



## **Quadra Mining Ltd.**

### **Consolidated Financial Statements**

March 31, 2008

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

(Unaudited)

**Quadra Mining Ltd.****CONSOLIDATED BALANCE SHEETS**(US Dollars in Thousands)  
(Unaudited)

		<b>March 31, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	Note 4	305,292	263,586
Receivables		38,814	13,595
Inventory	Note 5	38,657	42,730
Other current assets	Note 6	5,196	29,578
Future income tax assets	Note 8	10,714	12,090
<b>Total Current Assets</b>		<b>398,673</b>	<b>361,579</b>
Environmental trust and bond		46,572	46,391
Mineral properties, plant and equipment	Note 7	422,672	366,126
Other assets		13,561	15,123
<b>Total Assets</b>		<b>881,478</b>	<b>789,219</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		38,540	44,986
Deferred gold consideration payable	Note 9	11,151	15,104
Other current liabilities	Note 10	38,248	14,315
<b>Total Current Liabilities</b>		<b>87,939</b>	<b>74,405</b>
Senior credit facility	Note 11	137,988	145,151
Asset retirement obligations		38,265	37,458
Obligations under capital leases		6,608	7,407
Future income tax liabilities	Note 8	22,985	23,708
<b>Total Liabilities</b>		<b>293,785</b>	<b>288,129</b>
<b>Non-controlling interest</b>		<b>2,620</b>	<b>2,711</b>
<b>Shareholders' Equity</b>			
Share capital	Note 13(a)	343,307	336,031
Stock options and warrants	Note 13(b), (c)	27,240	27,034
Accumulated other comprehensive income	Note 6	-	599
Retained earnings		214,526	134,715
<b>Total Shareholders' Equity</b>		<b>585,073</b>	<b>498,379</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>881,478</b>	<b>789,219</b>

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

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

**Quadra Mining Ltd.**

**CONSOLIDATED STATEMENTS OF EARNINGS  
AND COMPREHENSIVE INCOME**

(US Dollars in Thousands)  
(Unaudited)

		<b>Three months ended March 31, 2008</b>	<b>Three months ended March 31, 2007</b>
Revenues from concentrate sales	Note 14	198,032	136,455
Cost of sales		67,220	62,234
Amortization, depletion and depreciation		4,922	3,565
Accretion of asset retirement obligations		807	479
Royalties and mineral taxes		9,194	5,205
		<u>82,143</u>	<u>71,483</u>
Operating income		115,889	64,972
General and administrative		4,575	2,300
Stock-based compensation	Note 13(b)	1,211	383
Foreign exchange loss		1,548	19
Net interest and other income	Note 15	(3,325)	(118)
Loss on derivatives	Note 12	9,460	2,512
<b>Earnings before income taxes</b>		<u>102,420</u>	<u>59,876</u>
Income tax expense	Note 8	22,609	16,765
<b>Earnings for the period</b>		<u>79,811</u>	<u>43,111</u>
<b>Other comprehensive income</b>			
Reversal of unrealized gain on marketable securities	Note 6	599	-
<b>Total comprehensive income</b>		<u>79,212</u>	<u>43,111</u>
<b>Earnings per share</b>			
Basic earnings per share		\$ 1.44	\$ 1.13
Diluted earnings per share		\$ 1.41	\$ 1.12
Weighted average shares outstanding - basic		55,496	38,131
Weighted average shares outstanding - diluted		56,603	38,528

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

**Quadra Mining Ltd.**

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

(US Dollars in Thousands)

(Unaudited)

	<b>Three months ended March 31, 2008</b>	<b>Year ended December 31, 2007</b>
<b>Share capital</b>		
Balance - beginning of period	336,031	162,315
Stock options exercised	2,227	10,009
Warrants exercised	5,049	937
Shares issued for cash, net of issue costs	-	116,234
Shares issued for InterMoly acquisition	-	37,714
Shares issued for water rights acquisition	-	8,822
<b>Balance - end of period</b>	<b>343,307</b>	<b>336,031</b>
<b>Stock options and warrants</b>		
Balance - beginning of period	27,034	4,498
Stock-based compensation	1,626	6,582
Transfer to share capital for stock options and warrants exercised (Note 13(a))	(1,420)	(2,455)
Fair value of warrants issued	-	18,409
<b>Balance - end of period</b>	<b>27,240</b>	<b>27,034</b>
<b>Accumulated other comprehensive income</b>		
Balance - beginning of period	599	-
Unrealized gains on available-for-sale investments	-	599
Realized gains on available-for-sale investments	Note 6 (599)	-
<b>Balance - end of period</b>	<b>-</b>	<b>599</b>
<b>Retained earnings</b>		
Balance - beginning of period	134,715	(1,697)
Earnings for the period	79,811	136,412
<b>Balance - end of period</b>	<b>214,526</b>	<b>134,715</b>
<b>Total shareholders' equity</b>	<b>585,073</b>	<b>498,379</b>

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

**Quadra Mining Ltd.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(US Dollars in Thousands)

(Unaudited)

	<b>Three months ended March 31, 2008</b>	<b>Three months ended March 31, 2007</b>
<b>OPERATING ACTIVITIES</b>		
Earnings for the period	79,811	43,111
Adjustment for items not involving cash:		
Stock-based compensation	1,211	383
Amortization, depletion, depreciation and accretion	5,729	4,044
Unrealized (gain) loss on derivatives	9,460	(19,714)
Future income tax expense	653	13,615
Other	(1,793)	169
	<u>95,071</u>	<u>41,608</u>
Net changes in non-cash working capital:	(5,390)	(26,703)
<b>Cash provided from operating activities</b>	<b>89,681</b>	<b>14,905</b>
<b>INVESTING ACTIVITIES</b>		
Additions to mineral properties, plant and equipment	(57,271)	(14,495)
Proceeds from sale of marketable securities	9,517	-
Increase in environmental bond and trust	(181)	3,500
Investment in other assets	(507)	(509)
Refund of security deposit	8,900	-
Payment of deferred gold consideration	(5,906)	-
<b>Cash used in investing activities</b>	<b>(45,448)</b>	<b>(11,504)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from exercises of stock options and warrants	5,857	29
Increase in senior credit facility	-	192,942
Payment of loan amendment fees	(7,500)	-
Decrease in bank indebtedness	-	(16,900)
Decrease in obligations under capital leases	(884)	(326)
Decrease in notes payable	-	(2,668)
<b>Cash provided by (used in) financing activities</b>	<b>(2,527)</b>	<b>173,077</b>
<b>Net increase in cash and cash equivalents during the period</b>	<b>41,706</b>	<b>176,478</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>263,586</b>	<b>47,774</b>
<b>Cash and cash equivalents, end of period</b>	<b>305,292</b>	<b>224,252</b>

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

## **Quadra Mining Ltd.**

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

(US Dollars in Thousands)  
Three months ended March 31, 2008  
(Unaudited)

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

Quadra Mining Ltd. ("Quadra" or the "Company") was incorporated on May 15, 2002 under the British Columbia Company Act and is continued under the British Columbia Business Corporations Act. The Company is in the business of developing and operating mines, with a focus on base metals, particularly copper. In 2004, the Company acquired the Robinson mine, an open pit copper mine, with gold and molybdenum by-product credits, located in Nevada in the United States. All of the Company's revenues and operating income are generated by the Robinson mine.

The Company also owns the Carlota copper project, which is currently under construction in Arizona in the United States, and an advanced exploration project in Chile ("Sierra Gorda"), and also has an 82% interest in the Malmbjerg molybdenum project in Greenland.

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

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

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

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

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

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

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

This standard requires that inventories be measured at the lower of cost and net realizable value, and includes guidance on the determination of cost, including allocation of overheads and other costs. The standard also requires that similar inventories within a consolidated group be measured using the same method. It also requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements at March 31, 2008.

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Three months ended March 31, 2008  
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#### (b) Capital Disclosures – Section 1535

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

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

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

## 4. CASH AND CASH EQUIVALENTS

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Cash deposits, bankers acceptances and term deposits	200,292	143,915
Canadian and U.S. government money market investments	105,000	119,671
<b>Total</b>	<b>305,292</b>	<b>263,586</b>

Cash equivalents consist of highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired. At March 31, 2008, the Company's cash and cash equivalents were yielding a weighted average interest rate of 2.3%.

## 5. INVENTORY

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Concentrate	21,080	24,879
Supplies	17,577	17,851
<b>Total</b>	<b>38,657</b>	<b>42,730</b>

**Quadra Mining Ltd.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Three months ended March 31, 2008  
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**6. OTHER CURRENT ASSETS**

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Prepaid expenses	1,985	3,061
Derivative instrument assets (Note 12)	1,142	9,389
Security deposits	2,069	8,900
Marketable securities	-	8,228
Total other current assets	5,196	29,578

During the quarter ended March 31, 2008, the Company sold all of its marketable securities, which were classified as available-for-sale investments. The Company recorded a related gain of \$1,888, which is classified as other income on the consolidated statement of operations. This gain includes an amount of \$599 that was previously recorded in shareholders' equity as a component of other comprehensive income and has been reversed.

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

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Mineral property acquisition and development costs	305,044	241,845
Plant, buildings and equipment	119,582	120,601
Equipment under capital leases	11,898	11,926
Asset retirement cost	28,904	28,904
	465,428	403,276
Accumulated depreciation, depletion and amortization	(42,756)	(37,150)
	422,672	366,126

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

(US Dollars in Thousands)  
Three months ended March 31, 2008  
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Mineral properties, plant and equipment are allocated by project as follows:

			<b>March 31, 2008</b>	<b>December 31, 2007</b>
	Cost	Accumulated depreciation, depletion and amortization	Net book value	Net book value
Robinson mine (Nevada)	136,146	(42,194)	93,952	92,756
Carlota copper project (Arizona) (a)	210,458	-	210,458	166,258
Malmbjerg molybdenum project (Greenland)	74,075	(338)	73,737	72,337
Sierra Gorda (Chile) (b)	44,392	(72)	44,320	34,552
Other	357	(152)	205	223
	465,428	(42,756)	422,672	366,126

**(a) Carlota copper project**

During the quarter ended March 31, 2008, the Company incurred project development costs of \$31,218 at Carlota. The Company also invested \$6,687 in mining equipment for the Carlota project and has capitalized interest and amortization of financing costs of \$3,889 associated with the Secured Credit Facility (Note 11) during three months ended March 31, 2008.

**(b) Sierra Gorda**

During the quarter ended March 31, 2008, the Company incurred \$4,758 of exploration costs on the Sierra Gorda project and made option payments for water rights totaling \$4,977. During the quarter, the Company also entered into two new option agreements for properties contiguous to Sierra Gorda. The total purchase price under these option agreements is \$2,800, of which \$50 was paid during the quarter ended March 31, 2008.

In April 2008, the Company made scheduled option payments totaling \$2,300. The Company also elected to accelerate option payments and paid a total of \$22,525 in April and May, 2008 to settle eight of the Sierra Gorda option agreements. As a result of these transactions, the Company now has a 100% ownership interest in the Sierra Gorda project. In addition, the Company has an additional option agreement on peripheral ground to the Sierra Gorda project.

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Three months ended March 31, 2008  
(Unaudited)

#### 8. INCOME TAXES

For the three month period ended March 31, 2008, the Company recognized a current income tax expense of \$21,956 and a future income tax expense of \$653 based on a forecasted effective income tax rate of 22% for 2008 (three months ended March 31, 2007: \$3,150 and \$13,615 respectively). The forecast of the annual effective income tax rate is based on assumptions regarding metal prices, mine production and costs during the remainder of 2008. Based on these assumptions, management believes that it will utilize certain U.S. Alternative Minimum Tax ("AMT") Credits in 2008, and has therefore recognized an income tax recovery of approximately \$3.6 million in the three month period ended March 31, 2008. At March 31, 2008 the Company has an unrecognized future income tax asset of \$18.6 million related to AMT credits (December 31, 2007: \$22.2 million). These tax credits were earned in prior years, but the tax benefit was not previously recognized due to the uncertainty of realization.

#### 9. DEFERRED GOLD CONSIDERATION

The deferred gold consideration relates to the Company's acquisition of the Carlota Copper Project in 2005 (see Note 7(a)). During the three month period ended March 31, 2008, the Company paid 6,250 ounces of gold and as of March 31, 2008 the Company still owed 12,500 ounces of gold to the vendor. This gold will be paid in two quarterly installments during 2008. The deferred gold liability had an estimated fair value of \$11,151 at March 31, 2008, based on the forward prices of gold over the expected payment schedule.

The following table summarizes the changes in deferred gold consideration:

Deferred gold consideration payable at December 31, 2007	15,104
Gold payments (6,250 ounces)	(6,359)
Increase in fair value of deferred gold consideration	2,406
Deferred gold consideration payable at March 31, 2008	11,151

The increases in the fair value of the deferred gold payments have been capitalized as mineral property acquisition costs as the Carlota project has not yet reached commercial production.

#### 10. OTHER CURRENT LIABILITIES

	March 31, 2008	December 31, 2007
Tax payable	36,829	12,811
Obligations under capital lease - current portion	1,419	1,504
Total other current liabilities	38,248	14,315

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Three months ended March 31, 2008  
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#### 11. SENIOR CREDIT FACILITY

The Company has a \$150 million First Lien Secured Credit Facility which matures on March 2, 2012 and bears interest at LIBOR + 6.5%, payable quarterly. There are no mandatory principal payments required before the maturity date, however, the Company is obligated to make a semi-annual offer to repay a portion of the Credit Facility in an amount equal to 50% of Excess Cash Flow, as computed under the terms of the Credit Facility. The Company also has the right to prepay the Credit Facility at a premium of 3% for the next two years, 2% in the third year and 1% in the final year of the loan.

Based on the Excess Cash Flow generated in the last six months of 2007, the lenders had the right to call approximately \$41,000 of the loan by the end of March 2008. On March 24, 2008, the Company and the lenders agreed to an amendment of the Credit Facility under which the lenders waived their right to request repayment of the \$41,000 in exchange for a cash payment of \$7,500. In addition, the Company agreed to establish a minimum LIBOR floor of 3.75% for the remaining life of the Credit Facility. The next semi-annual offer will be made in August 2008, based on the Excess Cash Flow generated in the first half of 2008, and will continue thereafter for the remaining life of the Credit Facility.

The amendment of the Credit Facility had been accounted for as a loan modification with the \$7,500 fee paid to the lenders added to the carrying amount of the debt where it will be amortized over its remaining expected life.

The Credit Facility is carried on the balance sheet at amortized cost, comprised as follows:

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Face value	150,000	150,000
Original debt issue costs	(5,760)	(5,760)
Loan amendment fee	(7,500)	-
Cumulative amortization of debt issue costs	1,248	911
Carrying value	137,988	145,151

Management believes that the fair value of this debt approximates its face value of \$150,000.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Three months ended March 31, 2008  
(Unaudited)

**12. DERIVATIVE INSTRUMENTS**

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

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Fuel contract (a)	-	486
Copper puts (b)	1,107	8,774
Interest rate cap	35	129
Derivative instrument assets (Note 6)	1,142	9,389

The loss on derivatives is comprised as follows:

	<b>Three months ended March 31, 2008</b>	<b>Three months ended March 31, 2007</b>
Copper and gold forward contracts	-	3,780
Fuel contract (a)	486	(1,268)
Copper puts (b)	8,880	-
Interest rate cap	94	-
Loss on derivatives	9,460	2,512

**(a) Fuel Contract**

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

**(b) Copper Puts**

During the quarter ended March 31, 2008, the Company purchased copper put options at a total cost of \$1,213. At March 31, 2008 the Company had outstanding put options for approximately 130 million pounds of copper with an average strike price of \$2.36 per pound with maturity dates spread between April 2008 and December 2008. The fair value of these put options at March 31, 2008 was \$1,107. The \$8,880 reduction in the fair value of the put options has been recognized as a derivative loss on the statement of operations for the three months ended March 31, 2008.

**Quadra Mining Ltd.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Three months ended March 31, 2008  
(Unaudited)

**13. SHARE CAPITAL**

**(a) Common Shares**

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

	<b>Number of Shares</b>	<b>Dollar Amount</b>
Balance at January 1, 2008	55,115,736	336,031
Capital stock issued		
Stock options exercised	220,527	1,724
Warrants exercised	446,111	4,132
Transfer from contributed surplus:		
Stock options and warrants exercised		1,420
Balance at March 31, 2008	55,782,374	343,307

During the quarter ended March 31, 2008, warrants to purchase 446,111 common shares were exercised. These warrants were issued in connection with a debt financing in March 2007.

**(b) Stock options**

The Company has a stock option plan to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, by offering them an opportunity to participate in the Company’s future performance through awards of options. The stock option plan is administered by the Compensation Committee, all of whom are members of the Board of Directors. The total number of Shares reserved and available for issuance shall not exceed in the aggregate a number of Shares equal to 10% of the issued and outstanding Shares of the Company from time to time. The exercise price per option shall be determined by the Compensation Committee, but such price shall not be less than the closing price of the shares on the TSX on the trading day immediately preceding the day on which the option is granted. The options granted vest over a two year period and expire after five years.

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The following table summarizes information relating to stock options outstanding and exercisable at March 31, 2008 (in Canadian dollars):

Exercise price per share	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price C\$	Number exercisable	Weighted-average exercise price C\$
\$4.60 - \$7.76	609,667	1.67	5.45	576,334	5.32
\$9.18 - \$11.91	667,406	3.46	10.57	384,406	10.59
\$12.40 - \$14.26	1,617,139	4.02	13.11	510,472	13.08
\$16.53 - \$20.85	639,500	4.62	18.80	117,333	17.71
	3,533,712	3.62	12.52	1,588,545	10.40

The following tables summarize the stock option activity for the three months ended March 31, 2008:

	Options	Weighted-average exercise price (C\$)
Outstanding at January 1	3,536,073	11.76
Granted	252,500	19.03
Forfeited	(34,334)	13.05
Exercised	(220,527)	7.75
Outstanding at March 31	3,533,712	12.52

During the quarter ended March 31, 2008, 252,500 stock options were granted to employees (quarter ended March 31, 2007: 110,000). The weighted-average fair value of these stock options is estimated to be \$5.42 each (quarter ended March 31, 2007: \$2.08 each). The total fair value of the stock options granted is amortized over the two year vesting period. The fair value of each option is estimated as at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>2008</u>	<u>2007</u>
Expected volatility	46%	30%
Risk-free interest rate	4%	5%
Expected lives	2 years	4 years
Dividend yield	Nil	Nil

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Three months ended March 31, 2008  
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The stock-based compensation amortization for the quarter ended March 31, 2008 was \$1,626 (March 31, 2007: \$383), of which \$415 was capitalized to mineral properties (March 31, 2007: Nil).

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

#### (c) Warrants

The following warrants were outstanding and exercisable at March 31, 2008:

	Common shares to be issued on exercise	Exercise price C\$	Expiry date
Traded warrants	5,980,000	20.00	May 9, 2010
Lender warrants	1,500,544	9.24	March 1, 2012
Exercisable at March 31, 2008	7,480,544	17.84	

#### 14. REVENUES FROM CONCENTRATE SALES

	Three months ended March 31, 2008	Three months ended March 31, 2007
Copper revenues	138,497	106,316
Gold revenues	31,130	21,217
Molybdenum revenues	547	-
Price adjustments	33,567	19,330
Refining and treatment charges	(5,709)	(10,408)
	198,032	136,455

Revenues from concentrate sales are recorded provisionally at the time of sale based on forward prices for the expected date of the final settlement. Subsequent variations in price are recognized as price adjustments as they occur until the price is finalized. At March 31, 2008, receivables include 44.4 million pounds of copper which has been provisionally valued at \$3.82 per pound (December 31, 2007 - 38.2 million pounds at \$3.04 per pound).

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
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(Unaudited)

**15. NET INTEREST AND OTHER INCOME**

	<b>Three months ended March 31, 2008</b>	<b>Three months ended March 31, 2007</b>
Interest income	(1,933)	(988)
Interest expense	671	899
Gain on sale of marketable securities and other assets	(2,131)	(11)
Other	68	(18)
	<b>(3,325)</b>	<b>(118)</b>

**16. MANAGEMENT OF CAPITAL RISK**

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

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

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

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

## **Quadra Mining Ltd.**

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

(US Dollars in Thousands)  
Three months ended March 31, 2008  
(Unaudited)

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

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

##### (a) Currency risk

The Company's revenues from the production and sale of copper, gold and molybdenum are denominated in US dollars. The Company's operating expenses are primarily incurred in US dollars and its liabilities are primarily denominated in US dollars. The operating results and financial position of the Company are reported in US dollars in the Company's consolidated financial statements. However, the Company's corporate office is in Canada and the majority of general and administrative expenses are paid in Canadian dollars. In addition, the Company's cash and cash equivalents include approximately \$60,000 Canadian dollars as at March 31, 2008. The fluctuation of the US dollar in relation to the Canadian dollar consequently has an impact upon the Company's consolidated statements of operations. The Company has not entered into any arrangements to hedge the currency risks.

##### (b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's significant counterparty exposures are as follows:

- Sales contract with its customers. The payment terms of the trade receivables are defined in the contracts and provide for the majority of payments to be made upon shipment. The Company manages the credit risk for trade and other receivables through established credit monitoring activities.
- Cash investments and security deposits. The counter-parties primarily consist of banks, governments and government agencies.
- Derivative instruments. The counterparties consist of several large international financial institutes.

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

##### (c) Liquidity risk

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

## **Quadra Mining Ltd.**

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

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#### (d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

Interest payments for the \$150,000 senior credit facility are subject to fluctuations in the London Inter Bank Offer Rate ("LIBOR") interest rate subject to a floor of 3.75%. As a condition of the facility, the Company purchased a contract which provides an interest rate cap. The contract effectively caps LIBOR at 5.35% for \$100,000 of debt until July 2010.

#### (e) Commodity price risk

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

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

In addition, changes in the price of copper can have a significant impact on the value of receivables which include sales that have been provisionally valued, and not yet subject to final pricing. A change in the copper price of \$0.50 per pound at March 31, 2008, with all other variables held constant, would have impacted the value of provisionally priced receivables and changed our after tax earnings for the three months ended March 31, 2008 by \$17,302.

## **18. SEGMENTED INFORMATION**

The Company's operating segments are based on mineral properties (Note 7). All of the Company's operating income for the three months ended March 31, 2008 and 2007 was generated by the Robinson mine. Detail as to capital assets and capital expenditures by geographic areas are included in Note 7. Total assets for each segment are as follows:

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

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	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Robinson mine	349,845	286,520
Carlota project	226,436	184,387
Other mineral properties	231,322	107,417
Corporate and other	73,875	210,895
	<b>881,478</b>	<b>789,219</b>

**19. RELATED PARTY TRANSACTIONS**

One of the directors of the Company is a partner of an affiliate of Blake, Cassels & Graydon LLP. During the three month ended March 31, 2008, the Company incurred general and administrative legal fees of \$154 with that entity (Three months ended March 31, 2007: \$189), which were at normal business terms.

**20. SUPPLEMENTARY CASH FLOW INFORMATION**

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

	<b>Three months ended March 31, 2008</b>	<b>Three months ended March 31, 2007</b>
Increase in receivables	(25,219)	(26,805)
Decrease in inventory	4,525	4,548
Increase in other current assets	(137)	(2,132)
Decrease in accounts payable and accrued liabilities	(8,577)	(4,621)
Increase in other current liabilities	24,018	2,307
Net changes in non-cash working capital	<b>(5,390)</b>	<b>(26,703)</b>
<b>Other supplemental information:</b>		
Interest paid	4,814	806
Income tax paid	2,417	6,500

## Quadra Mining Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)  
Three months ended March 31, 2008  
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#### 21. CONTINGENCIES

- (a) In July 2000, the Environmental Protection Agency (the "EPA") issued National Pollution Discharge Elimination System ("NPDES") Permit AZ0024112 to Carlota Copper Company ("CCC") (now a wholly-owned subsidiary of the Company), which authorized storm water discharges from waste rock dumps and groundwater discharge for a wellfield mitigation program. In August 2000, project opponents Friends of Pinto Creek, et al. appealed the EPA's issuance of the permit.

On October 4, 2007 the United States Court of Appeals for the 9th Circuit (the "9<sup>th</sup> Circuit") released its decision in the action. In the decision, the Court ordered the NPDES permit be "vacated" and returned to the United States EPA, who had been defending the permit before the courts, for further processing consistent with the Court's decision. While the lawsuit was not filed against the CCC, it intervened in the case and is a party in the litigation. On January 18, 2008, CCC filed a motion for the 9th Circuit to rehear the case. On March 7, 2008, the 9<sup>th</sup> Circuit denied CCC's petition for rehearing. CCC is now appealing the 9<sup>th</sup> Circuit's decision to the United States Supreme Court. The permit remains in effect during the appeal process.

The decision of the 9<sup>th</sup> Circuit is not expected to have any immediate impact, as the primary purpose of the permit is to deal with the situation where, after operations commence, there is a major storm event that gives rise to excess water that requires discharge and does not meet Clean Water Act specifications. The Company is continuing construction of Carlota and is modifying the design of the mine site with respect to run-off, at an additional cost of \$4.4 million. Management believes that this modification will obviate the need for a NPDES permit. There are potential implications on operations following such a storm event, including interruptions to production and higher operating costs until accumulated water is disposed of by evaporation and rebalancing of on-site storage. There can be no assurance that permit renewals required for the development and operation of Carlota will not be challenged in the future.

- (b) In July 2007 and March 2008 the Company received notice that claims had been filed in Chilean courts against the Company's wholly-owned Chilean subsidiary, Minera Quadra Chile Limitada. The claimant is a minority shareholder of corporations (the "Optionor") with which the Company signed two option agreements in 2004. The claimant is seeking to nullify these option agreements. These agreements are two of the nine option agreements that the Company holds with respect to its Sierra Gorda mineral property. Based on advice received from Chilean counsel the Company believes that the option agreements are valid and that the claims are without merit.

The Company's wholly-owned Chilean subsidiaries are subject to one other legal dispute with respect to the validity of its mineral claims and water rights for the Sierra Gorda project. Based on advice received from Chilean counsel the Company believes that its mineral claims and water rights are valid and that the legal claim against the Company is without merit.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**22. SUBSEQUENT EVENTS**

- (a) Subsequent to March 31, 2008, the Company received notification from the US Bureau of Land Management that it will be required to increase the environmental bond for the Robinson Mine by \$8 million..
- (b) In April and May, 2008 the Company entered into agreements to make accelerated payments totaling \$22.5 million to settle eight of the Sierra Gorda option agreements. The Company now has a 100% ownership interest in the Sierra Gorda project, and also has an option agreement pertaining to peripheral ground (Note 7(b)).
- (c) On May 8, 2008, the Company completed the acquisition of pumping rights to 319 litres per second of water located near Calama, in Region II, northern Chile. These rights were acquired in exchange for a cash payment of \$10 million and the issuance of 1,231,916 common shares.