



## **Quadra Mining Ltd.**

March 31, 2005

(Unaudited)

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

Quadra Mining Ltd.

**CONSOLIDATED BALANCE SHEETS**

[US Dollars in Thousands]

Unaudited

		March 31, 2005	December 31, 2004
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		23,705	12,269
Receivables		7,187	1,264
Prepaid expenses		762	758
Security deposits	Note 9	-	4,339
Inventory	Note 6	21,542	19,279
<b>Total Current Assets</b>		<u>53,196</u>	<u>37,909</u>
Security deposits	Note 9	15,386	13,486
Environmental trust and bond	Note 10	24,629	23,612
Mineral properties	Note 8	23,206	20,697
Property, plant and equipment	Note 7	43,397	43,171
Other long-term assets	Note 5	1,010	355
Future income tax assets		867	1,587
<b>Total Assets</b>		<u><u>161,691</u></u>	<u><u>140,817</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		10,225	8,297
Working capital facility	Note 17b	12,000	-
Notes payable - current portion	Note 17a	345	353
Derivative instrument liability	Note 12	1,300	1,899
<b>Total Current Liabilities</b>		<u>23,870</u>	<u>10,549</u>
Notes payable	Note 17a	3,570	2,082
Asset retirement obligations	Note 11	25,553	25,067
<b>Total Liabilities</b>		<u>52,993</u>	<u>37,698</u>
<b>Shareholders' equity</b>			
Share capital	Note 13	103,727	102,553
Stock options and warrants	Note 13b	3,890	3,273
Retained earnings (deficit)		1,081	(2,707)
<b>Total Shareholders' Equity</b>		<u>108,698</u>	<u>103,119</u>
<b>Total Liabilities and Shareholders' Equity</b>		<u><u>161,691</u></u>	<u><u>140,817</u></u>

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

Quadra Mining Ltd.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED  
EARNINGS (DEFICIT)**

[US Dollars in thousands]

Unaudited

	Three months ended March 31, 2005	Three months ended March 31, 2004
Net revenue from concentrate sales	43,474	-
Cost of sales	35,199	-
Depletion and depreciation	1,653	-
Accretion of asset retirement obligations	486	-
Royalties	76	-
Operating income	<u>6,060</u>	-
General and administrative	1,546	733
Stock-based compensation	Note 13b 625	-
Unrealized gain on derivatives	Note 12 (599)	-
Foreign exchange loss	29	8
Break fee	-	(2,500)
Net interest and other income	<u>(49)</u>	<u>(2)</u>
Earnings before income taxes	4,508	1,761
Income tax - current		87
Future income tax expense	720	-
Earnings for the period	<u>3,788</u>	<u>1,674</u>
Retained earnings (deficit) - beginning of period	<u>(2,707)</u>	<u>(332)</u>
Retained earnings - end of period	<u>1,081</u>	<u>1,342</u>
Earnings per share		
Basic and diluted earnings per share	0.14	0.56

Quadra Mining Ltd.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

[US Dollars in Thousands]

Unaudited

	Three months ended March 31 2005 \$	Three months ended March 31 2004 \$
<b>OPERATING ACTIVITIES</b>		
Earnings for the period	3,788	1,674
Adjustment for items not involving cash:		
Stock-based compensation expense	625	-
Depletion and depreciation	1,653	-
Unrealized gain on derivatives	(599)	-
Unrealized gain on sale settlements	(1,444)	-
Future income tax expense	720	-
Accretion of asset retirement obligations	486	-
Foreign exchange loss	29	8
	<hr/> 5,258	<hr/> 1,682
Changes in non-cash working capital:		
Increase in receivables	(4,536)	(80)
Increase in inventory	(2,116)	-
Increase in Prepaid expenses	(4)	-
Increase in accounts payable and accrued liabilities	1,928	373
	<hr/> (4,728)	<hr/> 294
<b>Cash received from operating activities</b>	<hr/> <b>530</b>	<hr/> <b>1,976</b>
<b>INVESTING ACTIVITIES</b>		
Decrease in Security Deposits and Environmental bond	1,422	-
Investment in Inca Pacific	(598)	-
Additions to property, plant and equipment	(1,532)	-
Additions to mineral properties	(1,862)	(572)
<b>Cash used in investing activities</b>	<hr/> <b>(2,570)</b>	<hr/> <b>(572)</b>
<b>FINANCING ACTIVITIES</b>		
Working capital facility	12,000	-
Increase in notes payable	1,480	-
Shares issued	25	1,549
<b>Cash provided by financing activities</b>	<hr/> <b>13,505</b>	<hr/> <b>1,549</b>
<b>Net increase in cash and cash equivalents during the period</b>	<hr/> <b>11,465</b>	<hr/> <b>2,953</b>
Effect of foreign exchange rates on cash and cash equivalents	(29)	(8)
<b>Cash and cash equivalents, beginning of period</b>	<hr/> <b>12,269</b>	<hr/> <b>-</b>
<b>Cash and cash equivalents, end of period</b>	<hr/> <b>23,705</b>	<hr/> <b>2,945</b>

Quadra Mining Ltd.

## NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]

Three months ended March 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, and commenced operations on that date. The Company is in the business of acquiring mineral properties, with the intention of mine development and operations. In 2004, the Company acquired the Robinson copper, gold mine in the United States. The Company also has exploration projects in Chile and Peru (Note 8).

### 2. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements including accounts of Robinson Nevada Mining Company and Minera Quadra Chile Limitada, have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("Canadian GAAP"). They do not include all the disclosures required by generally accepted accounting principles for annual financial statements and should be read in conjunction with the Company's consolidated financial statements and the notes for the year ended December 31, 2004. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements.

These financial statements are prepared using the same accounting policies and methods of application as those disclosed in Note 2 to the Company's consolidated financial statements for the year ended December 31, 2004, with the exception of policy changes related to Variable Interest Entities - AcG-15 which was adopted effective January 1, 2005.

### 3. CHANGES OF ACCOUNTING POLICIES

Effective January 1, 2005, the Company adopted the CICA's Handbook Accounting Guideline 15, "Consolidation of variable interest entities" (AcG-15). Under this new guideline, an enterprise should consolidate a variable interest entity when that enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's

Quadra Mining Ltd.

**NOTES TO FINANCIAL STATEMENTS**

[US Dollars in Thousands]  
Three months ended March 31, 2005

expected residual returns, or both. As of March 31, 2005, the Company does not have any variable interest entities that fall under the criteria of AcG-15.

**4. FINANCIAL INSTRUMENTS**

The Company's financial instruments are comprised of cash and cash equivalents, receivables, security deposits, accounts payable and notes payable. 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 approximate their carrying value.

**5. OTHER LONG-TERM ASSETS**

	March 31, 2005	December 31, 2004
	\$	\$
Investment in 1 million shares of Inca Pacific (Note 8)	598	-
Other long-term receivables	412	355
Balance at Mach 31, 2005	1,010	355

Investment in shares in Inca Pacific Resources Inc. (Note 8) was recorded at fair market value at the date of acquisition. The fair market value of the shares at March 31, 2005 was \$603.

Quadra Mining Ltd.

## NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]  
Three months ended March 31, 2005

### 6. INVENTORY

	March 31, 2005 \$	December 31, 2004 \$
Concentrate	18,648	18,069
Supplies	2,894	1,210
Total	21,542	19,279

### 7. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2005		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Plant and equipment	15,835	(959)	14,876
Asset retirement obligation asset	24,590	(1,114)	23,476
Land and buildings	3,174	(144)	3,030
Office equipment	1,978	(144)	1,834
Leasehold improvements	188	(7)	181
Total	45,765	(2,368)	43,397

Quadra Mining Ltd.

**NOTES TO FINANCIAL STATEMENTS**

[US Dollars in Thousands]  
Three months ended March 31, 2005

	December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Plant and equipment	14,950	(455)	14,495
Asset retirement obligations asset	24,590	(482)	24,108
Land and buildings	3,174	(62)	3,112
Office equipment	1,360	(61)	1,300
Leasehold improvements	159	(2)	157
<b>Total</b>	<b>44,233</b>	<b>(1,062)</b>	<b>43,171</b>

**8. MINERAL PROPERTIES**

	March 31, 2005		December 31, 2004	
	Cost	Amorti- zation	Net book Value	Net book value
	\$	\$	\$	\$
Sierra Gorda - option payments (a)	1,780	-	1,780	1,780
Sierra Gorda - exploration	1,877	-	1,877	1,360
Robinson mine deferred start-up costs	17,921	(886)	17,035	17,557
Magistral (b)	2,514	-	2,514	-
<b>Total</b>	<b>24,092</b>	<b>(886)</b>	<b>23,206</b>	<b>20,697</b>

(a) On April 15, 2004, Quadra entered into six agreements [the "Option Agreements"] with six separate vendors under which Quadra could elect to purchase six contiguous

## NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]  
Three months ended March 31, 2005

mining properties 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 \$994 payable to the vendors during the first two years of the Option Agreements. No option payment was made during the period ending March 31, 2005. The next option payments were made in April 2005 according to the agreements.

(b) During the quarter ended March 31, 2005, Quadra entered into an agreement with Inca Pacific Resources Inc. for the development of the Magistral copper-molybdenum project in Peru. Under the terms of the agreement, Quadra can earn a 50.1% interest in Ancash Cobre S.A., the 100% owner of the Magistral project, by completing a pre-feasibility study for a minimum 15,000 tonnes per day operation by February 28, 2006. Quadra can increase its ownership from 50.1% to 65% by arranging project financing on or before June 30, 2007. Once Quadra has met its obligations with respect to the feasibility study and financing, and has reached 65% ownership, each party will be responsible for its share of the project development costs.

The costs of entering the agreement were as follows:

- i) Investment in shares in Inca Pacific Resources Inc.
  - Recorded at fair market value: \$598
- ii) Mineral properties - Magistral : \$2,514

Further consideration will be paid as follows:

- \$1,000 in cash upon completion of a positive pre-feasibility study.
- \$1,000 in cash upon completion of a positive "bankable" feasibility study.
- \$2,000 in cash upon completion of project financing.

The Company may withdraw from the agreement before October 1, 2005, provided that it has completed certain work obligations. In this event, Inca Pacific Resources ("Inca"), the owner of Ancash Cobre S.A., has the right to repurchase the initial shares for one dollar. After this date, the Company is obliged to produce a pre-

## NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]  
Three months ended March 31, 2005

feasibility study by February 28, 2006. If the Company withdraws during this period of time, the repurchase price shall be 50% of the expenditures, increasing to 85% of the expenditures at February 28, 2006. If this study is positive and the Company elects to go forward, it is then obliged to produce a bankable feasibility study by November 30, 2006. Once the Company has arranged financing to put Magistral into production, Inca is entitled to sell its remaining 35% interest to the Company at a price to be determined at that point in time based on the estimated net present value of the project. Payment may be made, at the Company's option, in shares or cash. At Inca's option, the Company will provide guarantees for Inca's portion of any debt required to finance the project and in return Inca shall pay the Company a guarantee fee of 4% per annum of the amount of debt attributable to Inca, until such time as the debt becomes non-recourse to the Company.

### 9. SECURITY DEPOSITS

The Company has entered into agreements related to the leasing of mobile equipment. These lease arrangements required prepayment and security deposits of \$13,229.

	March 31, 2005	December 31, 2004
Security deposits - mining equipment	13,229	11,479
Security deposits - others	2,157	2,007
Margin deposit	-	4,339
Total	15,386	17,825
Less: Current portion	-	(4,339)
Long-term	15,386	13,486

## NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]  
Three months ended March 31, 2005

### 10. ENVIRONMENTAL TRUST AND BOND

	March 31, 2005	December 31, 2004
Environmental bond (a)	17,990	17,990
Cash in trust for reclamation (b)	6,639	5,622
Total	24,629	23,612

(a)The Company has posted an environmental bond with the US Bureau of Land Management (BLM) and the environmental bond is secured by a letter of credit from Washington Mutual Bank. As required by the BLM, the Company, on April 8, 2004, arranged a six-month term deposit of \$17,884.

On February 17, 2005, the letter of credit issued by Washington Mutual Bank was replaced by a letter of credit issued by Wells Fargo Bank N.A. The term deposit associated with the letter of credit of Washington Mutual Bank was transferred to Wells Fargo Bank N.A. concurrently.

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 by \$1,456 to \$19,446. It is expected that this additional payment will be made by June 30, 2005.

(b)Under the terms of the Kennecott Royalty Agreement that was entered into by the former owner of the Robinson mine and assumed by the Company, a 3% net smelter return royalty is payable to 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 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 continuity of the contributions to and payments of the trust:

## NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]  
Three months ended March 31, 2005

	Contributions to the trust	Reclamation costs paid by the trust	Net trust funds available
On acquisition	10,202	4,900	5,302
Interest income	30	-	30
Since acquisition	1,307	-	1,307
<b>Total</b>	<b>11,539</b>	<b>4,900</b>	<b>6,639</b>

### 11. ASSET RETIREMENT OBLIGATIONS

	March 31, 2005	December 31, 2004
	\$	\$
Balance at beginning of period	25,067	-
Acquisition of Robinson mine	-	24,590
Accretion	486	477
<b>Balance at end of period</b>	<b>25,553</b>	<b>25,067</b>

On the acquisition of BHP Nevada Mining Company 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 \$67,000. In assessing the carrying amount for the asset retirement obligation, the Company used a credit-adjusted risk-free rate of 7.75% and an estimated inflation rate of 2%. The Mine has an estimated life of 10 years.

As of March 31, 2005, the Company had posted an environmental bond and held cash in reclamation trust totaling \$24,629 to fund environmental remediation and mine closure costs related to the Robinson mine (Note 10).

Quadra Mining Ltd.

**NOTES TO FINANCIAL STATEMENTS**

[US Dollars in Thousands]  
Three months ended March 31, 2005

**12. DERIVATIVE INSTRUMENT LIABILITY**

On July 22, 2004 the Company bought gold forward sales contracts for a total of 60,000 oz. As at March 31, 2005, the weighted-average price on the forward contracts was \$405.835/oz. The unrealized loss from the mark-to-market adjustment of the contracts as at March 31, 2005 was \$1,300, resulting in an unrealized gain of \$599 in the period.

On March 24, 2005 the Company entered into two copper forward sales contracts for a total of 5,000 tonnes as part of the working capital facility agreement with Macquarie Bank (Note 17b). As at March 31, 2005 the weighted-average price on the forward contract was \$1.43/lb. No unrealized gain or loss was recorded as at March 31, 2005.

**13. SHARE CAPITAL**

[a] Common Shares

	March 31, 2005	
	Number of Shares	Amount
Balance at January 1, 2005	27,156,000	\$ 102,553
Issued in the period:		
To Inca Pacific (Note 8)	183,264	1,141
Employee stock option exercised	6,667	33
Balance at March 31, 2005	27,345,931	103,727

	December 31, 2004	
	Number of Shares	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

Quadra Mining Ltd.

**NOTES TO FINANCIAL STATEMENTS**

[US Dollars in Thousands]  
Three months ended March 31, 2005

As of March 31, 2005 the Company had 27,345,931 issued and outstanding common shares.

[b] The following table summarizes the stock option activity for the period ending March 31, 2005 (in Canadian dollars):

	<b>March 31, 2005</b>	
	Shares	Weighted-average exercise price
		\$
Outstanding at January 1, 2005	1,724,167	5.92
Granted	564,000	7.40
Exercised	6,667	4.70
Outstanding at March 31, 2005	2,281,500	6.29
Exercisable at March 31, 2005	827,166	6.27

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

## NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]  
Three months ended March 31, 2005

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	4.17	\$4.83	36,666	\$4.83
\$6.00 - \$7.40	2,171,500	4.29	\$6.36	790,500	\$6.33
	2,281,500	4.75	\$5.92	827,166	\$6.27

For the period ending March 31, 2005, the Company granted 564,000 stock options to directors, contractors and employees with an estimated weighted-average fair value of \$2.11 per stock option for total value of \$1,190. The 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:

Expected volatility	30%
Risk-free interest rate	5.00%
Expected lives	5 year
Dividend yield	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.

The following table summarizes the amortization of the value of stock options and warrants for the period ending March 31, 2005:

## NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]  
Three months ended March 31, 2005

	March 31, 2005
	Stock options & warrants \$
Beginning balance at January 1, 2005	3,273
Stock-based compensation expense	625
Options exercised	(8)
Ending balance at March 31, 2005	3,890

[c] On April 8, 2004, the Company issued 1,449,360 brokers warrants. These warrants have an exercise price of CAD \$6.00 and expire on April 8, 2006. All of these warrants are outstanding at March 31, 2005.

### 14. EARNINGS PER SHARE

Basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for the year. Basic and diluted earnings per share is calculated using the assumption that all of the in-the-money options and warrants are exercised at the beginning of the year.

**NOTES TO FINANCIAL STATEMENTS**

[US Dollars in Thousands]  
Three months ended March 31, 2005

	Three months Ended March 31, 2005 \$	Three months Ended March 31, 2004 \$
<b>Basic and diluted earnings per share</b>		
Numerator		
Net income for the period	3,788	1,674
Denominator		
Basic weighted average shares outstanding (000s)	27,222	3,000
Diluted weighted average shares outstanding (000s)	27,444	3,000
<b>Basic earnings per share</b>	<b>0.14</b>	<b>0.56</b>
<b>Basic and diluted earnings per share</b>	<b>0.14</b>	<b>0.56</b>

**15. SEGMENTED INFORMATION**

The Company's reportable geographic segments are as follows:

**Robinson Mine (U.S.)**

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**

In April 2004, the Company entered into six separate formal option agreements for six contiguous properties that together make up its Sierra Gorda project in Chile.

In March 2005, the Company entered into agreement to develop Magistral project in Peru.

## Quadra Mining Ltd.

### NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]  
Three months ended March 31, 2005

#### Corporate (Canada)

Head office operations are located in Vancouver, British Columbia.

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

	Robinson Mine	South America Exploration	Corporate	Total
Cash	10,179	615	12,911	23,705
Other current assets	29,290	40	161	29,491
Long-term assets	101,364	6,415	716	108,495
<b>Total assets</b>	<b>140,833</b>	<b>7,070</b>	<b>13,788</b>	<b>161,691</b>
Current liabilities	21,956	93	1,821	23,870
Long-term liabilities	29,123	-	-	29,123
<b>Total liabilities</b>	<b>51,079</b>	<b>93</b>	<b>1,821</b>	<b>52,993</b>

#### 16. 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 period ending March 31, 2005 the Company paid legal fees of \$46 and recruiting and human resources consulting fees of \$78 respectively to those entities [March 31, 2004: \$446 and \$48 respectively].

#### 17. COMMITMENTS

[a] On September 1, 2004 Robinson Nevada Mining Company (Robinson) entered into an operating lease agreement with Caterpillar Financial Services Corporation (Caterpillar) to lease sixteen trucks. Under the terms of the agreement, Robinson

## NOTES TO FINANCIAL STATEMENTS

[US Dollars in Thousands]

Three months ended March 31, 2005

is required to pay a note of \$3,915 due to Caterpillar. 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.

- [b] On March 30, 2005, Robinson arranged a revolving working capital facility 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 sales of metal concentrate.

Macquarie has agreed to provide a revolving working capital facility of up to \$30,000 until August 1, 2005 and \$20,000 thereafter until March 31, 2006. Each drawdown under this facility will be no greater than 90% of the net smelter return based on the hedged value of concentrate shipments under current sales contracts. The metal prices used in the estimated value will be based on the hedged prices entered into by Robinson between each drawdown date and the first provisional payment made by customers pursuant to the terms of their individual sales contracts. The Company made an initial drawdown of \$12,000 on March 30, 2005.

The primary security for the obligations under both facilities is a security interest in all of the assets of Robinson.

In addition to the working capital facility, Macquarie has agreed to provide the Company with an uncommitted hedge line of credit facility. The current terms of this facility allow the Company to hedge up to 25,000 tonnes of copper metal and 60,000 oz of gold, free of margin calls.

Prior to future drawdowns under the working capital facility, the Company must meet a number of financial and other conditions. These conditions include requirements that at the time of the drawdown the Robinson Mine copper production shall be greater than specified budget levels and operating and capital costs shall not exceed specified budget levels.