Quadra Mining Ltd.
Consolidated Annual Financial Statements
December 31, 2007
(Expressed in thousands of U.S. dollars, except where indicated)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
PricewaterhouseCoopers Place
250 Howe Street, Suite 700
Vancouver, British Columbia
Canada V6C 3S7
Telephone +1 604 806 7000
Facsimile +1 604 806 7806

Auditors' Report

To the Shareholders of
Quadra Mining Ltd.

We have audited the consolidated balance sheets of Quadra Mining Ltd. (the "Company") as at December 31, 2007 and 2006, the consolidated statements of operations, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, BC
February 19, 2008

MANAGEMENT’S RESPONSIBLILITY FOR FINANCIAL REPORTING

These consolidated financial statements have been prepared by the management of the company in accordance with Generally Accepted Accounting Principles in Canada and, where appropriate, reflect management’s best estimates and judgments based on currently available information.

The Audit Committee of the Board of Directors, which consists of three independent directors, meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company’s independent auditors, who are appointed by the shareholders, conducted an audit in accordance with Canadian Generally Accepted Auditing Standards to allow them to express an opinion on the consolidated financial statements.

A system of internal control is maintained to provide reasonable assurance that financial information is accurate and reliable. Management conducts ongoing reviews of these controls and reports on their findings to the Audit Committee.

Paul Blythe	Stuart McDonald
(signed)	(signed)
Chief Executive Officer	Chief Financial Officer

February 19, 2008

Quadra Mining Ltd.

CONSOLIDATED BALANCE SHEETS

(US Dollars in Thousands)

		December 31, 2007	December 31, 2006
ASSETS			
Current			
Cash and cash equivalents	Note 3	263,586	47,774
Receivables		13,595	5,320
Inventory	Note 4	42,730	38,068
Other current assets	Note 5	29,578	1,783
Future income tax assets	Note 10	12,090	22,146
Total Current Assets		361,579	115,091
Environmental trust and bond	Note 6	46,391	43,391
Mineral properties, plant and equipment	Note 8	366,126	142,462
Other assets	Note 9	15,123	27,873
Future income tax assets	Note 10	-	7,149
Total Assets		789,219	335,966
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	Note 11(a)	-	16,900
Accounts payable and accrued liabilities		44,986	39,543
Deferred gold consideration payable	Note 12	15,104	11,556
Other current liabilities	Note 13	14,315	19,322
Derivative instrument liability	Note 14	-	46,468
Total Current Liabilities		74,405	133,789
Senior credit facility	Note 11(b)	145,151	-
Asset retirement obligations	Note 15	37,458	24,093
Deferred gold consideration payable	Note 12	-	3,777
Obligations under capital leases	Note 16	7,407	9,191
Future income tax liabilities	Note 10	23,708	-
Total Liabilities		288,129	170,850
Non-controlling interest	Note 7	2,711	-
Shareholders' Equity			
Share capital	Note 17(a)	336,031	162,315
Stock options and warrants	Note 17(b)	27,034	4,498
Accumulated other comprehensive income	Note 5	599	-
Retained earnings (deficit)		134,715	(1,697)
Total Shareholders' Equity		498,379	165,116
Total Liabilities and Shareholders' Equity		789,219	335,966

Commitments (Note 8(a), 8(b), 16, 25), Contingencies (Note 26)

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

Approved by the Board of Directors

(Signed)
William Myckatyn

(Signed)
Gregory Van Staveren

Quadra Mining Ltd.

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

(US Dollars in Thousands)

		Year ended December 31, 2007	Year ended December 31, 2006
Revenues from concentrate sales	Note 18	493,848	393,257
Cost of sales		232,951	206,910
Amortization, depletion and depreciation		13,832	11,260
Accretion of asset retirement obligations		2,519	2,159
Royalties and mineral taxes		27,780	18,720
		277,082	239,049
Operating income		216,766	154,208
General and administrative		10,274	7,516
Stock-based compensation	Note 17(b)	5,386	2,399
Loss on settlement of debt	Note 11(b)	11,039	-
Foreign exchange (gain) loss		(6,475)	106
Net interest and other (income) expense	Note 19	(3,948)	616
Loss on derivatives	Note 14	15,293	151,383
Net gain on cancellation of AMP option	Note 20	-	(14,374)
Earnings before income taxes		185,197	6,562
Income tax expense (recovery)	Note 10	48,785	(7,871)
Earnings for the year		136,412	14,433
Other comprehensive income			
Unrealized gain on marketable securities	Note 5	(599)	
Total comprehensive income		137,011	
Deficit – beginning of year		(1,697)	(16,130)
Earnings for the year		136,412	14,433
Retained earnings (deficit) – end of year		134,715	(1,697)
Earnings per share			
Basic earnings per share		$ 2.80	$ 0.40
Diluted earnings per share		$ 2.72	$ 0.39
Weighted average shares outstanding - basic		48,690	36,308
Weighted average shares outstanding - diluted		50,114	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)

		Year ended December 31, 2007	Year ended December 31, 2006
OPERATING ACTIVITIES			
Earnings for the year		136,412	14,433
Adjustment for items not involving cash:			
Stock-based compensation		5,386	2,399
Amortization, depletion, depreciation and accretion		16,351	13,419
Unrealized (gain) loss on derivatives	Note 14	(39,141)	7,453
Loss on settlement of debt		11,039	-
Future income tax expense (recovery)		29,434	(19,810)
Other		3,044	222
		162,525	18,116
Net changes in non-cash working capital:	Note 24	(43,933)	46,845
Cash provided from operating activities		**118,592**	**64,961**
INVESTING ACTIVITIES			
Additions to mineral properties, plant and equipment		(141,754)	(29,796)
Increase in environmental bond and trust		(3,000)	(16,990)
Investment in other assets		(6,771)	(1,048)
Transaction costs for acquisitions		(2,326)	-
Decrease in deferred consideration payable		(4,613)	(14,326)
Cash used in investing activities		**(158,464)**	**(62,160)**
FINANCING ACTIVITIES			
Increase in share capital and warrants, net of issue costs		138,969	55,539
Increase in senior credit facility		192,942	-
Decrease in senior credit facility		(55,000)	-
Decrease in bank indebtedness		(16,900)	(18,100)
Decrease in notes payable		(2,668)	(382)
Decrease in obligations under capital leases		(1,659)	(1,212)
Cash provided by financing activities		**255,684**	**35,845**
Net increase in cash and cash equivalents during the year		**215,812**	**38,646**
Cash and cash equivalents, beginning of year		**47,774**	**9,128**
Cash and cash equivalents, end of year		**263,586**	**47,774**

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

Quadra Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Year ended December 31, 2007

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, 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 has an option to purchase an advanced exploration project in Chile ("Sierra Gorda"). 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 7).

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts are presented in thousands of United States dollars unless otherwise indicated. The significant accounting policies are as follows:

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All subsidiaries are wholly-owned except for the Company's 82% interest in InterMoly which was acquired in 2007. Intercompany balances and transactions are eliminated on consolidation.

b) Mineral properties, plant and equipment

Mineral properties, plant and equipment are recorded at cost. Mineral property development costs, including exploration, mine construction, and stripping costs, are capitalized until commercial production is achieved, or the property is sold, abandoned or impaired. Revenues earned prior to commercial production are offset against mineral property development costs. When the Company incurs debt directly related to the construction of a new operation or major expansion, the related financing costs are capitalized during the construction period.

During the production phase, exploration and development costs resulting in a betterment of the mineral property are capitalized. Stripping costs incurred in the production phase that are incurred to safely access ore are accounted for as variable production costs. Stripping costs resulting in a betterment of the mineral property by providing access to additional sources of ore are capitalized and amortized over the relevant mineral reserves.

Mineral property acquisition and development costs, plant and buildings are depreciated on a units-of-production basis, based on the expected tonnes of proven and probable reserves to be mined. Depreciation is recorded when a unit (a tonne of ore) is extracted from the mine. Other equipment is amortized on a straight line basis over its estimated useful life, generally 3 to 7 years.

(c) Impairment of long-lived assets

The carrying value of long-lived assets, which consist primarily of mineral properties and plant and equipment, is reviewed regularly and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized if the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and disposal. Undiscounted cash flows for mineral properties are based on estimates of future metal prices, proven and probable reserves, estimated value beyond proven and probable reserves, and future operating, capital, and reclamation cost assumptions. An impairment loss would be recorded on the statement of operations based on the amount by which the carrying amount of the asset exceeds its fair value.

The amount shown for mineral properties represents costs to date and does not necessarily reflect present or future values. Recovery of capitalized costs is dependent upon successful development of economic mining operations or the sale or disposition of mineral properties for amounts at least equal to the Company’s investment therein.

d) Revenue recognition

Sales are recognized and revenues are recorded at market prices when title transfers and the rights and obligations of ownership pass to the customer. The majority of the Company's concentrate is sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Revenues for these concentrates 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 revenue adjustments as they occur until the price is finalized.

e) Inventory

Inventories comprise final concentrate products and supplies. Concentrate inventories are valued at the lower of average cost of production and net realizable value. Supplies inventories, including capital spares, are valued at the lower of cost and replacement cost. Costs of production include all direct costs incurred in production including freight, stripping costs and amortization, depreciation and depletion charges relating to the production of inventory. Write-downs of inventory resulting from net realizable impairments are recorded as an expense on the statement of operations.

f) Financial instruments

Effective January 1, 2007, the Company adopted CICA Handbook Section 3855 “Financial Instruments – Recognition and Measurement” and 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 classifies 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 may from time to time, use derivative instruments to manage its exposure to commodity prices and foreign exchange movements. Derivative instruments are carried at fair value. Hedge accounting has not been applied in the past and consequently all changes in the fair value of derivatives are recognized immediately in the statement of operations.

g) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between accounting carrying values and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the assets will not be realized.

h) Foreign currency translation

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

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

i) Asset retirement obligations

The fair value of asset retirement obligations is recognized in the period in which the liability is incurred or acquired and a reasonable estimate of fair value can be made. When a liability is initially recorded, a corresponding increase to the carrying amount of the related asset is recorded.

The liability is increased over time (accreted) using the interest rate that was applied in the initial measurement of fair value and the asset is amortized over the estimated life of the related asset. The amount of the liability will be subject to re-measurement at each reporting period. Any adjustment to this liability other than accretion will impact the related asset. Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total liability for future site restoration costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's reclamation obligations becomes available. The Company is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future.

j) Earnings per share

Earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method whereby all "in the money" options and warrants are assumed to have been exercised at the beginning of the year and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the year. When a loss has been incurred, basic and diluted loss per share are the same because the exercise of options and warrants would be anti-dilutive.

k) Stock-based compensation

The Company accounts for stock options using the fair value method. The fair value of stock options is estimated at the grant date using the Black-Scholes valuation model and is then amortized over the vesting period of the options granted.

l) Leases

Leases are classified as capital or operating depending on the terms and conditions of the lease agreements. Payments under operating leases are expensed in the period in which they are incurred. Asset values recorded under capital leases are amortized on a straight line basis over the period of expected use. Obligations under capital lease are reduced by lease payments, net of computed interest.

m) Cash equivalents

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

n) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. The key estimates relate to impairment of long-lived assets, asset retirement obligations, accounting for income taxes, revenue and trade receivables, inventory valuation, stock-based compensation, and accrued liabilities. Actual results may differ from these estimates.

o) Comparative figures

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

(US Dollars in Thousands)

p) Recent Canadian accounting pronouncements

There are three new CICA accounting standards that have been issued but not yet adopted by the Company. These three standards will become effective for the Company on January 1, 2008.

CICA Handbook Section 3031 "Inventories" prescribes the accounting treatment for inventories and provides guidance on the determination of inventory costs and its subsequent recognition as an expense, including any write-down to net realizable value. CICA Handbook Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. CICA Handbook Section 3862 "Financial Instrument Disclosures" requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

3. CASH AND CASH EQUIVALENTS

	2007	**2006**
Cash deposits, bankers acceptances and term deposits	143,915	47,774
Canadian and U.S. government money market investments	119,671	-
Total	263,586	47,774

Cash equivalents consist of highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired. At December 31, 2007, the Company's cash and cash equivalents were yielding a weighted average interest rate of 4.4%.

4. INVENTORY

	2007	**2006**
Concentrate	24,879	27,081
Supplies	17,851	10,987
Total	42,730	38,068

Quadra Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Year ended December 31, 2007

5. OTHER CURRENT ASSETS

	2007	2006
Marketable securities	8,228	-
Derivative instrument assets (Note 14)	9,389	-
Security deposits	8,900	-
Prepaid expenses	3,061	1,783
Total other current assets	29,578	1,783

At December 31, 2007, the Company had available-for-sale marketable securities with a quoted market value of $8,228. An unrealized gain of $599 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.

6. ENVIRONMENTAL TRUST AND BOND

	2007	2006
Environmental bond - Robinson mine (a)	23,176	20,840
Cash in trust for Robinson reclamation (b)	16,040	15,376
Environmental bond - Carlota project (c)	7,125	7,125
Environmental bond - other	50	50
Total	46,391	43,391

(a) The Company has posted an environmental bond with the US Bureau of Land Management (BLM). The Company revises the reclamation plan and cost estimate for the Robinson Mine annually as required by BLM and adjusts the amount of the bond accordingly**.** During the year ended December 31, 2007, the amount of the bond increased to $23,176. Subsequent to the year ended December 31, 2007, the Company was required to increase the bond by $3,019.

(b) Under the terms of the Kennecott Royalty Agreement that the Company assumed on the acquisition of the Robinson Mine, a 3% net smelter return royalty is payable to Royal Gold Inc. (formerly Kennecott). The agreement required the first royalty payments with accumulated interest to be paid into a trust until such time that $20,000 was available to pay for qualified rehabilitation expenditures on the Robinson mine. In 2006, the total contributions to the trust reached $20,000. The following table summarizes the movements in the trust balance during the year ended December 31, 2007:

(US Dollars in Thousands)

	Contributions to the trust	Reclamation costs paid by the trust	Net trust funds available
Balance at January 1, 2007	20,276	(4,900)	15,376
Interest income	664	-	664
Balance at December 31, 2007	20,940	(4,900)	16,040

(c) As of December 31, 2007, the Company had a $6,589 deposit with the U.S. Forest Service in connection with reclamation costs supporting the permits for the Carlota project. Additional deposits totaling $536 have been made with other government agencies in connection with the development of the Carlota project.

7. ACQUISITION OF INTERNATIONAL MOLYBDENUM PLC. ("INTERMOLY")

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 subsequently exercised its right to compulsorily acquire all of the remaining InterMoly warrants that it did not acquire through the offer. 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 consideration is based on the closing share price of the Company's common shares 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	2,135
Total	39,849

Fair value of assets and liabilites acquired:	
Malmbjerg mineral property and equipment	58,926
Net working capital	(3,818)
Asset retirement obligations	(997)
Future income tax liability	(11,479)
Non-controlling interest	(2,783)
Net assets acquired	39,849

(US Dollars in Thousands)

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 17.5% of InterMoly's shareholders' equity.

8. MINERAL PROPERTIES, PLANT AND EQUIPMENT

	2007	**2006**
Mineral property acquisition and development costs	241,845	77,894
Plant, buildings and equipment	120,601	56,778
Equipment under capital leases	11,926	12,076
Asset retirement cost	28,904	19,457
	403,276	166,205
Accumulated depreciation, depletion and amortization	(37,150)	(23,743)
	366,126	142,462

The accumulated depreciation of assets under capital leases as of December 31, 2007 was $4,557 (2006: $2,477).

Mineral properties, plant and equipment are allocated by project as follows:

			2007
	Cost	Accumulated depreciation, depletion and amortization	Net book value
Robinson mine (a)	129,647	(36,891)	92,756
Carlota copper project (b)	166,258	-	166,258
Malmbjerg molybdenum project (c)	72,399	(62)	72,337
Sierra Gorda (d)	34,614	(62)	34,552
Other	358	(135)	223
	403,276	(37,150)	366,126

(US Dollars in Thousands)

			2006
	Cost	Accumulated depreciation, depletion and amortization	Net book value
Robinson mine (a)	96,834	(23,628)	73,206
Carlota copper project (b)	57,519	-	57,519
Sierra Gorda (d)	11,609	(29)	11,580
Other	243	(86)	157
	166,205	(23,743)	142,462

(a) Robinson Mine

Production at the Robinson Mine is subject to two royalty agreements, a 3% net smelter return royalty payable to Royal Gold Inc. (see Note 6(b)) and a 0.225% net smelter return royalty payable to Franco Nevada U.S. Corporation. The Franco Nevada royalty agreement also provides for the following additional payments:

(1) A 10% royalty on net smelter returns on 51% of the production of gold from the Robinson Mine in excess of 60,000 ounces per calendar year;

(2) A royalty on 51% of copper production in excess of 130 million pounds of copper, payable in any calendar year in which the price of copper exceeds $1.00 per pound at the end of the year (adjusted for inflation from 1990) (the "Trigger Price"), in an amount equal to $0.05 per pound plus 40% of the amount by which the price of copper exceeds the Trigger Price; and

The Company incurred a total royalty expense of $16,860 for the year ended December 31, 2007 (2006 - $9,531).

(b) Carlota copper project

The Company acquired the Carlota copper project in 2005 from Iamgold Corporation (formerly Cambior Inc.) for a cash payment of $15,000 and 50,000 ounces of gold in deferred consideration (Note 12). During 2007, the Company incurred project development costs of $57,078 at Carlota. The Company also invested $38,871 in mining equipment for the Carlota project and has capitalized interest and amortization of financing costs of $12,790 associated with the Secured Credit Facilities (Note 11(b)) during 2007.

The Carlota copper project is subject to a royalty agreement with Sherwood Owens, the owner of the 12 unpatented claims, which provides for a 5% net smelter return royalty up to a maximum amount of $3,000.

The Carlota copper project is also subject to a 5% net smelter return royalty on production from certain mining claims that were previously owned by BHP Copper Inc. (formerly Magma Copper Company Inc.). Minimum advance royalty payments of $4,065 (Note 9) have been paid by Carlota and will be credited against future royalty payments.

(c) Malmbjerg molybdenum project

The Malmbjerg mineral property was acquired in the second quarter of 2007 as part of the InterMoly acquisition (Note 7). The Company has incurred $13,641 of development costs on the Malmbjerg project during 2007.

(d) Sierra Gorda

In 2004, the Company entered into six agreements (the “Option Agreement”) with six separate vendors under which the Company could elect to purchase six contiguous mining properties (the “Sierra Gorda” property) in Chile. The Option Agreements have differing terms, conditions and adjustments. The total purchase price of all six properties is $24,975, of which $3,698 has been paid to date. The next scheduled option payment of $2,300 is due on April 15, 2008, after which, the Company will be obligated to purchase Sierra Gorda by making the remaining scheduled payments of $19,090 in annual and semi-annual installments until the full purchase price is paid in April 2012.

In 2006, the Company signed an option agreement to purchase two additional properties located contiguous to the Sierra Gorda property for a total purchase price of $5,000 payable over 4 years, of which $150 has been paid to date.

In addition, the Company has entered into various option agreements, which give the company rights to purchase water rights in Calama, Chile in March 2008**.** 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 and land.

During the year ended December 31, 2007, the Company incurred $11,177 (2006 - $2,957) of development costs on the Sierra Gorda project and also made option payments for property and water rights totaling $2,109 (2006 - $506).

(US Dollars in Thousands)

9. OTHER ASSETS

	2007	2006
Security deposits	10,682	23,282
Prepaid royalties (Note 8(b))	4,065	3,665
Other long-term assets	376	926
Total	15,123	27,873

Security deposits include $7,219 related to mining equipment held under capital and operating leases (Notes 16 and 25(b)).

10. INCOME TAXES

Income tax expense included in the consolidated statements of operations is as follows:

	2007	2006
Current tax expense	19,351	11,939
Future income tax expense (recovery)	29,434	(19,810)
Income tax expense (recovery)	48,785	(7,871)

The reconciliation of the income taxes calculated at the statutory rates to the Company's effective income tax provision is as follows:

	2007	2006
Applicable statutory rate	34.12%	34.12%
Income tax expense calculated using statutory rate	63,164	2,240
Change in valuation allowance	12,445	6,422
Foreign exchange gain not taxable	(4,160)	-
Depletion allowance	(19,556)	(16,839)
Other, net	(3,108)	306
Income expense (recovery)	48,785	(7,871)

(US Dollars in Thousands)

The significant components of the Company's future income tax assets and liabilities as at December 31, 2007 and 2006 are as follows:

	2007	**2006**
Future income tax assets - current:		
Mineral properties, plant and equipment	6,799	-
Other	5,291	22,146
	12,090	22,146
Future income tax assets - non-current:		
Mineral properties, plant and equipment	6,595	16,821
Alternative Minimum Tax credits	22,266	10,874
Other deductible tax pools	7,617	1,750
Valuation allowance	(36,478)	(22,296)
	-	7,149
Future income tax liabilities - non-current:		
Mineral properties, plant and equipment	(23,708)	-
	(23,708)	-

Management believes that uncertainty exists regarding the realization of certain future tax assets and therefore a valuation allowance has been recorded. 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 non-capital losses. As of December 31, 2007, the Company had available Alternative Minimum Tax credits of $22,266 which can be carried forward indefinitely and applied to reduce regular taxes payable. As at December 31, 2007, the Company also had Canadian tax loss carry forwards of approximately $6,000.

11. 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 interest at LIBOR + 6.5%, payable quarterly. The Second Facility had a 7 year term and bore interest at LIBOR + 10%. The

(US Dollars in Thousands)

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 projects, 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 17(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 resulting in a total loss on settlement of debt of $11,039.

As at December 31, 2007, the carrying value of the First Facility was $145,151, based on the face value of this debt less unamortized financing costs. Amortization of financing costs totaled $1,026 in 2007. Management believes that the fair value of this debt approximates its face value, however, the debt is privately held and does not trade on a liquid market.

12. DEFERRED GOLD CONSIDERATION

The deferred gold consideration relates to the Company's acquisition of the Carlota Copper Project in 2005 (see Note 8(b)). As of December 31, 2007 the Company still owed 18,750 ounces of gold to the vendor (December 31, 2006 – 25,000 ounces). This gold will be paid in three quarterly installments during 2008. The deferred gold liability had an estimated fair value of $15,104 at December 31, 2007 (December 31, 2006: $15,333), based on the forward prices of gold over the expected payment schedule.

The following table summarizes the changes in deferred gold consideration:

	2007	**2006**
Deferred gold consideration payable at beginning of year	15,333	24,456
Gold payments (2007: 6,250 ounces; 2006: 25,000 ounces)	(4,984)	(14,980)
Increase in fair value of deferred gold consideration	4,755	5,857
Deferred gold consideration payable at end of year	15,104	15,333
Deferred gold consideration payable - current	15,104	11,556
Deferred gold consideration payable - non - current	-	3,777

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.

(US Dollars in Thousands)

Under the terms of the purchase agreement, the Company was also required to pay an additional $3,782 of contingent consideration related to a confirmatory drilling program, which was completed successfully in 2006. This additional consideration was classified as accounts payable at December 31, 2006 and the amount was paid during 2007.

13. OTHER CURRENT LIABILITIES

	2007	**2006**
Tax payable	12,811	15,275
Obligations under capital lease - current portion (Note 16)	1,504	1,379
Notes payable	-	2,668
Total other current liabilities	14,315	19,322

14. DERIVATIVE INSTRUMENTS

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

	2007	**2006**
Copper and gold forward contracts (a)	-	(46,468)
Fuel contract (b)	486	-
Copper puts (c)	8,774	-
Interest rate cap (d)	129	-
Derivative instrument assets (liabilities) (Note 5)	9,389	(46,468)

The loss on derivatives is comprised as follows:

	2007	**2006**
Copper and gold forward contracts (a)	12,620	151,383
Fuel contract (b)	(486)	-
Copper puts (c)	2,768	-
Interest rate cap (d)	391	-
Loss on derivatives	15,293	151,383

(a) Copper and Gold Forward Contracts

In the first six months of 2007, the Company settled all of its remaining copper and gold forward sale contracts. The realized losses are the difference between the actual sales price and the forward contracted price. At December 31, 2006 the Company had outstanding forward sale contracts for 67 million pounds of copper at an average forward price of $2.26/pound and 24,000 ounces of gold at an average forward price of $429/ounce. The total fair value of these forward contracts at December 31, 2006 was ($46,468).

(US Dollars in Thousands)

(b) Fuel Contract

The Company has 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 December 31, 2007, the fair value of the contract was $486 resulting in an unrealized gain of $486 in 2007.

(c) Copper Puts

During 2007 the Company has purchased copper put options at a total cost of $11,542. At December 31, 2007 the Company had outstanding put options for approximately 149 million pounds of copper with an average strike price of $2.43 per pound with maturity dates spread between January 2008 and September 2008. The fair value of these put options at December 31, 2007 was $8,774. The $2,768 reduction in the fair value of the put options has been recognized as a derivative loss on the statement of operations in 2007.

(d) Interest Rate Cap

As a condition of the Secured Credit Facility (Note 11(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 December 31, 2007, the fair value of the interest rate cap was $129, resulting in an unrealized derivative loss of $391 in 2007.

15. ASSET RETIREMENT OBLIGATIONS

	2007	**2006**
Balance at January 1	24,093	27,067
Change in estimated timing and amount of Robinson closure costs	8,712	(5,133)
Additions for other mineral properties	2,134	-
Accretion	2,519	2,159
Balance at December 31	37,458	24,093

Asset retirement obligations allocated by mineral properties is as follows:

	2007	**2006**
Robinson mine	35,289	24,093
Carlota project	770	-
Other mineral properties	1,399	-
	37,458	24,093

During the year ended December 31, 2007, the Company re-assessed its reclamation plan on the Robinson mine and increased its estimate of the undiscounted closure costs to $85,291 (2006: $73,019). 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.

(US Dollars in Thousands)

During the year ended December 31, 2006, the estimated mine life of the Robinson mine was extended by 2 years, resulting in a reduction in asset retirement obligations of $6,490. In addition, the company estimated an increase in undiscounted closure costs of $4,400. In assessing the carrying amount for the incremental portion of the asset retirement obligations, the Company used a credit-adjusted risk-free rate of 11.5% and an estimated inflation rate of 3%, resulting an increase in asset retirement obligations of $1,357. The combination of the change in timing and amount of the cash flows gave rise to an overall reduction of $5,133.

As of December 31, 2007 the Company had posted an environmental bond and held cash in a reclamation trust totaling $39,216 (Note 6) to secure a portion of the closure costs related to the Robinson mine.

The estimate of the closure costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. The Company is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future.

16. CAPITAL LEASE OBLIGATIONS

The Company has two capital lease agreements, signed in October 2005 and February 2006, for mining equipment at the Robinson mine. Future minimum lease payments under these contracts are as follows:

2008	2,709
2009	2,709
2010	6,237
2011	89
Total mininum lease payments	11,744
Less: interest	(2,833)
Balance of the obligation	8,911
Less: current portion	(1,504)
Long-term portion	7,407

(US Dollars in Thousands)

17. SHARE CAPITAL

(a) Common Shares

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

	Number of Shares	Dollar Amount
Balance at January 1, 2006	27,345,931	103,727
Capital stock issued		
Shares issued for cash, net of issue costs (i)	8,280,000	42,462
Stock options exercised	1,053,733	5,563
Warrants exercised (ii)	1,449,360	7,507
Transfer from contributed surplus:		
Stock options and warrants exercised		3,056
Balance at December 31, 2006	38,129,024	162,315
Capital stock issued		
Shares issued for cash, net of issue costs (iii)	11,960,000	116,234
Stock options exercised	1,101,690	7,721
Warrants exercised (iv)	81,111	770
Shares issued for InterMoly acquisition (Note 7)	3,293,111	37,714
Shares issued for water rights acquisition (Note 8 (d))	550,800	8,822
Transfer from contributed surplus:		
Stock options and warrants exercised		2,455
Balance at December 31, 2007	55,115,736	336,031

(i) On January 31, 2006 the Company filed a short form prospectus to issue 8,280,000 common shares at C$6.30 per share for gross proceeds of $45,544. The Company incurred share issue costs of $3,182 in connection with this offering.

(ii) During the year ended December 31, 2006, warrants to purchase 1,449,360 common shares were exercised. These warrants were issued in connection with the Company's initial public offering in April 8, 2004.

(iii) 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).

(US Dollars in Thousands)

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.

(iv) During the year ended December 31, 2007, warrants to purchase 81,111 common shares were exercised. These warrants were issued to the Second Facility Lenders in March 2007 (Note 11(b)).

(b) Stock options and warrants

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.

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2007 (in Canadian dollars):

Exercise price per share	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price C$	Number exercisable	Weighted-average exercise price C$
$4.60 - $5.75	184,167	2.36	5.25	159,167	5.17
$6.00 - $7.76	570,500	2.20	6.73	498,834	6.58
$9.18 - $11.91	713,738	3.70	10.54	428,738	10.53
$12.40 - $14.26	1,680,668	4.26	13.12	554,335	13.09
$16.92 - $20.15	387,000	4.75	18.66	79,167	18.94
	3,536,073	3.77	11.76	1,720,241	10.10

(US Dollars in Thousands)

The following tables summarize the stock option activity for the year ending December 31, 2007 and 2006:

	Options	Weighted-average exercise price (C$)
Outstanding at January 1, 2006	2,653,500	6.13
Granted	1,029,100	10.17
Forfeited	(161,501)	6.96
Exercised	(1,053,733)	5.89
Outstanding at December 31, 2006	2,467,366	7.86
Granted	2,262,500	13.82
Forfeited	(92,103)	10.79
Exercised	(1,101,690)	7.28
Outstanding at December 31, 2007	3,536,073	11.76

During the year ended December 31, 2007, 2,262,500 stock options were granted to directors and employees (2006 – 1,029,100). The weighted-average fair value of these stock options is estimated to be $4.20 each (2006 - $3.03). 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:

	2007	2006
Expected volatility	45%	30%
Risk-free interest rate	4.86%	5.00%
Expected lives	2.5 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 Company had no warrants outstanding as of December 31, 2006. The following warrants were outstanding and exercisable at December 31, 2007:

	Common shares to be issued on exercise	Exercise price C$	Expiry date
Traded warrants (Note 17 (a))	5,980,000	20.00	May 9, 2010
Lender warrants (Note 11 (b))	1,946,655	9.24	March 1, 2012
Exercisable at December 31, 2007	7,926,655	17.36	

(US Dollars in Thousands)

The following table summarizes the movement in the stock options and warrants account for the year ended December 31, 2007 and 2006:

	Dollar amount
Balance at January 1, 2006	5,155
Stock-based compensation	2,399
Transfer to share capital for stock options and warrants exercised	(3,056)
Balance at December 31, 2006	4,498
Stock-based compensation	6,582
Transfer to share capital for stock options and warrants exercised	(2,455)
Fair value of warrants issued (Note 11(b) and 17(a))	18,409
Stock options and warrants at December 31, 2007	27,034

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

18. REVENUES FROM CONCENTRATE SALES

	2007	**2006**
Copper revenues	417,099	348,517
Gold revenues	75,341	42,127
Molybdenum revenues	2,868	6,075
Adjustments for final settlement	20,262	79,474
Mark-to-market adjustments	7,521	(36,134)
Refining and treatment charges	(29,243)	(46,802)
	493,848	393,257

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Year ended December 31, 2007

19. INTEREST AND OTHER (INCOME) EXPENSE

	2007	2006
Interest income	(7,734)	(3,230)
Interest expense	2,921	3,806
Gain on sale of marketable securities and other assets	(1,707)	40
Capital asset write-down	2,608	-
Other	(36)	-
	(3,948)	616

20. GAIN ON CANCELLATION OF AMP OPTION

In 2006 the Company entered into an option agreement with a subsidiary of AMP Life Limited ("AMP"), the major shareholder of Equatorial Mining Limited, in connection with the Company's attempt to acquire all of the outstanding shares of Equatorial. AMP subsequently exercised its right under the option agreement and paid the Company a termination fee of $24,194. The Company incurred total fees and costs of $9,820 related to this transaction, resulting in a net gain of $14,374 in 2006.

21. FINANCIAL INSTRUMENTS

The Company's financial instruments are comprised of cash and cash equivalents, receivables, security deposits, marketable securities, 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 gold consideration and obligations under capital leases approximate their carrying value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Year ended December 31, 2007

22. SEGMENTED INFORMATION

The Company's reportable segments are based on mineral properties (Note 8). All of the Company's operating income in 2006 and 2007 was generated by the Robinson mine. Detail as to capital assets and capital expenditures by geographic areas is included in Note 8. Total assets for each segment are as follows:

	2007	2006
Robinson mine	286,520	252,528
Carlota project	184,387	59,510
Other mineral properties	107,417	11,704
Corporate and other	210,895	12,224
	789,219	335,966

23. RELATED PARTY TRANSACTIONS

One of the directors of the Company is a partner of an affiliate of Blake, Cassels & Graydon LLP. During the year ended December 31, 2007, the Company incurred legal fees of $890 with that entity (year ended December 30, 2006: $569), which were at normal business terms.

24. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2007	2006
(Increase) decrease in receivables	(9,693)	18,255
Increase in inventory	(5,073)	(4,102)
(Increase) decrease in other current assets	(13,341)	5,549
Increase in accounts payable and accrued liabilities	(8,409)	14,823
Increase (decrease) in other current liabilities	(2,764)	14,869
Decrease in derivative liability	(4,653)	(2,549)
Net changes in non-cash working capital	(43,933)	46,845

Other supplemental information:		
Interest paid	18,110	3,860
Income tax paid	23,666	5,412

25. COMMITMENTS

Commitments not disclosed elsewhere in these financial statements include the following:

(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 entered into operating leases for office premises and mobile equipment that provide for minimum annual lease payments totaling $39,056, with annual payments of $10,335 in 2008, $10,229 in 2009, $9,484 in 2010, $7,381 in 2011, and $1,627 in 2012.

26. 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 System (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 and on January 18, 2008 filed a motion for the 9th Circuit to rehear the case. The 9th Circuit is currently considering whether to rehear the case.

The permit remains in effect during the appeal process. The decision has no 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 the Carlota project and in the event that the NPDES permit is not reissued, the design of the mine site with respect to run-off will be modified. Management is studying the cost and operating implications of this modification. There can be no assurance that additional permits required for the development and operation of Carlota will not be challenged in the future.