>

#### 5. INCOME TAXES

[a] A reconciliation of the statutory tax rate to the effective rate for the Company is as follows:

	<b>2003</b>	<b>2002</b>
	<b>%</b>	<b>%</b>
Statutory income tax rate	<b>(39.62)</b>	(39.62)
Tax losses not benefited	<b>39.62</b>	39.62
<b>Effective tax rate</b>	<b>—</b>	<b>—</b>

[b] The Company's future tax assets and liabilities are as follows:

	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>
Future tax assets		
Non-capital losses	<b>154,120</b>	13,000
Valuation allowance	<b>(154,120)</b>	(13,000)
Future tax liabilities	<b>—</b>	<b>—</b>
<b>Net future tax assets</b>	<b>—</b>	<b>—</b>

As at December 31, 2003, the Company has non-capital losses of approximately \$389,000 [2002 - \$33,000] carried forward for tax purposes and available to reduce taxable income of future years.

## Quadra Mining Ltd.

### NOTES TO FINANCIAL STATEMENTS

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Future income tax benefits which may arise as a result of these losses have not been recognized in these financial statements, as their realization is uncertain.

#### 6. LOSS PER SHARE

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted loss per share is similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. No such dilutive shares existed at December 31, 2002 or 2003.

	2003	2002
	\$	\$
<b>Basic loss per share computation</b>		
Numerator		
Net loss	(391,770)	(37,861)
Denominator		
Common shares outstanding	2,000,000	2,000,000
<b>Basic and diluted loss per share</b>	<b>(0.20)</b>	<b>(0.02)</b>

#### 7. RELATED PARTIES

One of the Directors of the Company is a Partner of Blake, Cassels & Graydon LLP [the "Partnership"]. During the year ended December 31, 2003 the Company paid the Partnership legal fees of \$113,826 [2002: nil].

## Quadra Mining Ltd.

# NOTES TO FINANCIAL STATEMENTS

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## 8. SUBSEQUENT EVENTS

- [a] Coincident with the Offering, Quadra entered into an agreement with BHP Copper Inc. ["BHP Copper"] to acquire all the shares of BHP Nevada Mining Company and BHP Nevada Railroad Company, which hold a 100% interest in the Robinson Mine.

The consideration for the acquisition was as follows:

- A cash consideration of US\$14,761,000, of which US\$654,097 represents a working capital adjustment that will be paid;
- Quadra replaced an environmental bond and an archaeological bond previously posted by BHP Copper or its affiliates for US\$17,884,017 and paid a State of Nevada service fee of US\$178,626; and
- Quadra will assume substantially all the environmental liabilities relating to the Robinson Mine, the fair value of which is estimated to be \$49,600,000.

Total estimated cost to complete the acquisition of the Robinson Companies is \$1,500,000.

- [b] Quadra and Rio Algom Limited ("Rio Algom"), an affiliate of BHP Billiton Limited, entered into an acquisition agreement dated December 24, 2003 (the "HVC Acquisition Agreement") under which Quadra agreed to purchase a 33.5655% interest in the Highland Valley Copper Partnership, which owns the Highland Valley Copper Mine in British Columbia, for US\$73,000,000 (\$98,800,000).

Rio Algom's sale to Quadra of the interest in the Highland Valley Copper Partnership was subject to a right of first refusal in favour of the other partners in the Highland Valley Copper Partnership. Teck Cominco Ltd., one of the other partners, exercised the right of first refusal on January 29, 2004. Under the terms of the HVC Acquisition Agreement, Rio Algom Limited paid Quadra US\$2,500,000 (\$3,382,492) on March 2, 2004 as a result of the exercise of the right of first refusal.

- [c] On April 13, 2004, Quadra entered into four agreements [the "Option Agreements"] with four separate vendors under which Quadra could elect to purchase four contiguous mining properties in Chile. The Options Agreements have differing terms, conditions and adjustments. The total purchase price of all four properties is US\$25,050,000. 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 US\$1,750,000, with an additional US\$1,040,000 payable to the vendors during the first two years of the Option Agreements.
- [d] On May 3, 2004 the Company signed a binding term sheet with Wheeler Machinery Company, Caterpillar Financial Services Corp. and the Washington Group International

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requiring the Company to make an initial security deposit of US\$500,000 as part of equipment leasing arrangement for mining trucks and an electric shovel and spare dipper. The total lease payments for the mining trucks amount to US\$34,679,973 payable over 7 years and the payments for the electric shovel and spare dipper amounted to US\$13,180,523 payable over 6 years. Under the terms of the arrangement the Company will need to increase its security deposit to US\$ 11,966,855 before the commencement of the lease followed by an additional US\$5.5 million at the end of the first year of the lease and by US\$4,000,000 by the end of the second year of the lease. Delivery of the equipment is expected in stages between August and December 2004.

- [e] On May 7, 2004 the Company signed a Mobilization agreement with the Washington Group International ("WGI") requiring the Company to make US\$1,551,000 payments to WGI for equipment mobilization costs expected to be incurred between May and August 2004. The Company and WGI have signed a non-binding term sheet and are currently negotiating a contract mining agreement for the Robinson Mine.