



**Quadra Mining Ltd.**

September 30, 2007

(Unaudited)

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

**Quadra Mining Ltd.**

**CONSOLIDATED BALANCE SHEETS**

(US Dollars in Thousands)

(Unaudited)

		<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	Note 5	285,210	47,774
Receivables and prepaid expenses		37,662	7,103
Inventory	Note 6	33,221	38,068
Marketable securities	Note 8	11,128	-
Derivative instrument asset	Note 13	1,515	-
Future income tax assets	Note 11	-	22,146
<b>Total Current Assets</b>		<b>368,736</b>	<b>115,091</b>
Security deposits		19,539	23,281
Environmental trust and bond	Note 7	46,244	43,391
Mineral properties, plant and equipment	Note 10	302,483	128,568
Future income tax assets	Note 11	5,114	7,149
Other assets		16,784	18,486
<b>Total Assets</b>		<b>758,900</b>	<b>335,966</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Bank indebtedness	Note 12(a)	-	16,900
Accounts payable and accrued liabilities		32,516	35,543
Deferred consideration		-	15,556
Tax payable		8,635	15,275
Obligations under capital leases - current portion	Note 19(c)	1,466	1,379
Future income tax liabilities	Note 11	5,318	-
Derivative instrument liability	Note 13	-	46,468
Notes payable		-	2,668
<b>Total Current Liabilities</b>		<b>47,935</b>	<b>133,789</b>
Secured credit facility	Note 12(b)	144,886	-
Asset retirement obligations	Note 14	36,267	24,093
Future income tax liabilities	Note 9	11,479	-
Obligations under capital leases	Note 19(c)	7,788	9,191
Deferred consideration	Note 10(a)	19,588	3,777
<b>Total Liabilities</b>		<b>267,943</b>	<b>170,850</b>
<b>Non-controlling interest</b>	Note 9	<b>2,728</b>	<b>-</b>
<b>Shareholders' Equity</b>			
Share capital	Note 15(a)	333,233	162,315
Stock options and warrants	Note 15(b)	25,800	4,498
Accumulated other comprehensive income	Note 8	2,471	-
Retained earnings (deficit)		126,725	(1,697)
<b>Total Shareholders' Equity</b>		<b>488,229</b>	<b>165,116</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>758,900</b>	<b>335,966</b>

**Commitments (Note 19), Contingencies (Note 20)**

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

**Quadra Mining Ltd.**

**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE  
INCOME AND RETAINED EARNINGS (DEFICIT)**

(US Dollars in Thousands)  
(Unaudited)

		Three months ended September 30, 2007	Nine months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2006
(As restated Note 3(a))					
Revenues from concentrate sales	Note 16	134,587	412,181	67,923	294,084
Cost of sales		58,256	177,593	36,410	148,237
Amortization, depletion and depreciation		3,810	10,493	1,708	7,478
Accretion of asset retirement obligations		762	1,731	545	1,604
Royalties and mineral taxes		7,232	20,249	5,255	13,270
		<u>70,060</u>	<u>210,066</u>	<u>43,918</u>	<u>170,589</u>
Operating income		64,527	202,115	24,005	123,495
General and administrative		2,765	7,298	1,724	5,756
Loss on derivatives	Note 13	1,743	14,522	9,338	179,745
Stock-based compensation	Note 15(b)	1,500	4,779	460	1,713
Loss on settlement of debt	Note 12(b)	-	11,039	-	-
Foreign exchange (gain) loss		(3,283)	(6,152)	204	(53)
Net interest and other (income) expense		(1,937)	(3,758)	(209)	618
Net gain on cancellation of AMP option		-	-	(14,472)	(14,472)
<b>Earnings (loss) before income taxes</b>		<u>63,739</u>	<u>174,387</u>	<u>26,960</u>	<u>(49,812)</u>
Income tax expense (recovery)	Note 11	14,984	45,965	6,326	(13,286)
<b>Earnings (loss) for the period</b>		<u>48,755</u>	<u>128,422</u>	<u>20,634</u>	<u>(36,526)</u>
<b>Other comprehensive income</b>					
Unrealized gain on marketable securities	Note 8	(2,471)	(2,471)		
<b>Total comprehensive income</b>		<u>51,226</u>	<u>130,893</u>		
<b>Retained earnings (deficit) – beginning of period</b>					
<b>As previously reported</b>		77,970	27,494	(50,758)	(4,730)
<b>Retroactive application of EIC 160</b>		-	(29,191)	(22,532)	(11,400)
<b>As restated</b>		<u>77,970</u>	<u>(1,697)</u>	<u>(73,290)</u>	<u>(16,130)</u>
<b>Retained earnings – end of period</b>		<u>126,725</u>	<u>126,725</u>	<u>(52,656)</u>	<u>(52,656)</u>
<b>Earnings per share</b>					
Basic earnings per share		\$ 0.90	\$ 2.76	\$ 0.55	\$ (1.01)
Diluted earnings per share		\$ 0.86	\$ 2.70	\$ 0.54	\$ (1.01)
Weighted average shares outstanding - basic		54,331	46,543	37,533	36,111
Weighted average shares outstanding - diluted		56,397	47,605	38,293	36,677

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 September 30, 2007</b>	<b>Nine months ended September 30, 2007</b>	<b>Three months ended September 30, 2006</b>	<b>Nine months ended September 30, 2006</b>
	(As restated Note 3(a))			
<b>OPERATING ACTIVITIES</b>				
Earnings (loss) for the period	48,755	128,422	20,634	(36,526)
Adjustment for items not involving cash:				
Stock-based compensation	1,500	4,779	460	1,713
Amortization, depletion, depreciation and accretion	4,572	12,224	2,253	9,082
Unrealized (gain) loss on derivatives	1,743	(39,912)	(34,626)	60,996
Loss on settlement of debt	-	11,039	-	-
Future income tax expense (recovery)	4,970	29,499	4,938	(16,544)
Amortization of financing fees	266	761	-	-
	<u>61,806</u>	<u>146,812</u>	<u>(6,341)</u>	<u>18,721</u>
Net changes in non-cash working capital:	(2,217)	(49,890)	6,258	25,015
<b>Cash provided from (used in) operating activities</b>	<b>59,589</b>	<b>96,922</b>	<b>(83)</b>	<b>43,736</b>
<b>INVESTING ACTIVITIES</b>				
Additions to mineral properties, plant and equipment	(40,765)	(100,195)	(11,406)	(20,158)
Investment in marketable securities	(8,657)	(8,657)	-	-
Increase in security deposits and environmental bond and trust	(4,420)	(1,208)	(6,801)	(16,149)
Investment in other assets	(127)	(563)	24	(392)
Transaction costs for asset acquisition	(191)	(2,326)	-	-
Decrease in deferred consideration payable	-	-	(3,687)	(11,231)
<b>Cash used in investing activities</b>	<b>(54,160)</b>	<b>(112,949)</b>	<b>(21,870)</b>	<b>(47,930)</b>
<b>FINANCING ACTIVITIES</b>				
Increase in share capital and warrants net of issue costs	1,939	136,405	3,909	56,126
Increase in secured credit facility	-	137,942	-	-
Increase (decrease) in bank indebtedness	-	(16,900)	5,500	(22,800)
Increase (decrease) in notes payable	-	(2,668)	500	500
Decrease in obligations under capital leases	(620)	(1,316)	(303)	(896)
<b>Cash provided by financing activities</b>	<b>1,319</b>	<b>253,463</b>	<b>9,606</b>	<b>32,930</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>6,748</b>	<b>237,436</b>	<b>(12,347)</b>	<b>28,736</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>278,462</b>	<b>47,774</b>	<b>50,211</b>	<b>9,128</b>
<b>Cash and cash equivalents, end of period</b>	<b>285,210</b>	<b>285,210</b>	<b>37,864</b>	<b>37,864</b>

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

## **Quadra Mining Ltd.**

### **NOTES TO FINANCIAL STATEMENTS**

(US Dollars in Thousands)  
Nine months ended September 30, 2007  
(Unaudited)

#### **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 base metals and 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 mine, which is currently under construction in Arizona in the United States, and has an option to purchase an advanced exploration project in Chile. In 2007 the Company acquired an 82% interest in International Molybdenum Plc. ("InterMoly") which holds the rights to the Malmbjerg molybdenum project in Greenland (Note 9).

#### **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, 2006. 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, 2006.

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

#### **3. CHANGES IN ACCOUNTING POLICY**

##### **(a) Deferred stripping costs**

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.

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### NOTES TO FINANCIAL STATEMENTS

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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 the comparative financial statements have been restated as noted below:

	<b>Three months ended September 30, 2006</b>	<b>Nine months ended September 30, 2006</b>
Effect on consolidated statements of operations:		
Increase in cost of sales	4,372	21,271
Increase in future income tax recovery	(1,491)	(7,258)
Increase in loss	<u>2,881</u>	<u>14,013</u>
Effect on consolidated statement of cash flows:		
Decrease in cash received from operating activities	(5,369)	(21,351)
Decrease in cash used in investing activities	5,369	21,351

#### **(b) Financial Instruments**

Effective January 1, 2007, the Company adopted CICA Handbook Section 3855 “Financial Instruments – Recognition and Measurement”, Section 3865 “Hedges” and Section 1530 “Comprehensive Income”. These new standards were adopted on a prospective basis in 2007 with no restatement of prior period financial statements.

In accordance with these standards the Company classified all financial instruments as either held-to-maturity, available-for-sale, held for trading, or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations. Transaction costs on financial assets and liabilities classified other than as held for trading are treated as part of the investment cost. The Company currently does not apply hedge accounting to its derivative instruments.

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### NOTES TO FINANCIAL STATEMENTS

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#### 4. FINANCIAL INSTRUMENTS

The Company's financial instruments are comprised of cash and cash equivalents, receivables, security deposits, bank indebtedness, accounts payable, notes payable, environmental trust and bond, deferred consideration, derivative instruments, the senior secured credit facility and obligations under capital lease. The fair values of short-term financial instruments approximate their carrying values due to the immediate or short-term maturity of those instruments. Management also estimates that the fair values of the non-current portion of the security deposits, environment trust and bond, deferred consideration and obligations under capital leases approximate their carrying value. The Secured Credit Facility is carried at the face value of the debt less the unamortized financing costs.

#### 5. CASH AND CASH EQUIVALENTS

Cash equivalents consist of highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired. At September 30, 2007, cash and cash equivalents were comprised as follows:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Cash deposits and bank obligations	152,449	47,774
Canadian and U.S. government obligations	114,799	-
Corporate commercial paper	17,962	-
<b>Total</b>	<b>285,210</b>	<b>47,774</b>

The corporate commercial paper matured in October, 2007.

#### 6. INVENTORY

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Concentrate	18,006	27,081
Supplies	15,215	10,987
<b>Total</b>	<b>33,221</b>	<b>38,068</b>

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### NOTES TO FINANCIAL STATEMENTS

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#### 7. ENVIRONMENTAL TRUST AND BOND

	September 30, 2007	December 31, 2006
Environmental bond - Robinson mine	23,175	20,840
Cash in trust for Robinson reclamation	15,894	15,376
Environmental bond - Carlota project	7,125	7,125
Environmental bond - other	50	50
<b>Total</b>	<b>46,244</b>	<b>43,391</b>

During the quarter ended September 30, 2007, the Company increased the Robinson mine environmental bond by \$2,335.

The cash in trust for Robinson reclamation earned interest of \$518 during the nine month period ended September 30, 2007 (nine months ended September 30, 2006: \$369).

#### 8. MARKETABLE SECURITIES

At September 30, 2007, the Company had available-for-sale marketable securities with a quoted market valued of \$11,128. An unrealized gain of \$2,471 resulted from the change in fair value of the marketable securities and has been recorded in shareholders' equity as a component of other comprehensive income.

#### 9. ACQUISITION OF INTERNATIONAL MOLYBDENUM PLC.

On March 30, 2007 the Company announced its intention to make an offer to acquire all of the issued shares and traded warrants of InterMoly, a public company listed on the Alternative Investment Market of the London Stock Exchange. InterMoly is the holder of the rights to the Malmbjerg molybdenum project in Greenland. The offer closed on June 22, 2007 with Quadra having received 82.47% of InterMoly shares and 90.82% of InterMoly warrants. The Company has exercised its right to compulsorily acquire all of the remaining InterMoly warrants that it does not hold.

A total of 3,293,111 common shares of the Company were issued in exchange for the interest in InterMoly. The measurement of the common share component of the consideration is based on the

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### NOTES TO FINANCIAL STATEMENTS

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closing share price of the Company's common share on the date of issuance of C\$12.47 (US\$11.45). The transaction is considered to be an asset purchase and the allocation of the purchase price to the fair value of the assets and liabilities acquired is as follows:

#### **Purchase price:**

Common shares issued	37,714
Transaction costs, net of cash acquired	2,135
<b>Total</b>	<b>39,849</b>

#### **Fair value of assets and liabilities acquired:**

Malmbjerg mineral property and equipment	58,626
Net working capital	(3,518)
Asset retirement obligations	(997)
Future income tax liability	(11,479)
Non-controlling interest	(2,783)
<b>Net assets acquired</b>	<b>39,849</b>

The future income tax liability of \$11,479 relates to the difference between the fair value allocated to the Malmbjerg mineral property and its tax basis. The non-controlling interest represents 17.53% of InterMoly's shareholders equity.

## 10. MINERAL PROPERTIES, PLANT AND EQUIPMENT

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Mineral property acquisition and development costs	176,694	59,376
Plant, buildings and equipment	112,153	56,778
Equipment under capital leases	12,076	12,076
Asset retirement obligations	28,904	19,457
	329,827	147,687
Accumulated depreciation, depletion and amortization	(27,344)	(19,119)
	302,483	128,568

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Mineral properties, plant and equipment allocated by project:

			September 30, 2007	December 31, 2006
	Cost	Accumulated depreciation, depletion and amortization	Net book value	Net book value
Robinson mine	105,052	(27,132)	77,920	59,312
Carlota copper project (a)	126,446	-	126,446	57,519
Malmjberg molybdenum project (b)	67,885	(40)	67,845	-
Sierra Gorda (c)	30,132	(52)	30,080	11,580
Other	312	(120)	192	157
	329,827	(27,344)	302,483	128,568

#### (a) Carlota copper project

During the nine month period ended September 30, 2007, the Company expended \$21,902 on project development costs of the Carlota project. The Company also invested \$37,502 in mining equipment for the Carlota project and has also capitalized interest and amortization of financing costs of \$9,050 associated with the Secured Credit Facilities (Note 12(b)) for the nine months ended September 30, 2007.

As at September 30, 2007, 25,000 ounces of gold and cash of \$3,782 remained to be paid to the vendor as deferred purchase consideration. Based on the terms of the purchase contract, the payment of these amounts is required to commence on the earlier of June 30, 2010 and the date when the issues arising from the permitting related litigation are resolved (Note 20(b)). The deferred gold payments had an estimated fair value of \$15,806 at September 30, 2007 (December 31, 2006: \$15,333). During the nine months period ended September 30, 2007, the increase in the fair value of the deferred gold payments was \$473 and this amount has been capitalized as a mineral property acquisition cost.

#### (b) Malmjberg molybdenum project

The Malmjberg mineral property was acquired in the second quarter of 2007 as part of the InterMoly acquisition (Note 9). The Company has incurred \$9,206 of development costs on the Malmjberg project during 2007.

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### **NOTES TO FINANCIAL STATEMENTS**

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#### **(c) Sierra Gorda**

During the nine months ended September 30, 2007, the Company incurred \$6,720 of development costs on the Sierra Gorda project and also made option payments for property and water rights totaling \$2,109.

During the third quarter of 2007, the Company acquired a 100% interest in a privately held Chilean company that holds water rights in Region II of northern Chile for consideration of 550,800 common shares of the Company. The only significant assets or liabilities of this Chilean company are rights to water and accordingly, the purchase consideration of \$9,393 has been allocated to mineral properties.

#### **11. INCOME TAXES**

For the nine month period ended September 30, 2007, the Company recognized a current income tax expense of \$16,466 and a future income tax expense of \$29,499 based on a forecasted effective income tax rate of 26.5% for 2007 (nine months ended September 30, 2006: \$3,258 and (\$16,544) respectively) . As at September 30, 2007, the Company has recognized current future income tax liabilities of \$5,318 and non-current future income tax assets of \$5,114 related to U.S. operations.

Management believes that uncertainty exists regarding the realization of certain future tax assets and therefore a valuation allowance is required. As a result, the Company has not recognized the benefit of U.S. Alternative Minimum Tax credits, the tax basis of Carlota in excess of the acquisition price, and the tax loss carry forwards arising outside of the U.S.

#### **12. DEBT**

##### **(a) Working Capital Facility**

In the first quarter of 2007, the revolving Working Capital Facility with Macquarie Bank Ltd. expired and the balance of \$16,900 was repaid.

##### **(b) Secured Credit Facilities**

In March 2007 the Company completed a \$200,000 syndicated private loan financing, consisting of a \$150,000 First Lien Secured Credit Facility ("First Facility") and a \$50,000 Second Lien Junior Secured Credit Facility ("Second Facility"). The First Facility has a 5 year term and bears

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interest at LIBOR + 6.5%, payable quarterly. The Second Facility had a 7 year term and bore interest at LIBOR + 10%. The Second Facility was repaid in full in June 2007. The Company has the right to prepay the First Facility at a premium of 103% for the first three years, 102% in the fourth year and 101% in the fifth year and the lenders have the ability to call a portion of the debt on a semi-annual basis in an amount equal to 50% of excess cash flow, as computed under the terms of the First Facility. The First Facility is secured by all Company assets except the Sierra Gorda project, and payments and distributions outside of the secured group of assets are subject to certain restrictions. The Company paid fees and other transactions costs of \$7,749 in connection with arranging the Facilities, and also issued 2,027,776 warrants to the Second Facility Lenders with a total fair value of \$4,166 (see Note 15(b)).

After completing an equity financing in May 2007, the Company elected to repay the \$50 million Second Facility which was retired in June 2007. Under the terms of the Second Facility, the Company was required to pay a prepayment premium of 10%, or \$5,000, to retire this debt. Unamortized debt issue and warrant costs of \$6,039 related to the Second Facility were also expensed in the second quarter of 2007 resulting in a total loss on settlement of debt of \$11,039.

#### 13. DERIVATIVE INSTRUMENTS

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

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Copper and gold forward contracts (a)	-	(46,468)
Fuel contract (b)	1,003	-
Copper puts (c)	110	-
Interest rate cap (d)	402	-
Derivative instrument assets (liabilities)	1,515	(46,468)

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The loss on derivatives is comprised as follows:

	Three months ended September 30, 2007	Nine months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2006
Realized losses:				
Copper forward contracts (a)	-	49,270	42,766	115,209
Gold forward contracts (b)	-	5,164	1,198	3,540
	-	54,434	43,964	118,749
Unrealized (gains) losses:				
Copper and Gold forward contracts (a)	-	(41,814)	(34,626)	60,996
Fuel contract (b)	55	(1,003)	-	-
Copper puts (c)	1,314	2,787	-	-
Interest rate cap (d)	374	118	-	-
	1,743	(39,912)	(34,626)	60,996
Loss on derivatives	1,743	14,522	9,338	179,745

#### (a) Copper and Gold Forward Contracts

In the first six months of 2007, the Company settled all of its copper and gold forward sale contracts. The realized losses are the difference between the actual sales price and the forward contracted price.

#### (b) Fuel Contract

During the quarter ended March 31, 2007 the Company entered into an agreement to purchase, on a take or pay basis, 504,000 gallons per month of diesel fuel for the 12 month period beginning February 1, 2007. As at September 30, 2007, the fair value of the contract was \$1,003 resulting in an unrealized gain of \$1,003 for the nine month period ended September 30, 2007.

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**(c) Copper Puts**

The Company has purchased copper put options during the second and third quarters of 2007 at a cost of \$2,897. At September 30, 2007 the Company had outstanding put options for approximately 83 million pounds of copper with an average strike price of \$2.18 per pound and with maturity dates spread between October 2007 and August 2008. The fair value of these put options at September 30, 2007 was \$110. The \$2,787 reduction in the fair value of the put options has been recognized as a derivative loss on the statement of operations in the first nine months of 2007.

**(d) Interest Rate Cap**

As a condition of the Secured Credit Facility (Note 12(b)), 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. The cost of the interest rate cap was \$520. As at September 30, 2007, the fair value of the interest rate cap was \$402, resulting in an unrealized loss of \$118 during the nine month period ended September 30, 2007.

**14. ASSET RETIREMENT OBLIGATIONS**

Balance at January 1, 2007	24,093
Accretion	1,731
Additions for other mineral properties	1,731
Change in estimated timing and amount of Robinson closure costs	8,712
Balance at September 30, 2007	36,267

In the second quarter of 2007, the Company re-assessed its reclamation plan on the Robinson mine and estimated an increase in undiscounted closure costs of \$12,272. 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 in an additional asset retirement obligation of \$8,712.

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#### 15. SHARE CAPITAL

##### (a) Common Shares

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

	Number of Shares	Dollar Amount
Balance at January 1, 2007	38,129,024	162,315
Capital stock issued		
Shares issued for cash, net of issue costs (i)	11,960,000	116,233
Stock options exercised	951,294	6,263
Shares issued for InterMoly acquisition (Note 9)	3,293,111	37,714
Shares issued for water rights acquisition (Note 10 (c))	550,800	8,822
Transfer from contributed surplus:		
Stock options exercised		1,886
Balance at September 30, 2007	54,884,229	333,233

- (i) In May 2007 the Company completed a bought-deal equity financing with a syndicate of underwriters through which the Company issued 10.4 million units at a price of C\$12.60 per unit for gross proceeds of \$118,539 (C\$131,040). Each unit consisted of one common share of the Company and one-half of a warrant, with each whole warrant entitling the holder to purchase an additional common share at an exercise price of C\$20.00 for a period of three years. The underwriters also exercised an option to acquire an additional 1.56 million units which increased the gross proceeds of the offering to \$136,320 (C\$150,696).

The Company incurred share issue costs of \$5,844 in connection with this offering. Of the gross proceeds received, \$14,243 was allocated to the warrants for accounting purposes based on their proportionate fair value.

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**(b) Stock options and warrants**

The following tables summarize the stock option activity for the nine month period ended September 30, 2007 (in Canadian dollars):

	Options	Weighted-average exercise price C\$
Outstanding at January 1, 2007	2,467,366	7.86
Granted	1,950,500	13.01
Forfeited	(41,268)	9.47
Exercised	(951,294)	6.93
Outstanding at September 30, 2007	3,425,304	10.99
Exercisable at September 30, 2007	1,640,104	9.79

The following table summarizes information relating to stock options outstanding and exercisable at September 30, 2007 (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 - \$5.75	197,500	2.94	5.25	147,500	5.18
\$6.00 - \$7.76	611,167	2.49	6.74	532,834	6.60
\$9.18 - \$11.91	769,803	3.86	10.27	346,603	10.48
\$12.40 - \$14.26	1,761,834	4.60	13.12	584,834	13.10
\$17.15 - \$17.58	85,000	4.86	17.44	28,333	17.44
	3,425,304	3.97	10.99	1,640,104	9.79

During the nine months ended September 30, 2007, 1,950,500 stock options were granted to directors and employees. The weighted-average fair value of these stock options is estimated to be \$3.77. The total fair value of the stock options is amortized over a two year vesting period. The fair

## Quadra Mining Ltd.

### NOTES TO FINANCIAL STATEMENTS

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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>2007</u>	<u>2006</u>
Expected volatility	45%	30%
Risk-free interest rate	5.00%	5.00%
Expected lives	2.6 years	4 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

The following warrants were issued in the nine months of 2007 and remain outstanding at September 30, 2007:

	Common shares to be issued on exercise	Exercise price C\$	Expiry date	Fair Value at issue date
Traded warrants (Note 15 (a))	5,980,000	20.00	May 9, 2010	14,243
Lender warrants (Note 12 (b))	2,027,766	9.24	May 1, 2012	4,166
Exercisable at September 30, 2007	8,007,766			18,409

The fair value of the warrants was valued based on a Black-Scholes option-pricing model using the assumptions noted above for stock options, except for the expected lives, of which a 3.5-year weighted-average expected life was used.

## Quadra Mining Ltd.

### NOTES TO FINANCIAL STATEMENTS

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The following table summarizes the movement in the stock options and warrants account during the nine month period ended September 30, 2007:

	Dollar amount
Stock options and warrants at January 1, 2007	4,498
Stock-based compensation expense	4,779
Transfer to share capital for stock options exercised	(1,886)
Fair value of warrants issued	18,409
Stock options and warrants at September 30, 2007	25,800

#### 16. REVENUES FROM CONCENTRATE SALES

	Three months ended September 30, 2007	Nine months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2006
Copper revenues	109,509	327,093	74,920	246,047
Gold revenues	17,795	56,465	7,270	28,357
Molybdenum revenues	681	1,737	1,063	5,741
Adjustments for final settlement	6,729	7,052	24,151	67,065
Marked to Market adjustments	6,118	42,946	(29,625)	(14,538)
Refining and treatment charges	(6,245)	(23,112)	(9,856)	(38,587)
	134,587	412,181	67,923	294,084

#### 17. RELATED PARTY TRANSACTIONS

One of the directors of the Company is a partner of an affiliate of Blake, Cassels & Graydon LLP. During the three months ended September 30, 2007, the Company incurred legal fees of \$83 with that entity (three months ended September 30, 2006: \$140). During the nine months ended September 30, 2007, the Company incurred legal fees of \$844 with that entity (nine months ended September 30, 2006: \$339).

## Quadra Mining Ltd.

### NOTES TO FINANCIAL STATEMENTS

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#### 18. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Three months ended September 30, 2007	Nine months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2006
				(As restated (Note 3(a)))
(Increase) decrease in receivables and prepaids	(7,687)	(32,100)	35,702	10,451
Increase (decrease) in derivative assets/liabilities	(911)	(8,071)	(20,463)	5,561
(Increase) decrease in inventory	2,132	4,162	(17,747)	(8,300)
Decrease in payables and accrued liabilities	4,249	(13,881)	8,594	17,540
Decrease in short-term investment	-	-	172	(237)
Net changes in non-cash working capital	<u>(2,217)</u>	<u>(49,890)</u>	<u>6,258</u>	<u>25,015</u>
Other supplemental information:				
Interest paid	2,914	10,085	884	2,965
Income tax paid	8,327	22,327	2,021	4,171

#### 19. COMMITMENTS

- (a) On March 21, 2007 the Company signed a three year tire supply contract for a total commitment of approximately \$6,600 per year.
- (b) The Company has initiated construction of the Carlota project in 2007 with copper production expected to commence in the second half of 2008. As of September 30, 2007 the Company had committed to capital expenditures of \$4,220 related to equipment for the Carlota project. In addition, the Company had committed to purchase equipment at the Robinson mine for \$5,548.

## Quadra Mining Ltd.

### NOTES TO FINANCIAL STATEMENTS

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(c) As of September 30, 2007, the Company's capital lease obligations are comprised as follows:

2007	676
2008	2,709
2009	2,709
2010	6,190
2011	89
Total minimum lease payments	12,373
Less: interest	(3,119)
Balance of the obligation	9,254
Less: current portion	(1,466)
Long-term portion	7,788

## 20. CONTINGENCIES

- (a) In July 2007 the Company received a notice that a claim had been filed in Chilean courts against the Company's wholly-owned Chilean subsidiary, Minera Quadra Chile Limitada. The claimant is a 5.33% shareholder in a corporation (the "Optionor") with which the Company signed an option agreement in 2004. The claimant is seeking to nullify the option agreement on the basis that the Optionor did not obtain proper shareholder approval of the agreement. This agreement is one of the six 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 agreement is valid and that the claim is without merit.
- (b) On October 4, 2007 the United States Court of Appeals for the 9th Circuit released its decision in an action relating to one of the water discharge permits issued for the Carlota Copper Project, currently under construction in Arizona. In the decision, the Court ordered the National Pollution Discharge Elimination (NPDES) permit be "vacated" and returned to the United States Environmental Protection Agency (EPA), who have been defending the permit before the courts, for further processing consistent with the Court's decision. While the lawsuit was not filed against the Carlota Copper Company ("CCC") (a 100% owned subsidiary of Quadra Mining Ltd.), CCC intervened in the case and is a party in the litigation with the right to appeal the decision. Quadra is currently reviewing the decision and considering its options. If the decision is appealed, the permit may remain effective. If it is not appealed, the decision goes into effect 52 days after the ruling. The decision has no immediate impact, as the primary

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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's intent is to continue construction of the project and to find a solution to the discharge issue. The Company has already complied with a specific commitment under the permit as drafted by participating in the clean-up of old mine workings unrelated to Carlota and upstream of the project, with the intent of significantly improving water quality in Pinto Creek.

In the event that the NPDES permit is not reissued, and no solutions to the issues can be found that are satisfactory to the EPA, the design of the mine site with respect to run-off would have to be changed so that the permit would not be required. Management is studying the implications of this option. There can be no assurance that additional permits required for the development and operation of Carlota will not be challenged in the future.