THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Mining Resources Group Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or to the bank or stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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China Mining
中国矿业

中國礦業資源集團有限公司*
China Mining Resources Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00340)

VERY SUBSTANTIAL ACQUISITION, MAJOR TRANSACTION AND CHANGE OF AUDITORS

A letter from the board of directors of the Company is set out on pages 3 to 16 of this circular. A notice convening a special general meeting of the Company to be held at 2.30 p.m. on Wednesday, 8 April 2009 at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong is set out on pages 310 to 311 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-07, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the special general meeting or any adjournment of it if you so wish.

23 March 2009

* *For identification purpose only*

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“Best Tone” Best Tone Holdings Limited, a wholly-owned subsidiary of the Company

“Board” board of Directors

“CAD” Canadian dollars, the lawful currency of Canada

“Canadian GAAP” the Canadian Generally Accepted Accounting Principles

“Change of Auditors” the proposed appointment of Deloitte as new auditors of the Company following the resignation of KPMG, the former auditors of the Company

“Company” China Mining Resources Group Limited, a company incorporated in Bermuda whose shares are listed on the Stock Exchange (stock code: 00340)

“Completion” completion of the Further Quadra Investment (assuming that the aggregate investment for the Quadra Investment has been made in respect of HK$200,000,000.00)

“Deloitte” Deloitte Touche Tohmatsu

“Director(s)” director(s) of the Company

“First Announcement” announcement of the Company dated 15 December 2008 in relation to the Prior Quadra Investment

“Further Quadra Investment” the proposed acquisition(s) of further Quadra Shares on the market by Best Tone from Independent Third Parties based on the conditions set out in the section headed “Further Quadra Investment” of this circular

“Group” the Company and its subsidiaries

“HK$” Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong” the Hong Kong Special Administrative Region of the PRC

“HKFRS” Hong Kong Financial Reporting Standards

“Independent Third Parties” a party which is independent of and not connected with the Company and its connected persons (as defined in the Listing Rules)

“Latest Practicable Date” 18 March 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

“Listing Rules” Rules Governing the Listing of Securities on the Stock Exchange

‘‘Model Code’’ the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules

“Possible Quadra Disposal” the proposed disposal(s) of Quadra Shares under the Further Quadra Investment on the market by Best Tone based on the conditions set out in the section headed “The Possible Quadra Disposal” of this circular, of which such disposal constitutes a major transaction for the Company under the Listing Rules

“PRC” the People’s Republic of China

“Prior Quadra Investment” the acquisition of an aggregate of 2,650,900 Quadra Shares on the market by Best Tone for an aggregate consideration of CAD5,616,556.30 (approximately HK$36,507,616) prior to the date of the First Announcement

“Quadra” Quadra Mining Ltd., a company incorporated on 15 May 2002 under the British Columbia Company Act and is continued under the British Columbia Business Corporations Act whose shares are listed on the TSX (QUA: TSX)

“Quadra Investment” the Prior Quadra Investment and the Further Quadra Investment

“Quadra Share(s)” share(s) in the capital of Quadra

“Second Announcement” announcement of the Company dated 12 January 2009 in relation to the Further Quadra Investment and the Possible Quadra Disposal

“SGM” special general meeting of the Company to be held to consider and, if thought fit, to approve the Further Quadra Investment, the Possible Quadra Disposal and the Change of Auditors

“Share(s)” share(s) of HK$0.10 each in the capital of the Company

“Shareholder(s)” holder(s) of the Share(s)

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“TSX” Toronto Stock Exchange

“USD” United States dollars, the lawful currency of United States of America

For the purpose of illustration only, (a) the amount denominated in CAD has been translated into HK$ at the exchange rate of CAD1 to HK$6.5 and (b) the amount denominated in USD has been translated into HK$ at the exchange rate of USD1 to HK$7.8.

中國礦業資源集團有限公司*

China Mining Resources Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00340)

Executive Directors:
Mr. Cai Yuan *(Chairman)*
Dr. You Xian Sheng
(Deputy Chairman and Chief Executive Officer)
Mr. Wang Hui
Mr. Yeung Kwok Kuen *(Chief Financial Officer)*
Mr. Chen Shou Wu *(Chief Investment Officer)*

Non-executive Director:
Mr. Lam Ming Yung

Independent Non-executive Directors:
Mr. Chan Sze Hon
Mr. Chu Kang Nam
Mr. Goh Choo Hwee
Mr. Lin Xiang Min

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Room 1306, 13th Floor
Bank of America Tower
12 Harcourt Road, Admiralty
Hong Kong

23 March 2009

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION, MAJOR TRANSACTION AND CHANGE OF AUDITORS

INTRODUCTION

Reference is made to the First Announcement, the Second Announcement and the announcement of the Company dated 9 January 2009 in relation to the Change of Auditors. The purpose of this circular is to provide you with further information regarding (a) the Further Quadra Investment, (b) the Possible Quadra Disposal and (c) the Change of Auditors as required under the Listing Rules and to give you the notice of the SGM in order to enable you to make an informed decision as to whether to vote for or against the ordinary resolutions relating to the Further Quadra Investment, the Possible Quadra Disposal and the Change of Auditors.

Pursuant to the First Announcement, the Company has announced that, on 5 December 2008, Best Tone, a wholly-owned subsidiary of the Company, has acquired 2,300,000 Quadra Shares on the market at an average acquisition price of approximately CAD2.06 (approximately HK$13.39) per

* *For identification purpose only*

Quadra Share and an aggregate consideration of CAD4,745,350 (approximately HK$30,844,775) (exclusive of transaction costs).

Best Tone has made further acquisition of Quadra Shares and has acquired a total of 2,650,900 Quadra Shares (inclusive of 2,300,000 Quadra Shares as mentioned above) as at the Latest Practicable Date, representing approximately 4.02% of the issued share capital of Quadra (based on its total number of issued shares of 66,001,000 Quadra Shares as shown on the website of TSX as of the Latest Practicable Date) for an aggregate consideration of CAD5,616,556.30 (approximately HK$36,507,616) (exclusive of transaction costs).

THE FURTHER QUADRA INVESTMENT

As set out in the Second Announcement, the Group intended to make further acquisitions in the Quadra Shares on the market at the then prevailing market price and would like to seek approval from the Shareholders in relation to such Further Quadra Investment provided that such Further Quadra Investment shall be determined by the Board from time to time but to be made subject to the following conditions within a period of 12 months from the date of the SGM:

(a) the aggregate investment to be made by the Company for the Quadra Investment shall not exceed HK$200,000,000 (exclusive of transaction costs);

(b) the consideration for the Further Quadra Investment shall not exceed CAD5.28 (approximately HK$34.32) per Quadra Share (exclusive of transaction costs); and

(c) the interests in Quadra Shares as held by the Group shall not exceed 19.9% of the then issued share capital of Quadra.

In the event that the Further Quadra Investment has been approved by the Shareholders at the SGM, the Directors will exercise their discretion as to whether to proceed to acquire further Quadra Shares subject to the above conditions having regard to the conditions of the financial markets, the prevailing market price of the Quadra Shares and those of comparable companies in the same industry sector, the financial and other prospects of Quadra based on public information released by Quadra and other information available to the Group, and the trends in supply and demand of the world mining resources and the world energy sector.

As at the Latest Practicable Date, 13,134,148 Quadra Shares represent approximately 19.9% of the issued shares of Quadra (based on a total number of issued shares of Quadra of 66,001,000 as shown in the website of TSX as of the Latest Practicable Date). As at the Latest Practicable Date, the closing price of the Quadra Shares as quoted on the TSX was CAD4.70 (approximately HK$30.55) per Quadra Share.

Based on the closing price of the Quadra Shares as quoted on the TSX on the Latest Practicable Date of CAD4.70 (approximately HK$30.55) per Quadra Share, the maximum aggregate investment for the Quadra Investment of HK$200,000,000 (exclusive of transaction costs) and the current exchange rate of HK$ to CAD of approximately HK$6.5 to CAD1, and taken into consideration of the Quadra Shares which have already been acquired under the Prior Quadra Investment, the maximum shareholding to be acquired by the Group under the Further Quadra Investment shall be 5,351,632 Quadra Shares, which after taking into account of 2,650,900 Quadra Shares acquired pursuant to the Prior Quadra Investment represents a total of approximately 12.12% of the issued share capital of Quadra as at the Latest Practicable Date.

Based on the maximum purchase price per Quadra Share for the Further Quadra Investment of CAD5.28 (approximately HK$34.32) per Quadra Share and the current exchange rate of HK$ to CAD of approximately HK$6.5 to CAD1, the aggregate number of Quadra Shares which could be acquired by the Group pursuant to the Further Quadra Investment shall be 4,763,764 Quadra Shares, which after taking into account of 2,650,900 Quadra Shares acquired pursuant to the Prior Quadra Investment represents approximately 11.23% of the issued share capital of Quadra.

The maximum purchase price of CAD5.28 (approximately HK$34.32) pursuant to the Further Quadra Investment has been determined with reference to the following:

(a) a premium of 12.34% to the closing price of Quadra Shares as quoted on the TSX on the Latest Practicable Date of CAD4.70 (approximately HK$30.55);

(b) a premium of approximately 39.31% to the average closing price of Quadra Shares as quoted on the TSX for the 30 trading days immediately prior to the Latest Practicable Date of CAD3.79 (approximately HK$24.64);

(c) the average closing price of Quadra Shares as quoted on the TSX for the 60 trading days immediately prior to 23 December 2008 of CAD5.28 (approximately HK$34.32);

(d) a premium of approximately 52.60% to the average closing price of Quadra Shares as quoted on the TSX for the 60 trading days immediately prior to the date Latest Practicable Date of CAD3.46 (approximately HK$22.49);

(e) a premium of approximately 56.68% to the average closing price of Quadra Shares as quoted on the TSX for the 90 trading days immediately prior to Latest Practicable Date of CAD3.37 (approximately HK$21.91); and

(f) a discount of approximately 38.75% to the average closing price of Quadra Shares as quoted on the TSX for the 180 trading days immediately prior to the Latest Practicable Date of CAD8.62 (approximately HK$56.03).

Having reviewed the financial position and operating results of Quadra and the mineral resources and mining projects of Quadra based on public information available to the Company, and having regard to the existing market price for the Quadra Shares on the TSX, the recent fluctuations in the share price of Quadra and those of comparable companies in the market may only be temporary or shortlived, the trends in supply and demand of the world mining resources and the world energy sector, the Directors consider that the current market price for the Quadra Shares may not reflect an accurate valuation for the Quadra Shares in the medium and longer term. In addition, taking into account of the fact that the SGM can only be held by the Company after the stipulated time period as provided in the Listing Rules after the despatch of the circular in relation to the Further Quadra Investment and the Possible Quadra Disposal in compliance with the requirements of the Listing Rules, the mandate to be granted to the Directors in respect of the Further Quadra Investment will only subsist for a period of 12 months after the date on which Shareholders' approval in respect of the Further Quadra Investment has been obtained, the number of Quadra Shares to be acquired by the Company on the market pursuant to the Further

Quadra Investment, the Quadra Shares are to be acquired on the market and which market price is to be based on a willing seller and willing buyer at the relevant time, and the reasons set out in the section headed "Reasons for the Quadra Investment" of this circular, the Directors are of the view that the maximum consideration for the Further Quadra Investment of CAD5.28 (approximately HK$34.32) per Quadra Share, which represents the average closing price of Quadra Shares of CAD5.28 (approximately HK$34.32) as quoted on the TSX for the 60 trading days prior to 23 December 2008, and a premium of 12.34% to the latest closing price of CAD4.7 (approximately HK$30.55) per Quadra Share as quoted on the TSX on Latest Practicable Date, is fair and reasonable. As the acquisition of the Quadra Shares pursuant to the Further Quadra Investment will be made on the market, the purchase price of the Quadra Shares pursuant to the Further Quadra Investment will be determined by the prevailing market price of the Quadra Shares at the relevant time. Based on the above, the Directors are of the view that the terms of the Further Quadra Investment are fair and reasonable and in the interest of the Company and Shareholders taken as a whole.

The Further Quadra Investment will be completed on a "T+3" basis in accordance with standard market practice. The Company confirmed that the Company will only make the Further Quadra Investment on the basis that it has sufficient internal resources to settle the consideration for the Further Quadra Investment at the relevant time.

Regarding the accounting treatments for the Further Quadra Investment, the Quadra Shares acquired will be classified as financial assets at fair value through profits or losses of the Company.

As the Further Quadra Investment will be made through the market, the Company will not be aware of the identities of the vendors of the Quadra Shares but to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the proposed vendors of the Quadra Shares will be Independent Third Parties. The Directors shall procure that Best Tone will not effect any trades with any vendors whom are not, or whose beneficial owners are not, to the best of the knowledge of the Directors, Independent Third Parties.

In the event that the Company proceeds with the Further Quadra Investment based on the above terms, the aggregation of the Prior Quadra Investment and the Further Quadra Investment is very likely to constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules based on the relevant percentage ratios calculated pursuant to Rules 14.22 and 14.23 of the Listing Rules. As such, the Further Quadra Investment shall be subject to Shareholders' approval at the SGM.

THE POSSIBLE QUADRA DISPOSAL

In the event that the Further Quadra Investment is completed and pursuant to which the Further Quadra Investment constitutes a very substantial acquisition under the Listing Rules, in order to allow flexibility for the Directors to execute investment decisions made by the Board from time to time and to accommodate any sudden change in circumstances of the volatile economic and financial markets, the Company would like to seek approval from the Shareholders in relation to the disposal of all or any of the Quadra Shares as held by the Group as determined by the Board from time to time but to be subject to the following conditions within a period of 12 months from the date on which the Shareholders' approval has been obtained at the SGM:

(a) the disposal of the Quadra Shares will be made on the market to Independent Third Parties;

(b) the average sale price for the Quadra Shares under the Possible Quadra Disposal shall not be less than CAD2.12 (approximately HK$13.78) per Quadra Share, being the average purchase price for the Quadra Shares under the Prior Quadra Investment (exclusive of transaction costs); and

(c) the aggregation of the disposals of Quadra Shares under the Possible Quadra Disposal shall not constitute a very substantial disposal for the Company under the Listing Rules.

In the event that (a) the Further Quadra Investment constitutes a very substantial acquisition for the Company under the Listing Rules, and (b) the Possible Quadra Disposal has been approved by the Shareholders at the SGM, the Directors will exercise their discretion as to whether to proceed to dispose of Quadra Shares subject to the above conditions having regard to the conditions of the financial markets, the prevailing market price of the Quadra Shares and those of comparable companies in the same industry sector, the financial and other prospects of Quadra based on public information released by Quadra and other information available to the Group, and the trends in supply and demand of the world mining resources and the world energy sector. Subject to the Quadra Investment being constituted a very substantial acquisition for the Company under the Listing Rules, the Possible Quadra Disposal will only be made subject to completion of all acquisitions of Quadra Shares under the Quadra Investment.

Having regard to the volatility in the economic and financial markets, the Directors are of the view that it is very important for the Group to react quickly to respond to the changes in the market should it exercises any investment decisions. The Directors are aware of the Company's obligations pursuant to the requirements under the Listing Rules in relation to a major transaction and are of the view that it may not be in the best interests of the Company and its Shareholders should it resolve to proceed with the Possible Quadra Disposal but subject to the Shareholders' approval at the relevant time due to the length of time required for it to prepare the circular to be despatched to the Shareholders pursuant to the Listing Rules and to convene a special general meeting to approve the Possible Quadra Disposal. In addition, the Possible Quadra Disposal is proposed to be made on the market. Therefore, the Directors are of the view that, in the event that the Further Quadra Investment is proceeded and which constitutes a very substantial acquisition for the Company under the Listing Rules, it is crucial to obtain Shareholders' approval with respect to the Possible Quadra Disposal on a simultaneous basis with that of the Further Quadra Investment, as the granting of such authority to the Directors at the time of the making of the investment would provide flexibility for the Directors to execute investment decisions made by the Board from time to time and to accommodate any sudden change in circumstances of the volatile economic and financial markets.

The minimum average sale price pursuant to the Possible Quadra Disposal has been determined based on, and is equivalent to, the average purchase price per Quadra Share pursuant to the Prior Quadra Investment.

Having regard to the fact that the minimum sale price pursuant to the Possible Quadra Disposal is equivalent to the average purchase price per Quadra Share pursuant to the Prior Quadra Investment, the volatility in the economic and financial markets, the current market price of Quadra Shares and that the market price for the Quadra Shares is to be based on a willing seller and a willing buyer basis at the relevant time, and the reasons set out in the section headed "Reasons for the Possible Quadra Disposal" of this circular, the Directors are of the view that the minimum average sale price for the Possible Quadra Disposal of CAD2.12 (approximately HK$13.78) per Quadra Share, being the average purchase price for the Quadra Shares under the Prior Quadra Investment, is fair and reasonable. As the disposal of the Quadra Shares pursuant to the Possible Quadra Disposal will be made on the market, the sale price of the Quadra Shares pursuant to the Possible Quadra Disposal will be determined by the prevailing market price of the Quadra Shares at the relevant time. Based on the above, the Directors are of the view that the terms of the Possible Quadra Disposal are fair and reasonable and in the interest of the Company and Shareholders taken as a whole.

The Directors are of the view that, since the Quadra Shares are proposed to be disposed on the market to purchasers who are Independent Third Parties, it will be impracticable for the Company to seek Shareholders' approval at the relevant time as completion of sale and purchase of the Quadra Shares on the market will be on a "T+3" basis in accordance with market practice.

As the Possible Quadra Disposal will be made through the market, the Company will not be aware of the identities of the purchasers of the Quadra Shares and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the proposed purchasers of the Quadra Shares will be Independent Third Parties. The Directors shall procure that Best Tone will not effect any trades with any purchasers whom are not, and whose beneficial owners are not, to the best of the knowledge of the Directors, Independent Third Parties.

Subject to the Further Quadra Investment being constituted a very substantial acquisition for the Company under the Listing Rules, in the event that the Company proceeds with the Possible Quadra Disposal, the Possible Quadra Disposal is likely to constitute a major transaction for the Company under Chapter 14 of the Listing Rules based on the relevant percentage ratios calculated pursuant to Rules 14.22 and 14.23 of the Listing Rules. As such, the Possible Quadra Disposal shall be subject to Shareholders' approval at the SGM.

INFORMATION ON QUADRA

All information in relation to Quadra in this circular are based on publicly disclosed information by Quadra.

Quadra was founded in 2002 and is based in Vancouver, Canada and the Quadra Shares are listed on the TSX; and Quadra engages in the business of developing and operating mines, with a focus on base materials, particularly copper. According to Quadra's website, Quadra owns and operates an open pit copper mine (the "**Robinson Mine**") with gold and molybdenum by-product credits located in Nevada in the United States which was acquired in 2004; it also owns a 100% interest in the Carlota copper project ("**Carlota**") in Arizona, and owns the Sierra Gorda project which is a late stage exploration project in northern Chile, along with a 99% interest in a Malmbjerg molybdenum project in Greenland. Further information of Quadra can be obtained from the website of TSX.

Assuming that the Quadra Investment is made in respect of a maximum of 19.9% of the issued share capital of Quadra as at the date of this circular, based on the net profit figures extracted from publicly disclosed financial statements of Quadra for the relevant years, (a) the net profit attributable to such Quadra Shares before and after taxation for the year ended 31 December 2007 were approximately USD36,282,675.00 (equivalent to approximately HK$283,004,865.00) and approximately USD26,774,455.00 (equivalent to approximately HK$208,840,749.00), respectively; (b) the net profit attributable to such Quadra Shares before and after taxation for the year ended 31 December 2008 were approximately USD11,113,951.00 (equivalent to approximately HK$86,688,817.80) and approximately USD7,683,191.00 (equivalent to approximately HK$59,928,889.80), respectively. The net asset value of Quadra, according to its annual report for the financial year ended 31 December 2008, was approximately USD731,532,000.00 (equivalent to approximately HK$5,705,949,600.00). As such, the net asset value of Quadra Shares which represent 19.9% of the issued share capital of Quadra as at Latest Practicable Date is approximately USD145,574,868.00 (equivalent to approximately HK$1,135,483,970.40).

Based on the average minimum sale price per Quadra Share of CAD2.12 (approximately HK$13.78) and the latest published financial results of Quadra, the Group shall be able to dispose up to 8,613,130 Quadra Shares, representing approximately 13.05% of the issued shares of Quadra as at the Latest Practicable Date, pursuant to the conditions of the Possible Quadra Disposal. Assuming that the Possible Quadra Disposal is made in respect of an approximate 13.05% of the issued share capital of Quadra as at the Latest Practicable Date, based on the net profit figures extracted from publicly disclosed financial statements of Quadra for the relevant years, (a) the net profit attributable to the Quadra Shares before and after taxation for the year ended 31 December 2007 were approximately USD23,793,412.50 (equivalent to approximately HK$185,588,617.50) and approximately USD17,558,122.50 (equivalent to approximately HK$136,953,355.50), respectively; (b) the net profit attributable to such Quadra Shares before and after taxation for the year ended 31 December 2008 were approximately USD7,288,294.50 (equivalent to approximately HK$56,848,697.10) and approximately USD5,038,474.50 (equivalent to approximately HK$39,300,101.10), respectively. The net asset value of Quadra, according to its annual report for the financial year ended 31 December 2008, was approximately USD731,532,000.00 (equivalent to approximately HK$5,705,949,600.00). As such, the net asset value of Quadra Shares which represents an approximate 13.05% of the issued share capital of Quadra as at the Latest Practicable Date is approximately USD95,464,926.00 (equivalent to approximately HK$744,626,422.80).

REASONS FOR THE QUADRA INVESTMENT

The Board considered that the Quadra Investment would complement the principal activities of the Group and would enhance the returns on investment for the Group. The Quadra Investment was and will be funded from the internal resources of the Group. Taking into account of the recent financial crisis, the prevailing market prices of the Quadra Shares and those of comparable companies in the same industry sector, and the overall trends in demand and supply in the world mining resources and world energy sector, the Board considered that this was an opportunity for the Group to further acquire these Quadra Shares as the Quadra Investment represents an opportunity for the Group to expand its investments in mining industry located outside of China. In addition, as the Quadra Investment was and will be made at market price, the Board believed that the terms of which are/were fair and reasonable and in the interests of the Company and the Shareholders taken as a whole. At present, the Board intends to hold the Quadra Investment for the purposes of capital gain and dividend income.

REASONS FOR THE POSSIBLE QUADRA DISPOSAL AND USE OF PROCEEDS

Based on the proposed terms of the Possible Quadra Disposal, and in order to accommodate any sudden change of circumstances in the volatile market, the Directors consider that the Possible Quadra Disposal represents a good opportunity for the Group to realise an investment should the Board exercises its investment decision to divest its interests in the Quadra Investment based on the relevant circumstances at the relevant time. On the basis that the Quadra Investment constitutes a very substantial acquisition for the Company under the Listing Rules, the Directors would like to seek Shareholders' approval in respect of the Possible Quadra Disposal in order to allow flexibility for the Directors to execute investment decisions made by the Board from time to time. Based on the changes in market environment, the Board will consider whether to dispose of the Quadra Shares only after completion of all acquisitions of the Quadra Shares under the Quadra Investment. The Board does not have any current intention to short-sell the Quadra Shares.

Based on the average minimum sale price per Quadra Share of CAD2.12 (approximately HK$13.78) and the latest published financial results of Quadra, the Group shall be able to dispose up to 8,613,130 Quadra Shares, representing approximately 13.05% of the issued shares of Quadra as at the Latest Practicable Date, pursuant to the conditions of the Possible Quadra Disposal. On such basis, it is expected that the amount of net proceeds to be recorded by the Group from the Possible Quadra Disposal shall be approximately HK$118.7 million, which shall be utilised by the Group for future investment as the Directors shall then decide and/or for general working capital purposes.

Having regard to the nature of and the benefits resulting from the Possible Quadra Disposal as set out above, the Directors believe that the Possible Quadra Disposal is fair and reasonable and in the interests of the Company and the Shareholders taken as a whole.

FINANCIAL EFFECTS OF THE QUADRA INVESTMENT

Immediately upon completion of the Quadra Investment, Quadra will not become a subsidiary of the Company as the maximum percentage of Quadra Shares in the issued share capital of Quadra to be acquired under the Quadra Investment will not exceed 19.9%.

At present, the Board intends to hold the Quadra Investment for the purposes of capital gain and dividend income. As such, there will not be immediate impact on the earnings of the Company immediately upon the Quadra Investment. However, the Directors expect the Quadra Investment will have a positive impact on the earnings and assets of the Group in the long run. The Quadra Investment will not have any impact on the total liabilities of the Group except for all necessary transaction costs.

EFFECTS OF THE POSSIBLE QUADRA DISPOSAL

Depending on the aggregate consideration payable for the Quadra Shares under the Quadra Investment and the aggregate consideration to be received for the Quadra Shares under the Possible Quadra Disposal, the Possible Quadra Disposal may be regarded as a gain or loss to the Company.

Due to the fact that the Board intends to hold the Quadra Investment for the purposes of capital gain and dividend income whilst Quadra had not declared any dividend since its floatation on the TSX, the Directors do not anticipate any distribution of dividend by Quadra within 12 months from the date on which the Possible Quadra Disposal is approved at the SGM. Therefore, if the Quadra Shares are to be disposed within 12 months from the date on which the Possible Quadra Disposal is approved at the SGM, the Directors do not expect the Possible Quadra Disposal will have any impact on the earnings of the Group except for any capital gain. The total assets of the Group may be increased or decreased depending on whether there are realised capital gains or losses arising on the Possible Quadra Disposal and unrealised gains and losses arising from changes in the fair value of the Quadra Shares still held by the Company. The Directors expect that the Company will not incur any further liabilities due to the Possible Quadra Disposal except for all necessary transaction costs.

On the basis that (a) the Further Quadra Investment being made based on the maximum purchase price of CAD5.28 (approximately HK$34.32) per Quadra Share in respect of 4,763,764 Quadra Shares, representing an aggregate of approximately 7.22% of the issued share capital of Quadra as at the Latest Practicable Date; (b) the Prior Quadra Investment previously made in respect of 2,650,900 Quadra Shares for an aggregate consideration of CAD5,616,556.3 (approximately HK$36,507,616); and (c) the Possible Quadra Disposal being made based on the average sale price of CAD2.12 (approximately HK$13.78) per Quadra Share in respect of a total of 7,414,664 Quadra Shares representing an aggregate of approximately 11.23% of the issued share capital of Quadra as at the Latest Practicable Date, a loss of approximately CAD15,050,143 (approximately HK$97,825,927) would be recorded by the Group.

FINANCIAL AND TRADING PROSPECTS

The Group's principal activities are mining operations.

Since the Group started to engage in mining operations in November 2006, the Group has been active in seeking acquisition opportunity with a focus in mining industry. The acquisition of a 75.08% equity interest in Harbin Songjiang Copper (Group) Company Limited (together with its subsidiaries, the "Harbin Songjiang Group") which was completed on 5 July 2007 has significantly increased the turnover of the Group's operation in mining industry. Following the disposal of the entire interest in Cell Therapy Technologies Centre Limited, the Group has streamlined its business to concentrate on mining operations. However, due to the significant fall of commodities price in the global commodity market in the year 2008, unsatisfactory performance of the Group's mining operation in Nuoergai Copper Mine located in Inner Mongolia and suspension of operation of the copper and zinc mine of the Harbin Songjiang Group, the Group has recorded a substantial loss of HK$869.9 million for the 6 months ended 30 June 2008 as disclosed in the 2008 interim report of the Company. With a view to better utilizing the cash resources, improving the profitability of the Group and diversifying the business of the Group, the Company have been actively looking for attractive merger and acquisition opportunities in various industries including mining and other natural resources related businesses. As a result, on 22 December 2008, the Company has entered into a sale and purchase agreement with Joy Success Limited, Master Long Limited, Mr. Ho Ho Wai and Mr. Ho Yat Sum pursuant to which the Company has conditionally agreed to acquire King Gold Investments Limited which was expected to be engaged in the business of cultivation, research, production and sale of Chinese tea products.

With a view that the Group should better utilise its resources and to further expand its mining operation and business having taken into account the prevailing market condition for investment in mining industry, the recent financial crisis and the overall trends in demand and supply in the world mining resources sector, the Board considered that this was an opportunity for the Group to expand its investments in mining industry located outside of the PRC. Besides, the increase in shareholding stake in Quadra will create new business opportunity for the Group outside the PRC. As Quadra will not become a subsidiary of the Company immediately upon completion of the Quadra Investment, the personnel of Quadra is not expected to have significant change as a result of the Quadra Investment. With a widen exposure to the mining industry outside of the PRC, the Group will be able to widen its source of income.

In spite of the financial crisis and the business downturn, the Directors are optimistic about the performance of the Group as the Group's business is further diversified to the business of cultivation, research, production and sale of Chinese tea products whilst the Group has expanded its investment in the mining industry outside of China.

Accordingly, the Company will continue to look for attractive merger and acquisition opportunities in various industries with a focus in mining industry.

MANAGEMENT DISCUSSION AND ANALYSIS

The management discussion and analysis of the Group and Quadra are set out in Appendix I and Appendix III to this circular respectively.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14.69(4)(a)(i) OF THE LISTING RULES

The Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements under the Listing Rules such that the accountants' report of Quadra which is to be prepared in accordance with Chapter 4 of the Listing Rules need not be included in this circular. The waiver was granted by the Stock Exchange on 5 March 2009 on the conditions that (1) the alternative disclosures as set out in sub-paragraphs (a) to (d) in the section headed "Alternative Disclosures" below will be included in this circular; and (2) this circular will be issued and despatched on or before 31 March 2009.

Reasons for application of waiver

According to the Company's Canadian legal advisers, generally, under Canadian securities laws, there will be legal restrictions on the Canadian reporting issuer (being Quadra in this case) to provide to any person with undisclosed material information for its preparation of financial statements of such Canadian reporting issuers for the following reasons:

(a) Any undisclosed financial information of a public company would be considered as material information and therefore may lead the Canadian reporting issuer to conclude that it cannot provide "selective" disclosure to the Company.

(b) Very often, the Canadian reporting issuer will only be willing to share such confidential information with a potential investor after the investor has signed a standstill and confidentiality agreement (agreeing not to trade for an agreed period of time). The Company does not have any current intention to acquire the business of Quadra or obtain control over Quadra but would like to proceed with the Further Quadra Investment should the Board resolve so after obtaining the Shareholders' approval. As such, the Company is not a potential investor who would be in a position to sign a standstill and confidentiality agreement with Quadra.

(c) The Company is of the view that it would be highly prejudicial and seriously detrimental to the Company's interest if the Company is to sign a standstill and confidentiality agreement with Quadra so as to obtain such financial information from Quadra for the purpose of preparing the information to be incorporated into the Circular in strict compliance of the Listing Rules, as such action would prevent the Company to proceed with the Further Quadra Investment until the expiry of the term under the standstill and confidentiality agreement.

In view of the above and that the financial statements of Quadra being available from its website are prepared in accordance with the Canadian GAAP, the Company is of the view that strict compliance with Rule 14.69(4)(a)(i) of the Listing Rules in its unmodified form would be unduly burdensome and impractical due to legal restrictions under the Canadian securities laws as mentioned above.

Alternative disclosures

In replacement of the accountants' report of Quadra prepared in accordance with Chapter 4 of the Listing Rules, the following contents have been included in this circular:

(a) a summary of reasons for not including an accountants' report or preparing a reconciliation of the financial statements of Quadra prepared under the Canadian GAAP to that of the HKFRS;

(b) the audited accounts of Quadra for each of the three financial years ended 31 December 2008 prepared in accordance with the Canadian Generally Accepted Accounting Principles (as extracted from the website of Quadra);

(c) management discussion and analysis of Quadra for each of the three financial years ended 31 December 2008 (as extracted from the website of Quadra); and

(d) a statement of the Directors (as confirmed by CCIF, the reporting accountants of the Company, according to certain agreed upon procedures performed) confirming that there are no principal differences between the financial information of Quadra as prepared under the Canadian GAAP and such financial information if it were to be prepared under HKFRS and that there are no principal differences between the accounting policies of the Company and Quadra.

The Company is of the view that the audited accounts and management discussion and analysis of Quadra for each of the three financial years ended 31 December 2008 as referred to in paragraphs (b) and (c) above (the "**Proposed Financial Information of Quadra**") constitute sufficient information for the Company's shareholders to make an informed decision of the Further Quadra Investments after considering the following:

(a) As with the other investors of Quadra, the Board has been provided with and relied on the Proposed Financial Information of Quadra in making the decision of the Further Quadra Investments.

(b) The Company confirmed that as at the date of this Circular, the Board is not aware of any modified/qualified opinion on the published audited accounts of Quadra for each of the three years ended 31 December 2006, 2007 and 2008.

(c) Based on information available from the website of Quadra and Quadra's annual financial statements available on such website, the Board understands that Quadra has an audited committee which meets periodically with management and the independent auditors of Quadra to review the scope and results of its annual audit, and to review the consolidated financial statements and related financial reporting matters prior to submitting the financial statements to the board of directors of Quadra.

CHANGE OF AUDITORS

As set out in the announcement of the Company dated 9 January 2009, the Directors have announced that KPMG, the auditors of the Company, have resigned as the auditors of the Company with effect from 9 January 2009 as the Company and KPMG could not reach a consensus on the audit fee for the financial year ended 31 December 2008.

KPMG were re-appointed as auditors of the Company at the last annual general meeting of the Company held on 23 May 2008 to hold office until the conclusion of the next annual general meeting of the Company. The Company received a notice of resignation from KPMG in respect of their resignation as auditors of the Company and its subsidiaries with effect from 9 January 2009. The Board proposed to appoint Deloitte as auditors of the Company to fill the casual vacancy following the resignation of KPMG and to hold office until the conclusion of the next annual general meeting of the Company. Pursuant to Bye-law 157 of the Bye-laws of the Company, the SGM is convened to approve the appointment.

In the notice of resignation to the Company, KPMG have confirmed that there are no circumstances connected with their resignation which they considered should be brought to the attention of the members of the Company or its subsidiaries. To the best knowledge of the Directors, there are also no circumstances in respect of the Change of Auditors which they consider should be brought to the attention of the Shareholders.

KPMG have not yet commenced the audit for the Company for the financial year ended 31 December 2008. It is expected that the Change of Auditors will not affect the audit and the release of annual results of the Company for the financial year ended 31 December 2008.

RECOMMENDATIONS

As the Quadra Investment was and will be made at market price, the Board believed that the terms of which are fair and reasonable and in the interests of the Company and the Shareholders taken as a whole.

Having regard to the nature of and the benefits resulting from the Possible Quadra Disposal as set out in the section "Reasons for the Possible Quadra Disposal and Use of Proceeds" of this circular, the Directors believe that the terms of the Possible Quadra Disposal are fair and reasonable and in the interests of the Company and the Shareholders taken as a whole.

Having considered the circumstances set out in the section headed "Change of Auditors", the Directors believe that the Change of Auditors is in the best interests of the Company and the Shareholders as a whole.

The Directors therefore recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Further Quadra Investment, the Possible Quadra Disposal and the Change of Auditors.

THE SGM

A notice convening the SGM at which ordinary resolutions will be proposed to consider and if thought fit, to authorise the Directors to exercise their discretion whether to proceed with the Further Quadra Investment and the Possible Quadra Disposal, both within a period of 12 months from the date on which Shareholders' approval has been obtained at the SGM, and the Change of Auditors. Three separate resolutions regarding the Further Quadra Investment, the Possible Quadra Disposal and the Change of Auditors will be proposed at the SGM for approval by the Shareholders as set out in this circular.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the proposed vendors, purchasers and their respective beneficial owners will be Independent Third Parties. The Directors shall procure that Best Tone will not effect any trades with any vendors, purchasers whom are not, and whose beneficial owners are not, to the best of the knowledge of the Directors, Independent Third Parties. To their best knowledge, the Directors are not aware of any Shareholder having any interest in the transactions contemplated mentioned in this circular which is different from the interest of other shareholders and therefore no Shareholder is required to abstain from voting at the SGM in respect of resolution(s) approving the Further Quadra Investment and the Possible Quadra Disposal.

The voting in respect of the approval of the resolutions at the SGM will be conducted by way of poll.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or any adjournment thereof) should you so wish.

An announcement will be made by the Company following the conclusion of the SGM to inform the Shareholders of the results of the SGM.

In the event that Shareholders' approval in respect of the Further Quadra Investment and the Possible Quadra Disposal has been obtained at the SGM, the Company will make further announcement(s) as and when (a) acquisitions of Quadra Shares are made pursuant to which the aggregate shareholdings of the Group in Quadra is equivalent to or above 10% of the issued shares in Quadra; (b) the Further Quadra Investment is completed; and (c) the Possible Quadra Disposal is completed and upon the expiry of the 12-month period on which Shareholders' approval in respect of the Possible Quadra Disposal has been obtained.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

By Order of the board of
China Mining Resources Group Limited
Cai Yuan
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

There is no qualified opinion for the Group for each of the 3 years ended 31 December 2007. A summary of the published results and of the assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements, is set out below.

	For the year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
RESULTS			
Turnover			
Continuing operations	15,634	17,366	696,416
Discontinued operations	175,204	138,207	—
	190,838	155,573	696,416
Profit/(loss) before taxation			
Continuing operations	(25,134)	(20,558)	251,700
Discontinued operations	(30,725)	12,267	—
	(55,859)	(8,291)	251,700
Taxation credit/(charge)			
Continuing operations	(75)	366	(27,308)
Discontinued operations	734	(1,317)	—
	659	(951)	(27,308)
Profit/(loss) for the year			
Continuing operations	(25,209)	(20,192)	224,392
Discontinued operations	(29,991)	10,950	—
	(55,200)	(9,242)	224,392
Attributable to:			
Equity shareholders of the company	(55,200)	(8,244)	212,297
Minority interests	—	(998)	12,095
	(55,200)	(9,242)	224,392

	As at 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	297,041	2,172,179	7,439,339
Total liabilities	(69,614)	(239,759)	(1,786,305)
NET ASSETS	227,427	1,932,420	5,653,034
REPRESENTED BY:			
Equity attributable to shareholders of the company	227,427	1,121,572	3,992,892
Minority interests	—	810,848	1,660,142
TOTAL EQUITY	227,427	1,932,420	5,653,034

2. AUDITED CONDENSED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity of the Group and consolidated cash flow statement, together with the notes to the financial statements of the Group as extracted from the annual report of the Company for the year ended 31 December 2007. References to page numbers in this section are to the page numbers of such annual report of the Company.

Consolidated income statement
For the year ended 31 December 2007

		2007	**2006**
	Note	*HK$'000*	*HK$'000*
Continuing operations			
Turnover	*3,12*	696,416	17,366
Cost of sales		(501,117)	(8,060)
Gross profit		195,299	9,306
Other revenue	*4*	26,039	4,250
Other net income/(loss)	*4*	279,519	(467)
Selling expenses		(9,850)	(4,276)
Administrative expenses		(223,971)	(20,802)
Impairment loss of goodwill		—	(7,400)
Profit/(loss) from operations		267,036	(19,389)
Finance costs	*5(a)*	(15,297)	(1,169)
Share of losses of jointly controlled entities	*18*	(39)	—
Profit/(loss) before taxation	*5*	251,700	(20,558)
Income tax	*6(a)*	(27,308)	366
Profit/(loss) for the year from continuing operations		224,392	(20,192)
Discontinued operations			
Profit for the year from discontinued operations	*9(a)*	—	10,950
Profit/(loss) for the year		224,392	(9,242)

	Note	2007 HK$'000	2006 HK$'000
Attributable to:			
Equity shareholders of the Company	10	212,297	(8,244)
Minority interests		12,095	(998)
Profit/(loss) for the year		224,392	(9,242)
Earnings/(loss) per share — basic	11(a)		
From continuing and discontinued operations		3.9 cents	(0.29) cents
From continuing operations		3.9 cents	(0.67) cents
From discontinued operations		N/A	0.38 cents
Earnings/(loss) per share — diluted	11(b)		
From continuing and discontinued operations		3.9 cents	(0.29) cents
From continuing operations		3.9 cents	(0.67) cents
From discontinued operations		N/A	0.38 cents

Consolidated balance sheet
At 31 December 2007

	Note	**2007** *HK$'000*	**2006** *HK$'000*
Non-current assets			
Fixed assets	*13(a)*		
— Property, plant and equipment		460,609	4,432
— Interests in leasehold land held for own use under operating leases		316,658	—
Intangible assets	*14*	4,808,088	1,694,615
Construction in progress	*15*	87,496	—
Goodwill	*16*	8,200	8,200
Interest in jointly controlled entities	*18*	—	—
Other receivables	*20(a)*	92,246	—
Deferred tax assets	*29(b)*	1,514	366
		5,774,811	1,707,613
Current assets			
Inventories	*19*	46,223	430
Trade and other receivables	*20(b)*	370,711	15,049
Cash and cash equivalents	*21*	1,247,594	449,087
		1,664,528	464,566
Current liabilities			
Trade and other payables	*22*	256,130	22,517
Deferred income	*23(a)*	53,814	34,839
Bank loans	*25*	127,467	—
Other loans	*26*	1,067	—
Loans from minority shareholders	*24*	150,500	150,500
Current taxation	*29(a)*	184,261	—
		773,239	207,856
Net current assets		891,289	256,710
Total assets less current liabilities		6,666,100	1,964,323

		2007	**2006**
	Note	*HK$'000*	*HK$'000*
Non-current liabilities			
Other payables	*30*	116,986	31,903
Deferred income	*23(b)*	79,976	—
Bank loans	*25*	85,333	—
Other loans	*26*	4,576	—
Deferred tax liabilities	*29(b)*	726,195	—
		1,013,066	31,903
NET ASSETS		5,653,034	1,932,420
CAPITAL AND RESERVES	*31*		
Share capital		602,665	472,078
Reserves		3,390,227	649,494
Total equity attributable to equity shareholders of the Company		3,992,892	1,121,572
Minority interests		1,660,142	810,848
TOTAL EQUITY		5,653,034	1,932,420

Balance sheet

At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	*13(b)*	1,109	426
Investments in subsidiaries	*17*	2,735,563	823,231
Interest in jointly controlled entities	*18*	39	—
		2,736,711	823,657
Current assets			
Trade and other receivables	*20*	49,690	15,129
Cash and cash equivalents	*21*	695,932	266,813
		745,622	281,942
Current liabilities			
Trade and other payables	*22*	21,578	5,898
Net current assets		724,044	276,044
NET ASSETS		3,460,755	1,099,701
CAPITAL AND RESERVES	*31(b)*		
Share capital		602,665	472,078
Reserves		2,858,090	627,623
TOTAL EQUITY		3,460,755	1,099,701

Consolidated statement of changes in equity

For the year ended 31 December 2007

		Attributable to equity shareholders of the Company									
		Share capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Statutory surplus reserve	Accumulated losses	Subtotal	Minority interests	Total
		(Note 31(c)(i))	*(Note 31(d)(i))*	*(Note 31(d)(ii))*	*(Note 31(d)(v))*	*(Note 31(d)(iii))*	*(Note 31(d)(iv))*				
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006		246,481	177,179	152,150	2,373	—	—	(350,756)	227,427	—	227,427
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		—	—	—	—	9,631	—	—	9,631	8,036	17,667
Net loss for the year		—	—	—	—	—	—	(8,244)	(8,244)	(998)	(9,242)
Shares issued under:											
— purchase of net assets	*31(c)(ii)*	108,148	324,444	—	—	—	—	—	432,592	—	432,592
— share placing	*31(c)(iii)*	115,000	345,000	—	—	—	—	—	460,000	—	460,000
— share option scheme	*31(c)(iv)*	2,449	3,842	—	(2,373)	—	—	—	3,918	—	3,918
Share issue expenses		—	(3,752)	—	—	—	—	—	(3,752)	—	(3,752)
Purchase of net assets	*32(b)*	—	—	—	—	—	—	—	—	795,414	795,414
Capital contribution from a minority shareholder		—	—	—	—	—	—	—	—	8,396	8,396
At 31 December 2006		472,078	846,713	152,150	—	9,631	—	(359,000)	1,121,572	810,848	1,932,420

		Attributable to equity shareholders of the Company									
							Statutory				
		Share	Share	Contributed	Capital	Exchange	surplus	Accumulated		Minority	
		capital	premium	surplus	reserve	reserve	reserve	losses	Subtotal	interests	Total
		(Note	*(Note*	*(Note*	*(Note*	*(Note*	*(Note*				
	Note	*31(c)(i))*	*31(d)(i))*	*31(d)(ii))*	*31(d)(v))*	*31(d)(iii))*	*31(d)(iv))*				
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007		472,078	846,713	152,150	—	9,631	—	(359,000)	1,121,572	810,848	1,932,420
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		—	—	—	—	151,602	—	—	151,602	89,451	241,053
Net profit for the year		—	—	—	—	—	—	212,297	212,297	12,095	224,392
Shares issued under share placing	*32(c)(iii)*	130,587	2,324,452	—	—	—	—	—	2,455,039	—	2,455,039
Share issue expenses	*32(c)(iii)*	—	(90,594)	—	—	—	—	—	(90,594)	—	(90,594)
Acquisition of subsidiaries	*32(a)(i)*	—	—	—	—	—	—	—	—	750,373	750,373
Equity settled share-based transaction		—	—	—	142,976	—	—	—	142,976	—	142,976
Dividend paid to minority shareholders		—	—	—	—	—	—	—	—	(2,625)	(2,625)
Transfer to statutory surplus reserve		—	—	—	—	—	26,372	(26,372)	—	—	—
At 31 December 2007		602,665	3,080,571	152,150	142,976	161,233	26,372	(173,075)	3,992,892	1,660,142	5,653,034

Consolidated cash flow statement

For the year ended 31 December 2007

	Note	**2007** *HK$'000*	**2006** *HK$'000*
Operating activities			
Profit/(loss) before taxation			
— From continuing operations		251,700	(20,558)
— From discontinued operations		—	12,267
		251,700	(8,291)
Adjustments for:			
— Valuation gain on investment properties		—	(15,794)
— Negative goodwill		(281,622)	—
— Government grants		(1,248)	—
— Amortisation of land lease premium		3,047	—
— Amortisation of intangible assets		85,237	—
— Depreciation		13,084	1,369
— Impairment loss on trade and other receivables		1,387	877
— Impairment of goodwill		—	7,400
— Finance costs		15,297	3,645
— Dividend income from trading securities		—	(182)
— Interest income		(24,782)	(4,502)
— Share of losses of jointly controlled entities		39	—
— Net foreign exchange gain		(13)	—
— Net gain/(loss) on disposal of property, plant and equipment		(3,640)	18
— Equity-settled share-based payment expenses		142,976	—
Operating profit/(loss) before changes in working capital		201,462	(15,460)
Decrease/(increase) in inventories		288,783	(55)
(Increase)/decrease in trade and other receivables		(116,605)	7,601
Decrease in trading securities		—	2,268
Increase/(decrease) in trade and other payables		40,868	(26,831)
Increase in deferred income		18,975	13,330
Cash generated from/(used in) operations		433,483	(19,147)
Tax paid			
— PRC income tax paid		(54,451)	(568)
Net cash generated from/(used in) operating activities		379,032	(19,715)

	Note	2007 HK$'000	2006 HK$'000
Investing activities			
Payment for interest in jointly controlled entities		(39)	—
Proceeds from disposal of a subsidiary		534	—
Payment for construction in progress		(84,474)	—
Proceeds from disposal of fixed assets		24,786	—
Payment for intangible assets		(53)	—
Payment for acquisition of subsidiaries, net of cash acquired	*32(a)*	(1,788,728)	—
Purchase of net assets, net of cash acquired	*32(b)*	—	(215,559)
Payment for purchase of fixed assets		(44,069)	(1,836)
Payment for exploration and evaluation assets		(5,952)	—
Interest received		24,782	4,502
Dividends received from trading securities		—	182
Net cash used in investing activities		(1,873,213)	(212,711)
Financing activities			
Repayment of amount due from a minority shareholder		—	14,204
Proceeds from loans from minority shareholders		—	150,500
Capital injection from a minority shareholder		—	8,396
Proceeds from shares issued under placing		2,455,039	460,000
Proceeds from shares issued under share options scheme		—	3,918
Payment of transaction costs on issue of shares		(90,594)	(3,752)
Repayment of obligation under a finance lease		—	(117)
Repayment of bank loan		(63,680)	(32,910)
Proceeds from new other loan		4,576	—
Increase in pledged bank deposits		—	(9,317)
Decrease in pledged deposits in financial institutions		—	8,412
Interest paid		(8,925)	(2,479)
Net cash generated from financing activities		2,296,416	596,855
Net increase in cash and cash equivalents		802,235	364,429
Cash and cash equivalents at 1 January		449,087	83,757
Effect of foreign exchange rate changes		(3,728)	901
Cash and cash equivalents at 31 December	*21*	1,247,594	449,087

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective terms includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis. The functional currencies of the Company and its subsidiaries in the People's Republic of China (the "PRC") are Hong Kong dollars and Renminbi respectively. For the purposes of presenting the consolidated financial statements, the Group adopted Hong Kong dollars as its presentation currency.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 37.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(o) or (p) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)).

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year (see notes 1(e) and (l)).

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in jointly controlled entities are stated at cost less impairment losses (see note 1(l)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(l)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash-generating unit, during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and jointly controlled entity, are as follows:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(k)) to earn rental income and/or for capital appreciation. These include land held for a currently undermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(u)(iii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(k)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(k).

(h) Property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 1(l)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.

—	Leasehold improvements	5 years or over the unexpired terms of the lease, whichever is shorter
—	Plant and machinery	12 — 14 years
—	Furniture, fixtures and equipment	5 — 10 years
—	Motor vehicles	5 — 10 years

Included in property, plant and equipment are mining shafts located at the mining site. Depreciation is provided to write off the cost of mining shafts using the units of production method based on the proven and probable mineral reserves.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation and is stated at cost less impairment losses (see note 1(l)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(j) Intangible assets (other than goodwill)

(i) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). The mining rights are amortised using the units of production method based on the proven and probable mineral reserves.

(ii) Exploration rights

Exploration rights are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). The exploration rights are amortised on a straight-line basis over the respective periods of the rights.

(iii) Exploration and evaluation assets and mining development assets

Exploration and evaluation assets are stated at cost less impairment losses (see note 1(l)). Exploration and evaluation assets include exploration and development costs.

Exploration and development costs include expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is written off as incurred.

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and development costs capitalised are transferred to mining development assets and amortised using the units of production method based on the proven and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating lease with the exception of:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as a.n investment property on property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)).

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance assets, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(l) Impairment of assets

(i) Impairment of trade and other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets;

— investments in subsidiaries and jointly controlled entity; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out method and the weighted average cost formula for cord blood storage and mining operations respectively, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts (see note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts (see note 1(l)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options or other equity instruments granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value of share options is measured at the grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The fair value of other equity instruments is measured at the grant date based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available, the fair value of equity instruments is estimated using a valuation technique, which is consistent with generally accepted valuation methodologies for pricing financial instruments and incorporate all factors and assumptions that knowledge, willing market participants would consider in setting the price. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options or equity instruments, the total estimated fair value of the options or equity instruments is spread over the vesting period, taking into account the probability that the options or equity instruments will vest.

During the vesting period, the number of share options or other equity instruments that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options or equity instruments that vest (with a corresponding adjustment to the share option reserve or capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option or equity instruments is exercised (when it is transferred to the share premium account) or the option or equity instruments expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(t)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(t)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 1(t)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Processing, storage and enrolment fees

Processing and storage fees are recognised when services are rendered. Enrolment fees are recognised upon the signing of the enrolment contract.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(w) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

Capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(aa) Deferred income

(i) Receipt in advance for the provision of storage services

Receipt in advance for the provision of storage services are recognised as deferred income in the balance sheet. The amount is amortised over the remaining service period.

(ii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

(ab) Equity-settled share-based payment transactions

For equity-settled share-based payment transactions, the goods or services received are recognised at fair value with a corresponding increase in equity, unless fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, their values are indirectly measured by reference to the fair value of the equity instruments granted.

Share-based payment in respect of employee benefits is dealt with in accordance with the accounting policy set out in note 1(r)(ii).

2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 33.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 31(f).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41).

3. Turnover

The principal activities of the Group are mining operations and processing and storage of cord blood.

Turnover represents the sales value of goods supplied to customers less returns, discounts and value added taxes during the year. Turnover recognised during the year may be analysed as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Continuing operations:		
Processing and storage of cord blood	21,461	17,366
Mining operations		
Sales of:		
— Molybdenum	551,225	—
— Copper	97,298	—
— Zinc	18,295	—
— Others	8,137	—
	674,955	—
	696,416	17,366
Discontinued operations: ***(note 9)***		
Sales of trading securities	—	116,234
Dividend income from trading securities	—	182
Sales of pharmaceutical and chemical products	—	13,995
Rental income	—	7,796
	—	138,207
	696,416	155,573

4. Other revenue and net income

	2007 *HK$'000*	2006 *HK$'000*
Other revenue		
Continuing operations:		
Bad debt recovery	—	49
Interest income on bank deposits	24,782	4,128
Government grants *(note 23(b))*	1,248	—
Others	9	73
	26,039	4,250
Discontinued operations: ***(note 9)***		
Bad debt recovery	—	167
Interest income on bank deposits	—	240
Interest income on securities accounts	—	134
	—	541
	26,039	4,791
Other net income/(loss)		
Continuing operations:		
Negative goodwill *(note 32(a)(i))*	281,622	—
Net foreign exchange loss	(5,981)	(449)
Sales of scrap materials	238	—
Net gain/(loss) on disposal of property, plant and equipment	3,640	(18)
	279,519	(467)
Discontinued operations: ***(note 9)***		
Net foreign exchange loss	—	(28)

5. Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

		2007 *HK$'000*	2006 *HK$'000*
(a)	Finance costs:		
	Continuing operations:		
	— Finance charges on obligation under a finance lease	—	3
	— Interest expense on financial liabilities measured at amortised cost	6,372	1,166
	— Interest on bank loan wholly repayable within five years	8,925	—
		15,297	1,169
	Discontinued operations: ***(note 9)***		
	— Interest on bank loan wholly repayable within five years	—	1,978
	— Interest paid for margin financing	—	498
		—	2,476
		15,297	3,645
(b)	Staff costs (excluding directors' fees):		
	Continuing operations:		
	— Salaries, wages and other benefits	43,846	8,001
	— Staff welfare	1,962	—
	— Contributions to defined contribution retirement plan	5,202	208
	— Equity-settled share-based payment expenses	142,976	—
		193,986	8,209
	Discontinued operations:		
	— Salaries, wages and other benefits	—	299
	— Contributions to defined contribution retirement plan	—	18
		—	317
		193,986	8,526

(c) Other items:

	2007 *HK$'000*	2006 *HK$'000*
Continuing operations:		
— Auditors' remuneration	4,856	1,436
— Depreciation of property, plant and equipment	13,084	1,255
— Operating lease charges		
— land and buildings	4,273	3,084
— office equipment	—	17
— Impairment losses on trade and other receivables	1,387	877
— Amortisation		
— land lease premium	3,047	—
— intangible assets	85,237	—
— Environmental costs	200	—
Discontinued operations:		
— Auditors' remuneration	—	42
— Depreciation of property, plant and equipment	—	114
— Rentals receivable from investment properties less direct outgoings of $2,812,000	—	(4,984)

6. Income tax in the consolidated income statement

(a) Continuing operations:

(i) Taxation in the consolidated income statement represents:

	2007 *HK$'000*	2006 *HK$'000*
Current tax — PRC Enterprise Income Tax		
Provision for the year	98,383	—
Deferred tax		
Origination and reversal of temporary differences	(71,075)	(366)
Tax charge/(credit)	27,308	(366)

The provision for PRC Enterprise Income Tax has been calculated based on the estimated taxable income at a rate of 33% during the year.

No provision has been made for Hong Kong Profits Tax as the companies engaged in the continuing operations did not earn any assessable profits during both years.

(ii) Reconciliation between tax charge/(credit) and accounting profit/(loss) at applicable tax rates:

	2007	**2006**
	HK$'000	*HK$'000*
Profit/(loss) before taxation	251,700	(20,558)
Notional tax charge/(credit) on profit/(loss) before taxation, calculated at the rate applicable to the profits in the tax jurisdiction concerned	67,969	(3,209)
Tax effect of non-taxable income	(73,111)	(728)
Tax effect of non-deductible expenses	32,450	3,935
Tax effect of prior year's unrecognised tax losses recognised in current year	—	(364)
Actual tax charge/(credit)	27,308	(366)

(b) Discontinued operations: (note 9)

(i) Taxation in the consolidated income statement represents:

	2007	**2006**
	HK$'000	*HK$'000*
Current tax — PRC Enterprise Income Tax		
Provision for the year	—	512
Deferred tax		
Origination and reversal of temporary differences	—	805
Tax charge	—	1,317

The provision for PRC Enterprise Income Tax has been calculated based on the estimated taxable income at the appropriate rates of taxation ruling in the PRC.

No provision has been made for Hong Kong Profits Tax as the companies engaged in the discontinued operations either had no assessable profits in 2006 or had sufficient tax losses brought forward from previous year to fully set off the assessable profits.

(ii) Reconciliation between tax charge and accounting profit at applicable tax rates:

	2007	**2006**
	HK$'000	*HK$'000*
Profit before taxation	—	12,267
Notional tax charge on profit before taxation, calculated at the rate applicable to the profits in tax jurisdictions concerned	—	1,763
Tax effect of non-taxable income	—	(2,484)
Tax effect of non-deductible expenses	—	892
Tax effect of unused tax losses not recognised	—	1,159
Tax effect of prior year's unrecognised tax losses utilised in current year	—	(13)
Actual tax charge	—	1,317

(c) New Tax Law of the PRC

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law ("the Implementation Rules"). According to the New Tax Law, from 1 January 2008, the applicable corporate income tax rates for enterprises in the PRC will be reduced from 33% to 25%. Subsidiaries of the Group incorporated in the PRC except for the entity described below will be subject to corporate income tax rate of 25%, effective on 1 January 2008.

Any unutilised tax holidays will continue until expiry and tax holidays which have not commerced due to losses in prior years are deemed to have started from 1 January 2008, even if the entity is not yet reporting a profitable year. In view of the new regulations, Shanxi Shenli Aerospace Titanium Company Limited's tax holidays commenced on 1 January 2008.

The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

Pursuant to the New Tax Law and its implementation rules, dividends payable to foreign investors are subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a tax treaty between the PRC and Hong Kong and the grandfathering arrangement, the investment holding companies established in Hong Kong will be subject to a reduced withholding tax rate of 5% on dividends it receives from its PRC subsidiaries and dividends receivable by the Group from subsidiaries established in the PRC in respect of their undistributed profits prior to 31 December 2007 are exempted from withholding tax.

7. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Resigned on	Appointed on	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments	2007 Total
							(Note)	
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman								
Cai Yuan			—	480	24	504	1,223	1,727
Executive directors								
Dong Wenxue	31 January 2008	5 July 2007	—	2,669	2	2,671	38,709	41,380
Wang Hui		5 July 2007	—	1,338	2	1,340	9,351	10,691
Yeung Kwok Kuen		17 January 2007	—	1,071	54	1,125	19,075	20,200
Chen Shou Wu		21 December 2007	—	43	2	45	5,212	5,257
Wu King Shiu Kelvin	31 January 2008	11 June 2007	—	—	—	—	38,874	38,874
Luk Kin Peter Joseph	6 July 2007		—	—	—	—	—	—
You Xian Sheng		31 January 2008	—	—	—	—	—	—
Non-executive directors								
Wu King Shiu Kelvin		31 January 2008	—	—	—	—	—	—
Lam Ming Yung		8 February 2007	83	—	—	83	—	83
Chan Siu Tat		5 December 2007	9	—	—	9	1,223	1,232
Independent non-executive directors								
Chan Sze Hon		5 December 2007	9	—	—	9	—	9
Goh Choo Hwee		5 December 2007	9	—	—	9	—	9
Chu Kang Nam		16 May 2007	67	—	—	67	1,223	1,290
Wong Hon Sum	5 December 2007	8 January 2007	80	—	—	80	1,223	1,303
Lam Ming Yung	8 February 2007	8 January 2007	5	—	—	5	1,223	1,228
Lee Kwan Hung	7 February 2007		6	—	—	6	—	6
Chan Siu Tat	5 December 2007		81	—	—	81	—	81
Tang Tin Sek	16 May 2007 (retired)		22	—	—	22	—	22
Lin Xiang Min		31 January 2008	—	—	—	—	—	—
			371	5,601	84	6,056	117,336	123,392

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments *(Note)*	2006 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman						
Cai Yuan	—	1,140	46	1,186	—	1,186
Executive directors						
Luk Kin Peter Joseph	—	1,100	57	1,157	—	1,157
Yeung Kwok Kuen	—	—	—	—	—	—
Non-executive director						
Lam Ming Yung	—	—	—	—	—	—
Independent non-executive directors						
Tang Tin Sek	240	—	—	240	—	240
Lee Kwan Hung	240	—	—	240	—	240
Poon Chiu Kwok (resigned on 8 November 2006)	165	—	—	165	—	165
Chan Siu Tat	7	—	—	7	—	7
Wong Hon Sum	—	—	—	—	—	—
	652	2,240	103	2,995	—	2,995

Note: These represent the estimated value of share options and equity instruments granted to the directors under the Company's share option scheme and the discounted share subscriptions. The value of these share options and equity instruments is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(r)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

Details of these benefits in kind, including the principal terms and number of options granted and discounted share subscriptions, are disclosed under the paragraph "Share options scheme" and "Discounted share subscriptions" in the directors' report and notes 28(i) and (ii).

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments, all (2006: two) are directors whose emoluments are disclosed in note 7 in the year ended 31 December 2007. The aggregate of the emoluments in respect of the other three individuals in 2006 are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other emoluments	—	1,357
Share-based payments	—	—
Retirement scheme contributions	—	61
	—	1,418

The emoluments of the three individuals with the highest emoluments in 2006 fall within the band of less than HK$1,000,000.

During the year, no emoluments (2006: Nil) were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office.

9. Discontinued operations

The Group's trading of investment and trading of pharmaceutical ingredients and chemicals products operations were discontinued during the financial year ended 31 December 2006.

Following the cessation of the trading activities, two subsidiaries, namely Fullgain International Investment Limited and INNOMAXX International Trading Company Limited were de-registered on 17 August 2007 and 31 August 2007 respectively.

In November 2006, the Group's property investment operation was discontinued following the disposal of two subsidiaries, namely INNOMAXX Property (BVI) Limited and GITIC Properties Limited, as part of the considerations in connection with the acquisition of 57% equity interest in Lead Sun Investments Limited.

(a) The results of the discontinued operations for the year ended 31 December 2006 are as follows:

		2006
	Note	*HK$'000*
Turnover	*3, 12*	138,207
Cost of sales		(138,580)
Gross loss		(373)
Valuation gain on investment properties	*13(a)*	15,794
Other revenue	*4*	541
Other net loss	*4*	(28)
Selling expenses		—
Administrative expenses		(1,191)
Profit from operations		14,743
Finance costs	*5(a)*	(2,476)
Profit before taxation	*5*	12,267
Income tax	*6(b)*	(1,317)
Profit for the year		10,950

(b) The net cash flows of the discontinued operations for the year ended 31 December 2006 is as follows:

	2006
	HK$'000
Net cash outflow from operating activities	(6,874)
Net cash outflow from investing activities	(1,832)
Net cash outflow from financing activities	(32,910)
Net cash outflow incurred by the discontinued operations	(41,616)

10. Profit/(loss) attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of $146,367,000 (2006: loss of $46,919,000) which has been dealt with in the financial statements of the Company.

11. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

(i) Profit/(loss) attributable to ordinary equity shareholders of the Company

	2007	**2006**
	HK$'000	*HK$'000*
Continuing operations	212,297	(19,194)
Discontinued operations	—	10,950
	212,297	(8,244)

(ii) Weighted average number of ordinary shares

	2007	**2006**
	'000	*'000*
Issued ordinary shares at 1 January	4,720,781	2,464,813
Effect of share issued *(note 31(c)(ii) and (iii))*	665,458	373,120
Effect of share options exercised *(note 31(c)(iv))*	—	7,310
Weighted average number of ordinary shares	5,386,239	2,845,243

(b) Diluted earnings/(loss) per share

The diluted earnings/(loss) per share from continuing operations and discontinued operations for the year ended 31 December 2007 and 2006 is the same as the basic earnings per share as the potential ordinary shares are anti-dilutive.

12. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group is currently engaged in mining operations and processing and storage of cord blood.

The Group was also involved in the trading of investments, sales of pharmaceutical and chemical products and property investment which were discontinued in the year ended 31 December 2006 as set out in note 9. These segments are the basis on which the Group reports its primary segment information.

Segment information about these businesses is set out as follows:

For the year ended 31 December 2007

		Mining						
	Processing and storage of cord blood	**Molybdenum**	**Copper and Zinc**	**Rutile**	**Others***	**Sub-total**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue								
Turnover from external customers	21,461	551,225	115,593	—	8,137	674,955	—	696,416
Other revenue from external customers	—	—	—	—	—	—	1,248	1,248
Total	21,461	551,225	115,593	—	8,137	674,955	1,248	697,664
Segment result	298	129,716	22,777	(8,247)	(6,336)	137,910	1,248	139,456
Unallocated operating income and expenses								127,580
Profit from operations								267,036
Finance costs								(15,297)
Taxation								(27,308)
Share of losses of jointly controlled entities								(39)
Profit after taxation								224,392
Assets and liabilities								
Segment assets	46,105	3,462,533	508,001	1,958,142	425,715	6,354,391	1,038,843	7,439,339
Segment liabilities	55,808	1,195,853	234,311	191,446	76,255	1,697,865	32,632	1,786,305

		Mining						
	Processing and storage of cord blood	**Molybdenum**	**Copper and Zinc**	**Rutile**	**Others***	**Sub-total**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information								
Depreciation and amortisation	1,015	64,846	39,320	395	5,872	110,433	2,124	113,572
Gain on disposal of property, plant and equipment	—	—	—	—	—	—	3,640	3,640
Impairment loss on trade and other receivables	424	—	—	—	—	—	963	1,387
Capital expenditure incurred during the year	1,882	2,813,140	422,021	24,280	407,293	3,666,734	174,357	3,842,973

* Others include business segments which individually account for less than 10% of the Group's revenue or total assets.

For the year ended 31 December 2006

	Continuing operations			Discontinued operations				
	Processing and storage of cord blood	Mining-Rutile	Sub-total	Property investment	Trading of investments	Sales of pharmaceutical and chemical products	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Turnover from external customers	17,366	—	17,366	7,796	116,416	13,995	138,207	155,573
Other revenue	—	—	—	—	—	77	77	77
Total	17,366	—	17,366	7,796	116,416	14,072	138,284	155,650
Segment result	(7,409)	(1,130)	(8,539)	20,245	(5,809)	68	14,504	5,965
Unallocated operating income and expenses			(10,850)				239	(10,611)
(Loss)/profit from operations			(19,389)				14,743	(4,646)
Finance costs			(1,169)				(2,476)	(3,645)
Taxation			366				(1,317)	(951)
(Loss)/profit after taxation			(20,192)				10,950	(9,242)
Assets and liabilities								
Segment assets	24,344	1,695,875	1,720,219	—	—	—	—	1,720,219
Unallocated assets								451,960
Total assets								2,172,179
Segment liabilities	36,334	46,953	83,287	—	18	10	28	83,315
Unallocated liabilities								156,444
Total liabilities								239,759

	Continuing operations			Discontinued operations					
	Processing and storage of cord blood	Mining-Rutile	Sub-total	Property investment	Trading of investments	Sales of pharma-ceutical and chemical products	Sub-total	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information									
Depreciation	647	17	664	114	—	—	114	591	1,369
Loss on disposal of property, plant and equipment	—	18	18	—	—	—	—	—	18
Valuation gain on investment properties	—	—	—	(15,794)	—	—	(15,794)	—	(15,794)
Impairment loss of goodwill	7,400	—	7,400	—	—	—	—	—	7,400
Capital expenditure incurred during the year	1,813	1,678,623	1,680,436	7	—	—	7	3	1,680,446
Recovery of bad debt	—	—	—	(90)	—	(77)	(167)	(49)	(216)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

For the year ended 31 December 2007

	Hong Kong	**The PRC**	**Europe**	**The U.S.**	**Korea**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	21,461	278,996	342,043	40,663	13,253	696,416
Segment assets	831,819	6,607,520	—	—	—	7,439,339
Capital expenditure incurred during the year	19,456	3,823,517	—	—	—	3,842,973

For the year ended 31 December 2006

	Hong Kong	**The PRC**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue			
Revenue from external customers	147,777	7,796	155,573
Attributable to discontinued operations	(130,411)	(7,796)	(138,207)
Revenue from continuing operations	17,366	—	17,366
Segment assets			
— Continuing operations	24,344	1,695,875	1,720,219
— Discontinued operations	—	—	—
	24,344	1,695,875	1,720,219
Unallocated assets	295,198	156,762	451,960
	319,542	1,852,637	2,172,179
Capital expenditure incurred during the year			
— Continuing operations	1,813	1,678,623	1,680,436
— Discontinued operations	—	7	7
	1,813	1,678,630	1,680,443
Unallocated assets	3	—	3
	1,816	1,678,630	1,680,446

13. Fixed assets

(a) The Group

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Mining shafts	Sub-total	Interests in leasehold land held for own use under operating leases	Investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:										
At 1 January 2006	—	—	1,339	5,173	2,711	—	9,223	—	124,800	134,023
Exchange adjustments	—	—	—	3	5	—	8	—	—	8
Purchase of net assets *(note 32(b))*	—	—	—	259	494	—	753	—	—	753
Additions	—	—	307	1,529	—	—	1,836	—	—	1,836
Disposals	—	—	—	(167)	—	—	(167)	—	—	(167)
Fair value adjustment	—	—	—	—	—	—	—	—	15,794	15,794
Disposal of subsidiaries	—	—	(549)	(147)	—	—	(696)	—	(140,594)	(141,290)
At 31 December 2006	—	—	1,097	6,650	3,210	—	10,957	—	—	10,957
At 1 January 2007	—	—	1,097	6,650	3,210	—	10,957	—	—	10,957
Exchange adjustments	9,405	2,486	—	35	262	2,425	14,613	12,193	—	26,806
Acquisition of subsidiaries *(note 32(a))*	239,117	69,627	—	898	6,598	61,015	377,255	306,838	—	684,093
Additions	14,946	17,627	1,566	1,861	7,269	—	43,269	800	—	44,069
Disposals	(21,008)	(77)	(791)	(843)	(2,382)	—	(25,101)	—	—	(25,101)
Transfer from construction in progress *(note 15)*	58,202	—	—	—	—	18	58,220	—	—	58,220
Disposal of a subsidiary	(2,735)	—	—	—	—	—	(2,735)	—	—	(2,735)
At 31 December 2007	297,927	89,663	1,872	8,601	14,957	63,458	476,478	319,831	—	796,309

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Mining shafts	Sub-total	Interests in leasehold land held for own use under operating leases	Investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated amortisation, depreciation:										
At 1 January 2006	—	—	741	2,893	2,190	—	5,824	—	—	5,824
Charge for the year	—	—	409	720	240	—	1,369	—	—	1,369
Disposals	—	—	—	(149)	—	—	(149)	—	—	(149)
Disposal of subsidiaries	—	—	(384)	(135)	—	—	(519)	—	—	(519)
At 31 December 2006	—	—	766	3,329	2,430	—	6,525	—	—	6,525
At 1 January 2007	—	—	766	3,329	2,430	—	6,525	—	—	6,525
Exchange adjustments	198	140	—	13	34	92	477	126	—	603
Charge for the year	4,881	3,372	565	1,169	890	2,207	13,084	3,047	—	16,131
Disposals	—	—	(791)	(782)	(2,382)	—	(3,955)	—	—	(3,955)
Disposal of a subsidiary	(262)	—	—	—	—	—	(262)	—	—	(262)
At 31 December 2007	4,817	3,512	540	3,729	972	2,299	15,869	3,173	—	19,042
Net book value:										
At 31 December 2007	293,110	86,151	1,332	4,872	13,985	61,159	460,609	316,658	—	777,267
At 31 December 2006	—	—	331	3,321	780	—	4,432	—	—	4,432

The interest in leasehold land held for own use under operating leases are held on a medium-term lease of 50 years in the PRC.

The applications for property ownership certificates of certain buildings and land use right certificates of certain leasehold lands located in Harbin and Inner Mongolia, the PRC, with net book value totalling $31,614,000 (equivalent to RMB29,638,000) and $3,281,000 (equivalent to RMB3,076,000 respectively are still in progress and these ownership certificates have not yet been issued to the Group by the relevant local government authority as at 31 December 2007. Notwithstanding this, the directors are of the opinion that the Group has acquired the beneficial title to these buildings and leasehold lands as at 31 December 2007, and the property ownership certificates and land use right certificates can be obtained.

(b) The Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2006	—	—	—
Additions	180	338	518
At 31 December 2006	180	338	518
At 1 January 2007	180	338	518
Additions	1,097	204	1,301
Disposals	(180)	(187)	(367)
At 31 December 2007	1,097	355	1,452
Accumulated depreciation:			
At 1 January 2006	—	—	—
Charge for the year	54	38	92
At 31 December 2006	54	38	92
At 1 January 2007	54	38	92
Charge for the year	370	125	495
Disposals	(180)	(64)	(244)
At 31 December 2007	244	99	343
Net book value:			
At 31 December 2007	853	256	1,109
At 31 December 2006	126	300	426

14. Intangible assets

	Exploration and evaluation assets	Mining rights	Exploration rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 1 January 2006	—	—	—	—
Exchange adjustments	—	16,758	—	16,758
Purchase of net assets	—	1,675,784	—	1,675,784
Additions	—	2,073	—	2,073
At 31 December 2006	—	1,694,615	—	1,694,615
At 1 January 2007	—	1,694,615	—	1,694,615
Exchange adjustments	684	229,632	497	230,813
Acquisition of subsidiaries *(note 32(a)(i))*	17,204	2,935,719	12,505	2,965,428
Additions	18,156	53	—	18,209
At 31 December 2007	36,044	4,860,019	13,002	4,909,065
Accumulated amortisation:				
At 31 December 2006 and 1 January 2007	—	—	—	—
Exchange adjustments	—	3,536	—	3,536
Charge for the year	—	85,237	12,204	97,441
At 31 December 2007	—	88,773	12,204	100,977
Net book value:				
At 31 December 2007	36,044	4,771,246	798	4,808,088
At 31 December 2006	—	1,694,615	—	1,694,615

The Group's mining rights and principal exploration rights are as follows:

Mining rights

Mine	**Location**	**Expiry date**	*Note*
Shanxi Dai County Rutile mine	Dai County, Shanxi	September 2009	*(a)*
Songjiang Copper Mine	Bin County, Harbin, Heilongjiang	December 2019	*(b)*
Wudaoling Molybdenum Mine	Acheng District, Harbin, Heilongjiang	December 2009	
Xiaoling Iron-Zine Mine	Acheng District, Harbin, Heilongjiang	February 2010	*(b)*
Chaganchulu Quartz Mine	Keyouqian Banner, Inner Mongolia	December 2009	*(a)*
Chaersen Quartz Mine	Keyouqian Banner, Inner Mongolia	December 2009	*(a)*
Wulongshan Quartz Mine	Keyouqian Banner, Inner Mongolia	December 2009	*(a)*
Qiaolunengeci Quartz Mine	Ejina Banner, Inner Mongolia	October 2010	*(a)*
Nuoergai Copper Mine	Balinyou Banner, Inner Mongolia	May 2008	*(b)*

Exploration rights

Mine	**Location**	**Expiry date**	*Note*
Huhedaban Lead-Polymetallic Mine	Keyouqian Banner, Inner Mongolia	September 2008	*(d)*
Hailesitai Hulinzhan Lead-Polymetallic Mine	Keyouqian Banner, Inner Mongolia	September 2008	*(d)*
Dahengshan Molybdenum-Lead-Zinc Mine	Keyouqian Banner, Inner Mongolia	September 2008	*(d)*
Fantaigou Gold-Molybdenum Mine	Song County, Henan	December 2007	*(c), (d)*
Nanqiangzi Copper-Zinc Mine	Bin County, Harbin, Heilongjiang	March 2009	*(d)*
Erdaohezi Copper-Zinc Mine	Acheng District, Harbin, City, Heilongjiang	March 2009	*(d)*
Xiaocaoyanggou Copper-Zinc Mine	Wengniute Banner, Inner Mongolia	December 2007	*(c), (d)*

Notes:

(a) No amortisation was made during the year as these mines are in a development stage and no mining activities are conducted in these mines.

(b) Historically, the mining rights of Songjiang Copper Mine and Xiaoling Iron Zinc Mine were state-owned and the mining right of Nuoergai Copper Mine was collectively-owned. The Group has submitted an application to the respective government authorities for the transfer of the relevant mining rights to privately-owned at a consideration. The mining rights are yet to be transferred as at 31 December 2007. The estimated total consideration for the transfer for mining rights is about $25,799,000 and has been included in other payables. The consideration for such transfers are estimated by the directors based on their knowledge in the mining industry after having considered the mineral ore reserve of each mine and the prevailing nonferrous metals market in the PRC. The directors are of the opinion that the Group is entitled to conduct mining activities in these mines and the privately-owned mining licenses can be obtained.

(c) As at the date of the report, the Group has applied for an extension of the relevant exploration rights but the extensions are yet to be obtained.

(d) The exploration rights represent the rights for exploration in certain locations in the PRC and the periods of these exploration rights generally range 1 - 2 years. The amortisation charge for the year ended 31 December 2007 is capitalised and included in the additions to exploration and evaluation assets.

15. Construction in progress

	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	—	—
Acquisition of subsidiaries *(note 32(a)(i))*	58,904	—
Additions	84,474	—
Exchange adjustments	2,338	—
Transfer to property, plant and equipment *(note 13)*	(58,220)	—
At 31 December	87,496	—

Construction in progress comprises costs incurred on buildings, plant and machineries not yet completed at the respective balance sheet dates.

16. Goodwill

	The Group
	HK$'000
Cost:	
At 1 January 2006, 31 December 2006 and 2007	17,726
Accumulated impairment losses:	
At 1 January 2006	2,126
Impairment loss	7,400
At 31 December 2006 and 2007	9,526
Carrying amount:	
At 31 December 2006 and 2007	8,200

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's processing and storage of cord blood cash-generating unit ("CGU").

The recoverable amounts of the processing and storage of cord blood CGU is determined based on the value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using a risk-free rate, the market return and company-specific factors. The growth rates are based on the estimation on the historical annual growth rates of the processing and storage of cord blood CGU and the comparable companies industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed an impairment review for goodwill with reference to the valuation carried out by BMI Appraisals Limited, independent qualified professional valuers. The valuation is based on cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolated cash flows for the following ten years based on estimated growth rate of 5% to 14% plus a terminal value. The rate used to discount the forecast cash flow is 16.2%. Based on the valuation, no impairment loss was considered necessary.

17. Investments in subsidiaries

The Company

	2007 *HK$'000*	**2006** *HK$'000*
Unlisted shares, at cost	2,735,563	823,231

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	**Place of incorporation/ operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Biogrowth Assets Limited	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Investment holding
Cell Therapy Technologies Centre Limited	Hong Kong/ Hong Kong	20,000,000 shares of $0.01 each	100%	—	100%	Provision of cord blood bank and its relevant laboratory service
China Kent Development Limited *	Hong Kong/ Hong Kong	2 ordinary shares and 10,000 non-voting deferred shares of $1 each	100%	—	100%	Provision of administrative support to group companies
INNOMAXX Investment Holdings Limited *	Hong Kong/ Hong Kong	2 shares of $1 each	100%	100%	—	Investment holding
Lead Sun Investments Limited	British Virgin Islands/ Hong Kong	1,000 shares of US$1 each	57%	57%	—	Investment holding

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Longship Limited *	British Virgin Islands/ Hong Kong	1 share of US$1	100%	—	100%	Investment holding
Fullgain International Investment Limited *	Hong Kong/ Hong Kong	2 shares of $1 each	100%	—	100%	Securities investment holding and trading of securities investment
INNOMAXX International Trading Company Limited *	Hong Kong/ Hong Kong	1 share of $1	100%	—	100%	Trading of pharmaceutical ingredients and chemicals
New Legend International Group Limited	Hong Kong/ Hong Kong	1 share of $1	100%	100%	—	Provision of administrative support to group companies
Offspring Investments Limited *	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Inactive
Shanxi Shenli Aerospace Titanium Company Limited# ("Shanxi Shenli")	The PRC/ The PRC	Registered capital RMB 184,800,000	51.3%	—	90%	Rutile mining
Sinorich Technology Development Limited *	Hong Kong/ Hong Kong	2 shares of $1 each	100%	—	100%	Inactive
Titanspeed Investments Limited	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Inactive
Top Rank International Group Limited	British Virgin Islands/ Hong Kong	50,000 shares of US$1 each	57%	—	100%	Investment holding
United Profit Investments Limited *	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Investment holding
Saxony Goal Limited	Hong Kong/ Hong Kong	10,000 shares of $1 each	100%	100%	—	Inactive
Best Tone Holdings Limited	Hong Kong/ Hong Kong	1 share of US$1	100%	100%	—	Inactive
Will Win Group Limited	Hong Kong/ Hong Kong	1 share of $1	100%	100%	—	Investment holding
Harbin Songjiang Copper (Group) Company Limited # (哈爾濱松江銅業(集團) 有限公司)	The PRC/ The PRC	RMB240,788,100	75.08%	75.08%	—	Sales of copper, zinc, molybdenum and other nonferrous metals

			Proportion of ownership interest			
Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Acheng Xiaoling Iron & Zinc Co. Ltd.# (阿城市小嶺鐵鋅有限公司)	The PRC/ The PRC	RMB3,866,000	75.08%	—	100%	Processing of molybdenum and iron
Harbin Songjiang Copper Enterprise Co. Ltd.# (哈爾濱松江銅業實業有限公司)	The PRC/ The PRC	RMB50,962,500	75.08%	—	100%	Mining, processing and sales of copper and zinc
Harbin Songjiang Molybdenum Ltd.# (哈爾濱松江鉬業有限公司)	The PRC/ The PRC	RMB128,782,900	75.08%	—	100%	Mining, processing and sales of molybdenum
Xinganmeng Songjiang Mining Co. Ltd # (興安盟松江礦業有限公司)	The PRC	RMB10,000,000	67.572%	—	90%	Under construction of smelting and mining plant
Shangzhi Zhuhe Mining Co. Ltd.# (尚志市珠河礦業有限公司)	The PRC/ The PRC	RMB50,000,000	75.08%	—	100%	Processing of molybdenum
Ejinaqi Qiaolun Engeci Quartz Production Co. Ltd# (額濟納旗喬倫恩格茨石英有限公司)	The PRC	RMB500,000	75.08%	—	100%	Not yet commenced business
Inner Mongolia Zhongrun Magnesium Co. Ltd.# (內蒙古中潤鎂業有限公司)	The PRC	RMB50,000,000	75.08%	—	100%	Under construction of smelting plant
Wuhai Derun Ferroalloy Limited Liability Company # (烏海市德潤鐵合金有限責任公司)	The PRC/ The PRC	RMB10,000,000	75.08%	—	100%	Inactive
Chifeng Songjiang Jinjian Mining Limited Liability Company # (赤峰松江金劍礦業有限責任公司)	The PRC/ The PRC	RMB10,000,000	45.05%	—	60%	Investment holding
Balinyouqi Nuoergai Copper Mining Co. Ltd. # (巴林右旗諾爾蓋銅礦有限責任公司)	The PRC/ The PRC	RMB500,000	45.05%	—	100%	Mining, processing and sales of copper
Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd #* (阿魯科爾沁旗瑪尼吐銀錫礦有限責任公司)	The PRC	RMB500,000	45.05%	—	100%	Not yet commenced business

# A limited liability company established in the PRC.

* Disposed of/de-registered during the year.

18. Interest in jointly controlled entities

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	—	—	39	—
Share of net liabilities	—	—	—	—
	—	—	39	—

Details of the Group's interest in the jointly controlled entities are as follows:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation/ operation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a jointly controlled entry	Principal activity
GCMR Fujian Holdings Limited	Incorporated	British Virgin Islands	1,000 shares of US$10 each	50%	50%	—	Investment holding
GCMR Fujian (Hong Kong) Limited	Incorporated	Hong Kong	1,000 shares of US$10 each	50%	—	100%	Investment holding

Summary financial information on jointly controlled entities — Group's effective interest:

	2007	**2006**
	HK$'000	*HK$'000*
Current assets	33	—
Current liabilities	(147)	—
	(114)	—
Income	—	—
Expenses	(153)	—
Loss for the year	(153)	—

19. Inventories

(a) Inventories in the consolidated balance sheet comprise:

	2007	**2006**
	HK$'000	*HK$'000*
Raw materials	7,451	430
Work in progress	10,221	—
Finished goods	10,763	—
Goods in transit	17,788	—
	46,223	430

(b) The analysis of the amount of inventories recognised as an expense is as follows:

Carrying amount of inventories sold/consumed:

	2007	**2006**
	HK$'000	*HK$'000*
Continuing operations	491,685	1,205
Discontinued operations	—	13,850

20. Trade and other receivables

(a) Non-current other receivables comprise:

		The Group		**The Company**	
		2007	**2006**	**2007**	**2006**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Downpayments	*(i)*	13,972	—	—	—
Loans and advances to business associates	*(ii)*	71,500	—	—	—
Loans to employees and officers	*(iii)*	6,774	—	—	—
		92,246	—	—	—

Notes:

(i) Downpayments were paid to relevant local authorities for the acquisition of leasehold land located in Heilongjiang and Shanxi, the PRC.

(ii) Loans and advances to business associates are unsecured, interest free and repayable after more than one year but within two years.

(iii) Loans to employees and officers are unsecured, repayable within three years and interest bearing with a fixed interest rate of 6.58% per annum.

The above loans and advances are assumed by the Group upon the business combination as disclosed in note 32.

(b) Current trade and other receivables comprises:

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors and bills receivable	304,482	12,478	—	—
Less: Allowance for doubtful debts *(note 20(b)(ii))*	(4,455)	(1,350)	—	—
	300,027	11,128	—	—
Other debtors	35,410	354	1,783	846
Less: Allowance for doubtful debts *(note 20(b)(ii))*	(11,375)	—	—	—
	24,035	354	1,783	846
Amount due from export sales agent	16,827	—	—	—
Amounts due from jointly controlled entities	217	—	—	—
Amount due from minority shareholders	1,067	—	—	—
Amounts due from subsidiaries	—	—	44,373	12,704
Loans and receivables	342,173	11,482	46,156	13,550
Deposits and prepayments	28,538	3,567	3,534	1,579
	370,711	15,049	49,690	15,129

Includes in trade receivables of the Group are amount due from a minority shareholder of $30,227,000 (2006: $Nil), details of which are disclosed in note 36(a).

Included in other debtors of the Group are amounts totalling $7,965,000 (2006: $Nil) which represent loans to business associates. All loans are unsecured, interest free and repayable within one year except for a loan with a remaining balance of $3,741,000 (2006: $Nil) as at 31 December 2007 which is interest bearing with a fixed interest rate of 10% per annum and secured by a building together with the related land use right located in Harbin, the PRC.

Amount due from export sales agent represents settlements received from overseas customers by the export sales agent on behalf of the Group. Such amounts are unsecured, interest-free and expected to be recovered within one year.

The amounts due from jointly controlled entities, minority shareholders and subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

All of the other trade and other receivables (including amounts due from subsidiaries), apart from those mentioned in above and certain deposits and prepayments of $1,141,000 (2006: $1,456,000), are expected to be recovered or recognised as expense within one year.

(i) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 to 30 days	169,897	2,309
31 to 60 days	66,874	1,469
61 to 90 days	34,692	1,435
Over 90 days	28,564	5,915
	300,027	11,128

Trade debtors and bills receivables are due within 90 days from the date of billings. Further details on the Group's credit policy are set out in note 33(a).

(ii) Impairment of trade debtors and bills receivable and other debtors

Impairment losses in respect of trade debtors and bills receivable and other debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable and other debtors directly. *(see note 1(l)(i))*

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	1,350	473
Exchange adjustments	500	—
Acquisition of subsidiaries	12,593	—
Impairment loss recognised	1,387	877
At 31 December	15,830	1,350

At 31 December 2007, the Group's trade debtors and bills receivable and other debtors of $6,710,000 and $23,852,000 (2006: $1,350,000 and $Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $15,830,000 (2006: $1,350,000) were recognised. The Group does not hold any collateral over these balances.

(iii) Trade debtors and bills receivable and other debtors that are not impaired

The ageing analysis of trade debtors and bills receivable and other debtors that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Neither past due nor impaired	308,232	11,482
Less than 1 month past due	11	—
1 to 3 months past due	404	—
Over 3 months past due	683	—
	1,098	—
	309,330	11,482

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances except for the loans mentioned above.

21. Cash and cash equivalents

	The Group		**The Company**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed deposits with banks	781,277	414,934	695,869	265,812
Cash at bank and in hand	466,317	34,153	63	1,001
Cash and cash equivalents	1,247,594	449,087	695,932	266,813

22. Trade and other payables

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	13,621	754	—	—
Other payables and accruals	164,582	8,958	6,787	5,878
Current portion of mining right payables *(note 30)*	64,653	12,475	—	—
Amount due to a jointly controlled entity	—	—	27	—
Amount due to a minority shareholder	2,807	170	—	—
Amounts due to subsidiaries	—	—	14,764	20
Financial liabilities measured at amortised cost	245,663	22,357	21,578	5,898
Receipts in advance	10,467	160	—	—
	256,130	22,517	21,578	5,898

The amounts due to a jointly controlled entity, a minority shareholder and subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Included in other payables are retention payables of $961,000 (2006: $Nil) in respect of construction works which are expected to be settled after one year.

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Due within 3 months or on demand	10,287	754
Due after 3 months but within 6 months	437	—
Due after 6 months but within 1 year	225	—
Due after 1 year	2,672	—
	13,621	754

23. Deferred income

(a) Deferred income of $53,814,000 (2006: $34,839,000) represents fees received in advance for the provision of cord blood storage services. The amount is amortised over the remaining service period.

(b) Non-current deferred income represents government grants received by the Group as of the balance sheet date. Certain government grants are received by the Group in respect of property, plant and equipment and interest in leasehold land held for own use under operating leases. Such government grants are recognised in the balance sheet initially and recognised in the income statement as other revenue on a systematic basis over the useful life of the assets. Movements of government grants received during the year are as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	—	—
Acquisition of subsidiaries	77,475	—
Received during the year	693	—
Recognised as other revenue during the year	(1,248)	—
Exchange adjustments	3,056	—
At 31 December	79,976	—

(i) Government grants assumed upon acquisition of subsidiaries

Government grants of $48,029,000 (equivalent to RMB46,816,000) were received by Harbin Sonjiang Copper (Group) Company Limited ("Harbin Songjiang"), which was acquired by the Company as mentioned in note 32, from the local government authorities to support the smelting plants development projects in Harbin and Inner Mongolia, the PRC, prior to the acquisition. The government grant of $10,259,000 (equivalent to RMB10,000,000) was received in respect of the construction of smelting plants in Harbin and is recognised in the income statement over the useful life of smelting plants. As the smelting plant is still under construction, no amount has been recognised in the income statement so far. The government grant of $37,770,000 (equivalent to RMB36,855,000) was received for the acquisition of leasehold land under operating leases for the smelting plants development project. Such government grant is recognised in the income statement over the period of the lease term, which is 50 years. An amount of $377,000 has been recognised as other revenue for the year ended 31 December 2007.

Government grants totalling $10,669,000 (equivalent to RMB10,400,000) and $19,333,000 (equivalent to RMB18,845,000) were also received by Harbin Songjiang prior to the acquisition for its infrastructure built and mining activities in the local area. Such government grants are recognised in the income statement over the useful life of infrastructure, which is 30 years, or using the unit of production method based on the proven and probable mineral reserves of the related mine. An amount of $178,000 has been recognised as other revenue for the year ended 31 December 2007.

(ii) Government grants received by the Group during the year ended 31 December 2007

Apart from the government grants as disclosed above, the Group has received several one-off government grants of $693,000 during the year ended 31 December 2007. Such government grants are received for the Group's contribution to the local economy and have been recognised as other revenue during the year.

24. Loans from minority shareholders

Loans were obtained from minority shareholders of a subsidiary, which are unsecured, interest-free and have no fixed terms of repayment.

25. Bank loans

The bank loans were repayable as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year or on demand	127,467	—
After 1 year but within 2 years	53,333	—
After 2 years but within 5 years	32,000	—
	85,333	—
	212,800	—

All the bank loans as at 31 December 2007 were interest-bearing at floating rates with reference to the prevailing borrowing rate quoted by the People's Bank of China. The interest rates of bank loans ranged 6.480% to 7.227% per annum as at 31 December 2007.

The Group's bank loans were secured as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Bank loans		
Unsecured	52,800	—
Guaranteed by a third party *(note 35(d))*	32,000	—
Guaranteed by a minority shareholder *(note 36(c))*	128,000	—
	212,800	—

26. Other loans

		The Group	
	Note	**2007**	**2006**
		HK$'000	*HK$'000*
Within 1 year or on demand	*(i)*	1,067	—
After 5 years	*(ii)*	4,576	—
		5,643	—

Notes:

(i) A loan with a principal amount of $1,067,000 (equivalent to RMB1,000,000) was provided by the Industry Development Fund (工業發展基金) of the Harbin Finance Bureau to Harbin Songjiang in 1998. The loan is unsecured, interest-free and repayable within one year.

(ii) Another loan with a principal of $4,576,000 (equivalent to RMB4,290,000) was provided by the Harbin Finance Bureau during the year. The loan is unsecured, interest-bearing with a fixed rate of 2.55% per annum and repayable after 5 years.

27. Employee retirement benefits

(a) The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

In addition, the Group makes voluntary contributions for certain eligible directors and employees. The amount of voluntary contributions is calculated at 5% of their relevant monthly income in excess of $20,000.

(b) Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities, whereby the Group is required to make contributions to the Schemes at a rate ranging from 18% to 22% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

28. Equity settled share-based transactions

(a) Share option scheme

The Company has a share options scheme which was adopted on 26 June 2002 whereby the directors of the Company may, at their discretion, invite directors and employees of the Company or its subsidiaries to subscribe for shares in the Company subject to terms and conditions stipulated therein. The options granted were vested immediately at the date of grant and were exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(i) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

For the year ended 31 December 2007:

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Options granted to directors			
— on 6 July 2007	175,000,000	Immediately	3 years
— on 25 September 2007	12,000,000	Immediately	3 years
Options granted to employees			
— on 6 July 2007	40,000,000	Immediately	3 years
— on 11 July 2007	1,000,000	Immediately	3 years
Total share options	228,000,000		

(ii) *The number and exercise price of share options are as follows:*

	2007		2006	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
	HK$	*'000*	*HK$*	*'000*
Outstanding at the beginning of the year	—	—	0.160	24,488
Exercised during the year	—	—	0.160	(24,488)
Granted during the year	1.79	228,000	—	—
Outstanding at the end of the year	1.79	228,000	—	—
Exercisable at the end of the year	1.79	228,000	—	—

The weighted average share price at the date of exercise for share options exercised in 2006 was $1.3.

Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the share and the corresponding capital reserve are recorded by the Company in the share premium account.

The options outstanding at 31 December 2007 had an exercise price of $1.30 or $1.82 and a weighted average remaining contractual life of 2.51 years.

(iii) *Fair value of share options and assumptions*

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

Fair value of share options and assumptions:

	6 July 2007	**11 July 2007**	**25 September 2007**
Fair value at measurement date	$0.6117	$0.5635	$0.4343
Share price	$1.79	$1.72	$1.22
Exercise price	$1.82	$1.82	$1.30
Expected volatility (expressed as average volatility used in the modelling under Black-Scholes model)	44.50%	44.665%	50.495%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	3 years	3 years	3 years
Expected dividends	—	—	—
Risk-free interest rate (based on Exchange Fund Notes)	4.447%	4.380%	3.906%

The expected volatility is based on the average annualised standard deviations of the continuously compounded rates of return on the average share prices of similar companies as of the measurement date pubicly quoted. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(b) Discounted shares subscription

The Company entered into the subscription agreement with the directors and senior management of the Group ("the Subscribers") on 13 July 2007. The Company has agreed to issue, and the Subscribers have agreed to subscribe a total of 157,070,000 shares before the completion date of such agreement (the date being the first anniversary date of the subscription agreement or, if such date is not a business day, the immediately preceding day which is a business day), at a subscription price of $1.10 per subscription share in cash ("the Subscription"). The subscription price represents a discount of approximately 34.13% to the closing price of $1.67 per share as quoted in the stock market on 12 July 2007 (being the last day of trading in stock market before the date of the subscription agreement)), with a lock-up period ranged from 1 to 3 years. If any terms and conditions of the subscription agreement are not fulfilled before the completion date, the arrangement should terminate. In the event that the Subscribers ceases to be employed by a member of the Group for whatever reason during the lock-up period, the Company has the right to repurchase the relevant portion of subscription shares at a share repurchase price of $1.10 per subscription share.

The Subscriptions has been approved in the special general meeting held on 21 August 2007.

(i) The terms and condition of the subscription of discount shares

	Lock-up period	**Number of shares**
		'000
Subscribers		
Directors	13 July 2007 to 12 July 2008	46,766,667
	13 July 2007 to 12 July 2009	46,766,667
	13 July 2007 to 12 July 2010	46,766,666
		140,300,000
Employees	13 July 2007 to 12 July 2008	5,590,000
	13 July 2007 to 12 July 2009	5,590,000
	13 July 2007 to 12 July 2010	5,590,000
		16,770,000

No discounted shares were subscribed by the Subscribers during the year.

(ii) Fair value of discounted shares and assumptions

The fair value of services received in return for discounted shares offered is measured by reference to the fair value of discount offered. The estimation of fair value is based on the Black-Scholes model. The 3 years' lock-up period of the discounted share is used as an input into this model.

Fair value of discounted shares and assumptions:

Measurement date	21 August 2007
Share price	$1.41
Subscription price	$1.10
Total number shares	157,070,000

Lock-up period	13 July 2007 to 12 July 2008	13 July 2007 to 12 July 2009	13 July 2007 to 12 July 2010
Number of shares	52,356,667	52,356,667	52,356,666
Fair value of discount at measurement date	$0.1471	$0.2265	$0.2406
Expected volatility	47.270%	52.635%	48.611%
Dividend yield	—	—	—
Risk-free rate (based on Exchange Fund Notes)	3.840%	3.838%	3.946%

The expected volatility is based on the average annualised standard deviations of the continuously compounded rates of return on the average share prices of similar companies as of the measurement date publicly quoted. Changes in the subjective input assumptions could materially affect the fair value estimate.

Subscription of discounted shares were granted under a service condition. This condition has been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with grant of discounted shares subscription.

29. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Provision for PRC Income Tax for the year	98,383	—	—	—
Balance of PRC Income Tax provision assumed in the business combination and relating to current year of assessment	76,936	—	—	—
Income Tax paid	(54,451)	—	—	—
	120,868	—	—	—
Balance of PRC Income Tax provision assumed in the business combination and relating to prior years of assessment	63,393	—	—	—
	184,261	—	—	—

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Fixed assets	Intangible assets	Investment properties	Impairment loss for trade and other receivables	Inventories	Accruals	Accumulated losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax arising from:									
At 1 January 2006	–	–	6,365	–	–	–	–	–	6,365
Charged/(credited) to profit or loss	312	–	805	–	–	–	(678)	–	439
Disposal of subsidiaries *(note 32(c)(ii))*	–	–	(7,170)	–	–	–	–	–	(7,170)
At 31 December 2006	312	–	–	–	–	–	(678)	–	(366)
At 1 January 2007	312	–	–	–	–	–	(678)	–	(366)
Acquisition of subsidiaries	64,902	693,171	–	(3,743)	33,025	(16,929)	(598)	(1,625)	768,203
Charged/(credited) to profit or loss	(1,081)	(22,779)	–	363	(36,763)	(5,752)	(1,030)	(4,033)	(71,075)
Disposal of a subsidiary *(note 32(c)(i))*	–	–	–	–	–	310	–	–	310
Exchange difference	2,529	26,610	–	(134)	(210)	(909)	(60)	(217)	27,609
At 31 December 2007	66,662	697,002	–	(3,514)	(3,948)	(23,280)	(2,366)	(5,875)	724,681

	2007	**2006**
	HK$'000	*HK$'000*
Net deferred tax assets recognised on the balance sheet	(1,514)	(366)
Net deferred tax liabilities recognised on the balance sheet	726,195	—
	724,681	(366)

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately $32,908,000 (2006: $36,776,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

30. Other payables

The Group

	2007	**2006**
	HK$'000	*HK$'000*
Mining right payables	181,639	44,378
Less: amount included under "current liabilities" *(note 22)*	(64,653)	(12,475)
	116,986	31,903

Pursuant to mining rights premium agreements entered into between the Group and the relevant government authorities of the PRC, the mining rights premium in respect of the mining rights of Shanxi Dai County Rutile mine and Wudaoling Molybdenum mine amounted to approximately $65,510,000 and $161,875,000 respectively. As at 31 December 2007, the remaining balance of the mining rights premium of $36,817,000 and $119,023,000 in respect of Shanxi Dai County Rutile mine and Wudaoling Molybdenum mine shall be settled in four instalments and the final instalments are payable on or before 30 June 2012 and 22 May 2011 respectively.

Mining right payables also included the estimated consideration of $25,799,000 for the transfer of mining right as disclosed in note 14 and was classified as current liabilities.

31. Capital and reserves

(a) The Group

The amounts of the Group's capital and reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of these financial statements.

(b) The Company

						Acc-	
		Share	**Share**	**Contributed**	**Capital**	**umulated**	
		capital	**premium**	**surplus**	**Reserve**	**losses**	**Total**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006		246,481	177,179	234,944	2,373	(407,115)	253,862
Loss for the year		—	—	—	—	(46,919)	(46,919)
Shares issued under:							
— purchase of net assets	*31(c)(ii)*	108,148	324,444	—	—	—	432,592
— share placing	*31(c)(iii)*	115,000	345,000	—	—	—	460,000
— share options scheme	*31(c)(iv)*	2,449	3,842	—	(2,373)	—	3,918
Share issue expenses		—	(3,752)	—	—	—	(3,752)
At 31 December 2006		472,078	846,713	234,944	—	(454,034)	1,099,701
At 1 January 2007		472,078	846,713	234,944	—	(454,034)	1,099,701
Loss for the year		—	—	—	—	(146,367)	(146,367)
Shares issued under share placing	*31(c)(iii)*	130,587	2,324,452	—	—	—	2,455,039
Share issue expenses	*31(c)(iii)*	—	(90,594)	—	—	—	(90,594)
Equity settled share-based transaction		—	—	—	142,976	—	142,976
At 31 December 2007		602,665	3,080,571	234,944	142,976	(600,401)	3,460,755

(c) Share capital

(i) Authorised and issued share capital

	2007		**2006**	
	Number of shares		**Number of shares**	
	'000	*HK$'000*	*'000*	*HK$'000*
Authorised:				
Ordinary shares of $0.1 each	10,000,000	1,000,000	10,000,000	1,000,000
Ordinary shares issued and fully paid:				
At 1 January	4,720,781	472,078	2,464,813	246,481
Share issued under:				
— purchase of net assets	—	—	1,081,480	108,148
— share placing	1,305,872	130,587	1,150,000	115,000
— share options scheme	—	—	24,488	2,449
At 31 December	6,026,653	602,665	4,720,781	472,078

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under purchase of net assets

On 2 November 2006, the Company issued 1,081,480,000 new shares as part of the consideration payable for the purchase of net assets in respect of rutile mining business.

(iii) Shares issued under placing

On 31 October 2006, the Company issued 1,150,000,000 new shares pursuant to a placing agreement entered into with and an over-allotment option granted to a placing agent on 7 July 2006 at $0.4 per share to finance the purchase of net assets as set out in note 32(b) and further development of the mining operations.

On 29 June 2007, the Company issued 1,305,872,000 new shares pursuant to a placing agreement entered into with a placing agent on 21 June 2007 to finance the acquisition of subsidiaries as set out in note 32(a)(i). Part of the proceeds of $130,587,000, representing the par value of the share issued, were credited to the Company's share capital. The remaining proceeds of $2,324,452,000, before the share issue expenses of $90,594,000, were credited to the share premium account.

(iv) Shares issued under share options scheme

On 1 June 2006, 26 October 2006 and 3 November 2006, options were exercised to subscribe for 24,488,000 ordinary shares in the Company at a consideration of $3,918,000 of which $2,449,000 was credited to share capital and the balance of $1,469,000 was credited to the share premium account. $2,373,000 has been transferred from the share options reserve to the share premium account in accordance with policy set out in note 1(r)(ii).

(v) Subscriptions of discounted shares

On 13 July 2007, the Company entered into the subscription agreement with the Subscribers pursuant to subscribe for a total of 157,070,000 shares at a subscription price of $1.10 per share. None of the Subscribers has subscribed the shares under the subscription agreement during the year. Further details of the subscription agreement are set out in note 28(b) to the financial statements.

(vi) Terms of unexpired and unexercised share options at the balance sheet date

Exercise period	Exercise price	2007 Number	2006 Number
	HK$		
6 July 2007 to 5 July 2010	1.82	215,000,000	—
11 July 2007 to 10 July 2010	1.82	1,000,000	—
25 September 2007 to 24 September 2010	1.30	12,000,000	—
		228,000,000	—

Each option entitles the holder to subscribe for one share in the Company. Further details of these options are set out in note 28(a) to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by section 40 of the Bermuda Companies Act 1981.

(ii) Contributed surplus

The Group's contributed surplus represents the special reserve arising upon the Group reorganisation in March 1997.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(iv) Statutory surplus reserve

According to the relevant PRC rules and regulations, the subsidiaries of the Group are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to equity owners of these subsidiaries.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

(v) Capital reserve

Capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to directors and other eligible participants of the Company and the fair value of discounted shares to be subscribed by the Subscribers pursuant to the subscriptions, both are recognised in accordance with the accounting policy adopted for share based payments in note 1(r)(ii).

(e) Distributability of reserves

The Company had no reserve available for distribution to equity shareholders of the Company as at 31 December 2006 and 2007.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group maintains sufficient capital (which comprises all components of equity) such that net current assets are maintained, i.e. it has the financial resources to repay all its current liabilities in the next year.

The Group is not subject to externally imposed capital requirements.

32. Business combination

(a) Acquisition of subsidiaries

(i) Acquisition of Harbin Songjiang Copper (Group) Company Limited

On 11 March 2007, the Company entered into a sale and purchase agreement with independent third parties to acquire a 75.08% equity interests in Harbin Songjiang Copper (Group) Company Limited and its subsidiaries, which principally engaged in mining and processing of molybdenum, copper and zinc, for a total consideration of RMB1,854,636,000 (equivalent RMB1,807,881,000) satisfied in cash. The acquisition was completed on 5 July 2007. The acquired companies contributed an aggregated revenue of $674,955,000 and aggregate net profit of $97,834,000 to the Group since acquisition. If the acquisition had occurred at the beginning of the year, the Group revenue and profit after taxation would have been $990,316,000 and $241,640,000.

The acquisition had the following effect on the Group's assets and liabilities.

	Carrying values prior to acquisition	**Fair value adjustments**	**Carrying values upon acquisition**
	HK$'000	*HK$'000*	*HK$'000*
Acquiree's net assets at the date of acquisition			
Property, plant and equipment	410,952	262,311	673,263
Construction in progress	58,904	—	58,904
Intangible assets	192,857	2,772,571	2,965,428
Deferred tax assets	66,158	(65,428)	730
Inventories	105,136	217,013	322,149
Trade and other receivables	311,627	—	311,627
Cash and cash equivalents	134,983	—	134,983
Trade and other payables	(240,137)	(24,813)	(264,950)
Bank loans	(276,480)	—	(276,480)
Other loan	(1,026)	—	(1,026)
Deferred income	(77,475)	—	(77,475)
Current taxation	(133,903)	—	(133,903)
Deferred tax liabilities	(3,344)	(765,589)	(768,933)
Minority interests	(7,707)	(14,468)	(22,175)
Net assets acquired	540,545	2,381,597	2,922,142
Share of net assets acquired by the Group upon acquisition			2,193,944
Negative goodwill arising on acquisition			(281,622)
Satisfied by:			
— Cash paid			1,854,636
— Costs directly attributable to the purchase			57,686
Total purchase consideration			1,912,322
Cash and cash equivalents acquired			134,983
Purchase consideration settled in cash			(1,912,322)
Net outflow of cash and cash equivalents in respect of the acquisition			(1,777,339)

The excess of net fair value of net assets acquired over the total costs of acquisition is recognised as negative goodwill in the consolidated income statement. Such negative goodwill was primarily resulted from appreciation of fair value of certain fixed assets, intangible assets and inventories at the completion date of acquisition as compared to their respective fair value estimated by management of the Company during the initial stage of the acquisition.

(ii) *Acquisition of Wuhai Derun Ferroalloy Limited Liability Company*

During the year ended 31 December 2007, the Group acquired the entire equity interest in Wuhai Derun Ferroalloy Limited Liability Company ("Wahai Derun") from an independent third party for a consideration of $11,520,000 (equivalent to RMB10,800,000) satisfied in cash.

Wuhai Derun owns a factory building, a leasehold land and certain plant and equipment at the date of acquisition. Wuhai Derun did not have any business operations at the date of acquisition and the underlying set of assets acquired is planned to supply materials to Inner Mongolia Zhongrun Magnesium Co. Ltd., a subsidiary of the Group which is under construction of a magnesiun smelting plant. The acquired company did not have any revenue and expenses since acquisition.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired.

The acquisition had the following effect on the Group's assets and liabilities:

	Carrying values prior to purchase *HK$'000*	Fair value adjustments *HK$'000*	Carrying values upon purchase *HK$'000*
Acquiree's net assets at the date of acquisition			
Property, plant and equipment	12,904	(2,074)	10,830
Inventories	115	—	115
Trade and other receivables	1,291	—	1,291
Cash and cash equivalents	131	—	131
Trade and other payables	(847)	—	(847)
Net assets acquired	13,594	(2,074)	11,520
Total purchase consideration, satisfied by cash paid			11,520
Cash and cash equivalents acquired			131
Purchase consideration settled in cash			(11,520)
Net outflow of cash and cash equivalents in respect of the acquisition			(11,389)

(b) Purchase of net assets

During the year ended 31 December 2006, the Group acquired a 57% equity interest in Lead Sun Investments Limited and its subsidiaries ("Lead Sun Group") from independent third parties.

Lead Sun Group holds primarily a mining right of an unexploited natural rutile mine with no established infrastructure and no significant mining equipment at the date of acquisition. The underlying set of assets acquired was not integrated in forming a business to generate revenues. As such, the directors are of the opinion that the acquisition of Lead Sun Group is a purchase of net assets which does not constitute a business combination for accounting purposes.

The aggregate purchase consideration of $811,625,000 was in the form of (i) 1,081,480,000 new shares of the Company at $0.4 per share amounted to $432,592,000; (ii) disposal of subsidiaries at their carrying values of $174,033,000; and (iii) a cash consideration of $205,000,000.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired and the fair value of mining rights, which is presented as intangible assets below, is considered as the excess of fair value of net assets acquired over the fair value of net tangible assets acquired.

The purchase had the following effect on the Group's assets and liabilities:

	Carrying values prior to purchase *HK$'000*	**Fair value adjustments** *HK$'000*	**Carrying values upon purchase** *HK$'000*
Acquiree's net assets at the date of acquisition			
Property, plant and equipment	753	—	753
Intangible assets	69,122	1,606,662	1,675,784
Trade and other receivables	217	—	217
Cash and cash equivalents	1,047	—	1,047
Amount due from a minority shareholder	14,204	—	14,204
Trade and other payables	(73,360)	—	(73,360)
Minority interests	(13,226)	(782,188)	(795,414)
Net assets acquired	(1,243)	824,474	823,231
Satisfied by:			
— Shares issued			432,592
— Carrying values of subsidiaries disposed *(note 32(c)(ii))*			174,033
— Cash paid			205,000
— Costs directly attributable to the purchase			11,606
Total purchase consideration			823,231
Cash and cash equivalents acquired			1,047
Purchase consideration settled in cash			(216,606)
Net outflow of cash and cash equivalents in respect of the purchase of net assets			(215,559)

(c) Disposal of subsidiaries

(i) Disposal of Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd

During the year ended 31 December 2007, the Group disposed of its 60% equity interests in Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd to Chifeng Jinjian Copper Company Limited, the minority shareholders of the Group, at a cash consideration of $534,000.

Net assets disposed of at the date of disposal:

	HK$'000
Property, plant and equipment	2,473
Deferred tax assets	310
Trade and other receivables	999
Trade and other payables	(3,248)
Net assets disposed of	534
Satisfied by cash	534
Net inflow of cash and cash equivalent in respect of disposed subsidiary	534

(ii) Disposal of INNOMAXX Property (BVI) Limited and GITIC Properties Limited

During the year ended 13 December 2006, the Group disposed of INNOMAXX Property (BVI) Limited and GITIC Properties Limited at their carrying values of $174,033,000 upon purchase of net assets of Lead Sun Group as set out in note 32(b). There is no gain or loss on disposal.

Net assets disposed of at the date of disposal:

	HK$'000
Property, plant and equipment	177
Investment properties	140,594
Trade and other receivables	29,548
Pledged bank deposits	14,416
Trade and other payables	(3,100)
Current taxation	(432)
Deferred tax liabilities	(7,170)
Net assets disposed	174,033

The investment properties were revalued as at 31 July 2006 on an open market value basis. The valuation was carried out by an independent firm of surveyors, Greater China Appraisal Limited, who has among their staff Registered Professional Surveyors in Hong Kong with substantial experience in valuation of property interest in the PRC since 1992. Accordingly, a valuation gain of $15,794,000 was recognised in the profit for the year ended 31 December 2006 from discontinued operations.

33. Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and bill receivables. For both mining operations and processing and storage of cord blood, in order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made to irrecoverable amounts.

In respect of mining operations, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Billings to customers are normally made immediately after the date of delivery except for billings to copper and zinc customers which are made after 1 to 2 months from the date of delivery when metal contents are tested and confirmed by the customers. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Overseas customers are required to settle in cash on delivery. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 19% and 65% of the total trade debtors and bills receivable were due from the Group's largest customer and the five largest customers as at 31 December 2007 respectively within the mining operation segments.

Cash and cash equivalents are normally placed with licensed banks in Hong Kong and the PRC that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any licensed bank to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets. Except for the financial guarantees given by the Group as set out in note 35(d), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 35(d).

(b) *Liquidity risk*

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms. The Group also monitors closely the cash flows of its subsidiaries. Generally, the Group's subsidiaries are required to obtain the Group's approval for activities such as investment of surplus cash, raising of loans and fixed assets acquisitions beyond certain limits.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

The Group

	2007					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	373,116	394,589	260,643	44,328	88,657	961
Bank loans	212,800	231,890	139,414	58,575	33,901	—
Other loans	5,643	6,810	1,184	117	766	4,743
Loans from minority shareholders	150,500	150,500	150,500	—	—	—
	742,059	783,789	551,741	103,020	123,324	5,704
The Company						
Trade and other payables	21,578	21,578	21,578	—	—	—

The Group

	2006					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	54,420	62,517	22,517	10,000	20,000	10,000
Bank loans	—	—	—	—	—	—
Other loans	—	—	—	—	—	—
Loans from minority shareholders	150,500	150,500	150,500	—	—	—
	204,920	213,017	173,017	10,000	20,000	10,000
The Company						
Trade and other payables	5,898	5,898	5,898	—	—	—

(c) ***Foreign currency risk***

(i) The Group is exposed to foreign currency risk primarily through certain sales that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("USD"). The Group ensures that the net exposure is kept to an acceptable level by selling USD at spot rate where necessary.

(ii) *Exposure to currency risk*

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate:

The Group

	2007		2006	
	United States Dollars	Hong Kong Dollars	United States Dollars	Hong Kong Dollars
	'000	*'000*	*'000*	*'000*
Trade and other receivables	2,160	—	—	—
Cash and cash equivalents	—	52	2	132,757
Overall net exposure	2,160	52	2	132,757

The Company

	2007		2006	
	United States Dollars	Hong Kong Dollars	United States Dollars	Hong Kong Dollars
	'000	*'000*	*'000*	*'000*
Cash and cash equivalents	—	—	2	—
Overall net exposure	—	—	2	—

(iii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The Group

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	**Increase/ (decrease) in foreign exchange rates**	**Effect on profit after tax and retained profits**
		'000		*'000*
United States Dollars	8%	866	8%	—
	(8)%	(866)	(8)%	—
Hong Kong Dollars	8%	4	8%	10,670
	(8)%	(4)	(8)%	(10,670)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong Dollar and the United States Dollar would be materially unaffected by any changes in movement in value of the United States Dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax measured in the respective functional currencies, translated into Hong Kong Dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

(d) Interest rate risk

The Group's interest risk arises primarily from cash and cash equivalents and long term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's interest-bearing financial liabilities and interest-earning financial assets at the balance sheet date.

	The Group				The Company			
	2007		2006		2007		2006	
	Effective interest rate		Effective interest rate		Effective interest rate		Effective interest rate	
	%	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*
Cash and cash equivalents	0.72-5.90	1,247,594	0.72-4.62	449,087	2.00-5.90	695,932	3.1-4.62	266,813
Bank loans	6.48-7.23	212,800	—	—	—	—	—	—
Other loan	2.55	4,576	—	—	—	—	—	—

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 150 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately $13,422,000 (2006: $6,736,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 150 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(e) Fair values

The fair values of all financial assets and liabilities are not materially different from their carrying amounts.

(f) Estimation of fair value of financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

(g) Business risk

During the year, the manufacturing procedures of ferro molybdenum, the molybdenum product of the Group, are sub-contracted to two independent third party contractors. In addition, all export sales of the Group's products are made through the sole sales agent. Although the Group believes that it maintains good relationships with these sub-contractors and sales agent, there can be no assurance that these parties will continue to provide the manufacturing and sales agent services to the Group on normal commercial terms as and when needed. In the event that these parties ceased to provide manufacturing and sales agent services to the Group and the Group could not secure the provision of such services, the Group's turnover and profitability might be affected.

As disclosed in note 14, the mining rights of certain mines operated by the Group are state-owned and the Group is in the process in transferring the status of these mining rights from state-owned to privately-owned. Although the Group believes that the status of mining rights can be transferred to privately-owned, there can be no assurance that the relevant government authorities will approve the transfer. In the event that the relevant government authorities decline the application made by the Group for the transfer of mining rights, the Group's operation might be adversely affected. In addition, the Group believes that no additional fee will be charged by the relevant government authorities for the exploitation of mineral resources during the year, any additional fee charged will be adversely affected the results of the Group.

34. Loans to officers

Loans to officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	**Mr Su Qing Yu**	**Mr Qiao Hong Bo**	**Mr Qu Yan Chun**
Position	**Deputy Manager**	**Deputy Manager**	**Deputy Manager**
Terms of the loan			
— duration and repayment terms	3 years	3 years	3 years
— loan amount	$975,479	$1,200,117	$446,103
— interest rate	6.58%	6.58%	6.58%
— security	None	None	None
Balance of the loan			
— At 1 January 2007	Nil	Nil	Nil
— At 31 December 2007	$975,479	$223,054	$446,103
Maximum balance outstanding			
— during 2007	$975,479	$1,200,117	$446,103

There was no amount due but unpaid, nor any provision made against the principal amount of or interest on these loans at 31 December 2007.

35. Commitments and contingencies

(a) Capital commitments

(i) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group		**The Company**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted for	32,813	4,872	—	—
Authorised but not contracted for	1,206,899	788,801	—	—
	1,239,712	793,673	—	—

Included in the capital commitments is an amount of $826,751,000 (2006: $793,673,000) related to the development of mining, processing and smelting facilities at Shanxi Dai County Rutile mine.

(ii) Other commitments

At 31 December 2007, the company had commitments to contribute capital of $7,722,000 (2006: $Nil) to a jointly controlled entity.

(b) Operating lease commitments

(i) As lessee

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

	The Group		**The Company**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	3,851	2,847	1,484	1,247
After 1 year but within 5 years	4,873	194	804	—
	8,724	3,041	2,288	1,247

(ii) As lessor

At 31 December 2007, the total future minimum lease payments contracted with tenants are as follows:

	The Group		**The Company**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	—	300	—	300

(c) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environment remediation and has not accrued any amounts for environmental remediation relating to its mining operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines and processing plants whether operating, closed and sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present and could be material. The Group has incurred $200,000 in respect of environment remediation during the year.

(d) Financial guarantees issued

As disclosed in note 25, certain bank loans of the Group as at 31 December 2007 were guaranteed by a third party. In return, a subsidiary of the Group have provided guarantees for banking facilities up to $53,333,000 (equivalent to RMB50,000,000) and certain bank loans totalling $53,333,000 (equivalent to RMB50,000,000) respectively in favour of the same third party.

The guarantees cover the repayment of loan principal and related interest payments. If the guaranteed party defaults on debt payments, the subsidiaries are required to perform under the guarantees. As at 31 December 2007, the Director do not considered it probable that a claim will be made against the subsidiaries under the guarantees and the estimated fair value of the Group's standby commitment is not material.

36. Material related party transactions

During the year, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Chifeng Jinjian Copper Company Limited ("Chifeng Jinjian")	Minority shareholder

Particulars of significant transactions between the Group and the above related party during the year are as follows:

(a) Recurring transactions

	2007 *HK$'000*	2006 *HK$'000*
Sales of goods to Chifeng Jinjian	94,467	—

(b) Non-recurring transactions

	2007 *HK$'000*	2006 *HK$'000*
Disposal of a subsidiary to Chifeng Jinjian	534	—

(c) Guarantees

A guarantee of $128,000,000 (equivalent to RMB120,000,000) was given by Chifeng Jinjian to a subsidiary of the Group against certain bank loans totalling $128,000,000 (equivalent to RMB120,000,000) as at 31 December 2007 as disclosed in note 25.

(d) Exploration rights

Exploration in certain locations in Inner Mongolia are conducted by the Group during the year ended 31 December 2007. The exploration rights are provided by Chifeng Jinjian to the Group at no cost. Expenditure of $7,318,000 (equivalent to RMB6,861,000) has been incurred for the exploration in such locations and capitalised as exploration and evaluation assets included in intangible assets (see note 14).

(e) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors and certain of the highest paid employees as disclosed in note 7 and 8, is as follows:

	2007 *HK$'000*	2006 *HK$'000*
Short-term employee benefits	11,010	2,892
Post-employment benefits	118	103
Equity compensation benefits	142,520	—
	153,648	2,995

Total remuneration is included in "staff costs" (see note 5(b)).

37. Significant accounting estimates and judgements

The methods, estimates and judgements the directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. Certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment

In identifying whether indications of impairment losses exist for property, plant and equipment, lease prepayments and construction in progress, the directors are of the opinion that the privately-owned mining rights can be obtained. It is possible that the relevant government authorities may decline the Group's application for the transfer of mining rights from stated-owned to privately-owned, which would affect the conclusion of the above judgement, in which case impairment losses for such assets may be required.

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, lease prepayments, intangible assets, construction in progress and investments in its subsidiaries and jointly controlled entities, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the Group's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for trade and other receivables would affect the income statement in future years.

(c) Impairment losses for goodwill

Internal and external sources of information are reviewed by the Group at each balance sheet date to assess whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value at balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The Group estimates the net realisable value for finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

(e) ***Recognition of deferred tax assets***

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

(f) ***Reserve estimates***

As explained in policy notes 1(h) and 1(j), mining shafts, mining rights and exploration and evaluation assets and mining development assets ("mining assets") are amortised using a units of production method based on the proven and probable mineral reserve.

Engineering estimates of the Group's mineral reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There is Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proved" and "probable". Proved and probable reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated proved and probable mineral reserve quantity ("the denominator") and capitalised costs of mining shafts and mining rights ("the numerator"). The capitalised cost of mining assets are amortised based on the units of production.

38. Non-adjusting post balance sheet events

On 11 April 2008, the board of the Company approved a proposal to apply the contributed surplus and the accumulated losses of the Company to eliminate the audited accumulated losses of the Company of $454,034,000 as at 31 December 2006 (the "Reduction"). The directors of the Company consider that the Reduction will give the Company more flexibility to declare dividends to the shareholders of the Company in the earliest opportunity in the future as and when the board of the Company considers appropriate. The Reduction is subject to the shareholders' approval and the compliance with the requirements of relevant section of the Bermuda Companies Act 1981. No adjustment has been made in the financial statements related to the Reduction.

39. Litigation

(a) As set out in the announcement of the Company dated 8 August 2007, the Company became aware of a litigation instituted in Shenzhen City Middle People's Court（深圳市中級人民法院）(the "Shenzhen City Court") between two former shareholders of Top Rank International Group Limited ("Top Rank"), a subsidiary of the Company (the "Unrelated Litigation"). Insofar as the Company is aware and based on legal advice obtained from the Company's PRC legal adviser, the Unrelated Litigation involves a dispute between two individuals, both of whom are third parties independent of the Company and its connected persons, regarding the transfer of 20% of the issued share capital in Top Rank; none of the Company, Top Rank, or any other subsidiaries of the Company or any of their respective directors and/or employees is a party to the Unrelated Litigation; and the Unrelated Litigation does not involve any allegation against the Company, any of its subsidiaries, or their respective directors and/or employees.

As far as the Company is aware, the Unrelated Litigation involves a dispute regarding the transfer of 20% of the issued share capital in Top Rank (the "Share Transfer") amongst former shareholders of Top Rank, and the plaintiff has made allegations with respect to the authenticity and the legality of the procedures involving the Share Transfer. As advised by the PRC legal adviser of the Company, insofar as Top Rank is concerned, the Shenzhen City Court has made orders (the "Orders") for the former handling agent of Top Rank to (i) preserve the records relating to registration, annual audit and transfer of shares; and (ii) prohibit from arranging for or assisting in the transfer of shares in Top Rank. Based on legal advice sought by the Company from its PRC legal adviser, none of the assets or shares of any member of the Group were sealed up or frozen pursuant to any court orders.

According to legal advice obtained by the Company from its BVI legal adviser and based on the statutory records of Top Rank, Lead Sun Investments Limited ("Lead Sun"), a subsidiary of the Company, has since 1 June 2006 been the legal owner of the entire issued share capital of Top Rank. As such, according to the Company's PRC legal adviser, the Orders do not have any effect on the ownership of Top Rank by Lead Sun as such Orders were made after Lead Sun has become the owner of Top Rank. For the reasons above and based on legal advice obtained from the Company's BVI legal adviser and the PRC legal adviser, the directors of the Company are of the view that the Company has proper and valid title in Top Rank, which owns 90% equity interest in Shanxi Shenli Aerospace Titanium Company Limited ("Shanxi Shenli"), a subsidiary of the Company which holds the Shanxi Dai County Rutile mine.

To the best knowledge of the directors of the Company, all the claims made by the plaintiff in respect of the Unrelated Litigation were rejected by the Shenzhen City Court pursuant to a judgement（民事判決書(2007)深中法民四初字第20號）made on 17 December 2007.

(b) On 9 August 2007, the Company received a writ issued by the Shenzhen City Court on 6 August 2007 together with a statement of claim dated 2 August 2007 pursuant to which Mr. Tang Yan was the plaintiff (the "Plaintiff"), and Mr. Tse Michael Nam ("Mr. Tse") and Mr. Huang Shi Lin ("Mr. Huang"), being two former shareholders (previously holding 80% and 20%, respectively, of the issued share capital) of Top Rank, together with Lead Sun, Shanxi Shenli and the Company were named as defendants in a litigation concerning the transfer of shares in Top Rank, amongst former shareholders of Top Rank (the "Litigation").

Pursuant to the statement of claim dated 2 August 2007, the Plaintiff claimed for an order involving the following: (i) to invalidate the agreement effecting the transfer of shares from the former shareholders to Lead Sun; (ii) Mr. Tse to transfer the shares in Top Rank back to the Plaintiff at US$1; (iii) the defendants to issue an apology to the Plaintiff; and (iv) the defendants to jointly bear the legal costs in relation to the Litigation.

As advised by the PRC legal adviser of the Company, the direct claims made to the Company only involve (iii) and (iv) above, and which is to issue an apology to the Plaintiff and bear legal costs in relation to the Litigation.

A judgement was made by the Shenzhen City Court on 17 December 2007 (the "Judgement") pursuant to which: (1) all claims of the Plaintiff were rejected; (2) the counter-claims of each of Lead Sun and Shanxi Shenli were rejected; (3) as the Company has no direct relationship whatsoever in relation to the dispute involving the Share Transfer, the joining of the Company as one of the co-defendants by the Plaintiff is not appropriate, and as such, the Plaintiff was ordered to bear the notarisation and translation costs of the Company which were necessarily incurred by the Company in connection with the Litigation; and (4) the other counter-claims of the Company were rejected.

(c) On 6 March 2008, the Company has received a copy of the Application for Civil Appeal（民事上訴狀）(the "Application") dated 3 March 2008 issued by the Plaintiff and which has been lodged with the Guangdong Province High Court, pursuant to which the Plaintiff has made an application to the Guangdong Province High Court to appeal for the revocation of the orders (2) and (3) of the Judgement made against the Plaintiff as stated in paragraph (b) above and for the support of all claims of the Plaintiff.

Based on advice from the Company's PRC legal adviser, no new evidence has been submitted by the Plaintiff in the Application and it is unlikely that the PRC courts will support the Plaintiff's claims against the Company and its relevant subsidiaries. The directors of the Company do not anticipate any significant adverse impact on the financial position or operating results of the Group resulting from the Application up to the date of this report. The directors of the Company are of the view that the Group has proper and valid defences to the claims, and accordingly, no provision has been accounted for in this financial report.

40. Comparative figures

Certain Comparative figures have been reclassified to conform with current years' presentation.

41. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, HKFRS 8, *Operating segments*, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

3. UNAUDITED INTERIM FINANCIAL INFORMATION

Set out below are the unaudited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity of the Group and the consolidated cash flow statement, together with the notes to the financial statements of the Group as extracted from the interim report of the Company for the six months ended 30 June 2008. References to page numbers in this section are to the page numbers of such interim report of the Company.

Consolidated Income Statement
for the six months ended 30 June 2008 — Unaudited

		Six months ended 30 June	
		2008	**2007**
	Note	*HK$'000*	*HK$'000*
Turnover	*3*	287,029	9,920
Cost of sales		(148,563)	(4,441)
Gross profit		138,466	5,479
Other revenue		16,048	7,169
Other net income		1,004	—
Selling expenses		(6,317)	(2,188)
Administrative expenses		(110,914)	(14,432)
Impairment losses on fixed assets and construction in progress		(34,348)	—
Impairment losses on intangible assets		(828,733)	—
Loss from operations		(824,794)	(3,972)
Finance costs	*4(a)*	(13,197)	(1,025)
Loss before taxation	*4*	(837,991)	(4,997)
Income tax	*5*	(31,930)	—
Loss for the period		(869,921)	(4,997)
Attributable to:			
Equity shareholders of the Company		(465,239)	(2,598)
Minority interests		(404,682)	(2,399)
Loss for the period		(869,921)	(4,997)
Loss per share — basic	*6(a)*	7.72 cents	0.05 cents
Loss per share — diluted	*6(b)*	7.71 cents	0.05 cents

Consolidated Balance Sheet
at 30 June 2008 — Unaudited

		At 30 June 2008	At 31 December 2007
	Note	*HK$'000*	*HK$'000*
Non-current assets			
Fixed assets			
— Property, plant and equipment	*8*	481,982	460,609
— Interests in leasehold land held for own use under operating leases	*9*	307,874	316,658
Construction in progress	*10*	100,556	87,496
Intangible assets	*11*	4,219,936	4,808,088
Goodwill		8,200	8,200
Interest in jointly controlled entities		—	—
Other receivables	*13(a)*	82,065	92,246
Available-for-sale securities		14,292	—
Deferred tax assets		2,568	1,514
		5,217,473	5,774,811
Current assets			
Inventories	*12*	141,165	46,223
Trade and other receivables	*13(b)*	411,084	370,711
Cash and cash equivalents		1,092,623	1,247,594
		1,644,872	1,664,528
Current liabilities			
Trade and other payables	*14*	324,698	256,130
Deferred income	*15(a)*	64,255	53,814
Bank loans	*16*	124,305	127,467
Other loans		1,135	1,067
Loans from minority shareholders		150,500	150,500
Current taxation		110,365	184,261
		775,258	773,239
Net current assets		869,614	891,289
Total assets less current liabilities		6,087,087	6,666,100

		At	At
		30 June	**31 December**
		2008	**2007**
	Note	*HK$'000*	*HK$'000*
Non-current liabilities			
Other payables	*17*	95,092	116,986
Deferred income	*15(b)*	83,657	79,976
Bank loans	*16*	90,816	85,333
Other loans		4,870	4,576
Deferred tax liabilities		733,382	726,195
		1,007,817	1,013,066
NET ASSETS		5,079,270	5,653,034
CAPITAL AND RESERVES			
Share capital	*18*	602,665	602,665
Reserves	*19*	3,120,175	3,390,227
Total equity attributable to equity shareholders of the Company		3,722,840	3,992,892
Minority interests		1,356,430	1,660,142
TOTAL EQUITY		5,079,270	5,653,034

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2008 — Unaudited

	Attributable to equity shareholders of the Company										
						Fair	Statutory	Accumu-			
	Share	Share	Merger	Capital	Exchange	value	surplus	lated		Minority	
	capital	premium	reserve	reserve	reserve	reserve	reserve	losses	Sub-total	interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	472,078	846,713	152,150	—	9,631	—	—	(359,000)	1,121,572	810,848	1,932,420
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	—	21,998	—	—	—	21,998	23,397	45,395
Shares issued in respect of share placing *(note 18)*	130,587	2,324,452	—	—	—	—	—	—	2,455,039	—	2,455,039
Share issue expenses *(note 18)*	—	(90,596)	—	—	—	—	—	—	(90,596)	—	(90,596)
Loss for the period	—	—	—	—	—	—	—	(2,598)	(2,598)	(2,399)	(4,997)
At 30 June 2007	602,665	3,080,569	152,150	—	31,629	—	—	(361,598)	3,505,415	831,846	4,337,261
At 1 January 2008	602,665	3,080,571	152,150	142,976	161,233	—	26,372	(173,075)	3,992,892	1,660,142	5,653,034
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	—	204,730	—	—	—	204,730	101,063	305,793
Share based payments	—	—	—	(3,470)	—	—	—	17,756	14,286	—	14,286
Transfer to other reserves	—	—	—	—	—	—	68,284	(90,954)	(22,670)	22,670	—
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	(22,763)	(22,763)
Changes in fair value of available-for-sale securities	—	—	—	—	—	(1,159)	—	—	(1,159)	—	(1,159)
Reduction of share premium *(note 19)*	—	(219,091)	(234,944)	—	—	—	—	454,035	—	—	—
Loss for the period	—	—	—	—	—	—	—	(465,239)	(465,239)	(404,682)	(869,921)
At 30 June 2008	602,665	2,861,480	(82,794)	139,506	365,963	(1,159)	94,656	(257,477)	3,722,840	1,356,430	5,079,270

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2008 — Unaudited

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
Net cash used in operating activities	(112,406)	(12,701)
Net cash used in investing activities	(36,676)	(1,873,952)
Net cash (used in)/generated from financing activities	(21,624)	2,363,419
Net (decrease)/increase in cash and cash equivalents	(170,706)	476,766
Cash and cash equivalents at 1 January	1,247,594	449,087
Effect of foreign exchange rate changes	15,735	2,710
Cash and cash equivalents at 30 June	1,092,623	928,563

Notes to the Interim Financial Report — Unaudited

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 26 September 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 11 April 2008.

2. New and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group. The board of directors of the Company have determined the accounting policies to be adopted in the preparation of the Group's annual financial statements prepared under HKFRSs for the year ending 31 December 2008, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements prepared under HKFRSs for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies applied in this interim financial report for the periods presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 23).

3. Segment information

Business Segments

The principal activities of the Group are mining operations and processing and storage of cord blood.

The analysis of the principal activities of the operations of the Company and its subsidiaries are as follows:

For the six months ended 30 June 2008

	Processing and storage of blood	Mining					Total
		Molybdenum	Copper and Zinc	Rutile	Others	Sub-total	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:							
Turnover from external customers	12,416	216,892	51,164	—	6,557	274,613	287,029
Other revenue from external customers	—	984	4,409	—	431	5,824	5,824
	12,416	217,876	55,573	—	6,988	280,437	292,853
Segment result	(348)	99,960	(25,803)	(800,351)	(9,590)	(735,784)	(736,132)
Unallocated operating income and expenses							(88,662)
Loss from operations							(824,794)
Finance costs							(13,197)
Loss before taxation							(837,991)
Taxation							(31,930)
Loss after taxation							(869,921)

For the six months ended 30 June 2007

	Processing and storage of cord blood	**Mining Rutile**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue:			
Turnover from external customers	9,920	—	9,920
Segment result	480	(4,927)	(4,447)
Unallocated operating income and expenses			475
Loss from operations			(3,972)
Finance costs			(1,025)
Taxation			—
Loss for the period			(4,997)

Geographical segments

The following table provides a geographical analysis of the Group's turnover according to the location of customers:

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
Turnover		
Hong Kong	12,416	9,920
The PRC	157,057	—
Europe	110,134	—
Korea	7,422	—
	287,029	9,920

4. loss before taxation

Loss before taxation is arrived at after charging/(crediting):

		Six months ended 30 June	
		2008	2007
		HK$'000	*HK$'000*
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	8,157	—
	Interest expense on financial liabilities measured at amortised cost	5,040	1,025
		13,197	1,025
(b)	Other items:		
	Depreciation on property, plant and equipment	13,352	764
	Amortisation		
	— interests in leasehold land held for own use under operating leases	3,250	—
	— intangible assets	53,437	—
	Net foreign exchange loss	1,522	3,326
	Operating lease charges		
	— land and buildings	1,706	2,093
	— office equipment	18	17
	Impairment losses		
	— property, plant and equipment	5,098	—
	— interests in leasehold land held for own use under operating leases	25,035	—
	— construction in progress	4,215	—
	— intangible assets	828,733	—
	— trade and other receivables	446	236
	Government grants	(5,824)	—
	Interest income	(10,075)	(7,168)

5. Income tax

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Current tax — PRC Enterprise Income Tax		
Provision for the period	71,019	—
Deferred tax		
Origination and reversal of temporary differences	(39,089)	—
	31,930	—

The provision for PRC Enterprise Income Tax has been calculated based on the estimated taxable income at a rate of 25% during the period.

No provision for Hong Kong Profits Tax has been made as the Group's operations in Hong Kong sustained a loss for Hong Kong Profits Tax purposes during the current and prior periods.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. Furthermore, the State Council of the PRC passed the implementation guidance ("the Implementation Guidance") on 26 December 2007, which sets out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the New Tax Law, from 1 January 2008, the applicable corporate income tax rates for enterprises in the PRC will be reduced from 33% to 25%. Subsidiaries of the Group incorporated in the PRC except for the entity described below will be subject to corporate income tax rate of 25%, effective on 1 January 2008.

Any unutilised tax holidays will continue until expiry and tax holidays which have not commerced due to losses in prior years are deemed to have started from 1 January 2008, even if the entity is not yet reporting a profitable year. In view of the new regulations, Shanxi Shenli Aerospace Titanium Company Limited's tax holidays commenced on 1 January 2008.

In addition, under the New Tax Law, with effect from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in PRC, will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. On 22 February 2008, the Minister of Finance and State Administration of Tax approved Caishui (2008) No.1, pursuant to which dividend distribution out of pre-2008 retained earnings of foreign investment enterprises will be exempted from withholding income tax. Withholding income tax on estimate dividends of $35,014,000 has been recognised in respect of the profits derived in the PRC during the six months ended 30 June 2008.

6. Loss per share

(a) Basic loss per share

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the loss attributable to equity shareholders of the Company of $465,239,000 (six months ended 30 June 2007: $2,598,000) and the weighted average number of shares in issue during the six months ended 30 June 2008 of 6,026,653,000 (six months ended 30 June 2007: weighted average number of 4,735,210,000), calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2008	**2007**
	('000)	*('000)*
Issued ordinary shares at 1 January	6,026,653	4,720,781
Effect of shares issued	—	14,429
Weighted average number of ordinary shares at 30 June	6,026,653	4,735,210

(b) Diluted loss per share

The calculation of diluted earnings per share for the six months ended 30 June 2008 is based on the loss attributable to equity shareholders of the Company of $465,239,000 and the weighted average number of shares in issue during the six months ended 30 June 2008 of 6,032,352,000, after adjusting for the effect of dilutive potential ordinary shares under the Company's share option scheme.

There were no dilutive potential ordinary shares during the six months ended 30 June 2007 and, therefore, diluted earnings per share is the same as the basic loss per share.

7. Dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: $Nil).

8. Property, plant and equipment

During the six months ended 30 June 2008, the Group acquired items of property, plant and equipment with a cost of $6,479,000 (six months ended 30 June 2007: $3,894,000) and transferred items from construction in progress with a cost of $5,628,000 (six months ended 30 June 2007: $Nil). Items of plant and machinery with a net book value of $43,000 were disposed of during the six months ended 30 June 2008 (six months ended 30 June 2007: $Nil), resulting in a gain on disposal of $13,000 (six months ended 30 June 2007: $Nil).

During the six months ended 30 June 2008, the Group has terminated the operation of Nuoergai Copper Mine (note 11(b)). As a result, the directors of the Company assessed the recoverable amount of those property, plant and equipment located at the mine. Based on the assessment, impairment losses of $5,098,000 were made to property, plant and equipment during the six months ended 30 June 2008.

9. Interests in leasehold land held for own use under operating leases

In accordance with Urban Real Estate Administration Law of the PRC, the local government authority can withdraw the land use right without providing any compensation to the owner if no development is carried out within two years since the issuance of such land use right certificate. After considering the costs and benefits in developing the leasehold lands held by the Group, the directors of the Company decided not to pursue with the development of three pieces of land located in Harbin and Inner Mongolia, the PRC. During the six months ended 30 June 2008, the land use right certificate of one of these leasehold lands has been withdrawn by the local government authority. Accordingly, full impairment losses of $25,035,000 were made to such leasehold lands during the six months ended 30 June 2008.

10. Construction in progress

Construction in progress comprises costs incurred on property, plant and equipment not yet completed at 30 June 2008 in respect mining, processing and smelting facility located at various locations in the PRC.

During the period, the Group terminated the exploration in certain locations (note 11(a)) in Inner Mongolia, the PRC. As a result, the directors of the Company assessed the recoverable amount of those constructions in progress in such locations. Based on the assessment, impairment losses of $4,215,000 were made to these constructions in progress during the six months ended 30 June 2008.

11. Intangible assets

Intangible assets represent exploration and evaluation assets, mining rights and exploration rights.

(a) Exploration and evaluation assets

The Group has performed exploration in certain locations in Inner Mongolia, the PRC, in the current and prior periods. After evaluating the exploration results, the directors of the Company considered that it is not commercially viable to continue the exploration in such locations and the related exploration and evaluation assets should be impaired. Accordingly, impairment losses of $12,613,000 were made during the six months ended 30 June 2008.

(b) Mining rights

In view of the decrease in market price of rutile-related products and the increase in the construction costs and land lease premium during the period, the directors of the Company decided to temporarily suspend the development of Shanxi Dai County Rutile Mine and the construction of related mining facilities, processing plant and production plant. As a result, the directors of the Company assessed the recoverable amount of the mining right of Shanxi Dai County Rutile Mine. Based on the assessment, the carrying amount of the mining right of Shanxi Dai County Rutile Mine was written down by $799,897,000 during the six months ended 30 June 2008.

In addition, as the quality of mineral resources extracted from Nuoergai Copper Mine is not satisfactory for continuing its mining and processing operation, the directors of the Company decided to terminate the operation of Nuoergai Copper Mine. Accordingly, full impairment loss of $16,223,000 was made to the mining right of Nuoergai Copper Mine during the six months ended 30 June 2008.

12. Inventories

	At 30 June 2008	**At 31 December 2007**
	HK$'000	*HK$'000*
Raw materials	12,843	7,451
Work in progress	14,025	10,221
Finished goods	80,784	10,763
Goods in transit	33,513	17,788
	141,165	46,223

13. Trade and other receivables

(a) Non-current other receivables comprise:

		At 30 June 2008	**At 31 December 2007**
	Note	*HK$'000*	*HK$'000*
Downpayments	*(i)*	14,741	13,972
Loans and advances to business associate	*(ii)*	67,324	71,500
Loans to employees and officers		—	6,774
		82,065	92,246

Notes:

(i) Downpayments were paid to relevant local authorities for the acquisition of leasehold lands located in Heilongjiang and Shanxi, the PRC.

(ii) Loans and advances to business associates are unsecured, interest-free and repayable within 2009.

(b) Current trade and other receivables (net of allowance for doubtful debts) comprise:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Trade debtors and bills receivable	294,942	300,027
Other receivables	21,973	24,035
Amount due from export sales agent	57,634	16,827
Amount due from jointly controlled entities	588	217
Amount due from minority shareholders	1,135	1,067
Deposits and prepayments	34,812	28,538
	411,084	370,711

Included in current trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
0 to 30 days	181,068	169,897
31 to 60 days	50,830	66,874
61 to 90 days	11,690	34,692
Over 90 days	51,354	28,564
	294,942	300,027

Included in trade receivables of the Group are amount due from a minority shareholder of $14,359,000 (31 December 2007: $30,227,000), details of the transactions are disclosed in note 21(a).

Included in other debtors of the Group are amounts totalling $8,525,000 (31 December 2007: $7,965,000) which represent loans to business associates. All loans are unsecured, interest-free and repayable on demand except for a loan with a remaining balance of $4,212,000 (31 December 2007: $3,741,000) as at 30 June 2008 which is interest bearing with a fixed interest rate of 10% per annum and secured by a building together with the related land use right located in Harbin, the PRC.

Amount due from export sales agent represents settlements received from overseas customers by the export sales agent on behalf of the Group. Such amounts are unsecured, interest-free and expected to be recovered within one year.

The amounts due from jointly controlled entities and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

All of the other trade and other receivables, apart from those mentioned in the above and certain deposits and prepayments of $1,172,000 (31 December 2007: $1,141,000), are expected to be recovered or recognised as expense within one year.

Management of the Group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made to irrecoverable amounts.

In respect of mining operations, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Billings to customers are normally made immediately after the date of delivery except for billings to copper and zinc customers which are made after 1 to 2 months from the date of delivery when metal contents are tested and confirmed by the customers. Overseas customers are required to settle in cash on delivery. Normally, the Group does not obtain collateral from customers.

14. Trade and other payables

	At 30 June 2008	**At 31 December 2007**
	HK$'000	*HK$'000*
Trade payables	10,472	13,621
Receipts in advance	4,227	10,467
Other payables and accruals	206,447	164,582
Amount due to a minority shareholder	142	2,807
Current portion of mining right payables *(note 17)*	103,410	64,653
	324,698	256,130

The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

Included in other payables are retention payables of $1,018,000 (31 December 2007: $961,000) in respect of construction works which are expected to be settled after one year.

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	At 30 June 2008	**At 31 December 2007**
	HK$'000	*HK$'000*
Due within 3 months or on demand	5,854	10,287
Due after 3 months but within 6 months	41	437
Due after 6 months but within 1 year	1,806	225
Due after 1 year	2,771	2,672
	10,472	13,621

15. Deferred income

(a) Deferred income of $64,255,000 (31 December 2007: $53,814,000) represents fees received in advance for the provision of cord blood storage services. The amount is amortised over the remaining service period.

(b) Non-current deferred income represents government grants received by the Group as of the balance sheet date. Certain government grants are received by the Group in respect of property, plant and equipment and interests in leasehold land held for own use under operating leases. Such government grants are recognised in the balance sheet initially and recognised in the income statement as other revenue on a systematic basis over the useful life of the assets.

16. Bank loans

The bank loans were repayable as follows:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Within one year or on demand	124,305	127,467
After 1 year but within 2 years	56,760	53,333
After 2 years but within 5 years	34,056	32,000
	90,816	85,333
	215,121	212,800

All the bank loans as at 30 June 2008 and 31 December 2007 were interest-bearing at floating rates with reference to the prevailing borrowing rate quoted by the People's Bank of China. The interest rates of bank loans ranged 6.03% to 7.74% per annum as at 30 June 2008 (31 December 2007: 6.48% to 7.23% per annum).

The Group's bank loans were secured as follows:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Bank loans		
Unsecured	44,841	52,800
Guaranteed by a third party	34,056	32,000
Guaranteed by a minority shareholder *(note 21(b))*	136,224	128,000
	215,121	212,800

17. Other payables

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Mining right payables	198,502	181,639
Less: Amount included under "current liabilities" *(note 14)*	(103,410)	(64,653)
	95,092	116,986

Pursuant to mining rights premium agreements entered into between the Group and the relevant government authorities of the PRC, the mining rights premium in respect of the mining rights of Shanxi Dai County Rutile mine and Wudaoling Molybdenum mine amounted to approximately $65,510,000 and $161,875,000 respectively. As at 30 June 2008, the remaining balance of the mining rights premium of $40,337,000 and $130,707,000 in respect of Shanxi Dai County Rutile mine and Wudaoling Molybdenum mine shall be settled in four instalments and the final instalments are payable on or before 30 June 2012 and 22 May 2011 respectively.

Mining right payables also included the estimated consideration of $27,458,000 (31 December 2007: $25,799,000) for the transfer of certain mining rights from state-owned or collectively-owned to privately-owned and was classified as current liabilities.

18. Share capital

The amounts of the Group's capital and reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of this interim financial report.

	At 30 June 2008		**At 31 December 2007**	
	Number of shares	**Amount**	**Number of shares**	**Amount**
	('000)	*HK$'000*	*('000)*	*HK$'000*
Authorised:				
Ordinary shares of $0.1 each	10,000,000	1,000,000	10,000,000	1,000,000
Ordinary shares issued and fully paid:				
At 1 January	6,026,653	602,665	4,720,781	472,078
Shares issued under share placing	—	—	1,305,872	130,587
	6,026,653	602,665	6,026,653	602,665

On 29 June 2007, the Company issued 1,305,872,000 new shares pursuant to a placing agreement entered into with a placing agent on 21 June 2007 to finance the acquisition of 75.08% equity interests in Harbin Songjinag Copper (Group) Company Limited.

Part of the proceeds of $130,587,000, representing the par value of the share issued, were credited to the Company's share capital. The remaining proceeds of $2,324,452,000, before the share issue expenses of $90,596,000, were credited to the share premium account.

19. Reduction of share premium

Pursuant to a special resolution passed at Annual General Meeting of the Company on 23 May 2008 and with the sanction of the Registrar of Companies of Bermuda dated 4 June 2008, share premium of $219,091,000 and contributed surplus of $234,944,000 were eliminated against an equal amount of accumulated losses effective on 23 May 2008.

20. Commitments

(a) Capital Commitments

(i) Capital commitments outstanding at 30 June 2008 not provided for in this interim financial report were as follows:

	At 30 June 2008	**At 31 December 2007**
	HK$'000	*HK$'000*
Contracted for	28,830	32,813
Authorised but not contracted for	1,100,514	1,206,899
	1,129,344	1,239,712

(ii) Other commitments

At 30 June 2008, the Company had commitments to contribute capital of $7,804,000 (31 December 2007: $7,722,000) to a jointly controlled entity.

(b) Operating lease commitments

At 30 June 2008, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

	At 30 June 2008	**At 31 December 2007**
	HK$'000	*HK$'000*
Within 1 year	4,314	3,851
After 1 year but within 5 years	3,771	4,873
	8,085	8,724

21. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group entered into the following material related party transactions during the period:

(a) Recurring transactions

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
Sales of goods to a minority shareholder, Chifeng Jinjian Copper Company Limited ("Chifeng Jinjian")	35,457	—

(b) Guarantees

A guarantee of RMB120,000,000 (equivalent to $136,224,000) (31 December 2007: RMB120,000,000 (equivalent to $128,000,000)) was given by Chifeng Jinjian to a subsidiary of the Group against certain bank loans totalling RMB120,000,000 (equivalent to $136,224,000) as at 30 June 2008 (31 December 2007: RMB120,000,000 (equivalent to $128,000,000)) as disclosed in note 16.

(c) Exploration rights

Exploration in certain locations in Inner Mongolia is conducted by the Group during the period ended 30 June 2008. The exploration rights are provided by Chifeng Jinjian to the Group at no cost. Expenditure of $12,613,000 has been incurred for the exploration in such locations and capitalised as exploration and evaluation assets included in intangible assets and fully impaired during the period.

(d) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors, is as follows:

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
Short-term employee benefits	4,211	1,071
Post-employment benefits	138	47
Equity compensation benefits	14,286	—
	18,635	1,118

22. Litigation

As set out in 2007 annual report, there are disputes between two former shareholders of Top Rank International Group Limited, a subsidiary of the Company which owns 90% equity interest in Shanxi Shenli Aerospace Titanium Company Limited, the company which holds the rutile mine. Based on advice from the Company's PRC legal adviser, there was no change in status of the Company compared with the year ended 31 December 2007. A judgement was made by the Shenzhen City Middle People's Court on 17 December 2007 in favour of the relevant members of the Group. As set out in the 2007 annual report and the announcement of the Company dated 18 March 2008, the Company has on 6 March 2008 received a copy of the Application for Civil Appeal (民事上訴狀) dated 3 March 2008 from the plaintiff which was lodged with the Guangdong Province High Court (the "Application"), pursuant to which the plaintiff has made an application to the Guangdong Province High Court to appeal for the revocation of the judgement orders (a) and (c) made against the plaintiff as referred to in the announcement of the Company dated 4 February 2008 and for support of all claims of the plaintiff. The court hearing was held in June 2008 and as at the date hereof, the Company has not received any judgement issued by the Guangdong Province High Court in relation to the Application. The directors of the Company do not anticipate any significant adverse impact on the financial position or operating results of the Group resulting from the Application up to the date of this report. The directors of the Company are of the view that the Group has proper and valid defenses to the claims, and accordingly, no provision has been accounted for in this financial report in connection with the litigation.

23. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2008

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2008 and which have not been adopted in this interim financial report because the directors expect the Group will not early apply them when preparing the Group's annual financial statements for the year ending 31 December 2008.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (revised)	Presentation of financial statements	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009
HKAS 27 (revised)	Consolidated and separate financial statement	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far the Group believes that the adoption of the above amendments and new standards is unlikely to have a significant impact on the Group's results of operations and financial position.

4. MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2005

Business Review

For the year under review, the Group reported a consolidated turnover of HK$190,838,000 (2004: HK$242,459,000), representing a decrease of 21% as compared with last year. The Group's gross profit improved to HK$24,124,000, representing an increase of 24% as compared with last year and the profit margin was 13% (2004: 8%). The Group's loss attributable to shareholders and loss per share for the year was HK$55,200,000 (2004: HK$86,215,000) and 2.24 HK cents (2004: 3.92 HK cents) respectively.

Umbilical cord blood storage

Notwithstanding the entrance of competitors in the umbilical cord blood storage service in Hong Kong during the year, the Group is still the market leader in Hong Kong to provide such service. During the year, income from the umbilical cord blood storage service amounted to HK$15,634,000 (2004 : HK$11,724,000), with a significant increase of 33%.

Investment

The Group has been holding an investment property, being Level 2, GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, PRC (the "GITIC Plaza"), since 3 March 1997 under medium term lease in Mainland China. The value of GITIC Plaza was stated as HK$124,800,000 (2004: HK$155,800,000) at a professional valuation made by Malcolm & Associates Appraisal Limited, an independent valuer, on 31 December 2005. In the current year, the Group has, for the first time, applied HKAS 40 Investment Property and elected to use the fair value model to account for its investment property which requires decrease in fair value of investment property of HK$31,000,000 to be charged directly in the income statement for the year.

GITIC Plaza has generated a steady rental income of HK$8,684,000 (2004: HK$8,805,000) for the Group for the year ended 31 December 2005. The Group continued to invest in some listed securities during the year and has realized a profit of HK$1,064,000 (2004: HK$2,450,000) for the year ended 31 December 2005.

International Trade

The Group has involved in the trading of pharmaceutical ingredients and chemicals during the year and a turnover of HK$130,262,000 (2004: HK$163,730,000) was reported for the year. The change of management has affected the international trading business of the Group during the year, especially on the trading of pharmaceutical ingredients. The Group has been restructuring its strategies on the trading business during the current year.

Prospects

In the coming year, the Group will allocate more resources on the umbilical cord blood storage service so as to further improve the quality of our services. The Group has recently streamlined the operation of the umbilical cord blood storage service and redefined its marketing and services strategies with an expectation to make a major step forward in 2006.

Meanwhile, the Group will continue to focus on exploiting and pursuing any investment opportunities which can enhance the Group's performance and returns to shareholders.

Liquidity, Financial Resources, Charges on Assets and Capital Structure

As at 31 December 2005, the Group had total assets and net assets amounted to HK$297,041,000 (2004: HK$484,225,000) and HK$227,427,000 (2004: HK$280,254,000) respectively. The current ratio was improved at 4.5, as compared to 0.9 as of last year end. The Group had bank balances and cash, pledged deposits and investment in securities amounted to HK$99,536,000 (2004: HK$85,605,000), of which all of them were denominated in Hong Kong dollars. The Group had total borrowings of HK$33,027,000 (2004: HK$37,276,000) which represented a decrease of 11% over that of last year end. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 14.5% (2004: 13.3%). As most of the Group's assets and liabilities are denominated in Hong Kong dollars, the Group does not expect significant exposure to foreign exchange fluctuation.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

As disclosed in the announcement of the Company made on 1 April 2005, Offspring Investments Limited, a wholly-owned subsidiary of the Company, entered into the Rescission Agreement with China Worldbest Life Industries Company Limited to rescind the conditional agreement to acquire 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited. The Rescission Agreement has been completed during the year. There were no material acquisitions or disposals of subsidiaries during the year.

Charges on Assets

At the balance sheet date, the Group had pledged the investment property, the receivable in amount of approximately HK$28,299,000 from Guangdong International Building Enterprises Company Limited and certain unlisted securities for secured bank loan, which was denominated in Hong Kong dollars and carried interest rate at 2.65% above HIBOR, amount to HK$32,910,000. The Group had also pledged the deposits and investments in securities, amounted to HK$13,511,000 to bank and financial institutions in securing the credit facilities granted to the Group.

Contingent Liabilities

The Group did not have material contingent liabilities as at 31 December 2005.

Human Resources

As at 31 December 2005, the Group had 27 and 4 employees in Hong Kong and the PRC respectively. Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund and performance bonus.

According to the share options scheme adopted by the Company on 26 June 2002, share options may be granted to directors, employees and other eligible participants of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

For the year ended 31 December 2006

Business Review

For the year under review, the Group reported a consolidated turnover of HK$17,366,000 (2005: HK$15,634,000) and gross profit of HK$9,306,000 (2005: HK$8,587,000) from continuing operations, representing an increase of 11% and 8% respectively as compared with last year. In line with the redefined corporate strategy on high-value added products, the trading activities and property investment operation were discontinued during the year and the profit from discontinued operations attributable to the Group amounted to HK$10,950,000 (2005: loss of HK$29,991,000). The Group performed an impairment review for goodwill which is allocated to the processing and storage of cord blood business. Due to the fact that there were new competitors entered into the market in recent years, an impairment loss of HK$7,400,000 was made during the year. The Group's loss attributable to shareholders was HK$8,244,000 (2005: HK$55,200,000).

Continuing Operations

Rutile Mining

The Group commenced its business in mining since November 2006 upon the acquisition of 57% of Lead Sun Investments Limited and its subsidiaries ("Lead Sun Group"). Lead Sun Group is principally engaged in exploration and exploitation of natural rutile and processing and trading of rutile and titanium related products. The rutile mine covering an area of two square kilometers with an estimated exploration potential of approximately 1.9 million tonnes and plans to develop an annual production capacity of 21,400 tonnes of rutile concentrate. The Group also plans to build a facility to produce titanium tetrachloride and titanium sponge from rutile concentrate. The rutile mine is under construction and did not generate revenue to the Group during the year.

Umbilical Cord Blood Storage

During the year, revenue from the umbilical cord blood storage service amounted to HK$17,366,000 (2005 : HK$15,634,000), with an increase of 11%.

Discontinued Operations

Investment

The rental income generated from GITIC Plaza was HK$7,796,000 for the ten months (2005: HK$8,684,000). Upon the completion of the transfer of the entire issued share capital of a subsidiary which ultimately owns 100% interest of the GITIC Plaza as partial consideration for the acquisition of Lead Sun Group, the Group's property investment operation was discontinued in November 2006.

During the year under review, the Group invested in some listed securities. In line with the redefined corporate strategy, the trading of investment was discontinued during the year.

International Trade

Due to the low profit margin for the trading of pharmaceutical ingredients and chemicals and other miscellaneous products, the Group also discontinued the trading business during the year.

Prospects

In view of the sustaining reliance on the sufficient sources of natural resources for the development of China over the couple of years. The Group had acquired 57% of equity interest in Lead Sun Group which is principally engaged in rutile related business. Rutile is the raw material for titanium tetrachloride and titanium sponge. Titanium has a wide range of applications including aerospace, military, and industrial and consumer products. Given the continuing increase in the demand and application of titanium, we are confident that the investment will produce considerable return to the Group in the future.

Apart from the aforesaid acquisition of Lead Sun Group, the rutile operation, the Group continue to strive for strategic acquisition and had entered into an acquisition agreement to acquire a 75.08% equity interest in Harbin Songjiang Copper (Group) Company Limited ("Harbin Songjiang"), a PRC-based company which specializes in mining and processing of molybdenum, copper and zinc, as announced on 11 March 2007.

The completion of the acquisition of Harbin Songjiang will provide the Group with an immediate stream of revenue and brings in a team of experts in the mining industry which will strengthen our operational capabilities in mining activities.

The Group will be continuously searching for other opportunity to build a portfolio of strong mining businesses with an emphasis on high value added products. This is crucial for the Group's transformation into a substantial participant and ultimately a leading player in the mining sector.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2006, the Group had total assets and net assets amounted to HK$2,172,179,000 (2005: HK$297,041,000) and HK$1,932,420,000 (2005: HK$227,427,000) respectively. The current ratio was 2.2, as compared to 4.5 as of last year end. The Group had bank balances and cash, amounted to HK$449,087,000 (2005: bank balance, cash and pledged deposits amounted to HK$97,268,000), of which most of them were denominated in Hong Kong dollars. The Group had a total borrowing from minority shareholders of HK$150,500,000 as at the balance sheet date and the total bank borrowing of HK$32,910,000 as of last year end were fully repaid during the year. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 13.4% (2005: 14.5%). As part of the Group's assets and liabilities are denominated in Renminbi, in order to minimize the foreign currency risk, the Group aims to utilize the fund for transactions that are denominated in the same currency.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save as disclosed above for the acquisition of Lead Sun Group, disposal of a subsidiary which ultimately owns 100% of interests in GITIC Plaza as part of the consideration for acquiring Lead Sun Group which has been completed during the year, and other discontinued businesses, there were no material acquisitions or disposals of subsidiaries during the year.

Human Resources

As at 31 December 2006, the Group had 33 and 28 employees in Hong Kong and Mainland China respectively. Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund and performance bonus.

According to the share options scheme adopted by the Company on 26 June 2002, share options may be granted to directors, employees and other eligible participants of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

For the year ended 31 December 2007

Business Review

The year ended 31 December 2007 was a remarkable one for the Group as we saw a significant and positive change. The Group reported a consolidated turnover of HK$696,416,000 (2006: HK$17,366,000) and gross profit of HK$195,299,000 (2006: HK$9,306,000) from continuing operations, representing an increase of 3,910.2% and 1,998.6% respectively as compared with last year. The increase was mainly attributable to the consolidation of results of Harbin Songjiang Copper (Group) Company Limited ("Harbin Songjiang") and its subsidiaries ("Harbin Songjiang Group") for the period from 6 July 2007 to 31 December 2007 ("Post-acquisition Period") since the acquisition of a 75.08% equity interest in Harbin Songjiang (the "Acquisition") was completed on 5 July 2007. The negative goodwill of HK$281,622,000 arising from the Acquisition was recognized as other net income, whereas staff costs of HK$137,291,000 arising from granting of share options to key employees of the Group was recognized as expenses and fair value adjustment on inventory of HK$217,013,000 arising from the Acquisition was recorded as cost of sales. The Group's profit attributable to shareholders was HK$212,297,000 (2006: loss HK$8,244,000).

Review of operations

Harbin Songjiang

Harbin Songjiang is based in Harbin, Heilongjiang Province, the People's Republic of China and specializes in the mining and processing of molybdenum, copper and zinc of which molybdenum accounts for the majority of its production and earnings. Molybdenum is a metal which has an exceptionally high melting point (approximately 2,625°C) and is principally used as an alloy agent in steel cast iron and super alloy to enhance hardness, strength, toughness and resistance to wear and corrosion. Due to limited number of substitutes for molybdenum in steel, alloying and other chemicals application, molybdenum remains a highly competitive commodity. The completion of the Acquisition during the year provided the Group with an immediate revenue stream and cash. During the Post-acquisition Period, Harbin Songjiang Group contributed HK$674,955,000 and HK$97,834,000 to the Group's turnover and profit for the year respectively for the year ended 31 December 2007.

For additional information of shareholders, full year financial information of Harbin Songjiang Group is illustrated as follow:

	2007	**2006**
	RMB'000	*RMB'000*
Turnover	932,034	801,518
Cost of sales	(259,481)	(230,062)
Gross profit	672,553	571,456
Other revenue	22,130	18,458
Other net income	6,388	1,277
Selling expenses	(9,478)	(10,198)
Administrative expenses	(90,022)	(65,928)
Profit from operations	601,571	515,065
Finance costs	(21,866)	(15,569)
Share of profit of associate	—	104
Profit before taxation	579,705	499,600
Income tax	(178,349)	(168,135)
Profit for the year	401,356	331,465
Attributable to:		
Equity owners of Harbin Songjiang	403,463	328,218
Minority interests	(2,107)	3,247
Profit for the year	401,356	331,465

The above financial information regarding to Harbin Songjiang Group were extracted from the unaudited financial statements of Harbin Songjiang for the year ended 31 December 2007, which were prepared by the directors of the Company. The preparation of these financial statements is the sole responsibility of the directors of the Company. These financial statements have been reviewed by the Company's auditors pursuant to Hong Kong Standards on Review Engagements 2400 "Engagements to review financial statements". However, it should be noted that the review is substantially less in scope than an audit and thus provide less assurance than an audit.

Turnover

The turnover of Harbin Songjiang Group for 2007 was RMB932,034,000 (2006: RMB801,518,000) representing an increase of RMB130,516,000 or 16.3% when compared with last year. The increase was mainly attributable to the growth in sales volume of ferro molybdenum of 564 tonnes or 29.4% (from 1,920 tonnes in 2006 to 2,484 tonnes in 2007) and the increase in average selling prices. The average selling prices for ferro molybdenum, copper and zinc for 2007 were RMB285,853 per tonne, RMB46,125 per tonne and RMB15,378 per tonne (2006: RMB265,182 per tonne, RMB42,071 per tonne and RMB10,633 per tonne) respectively.

Moreover, the increase was partially offset by the decrease in sales volume of copper and zinc from 4,826 tonnes and 4,778 tonnes respectively in 2006 to 3,354 tonnes and 2,826 tonnes respectively in 2007 due to aging of the mine.

Cost of sales and gross profit

The cost of sales of Harbin Songjiang Group increased from RMB230,062,000 in 2006 to RMB259,481,000 in 2007. Gross profit margin remained steady at 72.2% in 2007 (2006: 71.3%). This was primarily due to 1) the increase in average selling prices in ferro molybdenum, copper and zinc as mentioned in turnover section above; 2) the increase was offset by a levy of an 10% export tariff on ferro molybdenum which took effect from 1 November 2006; and 3) increase in amortisation of mining rights in respect of consideration for transferring mining licences from state-owned to privately-owned upon the Acquisition.

Rutile mining

The rutile mine owned by the Group covers an area of two square kilometers with an estimated exploitation potential of approximately 1.9 million tonnes. Rutile is the natural raw material for production of titanium. Titaniumn has a wide range of applications including aerospace, military, industrial and consumer products (such as eye glasses, golf clubs and ski equipments). A processing plant with an annual processing capacity of 1.5 million tonnes of ore and a production plant with an annual production capacity of 42,000 tonnes of titanium tetrachloride were under construction and therefore have not yet to contribute revenue to the Group during the year.

Being hampered by the bad weather as well as additional time consumed in handling relocation of domestic residences, the completion of the project was delayed. We will endeavor to get the project completed as soon as possible and anticipate that the plants will start production by 2009. In addition, as stated in note 39 to the financial statements, there are disputes between two former shareholders of Top Rank International Group Limited, which owns 90% equity interest in Shanxi Shenli Aerospace Titanium Company Limited, the company which holds the rutile mine. Based on advice from the Company's PRC legal adviser, there will be no effect to the Group's ownership and operations of the mine. Moreover, the litigations have already bought obsession to shareholders and investors of the Company, therefore we will explore options to best utilize our rutile assets.

Umbilical cord blood storage

During the year, revenue from the umbilical cord blood storage service amounted to HK$21,461,000 (2006: HK$17,366,000), representing an increase of 23.6% as compared to last year.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2007, the Group had total assets and net assets amounted to HK$7,439,339,000 (2006: HK$2,172,179,000) and HK$5,653,034,000 (2006: HK$1,932,420,000) respectively. The current ratio was 2.2, as compared to 2.2 as of last year end.

The Group had bank balances and cash, amounted to HK$1,247,594,000 (2006: HK$449,087,000), most of which were denominated in Renminbi and Hong Kong dollars. At the balance sheet date, the Group had i) borrowings from minority shareholders of HK$150,500,000 (2006: HK$150,500,000) which were all interest-free, ii) bank borrowings of HK$212,800,000 (2006: HK$Nil) which were interest-bearing at floating rates with reference to the prevailing borrowing rate quoted by the People's Bank of China and iii) other loans of HK$5,643,000 (2006: HK$Nil), of which HK$1,067,000 was interest-free and HK$4,576,000 was interest-bearing at 2.55% per annum. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 9.2% (2006: 13.4%).

Foreign exchange risk management

As part of the Group's assets and liabilities are denominated in Renminbi, in order to minimize the foreign currency risk, the Group aims to utilize the fund for transactions that are denominated in the same currency.

Share capital

The Company placed 1,305,872,000 new shares of the Company to independent investors at HK$1.88 per placing share on 29 June 2007.

As at 31 December 2007, the Company had 6,026,652,853 shares in issue with total shareholders' fund of the Group amounting to approximately HK$3,992,892,000.

Material acquisitions and disposals of subsidiaries and associated companies

During the year, the group acquired the entire equity interest in Wuhai Derun Ferroalloy Limited Liability Company ("Wuhai Derun") from an independent third party for a consideration of RMB10,800,000 satisfied in cash. Wuhai Derun owns a factory building, a leasehold land and certain plant and equipment at the date of acquisition. Wuhai Derun did not have any business operations at the date of acquisition and the underlying set of assets acquired is planned to produce materials for supplying to Inner Mongolia Zhongrun Magnesium Co., Ltd., a subsidiary of the Company which is under construction of a magnesium smelting plant. The acquired company did not have any revenue and expenses since acquisition.

Save as disclosed above for the acquisition of Harbin Songjiang Group and the acquisition of Wuhai Derun, there were no material acquisitions or disposals of subsidiaries during the year.

Contingent Liabilities

Certain bank loans of the Group as at 31 December 2007 were guaranteed by a third party. In return, a subsidiary of the Group have provided guarantees for banking facilities up to $53,333,000 (equivalent to RMB50,000,000) and certain bank loans totalling HK$53,333,000 (equivalent to RMB50,000,000) respectively in favour of the same third party.

Save as disclosed above, the Group has no other contingent liabilities as at 31 December 2007.

Employees and remuneration policies

As at 31 December 2007, the Group had approximately 40 and 2,800 employees in Hong Kong and Mainland China respectively.

Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund for Hong Kong employees, social insurance packages for Mainland China employees, performance bonus, share option scheme and discounted share subscription.

According to the share option scheme adopted by the Company on 26 June 2002, share options may be granted to directors, employees and other eligible participants of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

Prospects

The Group will continue to focus on adopting a dynamic strategy to meet the changing market needs, proactively seeking for beneficial and synergistic acquisition opportunities, and aspire to become a leading player in the mining sector in Asia.

The Group successfully integrated the operations of Harbin Songjiang Group in 2007 and bought to the Group a team of experts in the mining industry which strengthened our operational capabilities as well as execution ability for potential forthcoming potential acquisitions. The Group strategically continues to increase its natural resources assets and production capabilities to enhance our position in the mining industry.

With cash on hand of over HK$1.2 billion and a low gearing ratio of 9.2%, the Group is capable and will continue to look for attractive mining acquisition targets. We aim to become one of the leading miners in Asia through organic growth as well as mergers and acquisitions and deliver increasing returns to our shareholders.

5. INDEBTEDNESS, LIQUIDITY AND FINANCIAL RESOURCES

At the close of businesses on 31 January 2009, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had the following outstanding borrowings:

	Note	**The Group** *HK$'000*
Unsecured bank borrowings	*(a)*	169,837
Loan from minority shareholders	*(b)*	150,500
Other loan, unsecured	*(c)*	5,990
Total borrowings		326,327

Notes:

(a) The unsecured bank borrowings comprise:

(i) approximately RMB80 million (equivalent to approximately HK$91 million) from a bank in PRC, which was unsecured, interest bearing at 5.76% per annum and repayable with an amount of RMB50 million (equivalent to approximately HK$57 million) and RMB30 million (equivalent to approximately HK$34 million) on 27 November 2009 and 27 November 2010 respectively.

A guarantee of RMB220 million (equivalent to approximately HK$249 million) was given by two independent third parties against the bank borrowings.

(ii) approximately RMB70 million (equivalent to approximately HK$79 million) was unsecured, unguaranteed, interest bearing at 5.31% per annum and repayable on 25 December 2009.

(b) Loans from minority shareholders of a subsidiary were unsecured, unguaranteed, interest-free and with no fixed term of repayment.

(c) The other loans comprise:

(i) approximately RMB4 million (equivalent to approximately HK$5 million) was provided by the Harbin Finance Bureau which was unsecured, unguaranteed, interest bearing at a fixed rate of 2.55% per annum and repayable by yearly instalment commenced from the fifth-year of the loan agreement.

(ii) approximately RMB1 million (equivalent to approximately HK$1 million) was provided by the Industry Development Fund of the Harbin Finance Bureau to Harbin Songjiang in 1998 which was unsecured, unguaranteed, interest-free and repayable on demand.

In addition, the Group was engaged in a litigation as disclosed in Appendix IV of this Circular at the close of businesses on 31 January 2009.

To the best understanding and knowledge of the Directors, the Directors confirm that there have been no material changes to the indebtedness position of the Group since 31 January 2009 up to the latest practicable date.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, debt securities (issued and outstanding, or authorised or otherwise created but unissued), loans, bank overdrafts, or other borrowings or similar indebtedness, hire purchase commitments or finance lease, liabilities under acceptances or acceptance credits, or any guarantees or other material contingent liabilities outstanding at the close of business on 31 January 2009.

Foreign currency transactions

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rate of exchange ruling at the close of business on 31 January 2009.

Commitments

Capital commitments of the Group (both before Completion and assuming Completion has taken place) outstanding at 31 January 2009 not provided for in the financial statements were as follows:

	The Group ***HK$'000***
Contracted for	15,950
Authorised but not contracted for	133
	16,083

As at 31 January 2009, the Group (both before Completion and assuming Completion has taken place) had operating lease commitments of approximately HK$680,000 in respect of rental premises, which were not provided for in the Group's pro forma financial information.

WORKING CAPITAL

The Directors are of the opinion that the Group will, following the Completion and taking into account the existing cash and bank balances, have sufficient working capital for its requirements in next 12 months from the date of this circular in the absence of unforeseeable circumstances.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the announcements of the Company respectively dated 17 September 2008, 6 January 2009 and 23 January 2009, to the best knowledge of the Directors, the Directors have confirmed that there has been no material adverse change in the financial or trading position of the Group since 31 December 2007, being the date of the latest audited consolidated financial results as set out herein.

Disclaimers

To the best knowledge of the Directors, save as aforesaid and apart from intra-group liabilities, none of the companies in the Group has outstanding mortgages, charges, debentures, or other loan capital, loans or other similar indebtedness or acceptance credits or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 31 January 2009 and since 31 January 2009, up to and including the Latest Practicable Date.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 January 2009 and up to and including the Latest Practicable Date.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants.

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

23 March 2009

The Board of Directors
China Mining Resources Group Limited
Room 1306, 13th Floor
Bank of America Tower
12 Harcourt Road
Admiralty
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Mining Resources Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed very substantial acquisition of Quadra Shares (the "Acquisition") might have affected the financial information presented, for inclusion in Appendix II of this Circular dated 23 March 2009 (the "Circular"). The basis of preparation of unaudited pro forma financial information is set out in Appendix II to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

— the financial position of the Group, had the Acquisition actually occurred as at the date indicated therein, or

— the results of the Group, at any future periods.

OPINION

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

CCIF CPA Limited
Certified Public Accountants

Sze Chor Chun, Yvonne
Practising Certificate Number P05049
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

1. Unaudited Pro Forma Balance Sheet of the Group upon completion of the Acquisition

The following table is an illustrative unaudited pro forma balance sheet of the Group which has been prepared on the basis set out below for the purpose of illustration as if the Acquisition had taken place at 30 June 2008.

The unaudited pro forma balance sheet of the Group is prepared as if the Acquisition had been taken place on 30 June 2008 and is based on the unaudited condensed consolidated balance sheet of the Group as at 30 June 2008 extracted from the published interim report of the Group for the six months ended 30 June 2008 and after making certain pro forma adjustments as set out below.

The unaudited pro forma balance sheet of the Group is prepared by the directors of the Company to provide unaudited pro forma financial information on the Group as a result of the Acquisition. As it is prepared for illustrative purpose only, it does not purport to give a true picture of what the results of the Group are on the completion of the proposed Acquisition or, for any future financial periods.

	The Group as at 30 June 2008	Pro forma adjustments				Unaudited pro forma balance sheet of the Group as at 30 June 2008
		(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets						
Fixed assets						
— Property, plant and equipment	481,982					481,982
— Interests in leasehold land held for own use under operating leases	307,874					307,874
Construction in progress	100,556					100,556
Intangible assets	4,219,936					4,219,936
Goodwill	8,200					8,200
Interest in jointly controlled entities	—					—
Other receivables	82,065					82,065
Available-for-sale securities	14,292					14,292
Financial assets at fair value through profit or loss	—	34,637	165,363			200,000
Deferred tax assets	2,568					2,568
	5,217,473					5,417,473
Current assets						
Inventories	141,165					141,165
Trade and other receivables	411,084					411,084
Cash and cash equivalents	1,092,623	(34,656)	(165,363)	(83)		892,521
	1,644,872					1,444,770
Current liabilities						
Trade and other payables	(324,698)				(1,450)	(326,148)
Deferred income	(64,255)					(64,255)
Bank loans	(124,305)					(124,305)
Other loans	(1,135)					(1,135)
Loans from minority shareholders	(150,500)					(150,500)
Current taxation	(110,365)					(110,365)
	(775,258)					(776,708)
Net current assets	869,614					668,062

	The Group as at 30 June 2008	Pro forma adjustments				Unaudited pro forma balance sheet of the Group as at 30 June 2008
		(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets less current liabilities	6,087,087					6,085,535
Non current liabilities						
Other payables	(95,092)					(95,092)
Deferred income	(83,657)					(83,657)
Bank loans	(90,816)					(90,816)
Other loans	(4,870)					(4,870)
Deferred tax liabilities	(733,382)					(733,382)
	(1,007,817)					(1,007,817)
Net assets	5,079,270					5,077,718
Capital and reserves						
Share capital	602,665					602,665
Reserves	3,120,175	(19)		(83)	(1,450)	3,118,623
Total equity attributable to equity shareholders of the Company	3,722,840					3,721,288
Minority interests	1,356,430					1,356,430
Total equity	5,079,270					5,077,718

2. Unaudited Pro Forma Income Statement of the Group upon completion of the Acquisition

The following table is an illustrative unaudited pro forma income statement of the Group which has been prepared on the basis set out below for the purpose of illustration as if the Acquisition had taken place at 1 January 2007.

The unaudited pro forma income statement of the Group is prepared as if the Acquisition had been completed on 1 January 2007 and is based on the audited consolidated income statement of the Group for the year ended 31 December 2007, which has been extracted from the published annual report of the Company for the year ended 31 December 2007 and after making certain pro forma adjustments as set out below.

The unaudited pro forma income statement of the Group is prepared by the directors of the Company to provide unaudited pro forma financial information on the Group as a result of the Acquisition. As it is prepared for illustrative purpose only, it does not purport to give a true picture of what the results of the Group are on the completion of the proposed Acquisition or, for any future financial periods.

	The Group for the year ended 31 December 2007	**Pro forma adjustments**			**Unaudited pro forma income statement of the Group**
		(note 1)	*(note 3)*	*(note 4)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	696,416				696,416
Cost of sales	(501,117)				(501,117)
Gross profit	195,299				195,299
Other revenue	26,039				26,039
Other net income	279,519				279,519
Selling expenses	(9,850)				(9,850)
Administrative expenses	(223,971)	(19)	(83)	(1,450)	(225,523)
Profit from operations	267,036				265,484
Finance costs	(15,297)				(15,297)
Share of losses of jointly controlled entities	(39)				(39)
Profit before taxation	251,700				250,148
Income tax	(27,308)				(27,308)
Profit for the year	224,392				222,840
Attributable to:					
Equity shareholders of the Company	212,297	(19)	(83)	(1,450)	210,745
Minority interests	12,095				12,095
Profit for the year	224,392				222,840

3. Unaudited Pro Forma Cash Flow Statement of the Group upon completion of the Acquisition

The following is an illustrative unaudited pro forma cash flow statement of the Group which has been prepared on the basis set out below for the purpose of illustration as if the Acquisition had taken place at 1 January 2007.

The unaudited pro forma cash flow statement of the Group is prepared as if the Acquisition had been taken place on 1 January 2007 and is based on the audited consolidated cash flow statement of the Group for the year ended 31 December 2007, which has been extracted from the published annual report of the Company for the year ended 31 December 2007 and after making certain pro forma adjustments as set out below.

The unaudited pro forma cash flow statement of the Group is prepared by the directors of the Company to provide unaudited pro forma financial information on the Group as a result of the Acquisition. As it is prepared for illustrative purpose only, it does not purport to give a true picture of what the results of the Group are on the completion of the proposed Acquisition or, for any future financial periods.

	The Group for the year ended 31 December 2007	Pro forma adjustments				Unaudited pro forma cash flow statement of the Group
		(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities						
Profit before taxation	251,700	(19)		(83)	(1,450)	250,148
Adjustments for:						
Negative goodwill	(281,622)					(281,622)
Government grants	(1,248)					(1,248)
Amortisation of land lease premium	3,047					3,047
Amortisation of intangible assets	85,237					85,237
Depreciation	13,084					13,084
Impairment loss on trade and other receivables	1,387					1,387
Finance costs	15,297					15,297
Interest income	(24,782)					(24,782)
Share of losses of jointly controlled entities	39					39
Net foreign exchange gain	(13)					(13)
Net loss on disposal of property, plant and equipment	(3,640)					(3,640)
Equity settled share-based payment expenses	142,976					142,976
Operating profit before changes in working capital	201,462					199,910
Decrease in inventories	288,783					288,783
Increase in trade and other receivables	(116,605)					(116,605)
Increase in financial assets at fair value through profit or loss	—	(34,637)	(165,363)			(200,000)
Increase in trade and other payables	40,868				1,450	42,318
Increase in deferred income	18,975					18,975

	The Group for the year ended 31 December 2007	Pro forma adjustments				Unaudited pro forma cash flow statement of the Group
		(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash generated from operations	433,483					233,381
Tax paid						
— PRC income tax paid	(54,451)					(54,451)
Net cash generated from operating activities	379,032					178,930
Investing activities						
Payment for interest in jointly controlled entities	(39)					(39)
Proceeds from disposal of a subsidiary	534					534
Payment for construction in progress	(84,474)					(84,474)
Proceeds from disposal of fixed assets	24,786					24,786
Payment for intangible assets	(53)					(53)
Payment for acquisition of subsidiaries, net of cash acquired	(1,788,728)					(1,788,728)
Payment for purchase of fixed assets	(44,069)					(44,069)
Payment for exploration and evaluation assets	(5,952)					(5,952)
Interest received	24,782					24,782
Net cash used in investing activities	(1,873,213)					(1,873,213)
Financing activities						
Proceeds from shares issued under placing	2,455,039					2,455,039
Payment of transaction costs on issue of shares	(90,594)					(90,594)
Repayment of bank loan	(63,680)					(63,680)
Proceeds from new other loan	4,576					4,576
Interest paid	(8,925)					(8,925)

	The Group for the year ended 31 December 2007	Pro forma adjustments				Unaudited pro forma cash flow statement of the Group
		(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net cash generated from financing activities	2,296,416					2,296,416
Net increase in cash and cash equivalents	802,235					602,133
Cash and cash equivalents at 1 January	449,087					449,087
Effect of foreign exchange rate changes	(3,728)					(3,728)
Cash and cash equivalents at 31 December	1,247,594					1,047,492

Notes:

1. The adjustment represents the aggregate consideration of approximately HK$34,656,000 paid for acquiring a total of 2,650,900 Quadra Shares in December 2008 including transaction costs of approximately HK$19,000.

2. The adjustment represents the proposed additional consideration paid for acquiring Quadra Shares upon the completion of the transactions based on the following assumptions:—

   i) the aggregate investment cost shall not be exceed HK$200,000,000;

   ii) the acquisition price per Quadra Shares shall not exceed CAD5.28; and

   iii) the interests in Quadra Shares as held by the Group shall not exceed 19.9% of the issued share capital of Quadra.

3. The adjustment represents the transaction cost (calculated at 0.05% of the gross transaction amount) incurred for the proposed acquisition of Quadra Shares as stated in note 2.

4. The adjustment represents the legal and professional fee accrued for the proposed acquisition of Quadra Shares as stated in note 2.

In preparing the unaudited pro forma financial information on the Group, the management of the Company assumes that there were no changes in exchange rates and fair value of the Quadra Shares during the year 2007.

B. DIFFERENCE IN RESPECT OF GAAP AND ACCOUNTING POLICY BETWEEN THE COMPANY IN HONG KONG AND QUADRA IN CANADA

The acquisition of the Quadra Shares is a market transaction and did not involve Quadra. Accordingly, Quadra is not obliged nor required to assist the Company to prepare an accountant's report and, being a company listed on the Toronto Stock Exchange, was not prepared to disclose financial information in addition to that which it already discloses on an annual, semi-annual and quarterly basis in accordance with its obligations to the Toronto Stock Exchange. In addition, Quadra will not become a subsidiary or an associate of the Company as a result of the acquisition of the Quadra Shares by the Company. The Company, therefore, applied to the Stock Exchange pursuant to Listing Rule 14.67(4)(a)(i) for a waiver from the requirement to prepare an accountant's report in accordance with the Listing Rules. Instead of preparing an accountant's report on Quadra, the Company has reproduced the audited financial statements of Quadra for the three years ended 31 December 2008 in this circular.

The Directors believe that (i) there are no principal differences between the financial information of Quadra as prepared under Canadian GAAP and the financial information of Quadra if it was to be prepared under HKFRS and (ii) there are no principal differences between the accounting policies of the Company and Quadra, which has been confirmed by CCIF CPA Limited based on certain agreed upon procedures performed.

1. REPORT OF THE AUDITORS FOR THE FINANCIAL STATEMENTS OF QUADRA MINING LTD. FOR THE YEAR ENDED 31 DECEMBER 2006

The following is the report of PricewaterhouseCoopers LLP for the year ended 31 December 2006 as extracted from the annual report of Quadra Mining Ltd. for the year ended 31 December 2006 ("2006 Quadra Mining Ltd.'s Annual Report"). The page reference in this report are the same as those in the 2006 Quadra Mining Ltd.'s Annual Report. The audited financial statements together with the relevant notes to the financial statements of Quadra Mining Ltd. as extracted from the 2006 Quadra Mining Ltd.'s Annual Report are also set out below.

PRICEWATERHOUSECOOPERS

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Auditors' Report

To the Shareholders of
Quadra Mining Ltd.

We have audited the consolidated balance sheets of Quadra Mining Ltd. as at 31 December 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on those 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 whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount 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 31 December 2006 and 2005 and the results of its operations and its cash flows for the years then ended accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, British Columbia
23 February 2007 (except for note 3 and note 24 which are as of 1 May 2007)

Management's Responsibility For Financial Reporting

These financial statements have been prepared by the management of the company. The consolidated financial statements have been prepared in accordance with General 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	**Derek C. White**
(signed)	(signed)
Chief Executive Officer	*Chief Financial Officer*

1 May 2007

Consolidated Balance Sheets
(US Dollars in Thousands)

		As restated *(Note 3)* **31 December 2006**	**31 December 2005**
ASSETS			
Current			
Cash and cash equivalents		47,774	9,128
Receivables and prepaid expenses		6,645	24,438
Inventory	*Note 5*	38,067	33,683
Security deposits	*Note 6*	458	2,075
Future income tax assets	*Note 12*	22,146	6,890
Total Current Assets		115,090	76,214
Security deposits	*Note 6*	23,281	16,830
Environmental trust and bond	*Note 7*	43,391	31,235
Prepaid royalties		3,665	3,265
Mineral properties	*Note 9*	59,376	36,754
Property, plant and equipment	*Note 10*	69,192	67,410
Other assets and deferred charges	*Note 11*	14,822	16,340
Future income tax assets	*Note 12*	7,149	2,594
Total Assets		335,966	250,642
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	*Note 13*	16,900	35,000
Accounts payable and accrued liabilities		39,543	15,158
Derivative instrument liability	*Note 14*	46,468	41,564
Tax payable		15,275	406
Deferred gold consideration payable	*Note 8*	11,556	13,276
Notes payable — current portion		2,668	890
Obligations under capital leases — current portion	*Note 22*	1,379	1,118
Total Current Liabilities		133,789	107,412
Asset retirement obligations	*Note 15*	24,093	27,067
Deferred gold consideration payable	*Note 8*	3,777	11,180
Notes payable		—	2,131
Obligations under capital leases	*Note 22*	9,191	10,100
Total Liabilities		170,850	157,890
Shareholders' Equity			
Share capital	*Note 16a*	162,315	103,727
Stock options and warrants	*Note 16b*	4,498	5,155
Retained earnings (deficit)		(1,697)	(16,130)
Total Shareholders' Equity		165,116	92,752
Total Liabilities and Shareholders' Equity		335,966	250,642

Commitments (Note 22), Contingencies (Note 23), Subsequent events (Note 24)

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

Consolidated Statements of Operations and Deficit
(US Dollars in Thousands)

		As restated *(Note 3)*	
		Year ended 31 December 2006	**Year ended 31 December 2005**
Revenues from concentrate sales	*Note 17*	393,257	228,235
Cost of sales		206,910	159,405
Amortization, depletion and depreciation		11,260	9,506
Accretion of asset retirement obligations		2,159	2,000
Royalties and mineral taxes		18,720	1,108
		239,049	172,019
Operating income		154,208	56,216
General and administrative		7,516	5,391
Realized loss on derivatives		143,930	26,207
Stock-based compensation	*Note 16b*	2,399	1,890
Foreign exchange (gain) loss		106	(2)
Net interest and other expense		616	132
Earnings before other items		(359)	22,598
Unrealized loss on derivatives		7,453	32,463
Net gain on cancellation of AMP option	*Note 18*	(14,374)	—
Write down of Magistral property	*Note 9*	—	6,933
Contract termination fee	*Note 22b*	—	4,436
Earnings (loss) before income taxes		6,562	(21,234)
Income tax — current	*Note 12*	11,939	85
Future income tax recovery	*Note 12*	(19,810)	(7,896)
Earnings (loss) for the year		14,433	(13,423)
Deficit — beginning of year			
As previously reported		(4,730)	(2,707)
Retroactive application of EIC 160	*Note 3*	(11,400)	—
As restated		(16,130)	(2,707)
Deficit — end of year		(1,697)	(16,130)
Earnings (loss) per share			
Basic earnings (loss) per share		$0.39	$(0.49)
Diluted earnings (loss) per share		$0.39	$(0.49)
Weighted average number of shares outstanding — basic		36,608	27,315
Weighted average number of shares outstanding — diluted		37,157	27,384

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

Consolidated Statements of Cash Flows
(US Dollars in Thousands)

		As restated *(Note 3)* Year ended 31 December 2006	Year ended 31 December 2005
OPERATING ACTIVITIES			
Earnings (loss) for the period		14,433	(13,423)
Adjustment for items not involving cash:			
Stock-based compensation		2,399	1,890
Amortization, depletion, depreciation and accretion		13,419	11,506
Unrealized (gain) loss on derivatives		7,453	32,463
Current income tax expense		222	
Future income tax recovery		(19,810)	(7,896)
Write down of Magistral property		—	6,933
		18,116	31,473
Net changes in non-cash working capital:	*Note 21*	46,845	(22,097)
Cash received from operating activities		64,961	9,376
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(15,927)	(11,129)
Increase in security deposits and environmental trust and bond		(16,990)	(8,271)
Additions to mineral properties		(13,869)	(9,861)
Investment in other assets and deferred charges		(648)	(494)
Decrease in deferred gold consideration payable		(14,326)	—
Increase in prepaid royalties		(400)	—
Acquisition of Carlota project		—	(16,348)
Cash used in investing activities		(62,160)	(46,103)
FINANCING ACTIVITIES			
Increase (decrease) in bank indebtedness		(18,100)	35,000
Decrease in notes payable		(382)	(899)
Decrease in obligations under capital leases		(1,212)	(311)
Increase in deferred debt financing fee			(229)
Increase in share capital net of issuance costs		55,539	25
Cash provided by financing activities		35,845	33,586
Net increase (decrease) in cash and cash equivalents during the year		38,646	(3,141)
Cash and cash equivalents, beginning of year		9,128	12,269
Cash and cash equivalents, end of year		47,774	9,128

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

Notes to financial statements

(US Dollars in Thousands)
Year ended 31 December 2006

1. NATURE OF OPERATIONS

Quadra Mining Ltd. ("Quadra" or the "Company") was incorporated on 15 May 2002 under the British Columbia Business Corporations Act. The Company is in the business of developing and operating mines, with a focus on 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. The Company also has an advanced exploration project in Chile (Note 9). In addition, on 21 December 2005 the Company acquired the Carlota copper project ("Carlota"). Carlota is a development ready Solvent Extraction Electro Winning (SX-EW) copper project located in Arizona in the United States (Note 8).

The Company had cash and cash equivalents of $47,774 and a working capital deficiency of $21,317 at 31 December 2006. The Company generated positive cash flows from operations of $64,961 for the year ended 31 December 2006 and fully expects to be in a position to settle liabilities as they full due in 2007. In order to be able to initiate construction of the Carlota project and continue development of the Sierra Gorda project, the Company will be required to obtain additional financing.

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

The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries, all of which are wholly owned. The principal subsidiaries are as follows:

Robinson Holdings (USA) Ltd. ("RHUSA")
Robinson Nevada Mining Company ("RNMC")
Carlota Copper Company ("Carlota")
Minera Quadra Chile Limitada
Wendover Bulk Transhipment Company ("WBTC")

(b) Cash equivalents

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

(c) Property, plant and equipment

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

Mine equipment	Unit-of-production
Mine buildings	Unit-of-production
Other equipment	Straight line over 3 to 7 years
Computer equipment	30% declining balance
Office equipment	20% declining balance
Leasehold improvement	Straight line over the lease term

(d) Mineral properties and deferred start up costs

The costs of operations incurred and operating costs incurred net of revenues earned prior to the commencement of commercial production are deferred and amortized over the expected life of the mine on a unit-of-production basis.

Where the Company's activities relate to the acquisition of mining claims, permits, exploration, development and construction thereon, all expenditures directly related thereto have been capitalized on an area of interest basis. These expenditures will be charged against income, through unit of production depletion, when properties have reached commercial production. The costs of abandoned areas of interest are recognized in the statement of operations. Management of the Company regularly reviews the net carrying value of each mineral property. Where information and conditions suggest impairment, undiscounted cash flows are estimated using future prices, proven and probable reserves, value beyond proven and probable reserves, and operating capital and reclamation costs on an undiscounted basis. If it is determined that the future cash flows are less than that carrying value, a write-down to the estimated fair value is recorded in the statement of operations.

Where the Company's exploration commitments for an area of interest are performed by third parties under option agreements, any option payments received under such agreements will be applied to the area of interest to the extent of costs incurred. The amount shown for mineral properties represents costs to date and does not necessarily reflect present or future values.

Recovery of capitalized costs is dependent upon successful development of economic mining operations or the sale or disposition of mineral properties for amounts at least equal to the Company's investment therein.

(e) Exploration

General exploration costs are expensed as incurred. Exploration and development costs relating to specific properties are capitalised and deferred until the project to which they relate is sold, abandoned, impaired or placed into production.

(f) 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.

(g) 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.

(h) Inventory

Inventories comprise final concentrate products and supplies. Concentrate inventories are valued at the lower of average cost and net realizable value. Supplies are valued at the lower of cost and replacement cost. Costs include all direct costs incurred in production including freight, stripping costs and amortization, depreciation and depletion charges relating to the production of inventory.

(i) 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. These concentrates are provisionally priced (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.

(j) Asset retirement obligations

The fair value of asset retirement obligations is recognized in the period in which the liability is incurred or acquired. When a liability is initially recorded, a corresponding increase to the carrying amount of the related asset is recorded (ARO asset).

The liability is increased over time (accreted) by the discount factor 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 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.

(k) Earnings (loss) per share

Earnings (loss) per share are calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share are 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.

(l) Stock-based compensation plan

The Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date using the Black-Scholes valuation model and recognized over the vesting period of the options granted.

(m) Derivative instruments and hedging arrangements

The Company may from time to time, use derivative instruments to manage its exposure to commodity prices and foreign exchange movements. Hedge accounting has not been applied and consequently all derivatives are marked to market. Changes in the fair value of derivatives are recognized immediately in the statement of operations.

(n) Leases

Leases are classified as capital or operating depending on the terms and conditions of the contracts. 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. The equipment under capital lease is amortized on a straight-line basis over the period of expected use.

(o) 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 revenue settlements, recoverability of assets, asset retirement obligations, trade receivables, inventory valuation, stock-based compensation, derivatives, deferred stripping, accruals and future income taxes. Actual results may differ from these estimates.

3. CHANGES IN ACCOUNTING STANDARDS

Deferred stripping

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. The new standard applies to fiscal years beginning on or after 1 July 2006. Effective 1 January 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 these financial statements for the years ended December 2006 and 2005 have been restated. A summary of the effect of this change is shown below:

Effect on consolidated balance sheet:

	31 December 2006	**31 December 2005**
Increase in concentrate inventory	2,618	3,400
Increase in future income tax assets	15,205	5,992
Decrease in other asset and deferred charges	(47,014)	(20,792)
Increase in deficit	(29,191)	(11,400)

Effect on consolidated statements of operations:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Increase in cost of sale and amortization, depletion and depreciation	27,004	17,392
Increase in future income tax recovery	9,213	5,992
Increase in loss/decrease in earnings	17,791	11,400

Effect on consolidated statement of cash flows:

	Year ended 31 December 2006	Year ended 31 December 2005
Decrease in cash received from/increase in cash used in operating activities	(25,591)	(20,294)
Decrease in cash used in investing activities	25,591	20,294

Financial Instruments — Recognition and Measurement, Section 3855

In January 2005, CICA issued Section 3855 "Financial Instruments — Recognition and Measurement". This standard prescribes when a financial asset, financial liability, or nonfinancial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. It also specifies how financial instrument gains and losses are to be presented. This standard is applicable for fiscal years beginning on or after 1 October 2006. The Company will be required to adopt the new standard effective 1 January 2007.

Comprehensive Income, Section 1530

The Company will be required to adopt Comprehensive Income, Section 1530 effective 1 January 2007. This new standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on certain investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized.

Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the existing AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. This standard is applicable for fiscal years beginning on or after 1 October 2006. The Company does not currently apply hedge accounting to its derivative instruments and is accordingly not impacted by this standard on transition on 1 January 2007.

4. FINANCIAL INSTRUMENTS

The Company's financial instruments are comprised of cash and cash equivalents, receivables, security deposits, bank indebtedness, accounts payable, notes payable, prepaid royalties, environmental trust and bond, deferred gold consideration, derivatives and obligations under capita1 lease. The fair value of current financial instruments approximates their carrying values due to the immediate or short-term maturity of those instruments. Management also estimates that the fair value of the notes payable, non-current security deposits, non-current obligations under capital lease and the non-current deferred gold consideration payable approximate their carrying value.

5. INVENTORY

		As restated *(Note 3)*
	31 December 2006	**31 December 2005**
Concentrate	27,080	28,003
Supplies	10,987	5,680
Total	38,067	33,683

6. SECURITY DEPOSITS

The Company has entered into agreements related to the leasing of mining mobile equipment. These lease arrangements require prepayment and security deposits of $19,764. In addition, during the year ended 31 December 2006, Carlota Copper Company ("Carlota"), the Company's wholly owned subsidiary, signed a non-binding "letter of intent" with Road Machinery to purchase seven haul trucks and four crawler tractors for a total purchase price of $21,052 and made a non-refundable security deposit of $2,105. On 3 March 2006, Carlota also made a non-refundable deposit of $450 to purchase a Hitachi EX5500 shovel (Note 221).

	31 December 2006	**31 December 2005**
Security deposits — mining equipment	22,320	16,418
Security deposits — others	1,419	2,487
Total	23,739	18,905
Less: current portion *(Note 22b)*	458	2,075
Long-term	23,281	16,830

7. ENVIRONMENTAL TRUST AND BOND

	31 December 2006	**31 December 2005**
Environmental bond — Robinson mine (a)	20,840	20,075
Cash in trust for Robinson reclamation (b)	15,376	11,160
Environmental bond — Carlota project (c)	7,125	—
Environmental bond — SALTS (d)	50	—
Total	43,391	31,235

(a) The Company has posted an environmental bond with the US Bureau of Land Management (BLM). On 25 March 2005, the BLM approved the revised reclamation plan and cost estimate for the Robinson Mine and required the Company to increase the amount of the bond. During the year ended 31 December 2006, the amount ofthe bond increased to $20,840.

(b) Under the terms of the Kennecott Royalty Agreement that was assumed by the Company on the acquisition of the Robinson Mine, a 3% net smelter return royalty is payable to Royal Gold Inc. (formerly Kennecott). The agreement provides that the first royalty payments with accumulated interest will be paid into a trust until such time that $20,000 is available to pay for qualified rehabilitation expenditures on the Robinson mine. During the year ended 31 December 2006, the total contributions to the trust reached $20,000. The Company commenced royalty payments to Royal Gold Inc. in June 2006 and paid $8,141 throughout the remainder of the year. The following table summarizes the movements in the trust balance as at 31 December 2006:

	Contributions to the trust	**Reclamation costs paid by the trust**	**Net trust funds available**
Balance as of 1 January 2006	16,060	(4,900)	11,160
Interest income	539	—	539
Contribution	3,677	—	3,677
Balance as of 31 December 2006	20,276	(4,900)	15,376

(c) During the year ended 31 December 2006, the Company put $6,589 on deposit with the U.S. Forest Service in connection with reclamation costs supporting the permits for the Carlota project. In addition, the Company posted a $200 and $336 bond with the Arizona Department of Environmental Quality and Arizona State Mine Inspector respectively in relation to the development of the Carlota project.

(d) In order to operate the copper concentrate transshipment facility that the Company purchased during the year ended 31 December 2006 (Note 10), the Company was required to post a $50 environmental bond.

8. ACQUISITION

Carlota Project

On 21 December 2005 the Company purchased from Iamgold Corporation (formerly Cambior Inc.) all of the shares of Cambior USA, Inc., the parent company of Carlota Copper Company, which holds the Carlota project. The purchase consideration was $15,000 in cash and 50,000 ounces of gold in deferred consideration. The gold is payable in equal tranches quarterly from 31 March 2006 to 31 December 2007. The fair value ofthe 50,000 ounces of gold was initially estimated at $23,325 based on the average forward price of $520 per ounce on the closing date.

During the year ended 31 December 2006, the Company delivered 25,000 ounces of gold to Iamgold Corporation. As at 31 December 2006, the balance of deferred gold consideration payable was 25,000 ounces with an estimated fair value of $15,333 based on the average forward price of $661 per ounce on 31 December 2006. The upward movement in the gold price during 2006 resulted in a loss on deferred gold consideration of $5,857 which was capitalized to mineral property costs because the Carlota project has not yet reached commercial production.

The fair value of the deferred gold consideration payable is as follows:

	31 December 2006	**31 December 2005**
Deferred gold consideration payable	15,333	24,456
Gold payable	25,000 oz	50,000 oz
Average forward price	661	544

Included in the purchase price are ten used 190 ton trucks, one used P&H 2800 shovel and a solvent extraction plant. The acquisition has been accounted for by the purchase method with the fair value of the consideration paid being allocated to the identifiable assets acquired and liabilities assumed on the closing date as set out below.

Assets and liabilities acquired:	
Net working capital	276
Mineral property	28,413
Prepaid royalties	3,265
Plant and equipment	7,750
Net assets acquired	39,704
Consideration paid:	
Cash	15,000
Working capital and reimbursement of expenses payable	450
Deferred gold consideration payable	23,325
Direct costs of acquisition	929
Total	39,704

Under the Share Purchase Agreement, the Company is required to pay an additional $4,000 of contingent consideration related to an estimated potential 3.8 million tonnes of additional material that is subject to a confirmatory drilling program being successfully completed by 31 December 2006 and to certain grade requirements. The drilling program was successfully completed as at 31 December 2006 and the Company recorded this contingent consideration as additional purchase price consideration with additional costs allocated to mineral property acquisition costs.

During the year ended 31 December 2006 the Company spent $8,141 to develop the Carlota project *(Note 9)*.

Carlota Copper Company had estimated available tax pools of approximately $68,000 which gave rise to a potential future income tax asset of approximately $8,000. Management believes that sufficient uncertainty exists regarding the realization of this future income tax asset such that a full valuation allowance is required *(Note 12)*.

9. MINERAL PROPERTIES

	Sierra Gorda	Carlota	Total
Balance at 1 January 2005	3,140	—	3,140
Option payments and acquisition costs	506	29,995	30,501
Project expenditures	2,957	156	3,113
Balance at 31 December 2005	6,603	30,151	36,754
Option payments and acquisition costs	829	9,641	10,470
Project expenditures	4,011	8,141	12,152
Balance at 31 December 2006	11,443	47,933	59,376

Sierra Gorda

On 15 April 2004, Quadra entered into six agreements (the "Option Agreement") with six separate vendors under which Quadra could elect to purchase six contiguous mining properties (the "Sierra Gorda") in Chile. The Option Agreements have differing terms, conditions and adjustments. The total purchase price of all six properties is $24,975, of which $2,771 has been paid to date. The payment schedules are structured so that there are initial payments, further payments upon entering into the Option Agreements and annual and semi-annual payments thereafter until the full purchase price is paid. During the year ended 31 December 2006, the Company made a $485 option payment. The next payment in the amount of $917 is due on 15 April 2007.

During the year ended 31 December 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. The Company made an initial option payment of $100. In addition, the Company entered into various option agreements with a cost of $244. These option agreements give the company rights to purchase water rights in Calama, Chile in March 2008.

Magistral

During the quarter ended 31 March 2005, Quadra entered into an agreement with Inca Pacific Resources Inc. ("Inca") to earn a 50.1 % interest for the Magistral copper-molybdenum project in Peru.

The costs of entering the agreement were as follows:

(i) Investment in shares in Inca
— Recorded at fair market value: $598

(ii) Mineral properties — Magistral: $2,514 (including 183,264 common shares issued at a value of $1,141)

On 26 October 2005 the Company made an election not to continue in the development of the project. As a result, the investment and costs incurred in developing the project of $6,681 were written off and charged against earnings. In addition, the investment in Inca has been disposed of for net proceeds of $346 resulting in a loss of $252. The total loss for the year ended 31 December 2005 related to the Magistral project was $6,933.

10. PROPERTY, PLANT AND EQUIPMENT

		31 December 2006	
		Accumulated	Net Book
	Cost	Amortization	Value
Plant and equipment	37,700	(7,193)	30,507
Equipment under capital leases	12,076	(2,477)	9,599
Asset retirement obligations	19,457	(6,064)	13,393
Buildings	16,296	(2,143)	14,153
Office equipment	2,572	(1,174)	1,398
Leasehold improvements	210	(68)	142
Total	88,311	(19,119)	69,192

		31 December 2005	
		Accumulated	Net Book
	Cost	Amortization	Value
Plant and equipment	33,513	(2,887)	30,626
Equipment under capital leases	11,529	(347)	11,182
Asset retirement obligations	24,590	(3,619)	20,971
Buildings	3,174	(467)	2,707
Office equipment	2,338	(573)	1,765
Leasehold improvements	188	(29)	159
Total	75,332	(7,922)	67,410

On 10 August 2006, the Company's wholly owned subsidiary Wendover Bulk Transhipment Company ("WBTC") signed an Asset Purchase Agreement with Imco Recycling Utah Inc. ("IMCO") to purchase, for $2,000, the transhipment facility that the company uses to store and load concentrate into rail cars. This purchase secures the access to this essential transhipment facility. Assets purchased are as set out below:

As sets acquired:	
Building and land	1,851
Plant and equipment	149
Net assets acquired	2,000
Consideration paid:	
Cash	1,500
Notes payable	500
	2,000

In connection with the Asset Purchase Agreement, WBTC issued a promissory note of $500 payable to IMCO bearing an interest rate of 6.87% per annum. The principal and interest are payable on or before 31 March 2007.

11. OTHER ASSETS AND DEFERRED CHARGES

			As restated *(Note 3)*	
			31 December	31 December
			2006	2005
		Accumulated	Net book	Net book
	Cost	Amortization	Value	Value
Robinson mine deferred start-up cost	17,922	(4,420)	13,502	15,284
Robinson mine deferred pit cost	597	(204)	393	537
Other long-term receivables	237	—	237	290
Deferred financing fee	690	—	690	229
Total	18,756	(4,624)	14,822	16,340

12. INCOME TAXES

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

	As restated *(Note 3)*	
	31 December	31 December
	2006	2005
	$	*$*
Applicable statutory rate	34.12%	34.12%
Income tax expense (recovery) calculated using statutory rate	2,240	(7,245)
Increase (decrease) of valuation allowance	6,422	(537)
Difference in foreign tax rate	—	36
Depletion in excess of basis	(16,839)	
Others	306	(65)
Taxation expense (recovery)	(7,871)	(7,811)
Current tax expense	11,939	85
Future income tax recovery	(19,810)	(7,896)

The components of recognized future tax assets as of 31 December 2006 are as follows:

	As restated *(Note 3)*	
	31 December	31 December
	2006	2005
	$	*$*
Resource assets	21,035	11,123
Other deductible tax pools	28,266	9,333
Non-capital losses	146	2,732
	49,447	23,188
Valuation allowance	(20,152)	(13,704)
Future income tax assets	29,295	9,484
Future income tax assets — current	22,146	6,890
Future income tax assets — non-current	7,149	2,594

The Company has not recognized the tax benefits arising from Chilean operations and the available tax pool of Carlot a Copper Company *(Note 8)*.

During the year ended 31 December 2006, the Company's Canadian operations recognized tax benefits of $222 arising from amortization of share issuance costs. As of 31 December 2006, the Company's U.S operations had loss carry forwards of approximately $1,200, which will expire in 2026.

13. BANK INDEBTEDNESS

(a) Corporate Facility

On 10 March 2005, RNMC arranged a revolving Working Capital Facility and hedge line of credit facility with Macquarie Bank Ltd. ("Macquarie"). The Working Capital Facility and the hedge line of credit are secured by all of the assets of RHUSA, including RNMC and a guarantee from the Company. Proceeds from the $20,000 Working Capital Facility are available to provide additional liquidity for the Robinson mine between the production and final sales of metal concentrate. Each drawdown ("Concentrate Advance") under this facility is to be no greater than 90% of the net smelter return based on the hedged value of concentrate available for shipment under current sales contracts. The metal prices used in the estimated value are based on the hedged prices between each drawdown date and the first provisional payment made by customers pursuant to the terms of their individual sales contracts. Advances under the facility bear interest at LIBOR + 1.35%. At 31 December 2006 the Company had drawn down $16,900 (31 December 2005: $20,000) under the facility. The facility is available until 31 March 2007.

(b) Bridge Loan

On 10 February 2006 RHUSA repaid the $15,000 Bridge Loan facility with Macquarie that was entered on 20 December 2005 and the security related to the Bridge Loan has been released.

14. DERIVATIVE INSTRUMENTS

The Company entered into various short-term copper and gold forward sales contracts with Macquarie to hedge the copper price and gold price.

The following tables summarize the derivative positions and the associated realized and unrealized (gain) loss:

Derivative Liability Positions as at 31 December 2006

Forward Contracts	Metal under Contract	Average Forward Price	Liability after Mark-to-market Adjustment
Copper	67 million pounds	$2.26/pound	41,485
Gold	24,000 ounces	$429/ounce	4,983
Total			46,468

Derivative Liability Positions as at 31 December 2005

Forward Contracts	Metal under Contract	Average Forward Price	Liability after Mark-to-market Adjustment
Copper	133.5 million pounds	$1.70/pound	36,760
Gold	48,000 ounces	$413/ounce	4,804
Total			41,564

Realized and Unrealized (Gain) Loss

Forward Contracts	2006 Realized Loss	2005 Realized Loss	2006 Unrealized (Gain) Loss	2005 Unrealized (Gain) Loss
Copper	139,256	25,686	7,681	29,557
Gold	4,674	521	(228)	2,906
Total	143,930	26,207	7,453	32,463

15. ASSET RETIREMENT OBLIGATIONS

	31 December 2006	31 December 2005
Balance at 1 January 2006	27,067	25,067
Accretion	2,159	2,000
Revision	(5,133)	—
Balance at 31 December 2006	24,093	27,067

On the acquisition of the Robinson mine in April 2004, the Company assumed substantially all the environmental liabilities related to the Robinson mine. The Company obtained an independent study to evaluate the fair value of the expected closure costs of the Robinson mine. The original total undiscounted amount of the estimated closure costs was estimated to be $68,000. In assessing the carrying amount for the asset retirement obligations, the Company used a credit-adjusted risk-free rate of 7.75% and an estimated inflation rate of 2%.

During the year ended 31 December 2006, the revised estimated mine life of the Robinson mine was extended by 2 years. The carrying value of the asset retirement obligations was re-assessed based on the revised mine plan, resulting 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, for an overall reduction of $5,133.

As of 31 December 2006 the Company had posted an environmental bond and held cash in reclamation trust totaling $36,216 (Note 7) to secure a portion of the closure costs related to the Robinson mine.

16. SHARE CAPITAL

(a) Common Shares

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

	Number of Shares	Dollar Amount
Balance at 1 January 2005	27,156,000	102,553
Issued in the period:		
To Inca Pacific	183,264	1,141
Employee stock options exercised	6,667	33
Balance at 31 December 2005	27,345,931	103,727

	Number of Shares	Dollar Amount
Balance at 1 January 2006	27,345,931	103,727
Capital stock issued		
Shares issued for cash	8,280,000	45,544
Stock options exercised	1,053,733	5,563
Warrants exercised	1,449,360	7,507
Transfer from contributed surplus:		
Stock options exercised		1,653
Warrants exercised		1,403
Issue costs		
Cash payment		(3,304)
Tax benefits recognized *(Note 12)*		222
Balance at 31 December 2006	38,129,024	162,315

On 31 January 2006 the Company filed a short form prospectus to issue 8,280,000 common shares at CAD$6.30 per share for gross proceeds of $45,544.

(b) Stock options and warrants

Stock options

The following tables summarize the stock option activity for the year ending 31 December 2006 and 2005 (in Canadian dollars):

	Options	**Weighted-average exercise price**
		C$
Outstanding at 1 January 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 31 December 2006	2,467,366	7.86
Exercisable at 31 December 2006	1,444,300	7.08

	Options	**Weighted-average exercise price**
		C$
Outstanding at 1 January 2005	1,724,167	5.92
Granted	1,021,000	6.93
Forfeited	(85,000)	6.33
Exercised	(6,667)	4.70
Outstanding at 31 December 2005	2,653,500	6.13
Exercisable at 31 December 2005	1,451,166	6.07

The following table summarizes information relating to stock options outstanding and exercisable at 31 December 2006 (in Canadian dollars):

	Options outstanding			**Options exercisable**	
Exercise price per share	**Number outstanding**	**Weighted-average remaining contractual life**	**Weighted-average exercise price**	**Number exercisable**	**Weighted-average exercise price**
		(years)	*C$*		*C$*
$4.60 — $4.91	50,000	2.41	4.81	50,000	4.81
$5.16 — $5.75	350,000	3.68	5.31	169,334	5.26
$6.00 — $7.40	1,159,766	3.04	6.60	936,766	6.45
$9.18 — $12.40	907,600	4.57	10.62	288,200	10.58
	2,467,366	3.68	7.86	1,444,300	7.08

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 have a two-year vesting period and expire after five years.

During the year ended 31 December 2006, there were 161,501 options forfeited with a value of $152 previously recognized as stock-based compensation cost. Such amount was eliminated from the stock-based compensation cost for the year.

During the year ended 31 December 2006, the Company granted 1,029,100 stock options to directors and employees. For accounting purposes, the estimated weighted-average fair value per stock option is $3.03 for a total value of $3,116. All options have a two-year vesting period and expire after five years. The fair value of each option is estimated as at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2006	**2005**
Expected volatility	30%	30%
Risk-free interest rate	5.00%	5.00%
Expected lives	4 years	5 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

During the year ended 31 December 2006, all broker warrants (1,449,360) were exercised at CAD$6.00 per share. No warrants are outstanding as at 31 December 2006.

The following table summarizes the movement in the stock options and warrants account for the year ended 31 December 2006 and 31 December 2005:

	Stock options and warrants
Balance at 1 January 2005	3,273
Stock-based compensation	1,890
Stock options exercised	(8)
Balance at 31 December 2005	5,155
Stock-based compensation	2,399
Stock options exercised	(1,653)
Warrants exercised	(1,403)
Balance at 31 December 2006	4,498

17. REVENUES FROM CONCENTRATE SALES

	Year ended 31 December 2006	Year ended 31 December 2005
Copper revenues	348,517	202,340
Gold revenues	42,127	33,093
Molybdenum revenues	6,075	—
Adjustments for final settlement	79,474	9,271
Marked to market adjustments	(36,134)	14,542
Refining and treatment charges	(46,802)	(31,011)
	393,257	228,235

18. GAIN ON CANCELLATION OF AMP OPTION

On 19 July 2006, the Company announced its intention to make an offer to acquire all of the issued and outstanding shares of Equatorial Mining Limited ("Equatorial") for AUS$9.23 cash per share which would have resulted in an acquisition price for Quadra of AUS$449 million for 100% of Equatorial. The Company also entered into a Call Option Deed with a subsidiary (the "AMP Subsidiary") of AMP Life Limited, the major shareholder of Equatorial, in respect of approximately 19.99% of the shares of Equatorial. In order to finance the acquisition, the Company signed a bank financing commitment letter with UBS Loan Finance LLC and UBS Securities LLC to enter into a seven year loan for $350 million.

On 15 August 2006, Antofagasta PLC submitted an offer of AUS$11.20 cash per share for Equatorial and entered into a similar call option agreement with the AMP Subsidiary. The Company chose not to match the higher offer from Antofagasta PLC and announced on 23 August 2006 that it received notice from the AMP Subsidiary that it had exercised its right under the Call Option Deed to cancel that agreement. As a result, the AMP Subsidiary was required to pay the Company a fee of AUS$31,922 (equivalent to $24,194). Direct expenses related to the Equatorial offer including consulting fee, due diligence fee, bank commitment fee and legal fee amounted to $9,820, resulting in a net gain on cancellation of AMP option of $14,374.

19. SEGMENTED INFORMATION

The Company's reportable segments are as follows:

Robinson Mine (United States)

The Robinson Mine is an open pit copper and gold mine located in Ely, Nevada. All of the Company's revenues are generated from production at the Robinson Mine.

South America Exploration (Chile)

The Company has entered into option agreements for eight contiguous properties that make up the Sierra Gorda project in Chile.

Carlota Project (United States)

The Carlota project is a permitted late-stage development copper project located in the Globe-Miami Mining District of Arizona.

Corporate (Canada)

Head office operations are located in Vancouver, British Columbia.

As at 31 December 2006, segmented information is presented as follows:

	As restated *(Note 3)* **Year ended 31 December 2006**				
	Robinson Mine	**South America Exploration (Chile)**	**Carlota Project**	**Corporate**	**Total**
Revenues	393,257	—	—	—	393,257
Cost of sales	207,161	—	—	—	207,161
Amortization, depletion and depreciation	10,939	18	—	52	11,009
Other operating expenses	20,879	—	—	—	20,879
Operating income (loss)	154,278	(18)	—	(52)	154,208
Interest expense	3,680	—	—	—	3,680
Other (income) expense	150,299	96	—	(6,429)	143,966
Earnings (loss) before taxes	299	(114)	—	6,377	6,562
Total assets	252,528	11,704	59,510	12,224	335,966
Total liabilities	167,227	117	(1,135)	4,641	170,850

	As restated *(Note 3)* **Year ended 31 December 2005**				
	Robinson Mine	**South America Exploration (Chile)**	**Carlota Project**	**Corporate**	**Total**
Revenues	228,235	—	—	—	228,235
Cost of sales	159,808	—	—	—	159,808
Amortization, depletion and depreciation	9,065	11	—	27	9,103
Other operating expenses	3,108	—	—	—	3,108
Operating income (loss)	56,254	(11)	—	(27)	56,216
Interest expense	1,157	—	—	—	1,157
Other (income) expense	63,992	49	—	12,252	76,293
Earnings (loss) before taxes	(8,895)	(60)	—	(12,279)	(21,234)
Total assets	199,308	6,772	41,445	3,117	250,642
Total liabilities	115,501	102	39,937	2,350	157,890

All of the Company’s revenues to 31 December 2006 have been generated from concentrate sales at the Robinson Mine.

20. RELATED PARTY TRANSACTIONS

One of the Directors of the Company is a partner of an affiliate of Blake, Cassels & Graydon LLP and one is a partner of Chancellor Partners Management Consultants Inc. During the year ended 31 December 2006 the Company incurred legal fees of $569 and recruiting and human resources consulting fees of $496 respectively to those entities (31 December 2005: $814 and $263 respectively).

21. SUPPLEMENTARY CASH FLOW INFORMATION

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

	As restated *(Note 3)*	
	Year ended December 31,2006	**Year ended December 31,2005**
(Increase) decrease in receivables and prepaid expenses	17,792	(22,172)
Decrease in short-term investments	450	—
Increase in inventory	(4,100)	(13,962)
Increase in accounts payable and accruals	32,704	14,037
Net changes in non-cash working capital	46,846	(22,097)
Interest and taxes paid		
Interest paid	3,680	1,157
Income tax paid	5,412	—

22. COMMITMENTS

(a) On 1 September 2004 Robinson entered into a lease agreement with Caterpillar Financial Services Corporation ("CAT") to lease sixteen trucks, one electric shovel and spare dipper. Under the terms of the agreement, Robinson has an amount payable of $3,919 (promissory note) due to CAT. The principal is repayable annually over three years and the interest is payable monthly at an annual interest rate of 6.6% over 39 months with the first payment commencing 1 October 2004. The total lease payment of the sixteen trucks amounts to $37,672 and is payable over 7 years and the payments for the electric shovel and spare dipper are $12,459 payable over 6 years. In addition, Robinson signed a seven year lease agreement with Wells Fargo Equipment Finance, Inc. ("Wells Fargo") to lease one Hitachi EX5500 hydraulic shovel and one spare dipper. The total lease payments of $6,250 are payable over 7 years.

(b) On 9 August 2005 Robinson signed an agreement with Washington Group international ("WGI"), the mining contractor, to take over all mining operations at the Robinson mine from WGI.

The agreement required Robinson to pay a fee of $4,436 to WGI and acquire certain equipment ("WGI equipment").

(c) On 21 October 2005 Robinson signed a capital lease agreement with CAT to lease WGI equipment. The lease term is 60 months and the total lease payment amounts to $17,448. The fair value of the equipment is $11,529. The amount of interest expense in 2006 was $1,576.

(d) On 1 February 2006 Robinson leased a P & H 28 yard Bucket ("Bucket") from CAT as part of the lease agreement signed on 21 October 2005. The total lease payments of the Bucket are $708 and the fair value is $564. The amount of interest expense in the year ending 31 December 2006 was $38.

The following schedule summarizes the future minimum lease payments under the capital lease ((c) and (d)) expiring 31 December 2011.

	31 December 2006
2007	2,817
2008	2,817
2009	2,817
2010	6,333
2011	89
Total mininum lease payments	14,873
Amount representing notional interest	(4,303)
Balance of the obligation	10,570
Current portion	(1,379)
Long-term portion	9,191

(e) The following table summarizes the obligations under the operating leases in the next five years:

	2007	**2008**	**2009**	**2010**	**2011**
BE 495 Shovel and Dipper	2,203	2,203	2,203	1,683	89
16 Trucks	5,430	5,430	5,430	5,430	5,094
Hitachi EX5500 Shovel	978	978	978	978	876
Light Vehicles	200	75	—	—	—
	8,811	8,686	8,611	8,092	6,059

The total amount of lease payments made in 2006 was $9,742 (2005: $8,874).

(f) On 13 June 2005 Robinson signed a five year agreement with Snyder Transport, Inc. ("Snyder") to transport copper concentrates from the mine site to a trans-loading facility.

(g) As at 31 December 2006, Robinson entered sales agreements regarding future sales of concentrate at fixed terms with five companies for a period of one to three years ending December 2009. Under these agreements Robinson will sell 200,000 dry metric tonnes of copper concentrate in 2007 contracted at adjusted market based pricing.

(h) Production at the Robinson Mine is subject to a three percent net smelter return royalty (the "Kennecott Royalty"). The proceeds ofthe Kennecott Royalty are required to be contributed to the Robinson Restoration Trust until a total of $20,000 in principal, credits and interest have been accumulated (Note 7), after which the royalty is paid to Royal Gold. In 2006, the Company incurred $8,141 in royalty expense.

(i) Newmont Mining Corporation of Canada Limited, a subsidiary of Newmont Mining Corporation and the successor in interest to Franco Nevada Mining Corporation Limited ("Franco Nevada"), is entitled to receive royalties from the production of the Robinson Mine. The royalties payable to Franco Nevada consist of:

(1) A 10% royalty on net smelter returns on 51% of the production of gold from the Robinson Mine in excess of 60,000 oz 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 an incremental amount equal to 40% of the amount by which the price of copper exceeds the Trigger Price; and

(3) A 0.225% royalty on net smelter returns of all minerals extracted from the Robinson Mine.

During the year ended 31 December 2006, RNMC paid $1,390 in royalties to Franco Nevada.

(j) Carlota has a royalty agreement with Sherwood Owens, the owner of the 12 unpatented claims. Terms of the agreement call for a payment of $10 upon exercising the option to utilize the claim; payment of $15 six months thereafter; and continuing payments of $20 every 6 months prior to commencement of construction. After commencement of commercial production, terms call for additional minimum monthly payments of $3, which are credited towards a 5% net smelter return royalty on production, with all payments after start of commercial production credited toward a maximum royalty amount price of $3,000.

(k) Carlota entered into a purchase agreement with BHP Copper (formerly Magma Copper Company, Inc.) whereby Carlota purchased 19 unpatented and 23 patented mining claims from BHP Copper. BHP Copper reserves relating to these claims will be subjected to a 5% net smelter return royalty. Minimum advance royalty payments of $3,665 have been paid by Carlota and will be credited against future royalty payments.

(1) On 3 March 2006 Carlota entered into an agreement to purchase a Hitachi EX5500 shovel for $6,945 and made a non refundable down payment of $450. The shovel is expected to be delivered in May 2007.

(m) WBTC signed an Industrial Special Use Lease Agreement with State of Utah ("Lessee") on 29 September 2006 on the use of land. Under the agreement, WBTC shall pay to the Lessee a base rent of $40 per annum on or before 1 August 2006 and ending 30 July 2011, and $45 per annum for the period beginning 1 August 2011 and ending 30 July 2016.

In addition to the base rent, WBTC shall pay to the Lessee royalties on a quarterly basis in the amount of $0.05 per tonne for all copper concentrate which is received on the subject property.

(n) On 21 June 2006 Carlota signed a letter of intent with DynaPower Corporation to purchase key electrical equipment for a total purchase price of $2,295. As at 31 December 2006, $1,835 of progress payments have been made (Note 10). The remaining balance of $460 will be payable in 2007.

23. CONTINGENCIES

(a) Certain litigation is pending in connection with one key permit for the Carlota project. A court may render a decision which may delay or prevent development of the Carlota project or change the requirements of the Carlota project to the extent that it is no longer economically viable, which could have a material adverse effect on the Company.

(b) On 16 March 2006 Katie Davis and LeRoy Davis, on their own behalf and on behalf of their minor daughter Araya Davis, (collectively, the "Davises") filed a lawsuit against RNMC and BHP Copper Inc. ("BHP Copper") (Collectively, the "Defendants") in the Seventh Judicial District Court, White Pine County, Nevada. Katie Davis is the daughter and Araya Davis is the granddaughter of Marilyn and Danny Cooper, with whom similar litigation was settled by the Defendants prior to RNMC's acquisition of the Robinson Mine. The Davises have claimed, among other matters, that the Defendants permitted the Robinson Mine to contaminate well water on the Coopers' property and that the Defendants failed to disclose the existence of the pollutants to the Coopers. As a result, the Davises claim that their daughter ingested contaminated water, suffered a condition known as anoxia and was twice airlifted to hospital where on one occasion she had surgery. The Davises have made a claim for: damages for the personal injury and emotional distress sustained by the Davises as a result of the Defendant's negligence; damages resulting from Defendant's fraudulent or negligent misrepresentation; punitive damages; reimbursement of reasonable attorney fees; and such other relief as the Court deems just and proper in the circumstances. The Company was not in possession of the Robinson Mine at the time of the events in question. BHP Copper has made a claim of indemnity against the Company claiming that, under the terms of the purchase agreement pursuant to which the Company acquired RNMC, the Company has an obligation to indemnify and hold harmless BHP Copper and its affiliates from any liability arising pursuant to the Davises' lawsuit. The Company has rejected BHP Copper's claim for indemnity. The Company has made a similar claim of indemnity against BHP Copper. BHP Copper has rejected the Company's claim for indemnity. As the Company was not the owner of the Robinson Mine at the time of the occurrence of the events in question and is not currently aware of all of the facts, and because no discovery has been conducted in this litigation, it is not possible at this time for the Company to assess its potential liability in this matter or whether it has an obligation of indemnity to or a right of indemnity from BHP Copper.

(c) BLM requires that RNMC recalculate the amount of the Environmental Bond on an annual basis. Initial estimates, which have not been approved by the BLM or the state of Nevada, indicate that the amount of the bond may increase from the current amount of $20,840 to $22,000 in 2007. This increase addresses the annual BLM cost update and minor modification for South Tripp Dump expansion only. The December 2006 reclamation plan update also included costs associated with the potential D-Pad heap leach expansion which if approved for construction will further adjust the bond amount.

24. SUBSEQUENT EVENTS

(a) Subsequent to 31 December 2006 the Mine entered into an agreement to purchase, on a take or pay basis, 504,000 gallons per month of diesel fuel at a price of $2.00 per gallon for the 12 month period beginning 1 February 2007.

(b) On 6 March 2007, the Company completed a $200,000 syndicated private loan financing, which consists of a $150,000 First Lien Senior Secured Credit Facility (the "First Facility") and a $50,000 Second Lien Junior Secured Credit Facility (the "Second Facility") (together, the "Facilities"). The First Facility has a 5 year term and bears interest at LIBOR + 650 basis points. The Second Facility has a 7 year term and bears interest at LIBOR + 1,000 basis points. The Second Facility lenders received 2,027,776 warrants to purchase common shares of the Company at an exercise price of CAD$9.24 per share that expire 1 March 2012.

(c) On 19 April 2007, the Company purchased a three year interest rate cap with a strike rate at 5.35%, on a notional amount of $l00,000.

(d) On 25 April 2007, the Company filed a preliminary prospectus with the British Columbia Securities Commission in connection with the previously announced CAD$131,040 bought deal financing arranged by a syndicate of underwriters.

(e) On 25 April 2007, further to the announcement made on 30 March 2007 of recommended offers (the "Offers") by the Company to acquire the whole of the issued and to be issued share capital and traded warrants of International Molybdenum Plc ("InterMoly"), the Company posted the offer document containing the full terms and conditions of the Offers to InterMoly Shareholders and InterMoly Warrantholders, together with the prospectus equivalent document and two forms of acceptance. The Offers are initially open for acceptance until 18 May 2007.

2. REPORT OF THE AUDITORS FOR THE FINANCIAL STATEMENTS OF QUADRA MINING LTD. FOR THE YEAR ENDED 31 DECEMBER 2007

The following is the report of PricewaterhouseCoopers LLP for the year ended 31 December 2007 as extracted from the annual report of Quadra Mining Ltd. for the year ended 31 December 2007 ("2007 Quadra Mining Ltd.'s Annual Report"). The page reference in this report are the same as those in the 2007 Quadra Mining Ltd.'s Annual Report. The audited financial statements together with the relevant notes to the financial statements of Quadra Mining Ltd. as extracted from the 2007 Quadra Mining Ltd.'s Annual Report are also set out below.

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Auditors' Report

To the Shareholders of
Quadra Mining Ltd.

We have audited the consolidated balance sheets of Quadra Mining Ltd. (the "Company") as at 31 December 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 31 December 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
19 February 2008

Management's Responsibility 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*

19 February 2008

Consolidated Balance Sheets
(US Dollars in Thousands)

		31 December 2007	31 December 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.

Consolidated Statements of Operations, Comprehensive Income and Retained Earnings (Deficit)
(US Dollars in Thousands)

		Year ended 31 December 2007	Year ended 31 December 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.

Consolidated Statements of Cash Flows
(US Dollars in Thousands)

		Year ended 31 December 2007	Year ended 31 December 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.

Notes to Consolidated Financial Statements

(US Dollars in Thousands)
Year ended 31 December 2007

1. NATURE OF OPERATIONS

Quadra Mining Ltd. ("Quadra" or the "Company") was incorporated on 15 May 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 1 January 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.

(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 1 January 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 31 December 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

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 31 December 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 31 December 2007, the amount of the bond increased to $23,176. Subsequent to the year ended 31 December 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 31 December 2007:

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

(c) As of 31 December 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 30 March 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 22 June 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

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 31 December 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

			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 31 December 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 15 April 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 31 December 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).

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)

The significant components of the Company's future income tax assets and liabilities as at 31 December 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 31 December 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 31 December 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 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 31 December 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 31 December 2007 the Company still owed 18,750 ounces of gold to the vendor (31 December 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 31 December 2007 (31 December 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.

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 31 December 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 31 December 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 31 December 2006 was ($46,468).

(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 1 February 2007. As at 31 December 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 31 December 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 31 December 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 31 December 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 1 January	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	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 31 December 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.

During the year ended 31 December 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 31 December 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 minimum lease payments	11,744
Less: interest	(2,833)
Balance of the obligation	8,911
Less: current portion	(1,504)
Long-term portion	7,407

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 1 January 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 31 December 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 Inter Moly 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 31 December 2007	55,115,736	336,031

(i) On 31 January 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 31 December 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 8 April 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).

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 31 December 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 31 December 2007 (in Canadian dollars):

Exercise price per share	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
			C$		*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

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

	Options	**Weighted-average exercise price**
		(C$)
Outstanding at 1 January 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 31 December 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 31 December 2007	3,536,073	11.76

During the year ended 31 December 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 31 December 2006. The following warrants were outstanding and exercisable at 31 December 2007:

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

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

	Dollar amount
Balance at 1 January 2006	5,155
Stock-based compensation	2,399
Transfer to share capital for stock options and warrants exercised	(3,056)
Balance at 31 December 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 31 December 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

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.

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 31 December 2007, the Company incurred legal fees of $890 with that entity (year ended 31 December 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 21 March 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 4 October 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 18 January 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.

3. REPORT OF THE AUDITORS FOR THE FINANCIAL STATEMENTS OF QUADRA MINING LTD. FOR THE YEAR ENDED 31 DECEMBER 2008

The following is the report of PricewaterhouseCoopers LLP for the year ended 31 December 2008 as extracted from the annual report of Quadra Mining Ltd. for the year ended 31 December 2008 ("2008 Quadra Mining Ltd.'s Annual Report"). The page reference in this report are the same as those in the 2008 Quadra Mining Ltd.'s Annual Report. The audited financial statements together with the relevant notes to the financial statements of Quadra Mining Ltd. as extracted from the 2008 Quadra Mining Ltd.'s Annual Report are also set out below.

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Chartered Accountants
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Canada V6C 3S7
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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, 2008 and 2007 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity 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, 2008 and 2007 and the result of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants,
Vancouver, BC
March 5, 2009

MANAGEMENT'S RESPONSIBILITY 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**
Chief Executive Officer *Chief Financial Officer*

March 5, 2009

CONSOLIDATED BALANCE SHEETS

(US Dollars in Thousands)

		December 31, 2008	December 31, 2007 As restated *(Note 3)*
ASSETS			
Current			
Cash and cash equivalents	*Note 4*	107,797	263,586
Receivables		19,505	13,595
Inventory	*Note 5*	88,257	42,730
Derivative instruments	*Note 13*	31,814	9,389
Other current assets	*Note 6*	23,442	20,189
Future income tax assets	*Note 10*	—	12,090
Total Current Assets		270,815	361,579
Environmental trust and bond	*Note 7*	55,404	46,391
Mineral properties, plant and equipment	*Note 8*	506,921	342,529
Non-current assets	*Note 9*	3,109	15,123
Future income tax assets	*Note 10*	15,718	—
Total Assets		851,967	765,622
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		49,448	44,986
Deferred gold consideration payable	*Note 8(b)*	—	15,104
Other current liabilities	*Note 12*	24,545	14,315
Total Current Liabilities		73,993	74,405
Senior credit facility	*Note 11*	—	145,151
Asset retirement obligations	*Note 14*	40,969	37,458
Obligations under capital leases	*Note 15*	5,473	7,407
Future income tax liabilities	*Note 10*	—	15,449
Total Liabilities		120,435	279,870
Non-controlling interest		—	2,711

		December 31, 2008	December 31, 2007 As restated *(Note 3)*
Shareholders' Equity			
Share capital	*Note 16(a)*	578,474	336,031
Stock options and warrants	*Note 16(b)*	35,253	27,034
Accumulated other comprehensive (loss) income	*Note 6*	(40,181)	599
Retained earnings		157,986	119,377
Total Shareholders' Equity		731,532	483,041
Total Liabilities and Shareholders' Equity		851,967	765,622

Commitments (Note 8, Note 25), Contingencies (Note 26), Subsequent Event (Note 27)

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

CONSOLIDATED STATEMENTS OF EARNINGS

(US Dollars in Thousands)

		Year ended December 31, 2008	**Year ended December 31, 2007** As restated *(Note 3)*
Revenues from concentrate sales	*Note 17*	487,501	493,848
Cost of sales		254,511	232,951
Start-up inventory adjustment at the Carlota mine	*Note 5*	15,249	—
Amortization, depletion and depreciation		19,071	11,949
Accretion of asset retirement obligations	*Note 14*	3,377	2,519
Royalties and mineral taxes		34,018	27,780
		326,226	275,199
Operating income		161,275	218,649
General and administrative		16,463	10,274
Stock-based compensation	*Note 16(b)*	9,076	5,386
Loss on settlement of debt	*Note 11*	15,940	11,039
Impairment of Malmbjerg mineral property	*Note 8(d)*	95,682	—
(Gain) loss on derivatives	*Note 13*	(31,088)	15,293
Foreign exchange loss (gain)		3,674	(6,475)
Net interest and other (income) expense	*Note 18*	(4,321)	807
Earnings before income taxes		55,849	182,325
Income tax expense	*Note 10*	17,240	47,780
Earnings for the year		38,609	134,545
Earnings per share			
Basic earnings per share		$0.61	$2.80
Diluted earnings per share		$0.60	$2.72
Weighted average shares outstanding — basic		62,931	48,690
Weighted average shares outstanding — diluted		64,357	50,114

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(US Dollars in Thousands)

	Year ended December 31, 2008	Year ended December 31, 2007
Net earnings	38,609	134,545
Other comprehensive (loss) income		
Unrealized loss (gain) on marketable securities	40,181	(599)
Reversal of unrealized gain on marketable securities	599	—
Total comprehensive (loss) income	(2,171)	135,144

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(US Dollars in Thousands)

	Year ended December 31, 2008	Year ended December 31, 2007 As restated *(Note 3)*
Share capital		
Balance — beginning of year	336,031	162,315
Shares issued for cash, net of issue costs *(Note 16(a))*	183,621	116,234
Shares issued for InterMoly acquisition *(Note 8(d))*	16,324	37,714
Shares issued for water rights acquisition *(Note 8(c))*	30,171	8,822
Stock options exercised	4,747	10,009
Warrants exercised	7,580	937
Balance — end of year	578,474	336,031
Stock options and warrants		
Balance — beginning of year	27,034	4,498
Stock-based compensation	10,701	6,582
Transfer to share capital for stock options and warrants exercised *(Note 16(a))*	(2,482)	(2,455)
Fair value of warrants issued	—	18,409
Balance — end of year	35,253	27,034
Accumulated other comprehensive income (loss)		
Balance — beginning of year	599	—
Realized gain on available-for-sale investments *(Note 6)*	(599)	—
Unrealized (loss) gain on available-for-sale investments *(Note 6)*	(40,181)	599
Balance — end of year	(40,181)	599
Retained earnings		
Balance — beginning of year	119,377	(1,697)
Retroactive application of CICA HB3064 *(Note 3)*	—	(13,471)
Earnings for the year	38,609	134,545
Balance — end of year	157,986	119,377
Total shareholders' equity	731,532	483,041

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in Thousands)

		Year ended December 31, 2008	**Year ended December 31, 2007**
			As restated *(Note 3)*
OPERATING ACTIVITIES			
Earnings for the year		38,609	134,545
Adjustment for items not involving cash from operating activities:			
Stock-based compensation		9,076	5,386
Amortization, depletion, depreciation and accretion		22,448	14,468
Loss on settlement of debt		15,940	11,039
Impairment of Malmbjerg mineral property		95,682	—
Start-up inventory adjustment at the Carlota mine	*Note 5*	15,249	—
Gain on derivatives		(19,961)	(34,386)
Future income tax (recovery) expense		(10,903)	28,429
Other		291	3,044
		166,431	162,525
Net changes in non-cash working capital:	*Note 24*	(7,684)	(43,933)
Cash provided from operating activities		158,747	118,592
INVESTING ACTIVITIES			
Additions to mineral properties, plant and equipment		(288,283)	(141,754)
Investment in marketable securities		(54,557)	(7,368)
Proceeds from sale of marketable securities		9,517	—
Increase in environmental bond and trust		(9,013)	(3,000)
Refund of security deposit		14,900	—
Payment of deferred gold consideration		(16,912)	(4,613)
InterMoly acquisition		(864)	(2,326)
Decrease in other assets		1,623	597
Cash used in investing activities		(343,589)	(158,464)

		Year ended December 31, 2008	Year ended December 31, 2007
			As restated *(Note 3)*
FINANCING ACTIVITIES			
Proceeds from issue of common shares, net of issue costs	*Note 16(a)*	192,960	138,969
Payment of senior credit facility	*Note 11*	(150,000)	(50,000)
Payment of loan amendment and prepayment fees	*Note 11*	(12,000)	(5,000)
Increase in senior credit facility	*Note 11*	—	192,942
Decrease in obligations under capital leases		(1,907)	(1,659)
Decrease in bank indebtedness		—	(16,900)
Decrease in notes payable		—	(2,668)
Cash provided by financing activities		29,053	255,684
Net (decrease) increase in cash and cash equivalents during the year		(155,789)	215,812
Cash and cash equivalents, beginning of year		263,586	47,774
Cash and cash equivalents, end of year		107,797	263,586

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Us Dollars in Thousands)

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 to date have been generated by the Robinson mine. Construction of the Company's Carlota mine was completed during the year, and the first production of copper from this new mine was achieved in December 2008.

The Company also owns an advanced exploration project in Chile ("Sierra Gorda") and has a 99% interest in the Malmbjerg molybdenum project in Greenland.

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 99% interest in International Molybdenum Ltd. ("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 production is achieved, or the property is sold, abandoned or impaired. 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 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 three to seven 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 earnings 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 product is sold under pricing arrangements where final prices are determined based on quoted market prices for the refined product in a period subsequent to the date of sale. For sales of concentrates, final pricing is generally determined three to four months after the date of sale. Revenues 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, leach pad inventory, copper cathodes and supplies. Concentrate inventories, leach pad inventories and copper cathodes are valued at the lower of average cost of production and net realizable value. Supplies inventories are valued at the lower of cost and net realizable value. 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. In accordance with CICA HB 3031 "Inventory", which the Company adopted effective January 1, 2008, any write-downs of inventory to net realizable value are recorded as an operating expense on the statement of earnings. If there is a subsequent increase in the value of inventories, the previous write-downs to net realizable value are reversed.

Leach pad inventory is comprised of ore that has been extracted from the mine and placed on the heap leach pad for further processing. The cost of leach pad inventory includes mining costs and the cost of leaching operations, including depreciation and an allocation of mine site administrative costs. Costs are removed from leach pad inventory as cathode copper is produced, based on the average cost per recoverable pound of copper in process.

The quantity of recoverable copper is an engineering estimate which is based on the expected grade and recovery of copper from the ore placed on the leach pad. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. However, the estimate of recoverable copper placed on the leach pad will be reconciled to actual copper production in the future, and the engineering estimates will be refined based on actual results over time.

(f) Financial instruments

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, unless an unrealized loss is considered to be other than temporary in which case the loss is recorded on the consolidated statement of earnings for the period. 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 recorded at fair value. For a transaction designated as a cash flow hedge, or for hedges of a net investment in a self-sustaining foreign operation, the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. Any gain or loss relating to the ineffective portion of the hedge is recognized immediately in the consolidated statements of earnings. The Company has not applied hedge accounting in the past and consequently all changes in the fair value of derivatives have been recognized immediately in the statements of earnings.

(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 United States dollars.

Transactions denominated in currencies other than the United States dollars 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 recorded 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 (or "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. 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.

(p) Recent accounting pronouncement

The Canadian Institute of Chartered Accountants ("CICA") recently issued Handbook Section 1582 "*Business Combinations*" to replace Section 1581. The objective of this Section is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects by establishing principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Section shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2011. Earlier application is permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICY

Goodwill and Intangible Assets

CICA Handbook Section 3064 "*Goodwill and Intangible Assets*" establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard requires expenditures incurred to provide future economic benefits to an entity in order to be capitalized as an intangible asset. On adoption of this new standard, EIC 27 "*Revenues and Expenditures during the Pre- operating Period*" is withdrawn, As a result, start-up costs that were previously capitalized are required to be expensed as incurred unless these expenditures are included in the cost of an item of property, plant and equipment in accordance with Section 3061 "*Property, Plant and Equipment*". The new standard applies to fiscal years beginning on or after October 1, 2008 and early adoption is encouraged.

In the fourth quarter of 2008, the Company early adopted this new standard. Accordingly, certain start up costs at the Robinson mine and the changes in value of the deferred gold consideration related to the Carlota mine that were previously capitalized to mineral properties have been expensed. This change in accounting policy has been applied retroactively and the financial statements for the year ended December 2007 have been restated. A summary of the effect of this change is shown below:

Effect on consolidated balance sheet as at December 31, 2007:

Increase in future income tax assets	8,259
Decrease in mineral property, plant and equipment	(23,597)
Decrease in retained earnings	(15,338)

Effect on consolidated statements of earnings for the year ended December 31, 2007:

Decrease in depreciation, depletion and amortization	(1,883)
Increase in interest and other expense	4,755
Decrease in future income tax expense	(1,005)
Decrease in earnings	1,867
Decrease in earnings per share — basic	$0.04
Decrease in earnings per share — diluted	$0.04

4. CASH AND CASH EQUIVALENTS

	2008	2007
Cash deposits, bankers acceptances and term deposits	80,797	143,915
Government money market investments	27,000	119,671
Total	107,797	263,586

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, 2008, the Company's cash and cash equivalents were yielding a weighted average interest rate of 0.95%. At December 31, 2008, the majority of the Company's cash and cash equivalents were denominated in U.S. dollars.

5. INVENTORY

	2008	2007
Copper concentrate	25,584	24,879
Copper cathode	1,151	—
Carlota leach pad inventory	38,839	—
Supplies	22,683	17,851
Total	88,257	42,730

In the fourth quarter of 2008 the Company recorded an adjustment of $15,429 to reduce the carrying value of Carlota's copper cathode and leach pad inventory to net realizable value. The net realizable value was estimated based on an average expected sales price of $1.62 per pound of copper in process.

6. OTHER CURRENT ASSETS

	2008	2007
Prepaid expenses	4,676	3,061
Prepaid royalties	4,391	—
Security deposits	—	8,900
Marketable securities	14,375	8,228
Total other current assets	23,442	20,189

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 was recorded in shareholders' equity as a component of other comprehensive income in 2007.

During the first quarter of 2008, the Company sold all of its available-for-sale marketable securities acquired in 2007 and recorded a related gain of $1,888, which is included in other income (Note 18) on the consolidated statement of earnings. This gain included an amount of $599 that was previously recorded in shareholders' equity as a component of other comprehensive income which was reversed upon the realization of the gain.

During the third quarter of 2008, the Company acquired additional available-for-sale marketable securities for a total cost of $54,556. The fair value based on the quoted market price of these marketable securities decreased to $14,375 at December 31, 2008, resulting in an unrealized loss of $40,181. Although significant, this unrealized loss arose primarily in the fourth quarter of 2008 and was not considered to be "other than temporary" and therefore the unrealized loss has been recorded in shareholders' equity as a component of other comprehensive income.

7. ENVIRONMENTAL TRUST AND BOND

	2008	2007
Environmental bond — Robinson mine (a)	31,463	23,176
Cash in trust for Robinson reclamation (b)	16,249	16,040
Environmental bond — Carlota mine	7,125	7,125
Environmental bond — other	567	50
Total	55,404	46,391

(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 the BLM and adjusts the amount of the bond accordingly. During the year ended December 31, 2008, the amount of the bond increased to $31,463.

(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. The following table summarizes the movements in the trust balance during the year ended December 31, 2008:

	Contributions to the trust	**Reclamation costs paid by the trust**	**Net trust fundsthe available**
Balance at January 1, 2008	20,940	(4,900)	16,040
Interest income	209	—	209
Balance at December 31, 2008	21,149	(4,900)	16,249

8. MINERAL PROPERTIES, PLANT AND EQUIPMENT

	2008	**2007** As restated *(Note 3)*
Mineral property acquisition and development costs	390,954	211,946
Plant, buildings and equipment	218,426	120,601
Equipment under capital leases	11,354	11,926
Asset retirement cost	31,348	28,904
	652,082	373,377
Accumulated depreciation, depletion, amortization and impairment:		
Mineral property acquisition and development costs	(103,031)	(11,176)
Plant, buildings and equipment	(24,737)	(6,664)
Equipment under capital leases	(5,787)	(4,557)
Asset retirement cost	(11,606)	(8,451)
	(145,161)	(30,848)
	506,921	342,529

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

			2008
	Cost	**Accumulated depreciation, depletion, amortization and impairment**	**Net book value**
Robinson mine (Nevada) (a)	159,345	(48,995)	110,350
Carlota copper mine (Arizona) (b)	263,639	—	263,639
Sierra Gorda (Chile) (c)	127,871	(123)	127,748
Malmbjerg molybdenum project (Greenland) (d)	100,835	(95,835)	5,000
Other	392	(208)	184
	652,082	(145,161)	506,921

			2007 **As restated** *(Note 3)*
	Cost	**Accumulated depreciation, depletion, amortization and impairment**	**Net book value**
Robinson mine (Nevada) (a)	111,725	(30,589)	81,136
Carlota copper mine (Arizona) (b)	154,281	—	154,281
Sierra Gorda (Chile) (c)	34,614	(62)	34,552
Malmbjerg molybdenum project (Greenland) (d)	72,399	(62)	72,337
Other	358	(135)	223
	373,377	(30,848)	342,529

(a) Robinson mine

During 2008, the Company incurred $47,620 related to development costs and the acquisition of mining equipment for the 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 7(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 average price of copper for the year exceeds the Trigger Price.

The Company incurred royalty expenses of $13,446 and $13,476 pertaining to the Royal Gold and Franco Nevada royalty agreements, respectively, for the year ended December 31, 2008 (2007: Royal Gold — $13,341; Franco Nevada — $3,519), which have been recorded in the consolidated statements of earnings.

(b) Carlota mine

The construction of the Carlota mine was completed during 2008 and production of copper cathode commenced in December 2008. During 2008, the Company capitalized $102,320 of costs related to project development and the acquisition of mining equipment for the Carlota mine and also capitalized interest and financing costs of $7,038 associated with the Secured Credit Facility (Note 11).

During the year ended December 31, 2008, the Company paid the remaining 18,750 ounces of deferred gold consideration to the vendors of the Carlota mine, which the Company acquired in 2005. As of December 31, 2007 the Company still owed 18,750 ounces of gold to the vendor.

The Carlota mine 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 mine 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 $4,391 (Note 6) have been paid by Carlota and will be credited against future royalty payments.

(c) Sierra Gorda

The Sierra Gorda project is comprised of mineral properties acquired under eight option agreements. During 2008, the Company made scheduled option payments and accelerated option payments totaling $24,853 to settle all eight option agreements. As a result of these payments, the Company now has a 100% ownership interest in the Sierra Gorda project. Three of the Sierra Gorda option agreements are the subject of litigation (Note 26). The Company also has two additional option agreements to acquire additional ground contiguous to the Sierra Gorda project for a total purchase price of $5,800 payable over six years, of which $225 has been paid to date.

During 2008, the Company incurred $19,937 (2007 — $11,177) of exploration and development costs on the Sierra Gorda project. In addition, the Company has been acquiring water rights in the region that may be used in the ultimate development of the Sierra Gorda project. During 2008 the Company issued 1,231,916 common shares with a value of $30,171 and made total cash payments of $17,440 for the acquisition of water rights and option payments for additional water rights. In 2007 the Company issued 550,800 common shares with a value of $8,822 in exchange for a 100% interest in a privately held Chilean company that holds water rights in Region II of Northern Chile. The acquisition cost of these water rights has been capitalized as a mineral property development cost.

(d) Malmbjerg molybdenum project

The Company's 99.1% interest in the Malmbjerg molybdenum project was acquired through the acquisition of International Molybdenum plc ("InterMoly"), a public company listed on the Alternative Investment Market of the London Stock Exchange. The Company initially acquired 82.5% of InterMoly in 2007 in exchange for 3,293,111 Quadra common shares and then increased this interest to 99.1% during 2008 in exchange for an additional 650,529 Quadra common shares and cash consideration of $755. These transactions were considered to be asset purchases and amounts of $39,849 and $17,229 were capitalized as mineral property acquisition costs in 2007 and 2008, respectively. These amounts included $79,942 for the fair value of the total purchase consideration including transaction costs, a $17,798 future income tax liability which relates to the difference between the accounting value allocated to the mineral property and its tax basis, and $5,235 for other liabilities acquired.

During 2008, the Company incurred $7,099 of development costs on the Malmbjerg project (2007 — $13,641)

At the end of 2008, the Company reviewed the carrying value of the Malmbjerg mineral property in light of the significant decline in the price of molybdenum during the fourth quarter of 2008 and the ongoing deterioration of global equity and credit markets. As a result of the review, it was determined, that the Malmbjerg mineral property was impaired and a write down of $95,682 was recorded in the consolidated statements of earnings, to adjust Malmbjerg's carrying value to an estimated fair value of $5,000 based on a comparison to the value of similar assets. The future income tax liability related to the acquisition of Malmbjerg was also reversed, resulting in a future income tax recovery of $17,798 in the consolidated statements of earnings.

(e) Measurement uncertainty

The net book values of the mineral properties, plant and equipment related to the Robinson mine and the Carlota mine were $110,350 and $263,639 respectively at December 31, 2008. A review of these carrying values indicated that at December 31, 2008, the properties were not impaired. This conclusion is based on an estimate of future undiscounted cash flows for these operations which includes assumptions about long- term copper and gold prices, future production levels, and future operating, capital and reclamation costs. Future changes in the assumptions used for impairment testing may result in material changes in asset carrying values.

9. NON-CURRENT ASSETS

	2008	**2007**
Security deposits	2,695	10,682
Prepaid royalties	—	4,065
Other long-term assets	414	376
Total	3,109	15,123

10. INCOME TAXES

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

	2008	2007
		As restated *(Note 3)*
Current tax expense	28,143	19,351
Future income tax (recovery) expense	(10,903)	28,429
Income tax expense	17,240	47,780

The future income tax recovery in 2008 includes a recovery of $17,798 which relates to the reversal of a future income tax liability that was related to the acquisition of Malmbjerg project *(Note 8(d))*.

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

	2008	2007
		As restated *(Note 3)*
Applicable statutory rate	31.0%	34.12%
Income tax expense calculated using statutory rate	17,313	62,159
Change in valuation allowance	(1,261)	12,445
Foreign exchange gain not taxable	—	(4,160)
Depletion allowance	(16,805)	(19,567)
Losses without tax benefits	11,847	—
Rate adjustment	3,283	396
Other, net	2,863	(3,493)
Income expense	17,240	47,780

The significant components of the Company's future income tax assets and liabilities as at December 31, 2008 and 2007 are as follows:

	2008	**2007** As restated *(Note 3)*
Future income tax assets (liabilities) — current:		
Derivative Instruments	(11,550)	322
Other	(2,943)	11,768
	(14,493)	12,090
Future income tax assets (liabilities) — non-current:		
Mineral properties, plant and equipment	30,004	2,625
Malmbjerg mineral property	—	(11,479)
Alternative Minimum Tax credits	17,736	22,266
Other deductible tax pools	7,529	7,617
Valuation allowance	(39,551)	(36,478)
	15,718	(15,449)

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, 2008, the Company had available Alternative Minimum Tax credits of $17,736 which can be carried forward indefinitely and applied to reduce regular taxes payable. As at December 31, 2008, the Company also had Canadian tax loss carry-forwards of approximately $10,175.

11. SENIOR CREDIT FACILITY

On June 9, 2008 the Company repaid its $150 million First Lien Secured Credit Facility. This Credit Facility was scheduled to mature on March 2, 2012 and was bearing interest at LIBOR + 6.5%, payable quarterly. There were no mandatory principal payments required before the maturity date, however, the Company was 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.

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 Excess Cash Flow for the last six months of 2007 in exchange for a cash payment of $7,500 and an agreement to establish a minimum LIBOR floor of 3.75% for the remaining life of the Credit Facility. The cash payment of $7,500 was added to the carrying amount of the debt in the first quarter of 2008.

When the Credit Facility was repaid in June 2008 the Company also paid a prepayment premium of $4,500, representing 3% of the outstanding debt balance, in accordance with the terms of the Credit Facility. Unamortized costs related to the debt of $11,440 were also expensed resulting in a total loss on settlement of debt of $15,940 in the second quarter of 2008.

The $150 million First Lien Secured Credit Facility was completed in March 2007 together with $50 million Second Lien Junior Secured Credit Facility ("Second Facility"). 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 in 2007.

12. OTHER CURRENT LIABILITIES

	2008	2007
Tax payable	8,521	12,811
Obligations under capital lease — current portion *(Note 15)*	1,531	1,504
Future income tax liabilities — current *(Note 10)*	14,493	—
Total other current liabilities	24,545	14,315

13. DERIVATIVE INSTRUMENTS

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

	2008	2007
Copper puts (a)	38,481	8,774
Fuel contracts (c)	(6,667)	486
Interest rate cap	—	129
Derivative instruments	31,814	9,389

The (gain) loss on derivatives is comprised as follows:

	2008	2007
Copper puts (a)	(38,369)	2,768
Copper and gold forward contracts (b)	—	12,620
Fuel contracts (c)	7,152	(486)
Interest rate cap	129	391
(Gain) loss on derivatives	(31,088)	15,293

(a) Copper Puts

The Company has a floor price protection program for a portion of its anticipated copper sales through June 2009. At December, 2008 the following copper put options remain outstanding (2007 — 149 million pounds):

Expiry	Pounds (millions)	Strike price	Fair value
January to March 2009	17.8	$2.50	19,568
April to June 2009	17.2	$2.50	18,913
Total	35.0	$2.50	38,481

During 2007 and 2008, the Company purchased copper put options from various major international financial institutions at a total cost of $11,542 and $2,465, respectively, for a total of approximately 258 million pounds of copper. Under the terms of these derivative contracts, if the average LME copper cash price for the month is less than the strike price, the Company will receive the difference in price for the contracted number of pounds.

During the fourth quarter of 2008, a total of 21 million pounds of copper put options purchased in 2008 were exercised and the Company received cash payments $11,127 from the counterparties. None of the put options were exercised in 2007. During 2008, a total of 159 million pounds of copper put options expired (2007 — 43 million pounds).

At as December 31, 2008, the fair value of the outstanding put options increased to $38,481 and resulted in an unrealized derivative gain of $27,242.

(b) 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 derivative loss in 2007 is based on the difference between the actual sales price and the forward contracted price.

(c) Fuel Contracts

In 2008, the Company entered into NYMEX heating oil futures contracts for 7.8 million gallons at a strike price of $2.51/gallon. The settlement of these contracts occurs between December 2008 and November 2009. The contracts were acquired at no cost but are subject to margin calls. The Company will pay or receive cash based on the difference between the strike price and the actual cost of NYMEX heating oil in the month of settlement.

In December 2008, the Company settled 650,000 gallons of NYMEX heating oil at a price of $1.42/gallon resulting in a realized loss of $707. At December 31, 2008, the price of NYMEX heating oil was $1.53/gallon. As a result, the Company recorded an unrealized loss of $7,152. In February 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. As at December 31, 2007, the fair value of the contract was $486 resulting in an unrealized gain of $486 in 2007. This agreement expired in February 2008.

14. ASSET RETIREMENT OBLIGATIONS

	2008	**2007**
Balance at January 1	37,458	24,093
Change in estimated timing and amount of Robinson closure costs	—	8,712
Additions for other mineral properties	1,794	2,134
Payment for reclamation costs	(1,660)	—
Accretion	3,377	2,519
Balance at December 31	40,969	37,458

Asset retirement obligations allocated by mineral properties is as follows:

	2008	**2007**
Robinson mine	36,876	35,289
Carlota project	3,343	770
Other mineral properties	750	1,399
	40,969	37,458

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. 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.

During the year ended December 31, 2008, the Company had updated the reclamation cost estimates for the Carlota mine and increased its estimate of the undiscounted closure costs to $9,901 (2007 — $1,625). In assessing the carrying amount for the incremental portion of the asset retirement obligations, the Company used a weighted average credit-adjusted risk-free rate of 13.9% and an estimated inflation rate of 1%, resulting in an additional asset retirement obligation of $2,444.

As of December 31, 2008 the Company had posted environmental bonds and held cash in a reclamation trust totaling $55,404 (Note 7) 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.

15. 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:

2009	2,457
2010	6,026
2011	89
Total minimum lease payments	8,572
Less: interest	(1,568)
Balance of the obligation	7,004
Less: current portion *(Note 12)*	(1,531)
Long-term portion	5,473

16. 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, 2007	38,129,024	162,315
Capital stock issued		
Shares issued for cash, net of issue costs (i)	11,960,000	116,234
Stock options exercised	1,101,690	7,721
Warrants exercised (ii)	81,111	770
Shares issued for InterMoly acquisition *(Note 8(d))*	3,293,111	37,714
Shares issued for water rights acquisition *(Note 8(c))*	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
Capital stock issued		
Shares issued for cash, net of issue costs (iii)	7,966,750	183,621
Shares issued for InterMoly acquisition *(Note 8(d))*	650,529	16,324
Shares issued for water rights acquisition *(Note 8(c))*	1,231,916	30,171
Stock options exercised	386,928	3,891
Warrants exercised (ii)	648,888	5,954
Transfer from contributed surplus:		
Stock options and warrants exercised		2,482
Balance at December 31, 2008	66,000,747	578,474

(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.

(ii) During the year ended December 31, 2008, warrants to purchase 648,888 common shares (2007 — 81,111 common shares) were exercised. These warrants were issued to the Second Facility Lenders in March 2007.

(iii) In June 2008, the Company completed a bought-deal equity financing with a syndicate of underwriters through which the Company issued 7,145,000 common shares at a price of C$24.50 per share for gross proceeds of $171,656 (C$175,053). In connection with this financing, the underwriters were also granted an option to acquire up to an additional 1,071,750 common shares at a price of C$24.50 per share until July 5, 2008. In July 2008, the underwriters exercised a portion of their option and acquired an additional 821,750 common shares for additional gross proceeds of $19,757 (C$20,133).

(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, 2008 (in Canadian dollars):

	Options outstanding			Options exercisable	
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 — $7.76	658,000	1.69	6.37	551,334	6.47
$9.18 — $11.91	618,604	2.62	10.59	613,604	10.58
$12.10 — $15.35	1,736,173	3.41	13.18	1,019,833	13.11
$16.50 — $20.86	653,000	3.99	18.65	309,832	18.50
$20.90 — $24.60	1,292,500	4.37	24.51	430,821	24.51
	4,958,277	3.41	15.63	2,925,424	13.58

The following tables summarize the stock option activity for the year ending December 31, 2008 and 2007:

		2008
	Options	Weighted-average exercise price *(C$)*
Outstanding at January 1, 2007	2,467,366	7.86
Granted	2,262,500	13.82
Forfeited	(92,103)	10.79
Exercised	(1,101,690)	7.26
Outstanding at December 31, 2007	3,536,073	11.76
Granted	1,984,000	21.69
Forfeited	(174,868)	18.67
Exercised	(386,928)	10.03
Outstanding at December 31, 2008	4,958,277	15.63

During the year ended December 31, 2008, 1,984,000 stock options were granted to directors and employees (2007 — 2,262,500). The weighted-average fair value of these stock options is estimated to be $6.20 each (2007 — $4.20). The total fair value of the stock options granted is amortized over the two year vesting period. The stock-based compensation amortization for the year ended December 31, 2008 was $10,701 of which $1,625 was capitalized to mineral properties (December 31, 2007: $1,196).

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:

	2008	**2007**
Expected volatility	49%	45%
Risk-free interest rate	2.96%	4.86%
Expected lives	2.1 years	2.5 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 outstanding and exercisable at December 31, 2008:

	Common shares to be issued on exercise	**Exercise price** *C$*	**Expiry date**
Traded warrants *(Note 16 (a))*	5,980,000	20.00	May 9, 2010
Lender warrants	1,297,767	9.24	March 1, 2012
Exercisable at December 31, 2008	7,277,767	18.08	

The following table summarizes warrant activity for the years ended December 31, 2008 and 2007:

	Common shares to be issued on exercise	**Exercise price** *C$*
Outstanding at January 1, 2007	8,007,766	17.28
Exercised	(81,111)	9.24
Outstanding at December 31, 2007	7,926,655	17.36
Exercised	(648,888)	9.24
Outstanding at December 31, 2008	7,277,767	18.08

17. REVENUES FROM CONCENTRATE SALES

	2008	2007
Copper revenues	501,925	417,099
Gold revenues	115,406	75,341
Molybdenum revenues	1,402	2,868
Price adjustments	(113,836)	27,783
Refining and treatment charges	(17,396)	(29,243)
	487,501	493,848

18. INTEREST AND OTHER (INCOME) EXPENSE

	2008	2007
		As restated
		(Note 3)
Interest income	(5,747)	(7,734)
Interest expense	2,063	2,921
Gain on sale of marketable securities	(1,888)	(1,707)
Change in value of the deferred gold consideration	1,535	4,755
Other	(284)	2,572
	(4,321)	807

19. 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. The Company manages the capital structure and makes adjustments 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 of assets, adjust the amount of investments or repay debt.

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.

20. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate 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 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. The Company has not entered into any arrangements to hedge currency risks. The Company does not believe that a change in the exchange rate between US and Canadian Dollars would have a material impact on the Company's financial statements.

(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 contracts 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 shortly after shipment. The Company manages the credit risk for trade and other receivables through established credit monitoring activities.

- Cash and cash equivalents; the counter-parties primarily consist of banks, governments and government agencies.

- Derivative instruments; the counterparties consist of several large international financial institutions.

The Company monitors the concentration of exposure and where possible, if necessary, takes steps to limit exposures to any one counterparty. The Company does not believe there are any issues at the current time.

(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 19. Accounts payable and accrued liabilities, and other current liabilities are due within one year. The contractual maturities of obligations under capital leases are set out in Note 15.

(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 cash and cash equivalents is limited because of their short-term nature and because these investments are generally held to maturity. Since a variable rate of interest is earned on cash and cash equivalents, changes in market interest rates at the year end would not have a material impact on the Company's financial statements.

(e) Commodity price risk

The value of the Company's mineral resource properties is related to the price of copper and gold 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 related to 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 and gold. In the year ended December 31, 2008, the Company's only source of revenues was from the sale of 147.2 million pounds of copper and 127 thousand ounces of gold. The Company has purchased copper put options to reduce the copper price risk (Note 13). If metal prices decline significantly, or for a prolonged period the Company's operations and development projects may not be economically feasible.

In addition, changes in commodity price can have a significant impact on the value of financial instruments, in particular, receivables which include sales that have been provisionally valued, and not yet subject to final pricing. At December 31, 2008, accounts receivable and revenues include approximately 43.2 million pounds of copper that has been provisionally valued at $1.33 per pound. The final pricing of these provisionally priced sales is expected to occur between January 2009 and April 2009. Changes in the price of copper from the amounts used to calculate the provisional values will impact the Company's revenues and working capital position in 2009. The following table summarizes the impact of the change in commodity price on the Company's financial statements at December 31, 2008 with all other variables held constant:

	A change of:	Would have changed the book value of assets at December 31, 2008 by:	Would have changed net earnings for the year ended December 31, 2008 by:
Copper price (per pound)	$ 0.50		
Receivables		21,599	15,231
Copper puts		17,500	12,341

21. FINANCIAL INSTRUMENTS

The Company's financial instruments are comprised of cash and cash equivalents, receivables, marketable securities, security deposits, accounts payable, environmental trust and bond, derivative instruments, and obligations under capital lease. Marketable securities and derivative instruments are carried at fair value. The fair values of receivables and accounts payable 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, and obligations under capital leases approximate their carrying value.

22. SEGMENTED INFORMATION

The Company's reportable segments are based on mineral properties (Note 8). All of the Company's revenue in 2007 and 2008 was generated by the Robinson mine. Except for the lower of cost or net realizable value inventory adjustment at the Carlota mine of $15,249 in 2008, all of the Company's operating income in 2007 and 2008 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:

	2008	**2007**
		As restated
		(Note 3)
Robinson mine	310,400	274,900
Carlota mine	323,629	172,410
Other mineral properties	139,842	107,417
Corporate and other	78,096	210,895
	851,967	765,622

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, 2008, the Company incurred legal fees of $570 with that entity (year ended December 30, 2007 — $890), which were at normal business terms.

24. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2008	**2007**
Increase in receivables	(5,910)	(9,693)
Increase in inventory	(6,191)	(5,073)
Increase in derivative instruments	(2,464)	(12,062)
Increase (decrease) in other current assets	(1,614)	(1,279)
Increase (decrease) in accounts payable and accrued liabilities	14,446	(8,409)
Decrease in other current liabilities	(5,951)	(7,417)
Net changes in non-cash working capital	(7,684)	(43,933)
Other supplemental information:		
Interest paid	9,342	10,085
Income tax paid	38,428	22,327

25. COMMITMENTS

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

The Company has entered into operating leases for office premises and mobile equipment that provide for minimum annual lease payments of $10,705 in 2009, $9,982 in 2010, $7,815 in 2011, $2,142 in 2012 and $515 in 2013.

26. CONTINGENCIES

The Company has been served with four lawsuits that have been filed in Chilean courts against the Company's wholly-owned Chilean subsidiary, Minera Quadra Chile Limitada. The lawsuits were filed on August 13, 2007, April 2, 2008, June 20, 2008 and July 10, 2008. Based on advice of Chilean counsel, Quadra believes that the option agreements are valid and that the legal claims are without merit.

The plaintiffs are minority shareholders in the "sociedades legales mineras" (SLM) or legal mining companies that owned certain of the mining tenements that were optioned to Quadra in 2004. In three of the cases, the plaintiffs are requesting that the option agreements to purchase the mining tenements be declared null and void. The plaintiffs in these cases are claiming that the SLM's were not authorized to sell the mining tenements. In the fourth case, the plaintiffs argue that if any of the first three cases are successful, then further option agreements are invalid by virtue of the fact that the option agreements were intended to be exercised in either all or none of the cases.

The first three lawsuits relate to three of the ten option agreements that the Company entered into with respect to its Sierra Gorda mineral property. Although Quadra believes that the option agreements are valid and that the legal claims are without merit, the outcome is uncertain. The proceedings are subject to the procedural and substantive laws of Chile, and the allegations are based on the actions of the Optioners, in respect of which Quadra has no direct knowledge. The Company intends to vigorously defend these claims; however, there is no assurance that it will be successful. A negative outcome in these proceedings could have a material adverse effect on Quadra.

27. SUBSEQUENT EVENT

Subsequent to the year ended December 31, 2008, the Company entered into a definitive agreement whereby the Company agreed to acquire, by Plan of Arrangement, all of the issued and outstanding common shares of Centenario Copper Corporation ("Centenario") at an exchange ratio of 0.28 Quadra common shares for each whole Centenario common share (the "Transaction"). Upon closing of the Transaction, Quadra would issue approximately 14.4 million common shares in exchange for all outstanding shares of Centenario. The Transaction is subject to certain conditions, including approval by Centenario's shareholders and completion of the restructuring or refinancing (the "Centenario Debt Restructuring") of Centenario's senior indebtedness on terms acceptable to the Company, in its sole discretion and judgment.

In connection with the transaction and to provide Centenario with liquidity support , the Company has agreed to loan Centenario up to $3.5 million and subscribe for 10.24 million treasury common shares of Centenario, at a subscription price of $C 0.80 per share, for a total aggregate investment of approximately $10 million. The loan and share subscription are conditional upon, among other things, Centenario entering into a commitment letter with respect to the Centenario Debt Restructuring, by no later than March 31, 2009, and the approval of the TSX.

4. MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2006

The following is extracted from the Management Discussion and Analysis of Quadra Mining Ltd. for the year and the fourth quarter ended 31 December 2006. (References to page numbers in the extract reproduced below are to pages contained in the published management discussion and analysis of Quadra Mining Ltd. for the year and the fourth quarter ended 31 December 2006.)

The following Management Discussion and Analysis ("MD&A") of Quadra Mining Ltd. and its wholly owned subsidiaries ("Quadra" or the "Company") has been prepared as of 1 May 2007 and is intended to supplement and complement the accompanying audited annual financial statements and notes for the year ended 31 December 2006. This discussion includes certain statements that may contain "forward looking" information and reference to the cautionary statement at the end of this MD&A is advised. Additional information relating to the Company, including its Annual Information Form ("AIF"), is available on the SEDAR website at: www.sedar.com. The Company is a reporting issuer in all provinces and territories of Canada and trades its common shares on the Toronto Stock Exchange under the symbol: QUA.

This MD&A has been filed as a result of the Company filing an amended financial statement for the year ended 31 December 2006 and 2005 to reflect the retroactive impact of the adoption of EIC 160 "Stripping Costs Incurred in the Production Phase of a Mining Operation" on 1 January 2007.

All financial information in this MD&A is prepared in accordance with the Canadian Generally Accepted Accounting Principles and all dollar amounts are expressed in thousands of United States dollars unless otherwise indicated.

Description of Business and Nature of Operations

Quadra is a base metal producing company that through its 100% owned subsidiary Robinson Nevada Mining Company ("RNMC") owns and operates the Robinson copper mine ("Mine") near Ely, Nevada. In addition, Quadra holds a 100% interest in the Carlota Copper Project ("Carlota"), a development stage SX/EW copper project in Arizona. The Company also has an option to purchase the Sierra Gorda Project, a late stage exploration property near Antofagasta, Chile. The strategic plan of the Company includes growth by optimising operations, developing projects and pursuing merger and acquisition opportunities.

2006 Highlights

- The Robinson mine generated Revenue of $393,257 from the sale of 117.8 million pounds of copper and 69,762 ounces of gold in concentrates compared to 123 million pounds of copper and 71,868 ounces of gold in the previous year.

- Operating income for the year ended 31 December 2006 was $154,208 compared to $56,216 for the year ended 31 December 2005.

- The Company incurred a Realized loss on derivatives of $143,930, an Unrealized loss on derivatives of $7,453 and recorded a Net gain on the cancellation of the AMP Life Limited ("AMP") option of $14,374.

- Earnings for the year ended 31 December 2006 were $14,433 or $0.39 per share-basic and diluted compared to a loss of $13,423 or $0.49 per share for the year ended 31 December 2005.

- Production for the year was 121.4 million pounds of copper and 75,074 ounces of gold in 223,314 dry metric tonnes of concentrate. The onsite and offsite costs were $181,962 and $80,024 respectively*.

- The Company made a bid of $350 million for the shares of Equatorial Mining Limited ("Equatorial"), but were subsequently outbid by Antofagasta PLC. The Company recorded a net gain on the cancellation of an option it held on the shares of Equatorial Mining Ltd. of $14,374 net of all expenses and advisory fees.

- Due to a strong focus on safety and training at Robinson the Total Recordable Injury Rate has been reduced from 5.45, in 2005, to 2.6 for 2006.

- Following additional definition drilling and engineering and cost studies, the Carlota Copper Project was approved for construction by the Board subject to financing. The air quality permit court challenge was resolved in favour of the Company.

- Significant copper and gold grades were encountered at Sierra Gorda during a drill programme designed to test the concept of deep sulphides. A shallow hole grid programme identified substantial areas of alteration under cover that justify follow-up. The option of additional contiguous properties further consolidated the land package.

* Under Canadian Generally Accepted Accounting Principles, offsite and onsite cost terms are not defined terms. Onsite costs consist of mining costs, including equipment operating lease costs, mill costs, mine site general and administration, royalties and environmental costs. For financial statement reporting purposes, royalties are reported separately from cost of goods sold. Offsite costs consist of the costs associated with the transportation, smelting and refining of concentrate.

Overall Performance

Financial Results

Year ended 31 December	As restated 2006	As restated 2005	2004
Concentrate production (DMT)	223,314	226,999	49,150
Concentrate sales (DMT)	227,056	223,346	14,343
Statement of operations *($000)*			
Revenues from concentrate sales	393,257	228,235	11,932
Cost of sales	206,910	159,405	11,214
Amortization, depletion and depreciation	11,260	9,506	439
Accretion of asset retirement obligations	2,159	2,000	477
Royalties and mineral taxes	18,720	1,108	23
Operating income	154,208	56,216	(221)
General and administrative	7,516	5,391	3,906
Realized loss on derivatives	143,930	26,207	—
Stock-based compensation	2,399	1,890	1,870
Foreign exchange (gain) loss	106	(2)	(904)
Net interest and other (income) expense	616	132	(530)
Earnings (loss) before other items	(359)	22,598	(4,563)
Unrealized loss on derivatives	7,453	32,463	1,899
Net gain on cancellation of AMP option	(14,374)	—	—
Write down of Magistral property	—	6,933	—
Contract termination fee	—	4,436	—
Break fee	—	—	(2,500)
Earnings (loss) before income taxes	6,562	(21,234)	(3,962)
Income tax — current	11,939	85	—
Future income tax expense (recovery)	(19,810)	(7,896)	(1,587)
Earnings (loss)	14,433	(13,423)	(2,375)
Basic earnings (loss) per share	$0.39	$(0.49)	$(0.11)
Diluted earnings (loss) per share	$0.39	$(0.49)	$(0.11)
Financial positions *($000)*			
Total assets	335,966	250,642	140,817
Total long-term financial liabilities	37,061	50,478	27,149

The Mine began commercial operations in the fourth quarter of 2004.

Revenues

Revenue is affected by sales volumes and commodity prices. All of the Company's revenues are currently generated by the Robinson Mine.

Revenues from concentrate sales were $393,257 for the year ended 31 December 2006 compared with $228,235 in 2005. The increase in revenue in 2006 over 2005 was largely due to the average copper price received upon shipment for 2006 being $2.96 compared to a price of $1.65 in 2005. The average LME copper price was $3.05 in 2006 compared to $1.67 in 2005. Refining and treatment charges, which are deducted in arriving at revenue, were $46,802 for the year ended 31 December 2006 compared to $31,011 in 2005 **(see Offsite Costs)**.

Cost of Sales and Expenses

Cost of sales for the year ended 31 December 2006 were $206,910 compared to $159,405 in 2005. The increase in cost of sales reflects higher onsite and offsite operating costs. **(see Robinson Operating Costs)**. Amortization, depletion and depreciation for the year ended 31 December 2006 were $11,260 compared to $9,506 in 2005. The increase in amortization, depletion and depreciation in 2006 over 2005 was due to higher sales volumes and increases in depreciable assets.

Royalties and mineral taxes for the year ended 31 December 2006 were $18,720 compared to $1,108 in 2005. The Mine is subject to a 3% net smelter return royalty under which the royalty is payable to a reclamation trust until such time that $20,000 of funds are available, at which point the royalty is payable to a third party and accordingly will be expensed. During the year ended 31 December 2006, the trust became fully funded. Higher copper prices impacted royalty expense and Nevada net mining proceeds tax, as did the expensing of royalties previously paid into the trust.

Operating income for the year ended 31 December 2006 was $154,208 compared with $56,216 in 2005. The increase in 2006 over 2005 was mainly due to the higher revenue generated by higher commodity prices.

General and administrative expenses were $7,516 in 2006 compared to $5,392 in 2005 due to increased activities at the corporate office.

The Realized loss on derivatives was $143,930 in 2006 compared to $26,207 in 2005. The increase in realized losses in 2006 compared to 2005 reflects the impact of the copper hedging program entered into in the fourth quarter of 2005 and higher copper prices relative to the hedge price in 2006 compared to 2005. **(see Financial Instruments and Other Instruments)**

Net interest and other expense were $616 in 2006 compared to $132 in 2005 due to greater use of the working capital facility.

On 19 July 2006, the Company announced its intention to make an offer to acquire all of the issued and outstanding shares of Equatorial Mining Limited ("Equatorial") for AUS$9.23 cash per share. The Company also entered into a Call Option Deed with a subsidiary (the "AMP Subsidiary") of AMP Life Limited, the major shareholder of Equatorial, in respect of 19.99% of the shares of Equatorial.

On 15 August 2006, Antofagasta PLC submitted a significantly higher offer for Equatorial and entered into a similar call option agreement with the AMP Subsidiary. The Company chose not to match the higher offer from Antofagasta PLC and announced on 23 August 2006 that it received notice from the AMP Subsidiary that the AMP Subsidiary had exercised its right under the Call Option Deed to cancel that agreement. As a result, the AMP Subsidiary was required to pay the Company a fee of AUS$31,922 (equivalent to $24,194). Direct expenses related to the Equatorial offer amounted to $9,820, resulting in a net gain on the cancellation of the AMP option of $14,374.

On 27 October 2005 the Company made a decision to withdraw from the Investment and Operating Agreement with Inca Pacific Resources Inc. ("Inca Pacific"). As a result, the investment and costs incurred on the Magistral project totalling $6,933 were written off and charged to income in 2005.

Mining activities at the Robinson Mine from start-up to 31 October 2005 were performed under a mining contract by Washington Group Nevada ("Washington"), a subsidiary of Washington Group International, Inc ("WGI"). This contract was terminated in 2005 and the agreement required RNMC to pay a termination fee of $4,436 and acquire certain equipment. **("See Liquidity and Capital Resources — Minimum Lease Payments".)**

Earnings (loss) before income taxes were $6,562 in 2006 compared to $(21,234) in 2005.

The Company recorded a current income tax expense and future income tax recovery of $11,939 and $19,810 respectively for the year ended 31 December 2006 compared with $85 and $7,896 in 2005. The increase in current income tax in 2006 reflected the increase in Alternative Minimum Tax in the U.S. The increase in income tax recovery in 2006 resulted mainly from changes in temporary differences between the tax and accounting basis of the assets and liabilities.

For the year ended 31 December 2006, the Company reported earnings of $14,433 or $0.39 per share — basic and diluted as compared to a loss of $13,423 or $0.49 per share for the year ended 31 December 2005.

Financial Position

Total assets as at 31 December 2006 were $335,966 compared with $250,642 at 31 December 2005. The increase in assets during the year ended 31 December 2006 was primarily due to the following:

- Increase in cash in connection with the equity financing, exercise of broker warrants **(See Equity Financing)** and the cancellation fee of $14,374 associated with the Equatorial bid;

- Increases in security deposits and environmental trusts and bonds totalling $16,990; and

- Increases in mineral properties of $22,622 in connection with ongoing exploration and development at the Sierra Gorda and Carlota projects.

Total long-term financial liabilities as at 31 December 2006 were $37,061 compared with $50,478 as at 31 December 2005. The reduction in long-term liabilities is primarily due to the payment of instalments of the deferred gold consideration. (see "**Carlota**")

Robinson Mine

Operational Results for the Robinson Mine for the Year Ended 31 December 2006

The performance of the Mine when considered quarter on quarter or year on year varies as a result of changes in head grade, metal recovery and waste stripping requirements. Comparative production statistics are as follows:

	2005					2006				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Waste mined *(Tonnes 000's)*	59,212	13,964	14,425	16,605	14,218	56,647	13,832	16,753	14,325	11,737
Ore mined *(Tonnes 000's)*	15,281	4,121	4,175	3,274	3,711	14,431	2,881	3,855	3,415	4,280
Ore milled *(Tonnes 000's)*	13,860	3,919	3,426	3,422	3,093	13,758	3,426	3,466	3,570	3,296
Copper grade *(%)*	0.61	0.67	0.69	0.52	0.53	0.55	0.57	0.60	0.50	0.51
Gold grade *(g/t)*	0.31	0.41	0.32	0.24	0.27	0.34	0.34	0.39	0.33	0.32
Copper recovery	65.4%	61.0%	63.4%	70.3%	69.5%	76.3%	73.5%	79.5%	76.4%	74.2%
Gold recovery	53.6%	53.7%	57.9%	47.5%	54.5%	55.2%	61.5%	57.3%	51.3%	41.5%
Mill Operating Time	90%	95%	89%	89%	89%	91%	90%	95%	92%	88%
Copper production *(Million lbs)*	121.4	35.3	33.3	27.8	25	126.2	31.6	36.5	30.5	27.6
Gold production *(ozs)*	75,074	27,646	20,425	12,532	14,471	80,941	22,262	24,666	19,932	14,081
Onsite costs	$181,962	$46,250	$50,287	$44,879	$40,546	$135,486	$36,735	$42,030	$30,156	$26,565
Offsite costs	$80,024	$17,916	$16,932	$23,100	$22,076	$63,941	$15,593	$16,220	$19,319	$12,809
Total costs	$261,986	$64,166	$67,219	$67,979	$62,622	$199,427	$52,328	$58,250	$49,475	$39,374
Capital expenditure	$11,555	$4,100	$3,573	$3,074	$808	$11,560	$4,781	$3,568	$1,741	$1,470
By product credits										
— Gold and silver	$44,100	$16,441	$7,421	$8,713	$11,525	$33,393	$10,764	$8,768	$8,373	$5,488
— Molybdenum	$6,075	$334	$1,063	$1,527	$3,151	—	—	—	—	—

During the year ended 31 December 2006, mining activity took place in the Tripp area of the Tripp-Veteran pit for the first two months of the year and in the Veteran area thereafter. During the year a total of 74,493,000 tonnes of ore and waste were mined. This is an increase over the 2005 year end total of 71,078,000 tonnes, and represents an average mining rate of approximately 204,000 tonnes per day. The increase in mining rate was a result of increased efficiencies due to improved operator skills and mining largely in the Veteran area of the pit which was not subject to the slope stability issues encountered in the Tripp area in 2005.

Copper production during the year ended 31 December 2006 was 121.4 million pounds as compared to 126.2 million pounds in the previous year. Despite an increase in copper head grade, from 0.55% copper in 2005 to 0.61% in 2006, copper production decreased because copper recoveries decreased as a result of a supergene copper zone encountered in the Veteran pit. As the material was mined, detailed test work showed that the ore contained non-acid soluble oxide copper which is not amenable to flotation and therefore not recoverable. Previous planning and forecasting procedures had regarded all non-acid soluble copper as a sulphide and therefore recoverable by flotation. By the end of the fourth quarter, as operations mined through this supergene layer, recoveries began to improve in the lower benches of the pit. Recoveries for the last few weeks of the year resumed more typical levels in the 70% to 80% range.

Gold production was 75,074 ounces as compared to 80,941 ounces in the previous year. The decrease in production was a result of head grades that were 10% lower in 2006 than in 2005. The molybdenum plant commenced production and produced 260,000 pounds in 2006. Molybdenum production was lower than expected due to low head grades.

Operating Costs

Onsite Costs

The key drivers of onsite costs are:

- The volumes of waste and ore moved;
- Salaries, wages and benefits;
- Equipment maintenance costs and consumables; and
- Royalty costs, which in turn are driven by mineral production and metal price.

Onsite costs for the year ended 31 December 2006 were $181,962 compared to $135,486 for the year ended 31 December 2005. Of this increase of $46,476, $19,643 was due to an increase in mining costs. This increase was due to an increase in tonnes mined of 5% and an increase in unit (per tonne) mining costs of 18%. Components of the latter included increased re-handling costs of ore contaminated by wood or with high iron content, a wage increase in July of approximately 10%, increased equipment maintenance costs, as a result of component prices, and the need for additional maintenance and substantially increased tire costs, as a result of a global supply shortage. Royalty costs increased by $8,828 in 2006 over 2005 due to higher copper prices which averaged $3.05 per pound in 2006 compared to $1.67 per pound in 2005 and the impact of the royalty costs now fully payable of $8,141 (**See Cost of Sales and Expenses**). Milling costs increased by $7,754 for the year ended 31 December 2006 from $42,317 in the year ended 31 December 2005. This increase was largely attributable to a 46% increase in maintenance costs and a 35% increase in reagents and grinding media costs. General and administrative costs increased by $8 million primarily due to termination payments and increases in sales taxes and environmental costs.

Offsite Costs

The key drivers of offsite costs are:

- Copper price participation by smelters;
- Treatment and refining charges;
- The volumes of concentrate transported and sold; and
- Freight rates, both rail to the port facility in Vancouver, Washington and ocean to smelter destinations in Asia.

Offsite costs were $80,024 for the year ended 31 December 2006 as compared to $63,941 for the year ended 31 December 2005. Of the increase in offsite costs of $16,083, the majority is attributable to price participation charges included in treatment and refining charges which were driven by copper prices that averaged $3.05 per pound in 2006 compared to $1.67 per pound in 2005. The portion of treatment and refining charges not related to price were generally consistent between 2006 and 2005. Contracts with smelters are determined by global negotiations between mines and smelters and the Company generally follows global benchmarks. Higher rail and vessel charges accounted for the majority of the remainder. The higher rail and vessel charges reflected fuel surcharges and a tightening in ocean freight rates.

For the year ended 31 December 2006 the cash cost per pound of copper produced was $1.74 per pound compared to $1.31 per pound in 2005. The cash cost per pound of copper produced is a non-GAAP term and consists of onsite and offsite costs, less by product revenue, divided by the pounds of copper produced in the period.

2006 Production Results versus Guidance

The following table is a summary of the operating statistics for the year compared to the revised forecast:

	2005 Actual	Revised 2006 Guidance	2006 Actual
Copper Production	126 million pounds	115 million lbs	121 million lbs
Gold Production	80,941 ounces	55,000 — 60,000 ounces	75,074 ounces
Onsite Costs	$135 million	$174 Million	$182 Million
Offsite Costs	$64 million	$86 Million	$80 Million
CAPEX	$12 million	$14 Million	$12 Million

The copper production guidance for 2006 was changed downwards twice, once at midyear as a result of recovery trends experienced and identified by a drill programme and again in October, as a result of recovery issues related to non-acid soluble oxides in the Veteran Pit. The original guidance of 145 — 150 million pounds was reduced to 115 million lbs of copper. Gold production guidance remained unchanged at 55,000 to 60,000 ounces for the year.

The original 2006 operating cost guidance for the year issued in November 2005 was $145 million for onsite costs, $72 million for offsite costs and CAPEX for the year of $6 million. After the second quarter of 2006 these costs were revised to indicate an expected increase of 20% for both onsite costs and offsite costs and $14 million for CAPEX, all as a result of the projection of cost increases experienced to that point, including many that were driven by the higher price of copper.

Outlook

The following table shows the proven and probable mineral reserves for the Robinson Mine as of 1 January 2007. Changes from the prior year's proven and probable mineral reserves include ore and waste mining through 2006, abandonment of the Tripp pit prior to completion due to geo-technical considerations, changes to pit designs, and adjustments arising from the complex mineralogy experienced in 2006.

		Copper	Gold	Contained Metal				
Reserve	Ore	Grade	Grade	Copper	Gold oz	Waste	Total	Strip
Classification	*kt*	*%*	*g/tonne*	*kt*	*(000's)*	*kt*	*kt*	Ratio
Proven	117,625	0.69	0.26	810	1,000			
Probable	4,776	0.72	0.22	35	34			
Proven and Probable	122,401	0.69	0.26	845	1,034	405,997	528,398	3.32

Note:

Mineral reserves are based on a net value calculation that includes all cash operating costs. "Measured" and "Indicated" material with a net value greater than zero and also lying within the open pit limits are called "Proven" and "Probable" reserves, respectively. The reserves are based on variable copper prices starting at $2.60 per pound copper price in 2007 decreasing to $1.35 by the end of mine life. A fixed gold price of $550 per ounce was used.

Copper and gold production for 2007 is expected to be 125 million pounds and 60,000 ounces respectively. The complex nature of the ore-body will result in quarter to quarter fluctuations in copper and gold production. While the Company continues to evaluate methods of increasing production of molybdenum, it does not plan to provide guidance for 2007 due to the variability of head grade and recovery.

Mining

The forthcoming mining activities related to the Veteran pit are divided into three phases. The first phase is expected to be completed by mid 2007. During the second half of 2007, whilst the Company is mining in the second phase, supergene material will be encountered and the Company expects higher grade material and associated lower metallurgical recovery similar to the Mine's experience in 2006. The expected supergene material represents approximately 2.5 million tonnes of ore, or approximately 15%, of the ore expected to be mined in 2007.

Mobile mine equipment relies on access to off road tires and, due to global off road tire shortages, special emphasis has been placed on tire life, performance, and arrangements with suppliers to access off road tire supplies. The first round of major component replacements for the CAT 793-240 ton haulage fleet began during the fourth quarter, and will continue into the first half of 2007.

It is expected that there will continue to be a shortage of qualified and experienced mining personnel in 2007. However, the mine has made good progress in the recruitment and training of personnel which is expected to benefit mine operations in 2007 and further into the future.

Processing

Mill recoveries are expected to follow the trends seen in 2006, with variable recoveries high in the ore body, lower recoveries, but higher grades in the supergene material and higher, more normal, recoveries in the hypogene material below the supergene.

Mill throughput is projected to be similar to that achieved from the Veteran pit in 2006. However, during the fourth quarter of 2006, mill throughput was better than the historical average to that point in the year, with a new daily throughput record of 54,241 tonnes.

Molybdenum head grades are expected to be low and erratic during 2007. The current database indicates that there will not be significant molybdenum production from the Veteran pit, which will be the primary production pit until 2009, when the operation will begin transitioning to the Ruth pit.

At the end of the fourth quarter, one of the two mill tailings thickeners developed a mechanical problem and mill operations had to adjust operating practices to maintain mill throughput. It is expected that this problem will be resolved in the first quarter of 2007.

Carlota

During the year ended 31 December 2006 the Company spent $17,782 towards the acquisition and development of the Carlota project. Acquisition costs were $9,641 while development costs were $8,141.

Acquisition costs included the payment of 25,000 ounces of gold as agreed under the acquisition agreement. At 31 December 2006 an additional four quarterly gold payments of 6,250 ounces of gold remain to be completed during 2007 and 2008.

Development activities consisted of definition and infill drilling, water supply testing and development, ordering of mining and processing equipment, the development of basic engineering, construction schedules and detailed cost estimates for the project.

In connection with the ordering of equipment the Company placed deposits or stage payments totalling $2,555.

Permitting and related activities included extending the Program of Work for the current Plan of Operations, as required by permit, to 31 March 2007, placing $6,589 on deposit with the US Forest Service ("USFS") as a reclamation bond, supporting the Gibson Mine clean-up (a permitting condition) and collecting baseline data. The Arizona Department of Environmental Quality ("ADEQ") announced on 12 April 2006 that the air quality permit issued by ADEQ for the Carlota project has been upheld by the Arizona Court of Appeals. The appeals court ruled the decision made by ADEQ in February 2003 to renew Carlota's air permit was proper under both the federal Clean Air Act and the state air quality law.

Senior project and operations management have been hired and other key personnel identified.

Management estimates that the project has a capital cost of approximately $189 million, an eleven year life and an estimated operating cost of $0.99 per pound of copper produced. The Company continues to progress the financing of the project and anticipates copper production in the second half of 2008.

The Board of Directors gave approval to proceed with the project in November 2006 subject to financing.

Sierra Gorda

During 2006 $4,840 dollars were spent on the project, consisting of option payments of $829 and project expenditures of $4,011, primarily for an 18,387 metre dill programme in 174 holes. The programme comprised three elements: core drilling to test the concept of deep sulphide mineralization, step out drilling to define additional oxide reserves and shallow hole grid drilling to evaluate the geological potential over the large part of the property covered by alluvium.

The concept of deep sulphide mineralization potential was developed from historical data, geophysics, mapping and modelling completed by Quadra. One of the holes, number 281, supported the concept and showed sustained mineralization from 242m below surface to the bottom of the hole at 580m (338m interval) at an average grade of 1.05% copper. The gold grade averaging 0.31 g/t from 406m to 580m (174m interval). Results from the follow up drilling were announced after 31 December 2006 and continued to support the concept of a substantial new zone of classic porphyry copper mineralization. Two others were drilled that also returned substantial grades and intervals of sulphide mineralization.

The short hole grid programme provided the structural and geochemical information required to assess the potential for mineralization under the 20 to 40 metre thick alluvium that covers a substantial portion of the property. Several sizable clusters of holes show favorable alteration and justify a detailed drill evaluation programme.

Two additional properties contiguous to Sierra Gorda were optioned to consolidate further the land package.

The results from the deep sulphide drilling have moved the focus from an oxide heap-leach project to a potentially larger project that would encompass both heap leaching and primary sulphide production. Follow-up drill programmes are planned in 2007 to extend the defined deep sulphide mineralization and provide enough data to establish a resource and to evaluate the targets under the colluvium cover.

A study of all process water options will be completed in 2007.

Market Trends and Fundamentals

Copper Uses

Global copper consumption was approximately 16.7 million tonnes in 2005 and is expected to be 2% to 5% higher in 2006. Copper is an excellent conductor of electricity and is widely used for power distribution and electric drives. It also has good corrosion resistance properties. Major uses of copper include electrical and electronic products, transportation and industrial machinery and equipment.

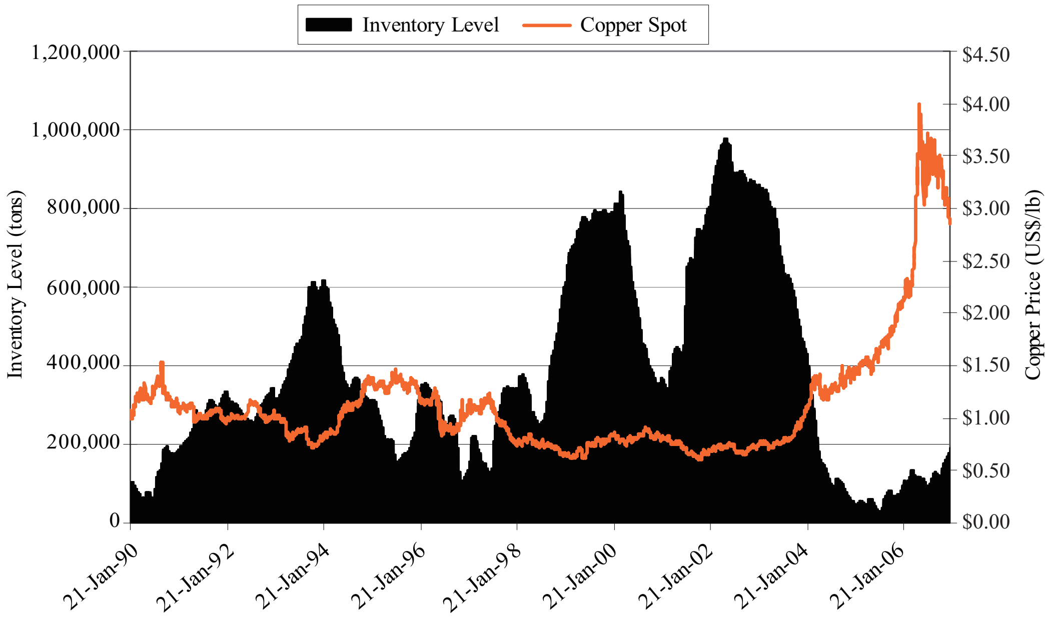
Growth in the demand for copper has been accelerated by the rapid industrialization of emerging economies in Asia, particularly China, and is spurred by expansion of domestic and foreign demand for manufactured products, growth in the housing market and expansion of power infrastructures.

Copper Price

Copper prices have historically been both cyclical and volatile, trading within a range of $0.50-$1.60 per pound through the 1980s and 1990s. Following development of significant over-capacity during the early to mid-1990s, copper experienced a six year period of depressed prices which resulted in reduced exploration and development activity. Since 2003, the growing demand for copper, particularly in China, coupled with an inability of the copper industry to increase supply due to a lack of immediate development projects, has resulted in decreased inventories of copper. These low inventories, together with a weakening U.S. dollar, have led to a substantial increase in the copper price. On 11 May 2006, the spot price of copper on the LME rose to $3.99/lb.

The following graph shows the LME inventory level of copper and the spot price of copper from 1990 to December 2006.

LME Copper Price & Inventory



The drawdown in global inventories during 2004 and 2005 was a result of strong demand and the short term inability of the supply-side market to respond. By the end of 2005, global stocks were 548,000 tonnes and were estimated to represent only 16 days of consumption. Inventories published on the LME declined to a 30 year low of only 25,525 tonnes on 22 July 2005 but they have since rebounded to 182,800 tonnes as of 29 December 2006.

The copper price has increased by 38% over the past year, with prices increasing from $2.07 per pound on 31 December 2005 to $2.85 per pound on 29 December 2006.

The reference price of copper metal is determined by trading on the LME, where the price is set in U.S. dollars at the end of each business day. Changes in the price of copper may therefore differ when expressed in other currencies as the result of a relative weakening of the U.S. dollar.

On the supply side, a number of supply disruptions at operating copper mines reduced mine supply in 2005 and 2006. On the medium to long term, significant new mine supply is constrained by a number of factors including the lack of major projects currently in the development phase, permitting delays, delays in access to new equipment and long term price assumptions used for bank financing. In addition, the supply of the currently producing mines is expected to decrease as head grade declines.

Demand for copper has historically increased at an average rate of 3.2% per annum. Two nations, China and India, with significant populations are emerging as actively developing economies. The demand for copper in these two industrializing countries has, and will, significantly impact demand for commodities, including copper. It is estimated that global demand will grow by 5.6% in 2006, 5.5% in 2007, 5.4% in 2008, 2009 and 2010; a shortage of supply will constrain demand growth.

Operating Results by Segment

The only operating segment of the Company is the Robinson Mine. The Company is also developing the Carlota Project in Arizona and the Sierra Gorda Project in Chile.

Summary Of Quarterly Results

The following table summarizes the operating results of the most recent eight quarters:

SUMMARY OF QUARTERLY RESULTS

	2006 (As restated)				2005 (As restated)			
$ US 000s	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of Operations								
Revenues	99,173	67,923	142,225	83,936	65,331	63,432	55,998	43,474
Operating income (loss)	30,713	24,004	72,431	27,060	29,757	11,022	9,377	6,060
Earnings (loss) before other items	2,930	(22,139)	4,863	13,987	12,642	(1,427)	7,474	3,909
Unrealized (gain) loss on derivatives	(53,543)	(34,626)	36,559	59,063	20,788	4,528	7,746	(599)
Earnings (loss) before income taxes	56,375	26,959	(31,696)	(45,076)	(8,982)	(16,487)	(273)	4,508
Earnings (loss)	50,960	20,634	(21,998)	(35,163)	(5,609)	(13,384)	1,782	3,788
Basic earnings (loss) per share	$1.34	$0.55	$(0.59)	$(1.15)	$(0.20)	$(0.49)	$0.07	$0.14
Diluted earnings (loss) per share	$1.32	$0.54	$(0.59)	$(1.15)	$(0.20)	$(0.49)	$0.07	$0.14
Financial Position								
Cash	47,774	37,864	50,211	24,421	9,128	9,413	18,427	23,705
Total Assets	335,966	328,426	347,894	308,182	250,642	178,716	166,756	161,691
Total Liablities	170,850	214,592	259,062	203,468	157,890	80,768	55,783	52,993
Shareholders' equity	165,116	113,834	88,832	104,714	92,752	97,948	110,973	108,698

For the purposes of this table future income tax assets and liabilities have been combined.

Liquidity

Sources and Uses of Cash

Year ended 31 December	**2006**	**2005**
Cash received from operations	64,961	9,376
Cash used in investing	(62,160)	(46,103)
Cash provided by financing	35,845	33,586

Operating income was $154,208 for the year ended 31 December 2006 compared to $56,216 in 2005 reflecting higher prices for copper and gold. The higher copper price coupled with higher hedge volumes resulted in a realized loss of $143,930 in 2006 compared to $26,207 in 2005 with the resulting net income in 2006 being $14,433 in 2006 compared to a loss of $13,423 in 2005. Net working capital changes were a source of $46,845 of cash in 2006 compared to a net use of cash of $22,097 in 2005 reflecting the substantial change in the marked to market amount of settlement adjustments from positive to negative. The resulting cash from operations was $64,961 in 2006 compared to $9,376 for 2005.

Investing activity of $62,160 for the twelve months ended 31 December 2006 reflects an increase in the cost of $14,326 associated with the delivery of the gold to Cambior in conjunction with the Carlota purchase, the placement of environmental bonds at Carlota totalling $7,125, increases in security deposits for mining equipment at Robinson and Carlota of $5,902, the acquisition of the concentrate transload facility for $2,000 and increased royalty payments to the environmental trust of $3,677 arising from higher copper prices. This compares to investing activity of $46,103 for the year ended 31 December 2005 arising from maintenance capital and investments in the Sierra Gorda project.

Financing activities in 2006 primarily consisted of the equity offering **(see Equity Financing)** which raised $45,544, repayment of the $15,000 bridge facility and $3,100 of bank indebtedness compared with draws under the Working Capital and Bridge Facilities of $35,000 during 2005.

At 31 December 2006 the Company had a working capital deficiency of $18,699 and cash of $47,774 as compared to a working capital deficiency of $31,198 and cash of $9,128 at 31 December 2005. The decrease in the working capital deficiency is mainly due to an increase in cash and future income tax assets **(see "Current assets")** which were partially offset by an increase in accounts payable and tax payable.

Current assets

The total current assets were $115,090 at 31 December 2006 compared to $76,214 at 31 December 2005 mainly due to an increase in the cash position offset by a decrease in the marked to market value of customer balances. **(see Financial Position)**.

Current liabilities

Current liabilities were $133,789 at 31 December 2006 compared to $107,412 at 31 December 2005. The increase in current liabilities is mainly due to an increase of $24,385 in accounts payable and accrued liabilities due to the marked to market balances with customers being an accrual for payment of $11,305 arising from a reduction in the price of copper between the shipment date and the contracted settlement period, and general increases in costs. Other increases consisted of accruals for taxes payable of $14,869 and fees associated with the Equatorial Bid. These increases were partially offset by the repayment of the bank indebtedness associated with the Carlota acquisition of $15,000.

Equity Financing

In February 2006 the Company completed an equity offering of 7.2 million common shares at a price of CAD$6.30 per common share. In connection with the equity offering the Company granted the underwriters an option to purchase an additional 1,080,000 common shares at the same price. This option was subsequently exercised and the aggregate net proceeds from the offering were $42,240.

During 2006, 1,449,360 broker warrants from the IPO in April 2004 were exercised for net proceeds of $7,507.

Outlook

At 31 December 2006 the Company had a working capital deficiency of $18,699. Management expects that at current copper prices additional financing will be required. The Company is in the process of negotiating a financing for the Carlota project and working capital purposes. If this financing should not be completed the Company will pursue other sources of financing.

Capital Resources

At 31 December 2006 the Company had undrawn borrowing under the credit facility of $3,100. Also at 31 December 2006 the Company had commitments and orders for capital equipment and deferred consideration payable associated with the Carlota project.

In order to meet these commitments additional financing will be required.

Commitments

	Payment Due By Period						
($ thousands)	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**After 5 years**	**Total**
Short-term debt	16,900	—	—	—	—	—	16,900
Deferred gold consideration	11,556	3,777	—	—	—	—	15,333
Equipment purchase	6,954	—	—	—	—	—	6,954
Notes payable	2,668	—	—	—	—	—	2,668
Derivative instrument liability	46,468	—	—	—	—	—	46,468
Minimum lease payments	11,628	11,503	11,428	14,425	6,148	320	55,452

Short-Term Debt

On 10 March 2005, RNMC arranged a revolving Working Capital Facility and hedge line of credit facility with Macquarie Bank Ltd. ("Macquarie"). The Working Capital Facility and the hedge line of credit are secured by all of the assets of RHUSA, including RNMC and a guarantee from Quadra. Proceeds from the $20,000 Working Capital Facility are available to provide additional liquidity for the Mine between the production and final sales of metal concentrate. Each drawdown ("Concentrate Advance") under this facility is to be no greater than 90% of the net smelter return based on the hedged value of concentrate available for shipment under current sales contracts. The metal prices used in the estimated value are based on the hedged prices between each drawdown date and the first provisional payment made by customers pursuant to the terms of their individual sales contracts. Advances under the facility bear interest at LIBOR + 1.35%. At 31 December 2006 the Company had drawn down $16,900 under the facility.

The Company expects to continue to utilise the facility until it expires on 31 March 2007. The Company will undertake additional hedging on an as needed basis in order to continue to utilise the facility and enter into negotiations to renew the facility.

Deferred Gold Consideration

Deferred gold consideration represents the net present value of the remaining 25,000 oz of gold based on a price of $661 per ounce to be delivered to IamGold Corp. (formerly Cambior) in four equal amounts beginning on the later of:

(i) 30 March 2007; and

(ii) the earlier of the date on which Quadra is satisfied that certain outstanding litigation matters can no longer be reasonably expected to inhibit development of the Carlota Project, and 30 June 2010 and on the dates which are 90, 180 and 270 days thereafter, 6,250 ounces of gold.

At the date of acquisition $4,000 in cash was conditionally payable to IamGold Corp. following an agreed-upon drilling program of approximately 3,000 metres to confirm the status of certain material currently included in the resources of the Carlota deposit. During the year ended 31 December 2006 the status of the material was confirmed and accordingly the $4,000 has been accrued.

Security Deposits

From time to time the Company is required to file updated reclamation plans. By way of reclamation documents filed in 2006 the Company expects to increase in the Robinson Mine reclamation bond by $2,000 to $5,000 in 2007.

Equipment Purchases

The Company has entered into an agreement to purchase a Hitachi EX 5500 for $6,945 for which a non-refundable down payment of $450 has been made. Additional financing will be required to complete the purchase. During the year ended 31 December 2006, the Company made non-refundable deposits totalling $2,105 for the purchase of seven Komatsu haul trucks and four Komatsu Crawler Tractors.

Notes Payable

Notes payable of $2,668 consists of notes due to Caterpillar Financial Services Corporation ("CAT") in support of leased mine equipment (See Minimum Lease Payments.) The principal is repayable annually over three years and the interest is payable monthly at an annual interest rate of 6.6% over 39 months with the first payment commencing 1 October 2004. The notes are secured by Security Deposits held by CAT.

In connection with the purchase of SALTS Facility, RNMC signed a promissory note of $500 payable to IMCO. The principal bearing an annual interest rate of 6.87% is repayable on or before 31 March 2007.

Derivative Instrument Liability

In addition to the Working Capital Facility described under the heading Short Term Debt, Macquarie has agreed to provide the Company with an uncommitted hedge line of credit facility under which the Company may hedge up to 65,000 tonnes of copper and 60,000 oz of gold on a margin free basis. **(See Financial Instruments and Other Instruments.**)

Minimum Lease Payments

In 2004, RNMC entered into an operating lease agreement with CAT to lease sixteen trucks, one electric shovel and a spare dipper. The total remaining lease payments for the sixteen trucks amount to $27,136 and are payable over the next 6 years and the remaining payments for the electric shovel and spare dippers are $8,380 payable over the next 5 years. Also in 2004, RNMC signed a seven year lease agreement with Wells Fargo Equipment Finance Inc. ("Wells Fargo") to lease one Hitachi EX55000 electric shovel and one spare dipper. The remaining lease payments total $4,788 are payable over the next 5 years.

In 2005, RNMC entered into a capital lease agreement with CAT to lease equipment held by the former contract miner. The remaining lease term is 5 years and the total remaining lease payments amount to $14,873. The equipment is amortized on a unit-of-production basis over the period of expected use.

Certain of these lease agreements contain cross default provisions with the corporate credit facility.

Contingencies

The Company is aware of the following proceedings:

Certain litigation is pending in connection with one permit for Carlota. There can be no assurance that the outcome of this litigation will be favourable to Carlota. A court may render a decision which may delay or prevent development of Carlota or change the requirements of Carlota to the extent that it is no longer economically viable, which could have a material adverse effect on the Company. There can also be no assurance that, in the event of a favourable ruling, such ruling will not be appealed further to a higher court. There can be no assurance that additional permits required for the development and operation of Carlota will not be challenged in the future.

On 16 March 2006 Katie Davis and LeRoy Davis, on their own behalf and on behalf of their minor daughter Araya Davis, (collectively, the "Davises") filed a lawsuit against RNMC and BHP Copper Inc. ("BHP Copper") (Collectively, the "Defendants") in the Seventh Judicial District Court, White Pine County, Nevada. Katie Davis is the daughter and Araya Davis is the granddaughter of Marilyn and Danny Cooper, with whom similar litigation was settled by the Defendants prior to RNMC's acquisition of the Robinson Mine. The Davises have claimed, among other matters, that the Defendants permitted the Robinson Mine to contaminate well water on the Coopers' property and that the Defendants failed to disclose the existence of the pollutants to the Coopers. As a result, the Davises claim that their daughter ingested contaminated water, suffered a condition known as anoxia and was twice airlifted to hospital where on one occasion she had surgery. The Davises have made a claim for: damages for the personal injury and emotional distress sustained by the Davises as a result of the Defendant's negligence; damages resulting from Defendant's fraudulent or negligent misrepresentation; punitive damages; reimbursement of reasonable attorney fees; and such other relief as the Court deems just and proper in the circumstances. The Company was not in possession of the Robinson Mine at the time of the events in question. BHP Copper has made a claim of indemnity against the Company claiming that, under the terms of the purchase agreement pursuant to which the Company acquired RNMC, the Company has an obligation to indemnify and hold harmless BHP Copper and its affiliates from any liability arising pursuant to the Davises' lawsuit. The Company has rejected BHP Copper's claim for indemnity. The Company has made a similar claim of indemnity against BHP Copper. BHP Copper has rejected the Company's claim for indemnity. As the Company was not the owner of the Robinson Mine at the time of the occurrence of the events in question and is not currently aware of all of the facts, and because no discovery has been conducted in this litigation, it is not possible at this time for the Company to assess its potential liability in this matter or whether it has an obligation of indemnity to or a right of indemnity from BHP Copper.

Transactions With Related Parties

One of the Directors of the Company is a partner of an affiliate of Blake, Cassels & Graydon LLP and one is a partner of Chancellor Partners Management Consultants Inc. During the year ended 31 December 2006 the Company incurred legal fees of $569 and recruiting and human resources consulting fees of $496 (31 December 2005: $814 and $263 respectively).

Fourth Quarter

Fourth Quarter Highlights

- Revenue was $99,173 in the fourth quarter ended 31 December 2006.
- Operating income for the three months ending 31 December 2006 was $30,713 compared with $29,757 for the fourth quarter of 2005.
- The Company incurred a Realized loss on derivatives of $25,181 and an Unrealized gain on derivatives of $53,543.
- Earnings for the quarter ended 31 December 2006 were $50,960 or $1.34 per share — basic and $1.32 diluted compared to a loss of $5,609 or $0.20 per share basic and diluted for the quarter ended 31 December 2005.

- Production for the quarter was 35.3 million pounds of copper and 27,646 ounces of gold in 64,595 dry metric tonnes of concentrate compared to 31.6 million pounds of copper and 22,262 ounces of gold in 60,446 dry metric tonnes of concentrate in the fourth quarter of 2005.

- The onsite and offsite costs were $46,250 and $17,916 in the fourth quarter of 2006 compared to $36,735 and $15,593 in the fourth quarter of 2005.

- During the quarter ended 31 December 2006 the Company sold forward an additional 15,200 tonnes of copper at market prices and rolled forward 11,000 tonnes of hedges from 2006 into 2007 to match the quotational periods of the associated shipments. The copper price of the new tonnage and the existing tonnage were blended to result in a price of $2.26 per pound of copper.

Financial results

Revenue

Revenues from concentrate sales were $99,173 in the fourth quarter ending 31 December 2006 compared to $65,331 in the same quarter in 2005 reflecting higher sales volumes and higher commodity prices. The average copper price received upon shipment for the fourth quarter of 2006 was $3.00 per pound of copper compared to an average of $2.00 per pound in the fourth quarter of 2005. The average LME copper price was $3.21 per pound in the fourth quarter of 2006 compared to $1.95 in the fourth quarter of 2005.

Costs and Expenses

Cost of sales for the quarter ended 31 December 2006 were $58,673 compared to $31,966 in the same quarter in 2005. The increase cost of sales in the fourth quarter of 2006 over 2005 was due to higher onsite and offsite costs **(see Robinson Operating Costs)** and increase in sales volume of 70%. Amortization, depletion and depreciation for the quarter ended 31 December 2006 were $3,782 compared to $2,290 in 2005. The higher sales volume in the fourth quarter of 2006 over 2005 resulted in higher amortization, depletion and amortization costs.

Royalties and mineral taxes for the quarter ended 31 December 2006 were $5,450 compared to $804 in 2005. Both the royalty and Nevada net mining proceeds tax were impacted by higher copper prices.

Operating income for the quarter ended 31 December 2006 was $30,713 compared with $29,757 for the same period in 2005. The decrease in 2006 over 2005 was mainly due to higher costs. (see Operating Costs).

General and administrative expenses were $1,766 in the three months ended 31 December 2006 compared to $1,546 in 2005.

The realized loss on copper and gold forward sales contracts was $24,048 and $1,133 respectively in the fourth quarter 2006 compared to a realized loss of $15,149 and $208 on the copper and gold forward sales contracts in the fourth quarter of 2005. The increase in realized losses in 2006 compared to 2005 reflects the impact of the copper hedging program entered into in the fourth quarter of 2005 and higher copper prices in 2006 compared to 2005. During the quarter ended 31 December 2006 the Company recorded an unrealized gain on derivatives of $53,543 compared to an unrealized loss of $20,788 for the same period in 2005. The gain arose due to the copper price decreasing during the quarter ended 31 December 2006 and the 2005 loss arose due to the copper price increasing during the quarter ended 31 December 2005. **(see Financial Instruments and Other Instruments)**.

Earnings for the three months ending 31 December 2006 were $50,960 or $1.34 per share — basic and $1.32 per share — diluted compared with a loss of $5,609 or $0.20 per share — basic and diluted in the fourth quarter of 2005.

Operating Results for the Robinson Mine

Copper production during the quarter ended 31 December 2006 was 35.3 million pounds as compared to 31.6 million pounds in the fourth quarter of 2005 reflecting an increase in mill throughput of 14%, and an increase in head grade of 20% which were partially offset by a reduction in copper recovery of 18%. Material containing non-recoverable oxide copper was encountered during the first two months of the quarter but as operations began mining below this zone, recoveries returned to more typical levels.

Gold production was 27,646 ounces as compared to 22,262 ounces in the fourth quarter of 2005. The increase in production was related to higher mill throughput and improved head grade which were partially offset by a decrease in recovery.

Pit operations mined 18 million tonnes as compared to 16.7 million tonnes in 2005.

Operating Costs

Onsite Costs

Onsite costs for the quarter ended 31 December 2006 were $46,250 as compared to $36,735 for the quarter ended 31 December 2005. Onsite costs increased in 2006 compared to 2005 due to higher blasting costs associated with harder rock, increased re-handling costs of ore contaminated by wood or with high iron content, a wage increase in July of approximately ten percent, and higher heavy equipment maintenance and tire costs. The royalty costs also increased as a result of higher metal prices and the impact of the royalty costs now fully charged against operating costs **(See Cost of Sales and Expenses)**.

Offsite Costs

Offsite costs for the quarter ended 31 December 2006 were $17,916 as compared to $15,593 for the quarter ended 31 December 2005. Of the increase in offsite costs of $2,323, the majority is attributable to an increase in sales volumes of 70% along with higher price participation charges due to copper prices averaging $3.21 per pound in the fourth quarter of 2006 compared to $1.95 per pound in the fourth quarter of 2005. These increases were partially offset by the Gerald settlement and a reduction in treatment and refining charges reflecting global pressure on treatment and refining charges due to a shortage of concentrate relative to smelting capacity.

Management Appointments

During the fourth quarter ended 31 December 2006 one senior position was filled with the appointment of Mr. Scott Hardy as Manager, Technical Services. Also during the quarter the Board approved the promotions of Mr. Howard Bradley to Vice President, Mining, Mr. Guy LeBel to Vice President, Business Development and Mr. John Bailey to Vice President, Commercial.

Proposed Transactions

In order to secure the financing to construct the Carlota project the Company is considering the issue of a high yield instrument.

There are no proposed asset or business acquisitions or dispositions, other than in the ordinary course, before the Board of Directors for consideration.

Critical Accounting Estimates

In preparing financial statements management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ materially from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

Mineral Properties and Deferred Start-up Costs

The Company capitalizes the development costs of mining projects commencing when economically recoverable reserves as shown by an economic study are believed to exist. Upon commencement of commercial production these costs are written off over the life of the mine based on proven and probable reserves. The determination of the extent of reserves is a complex task in which a number of estimates and assumptions are made. These involve the use of geological sampling and models as well as estimates of future costs. New knowledge derived from further exploration and development of the ore body may also affect reserve estimates. In addition the determination of economic reserves depends on assumptions on long-term commodity prices and in some cases exchange rates.

Revenue Recognition and Inventory Valuation

Revenue is recognized when title passes and payment is reasonably assured. Final metal prices for determining revenue can be several months after the point of recognition and price changes subsequent to the date of sale could have a material impact on final settlement.

Economic Life

Management's estimate of the remaining economic life of the Mine is approximately 10 years based on the updated resource statement provided in accordance with NI 43-101. Based on management's view of future metal prices, the carrying value of the mine assets were not impaired at 31 December 2006.

Asset Retirement Obligations, Reclamation and Mine Closure

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 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.

Future Income Taxes and Resource Tax Assets

The Company has recognized a current and non-current tax asset of $22,146 and $7,149 respectively that relates to the temporary difference created between the tax and accounting basis of assets and liabilities of operations based in the United States. Management estimates that, using long term copper prices in line with its mine plan estimates, the future taxable income will be sufficient to utilize the tax asset which has been recognized.

Change In Accounting Policies

Deferred stripping

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. The new standard applies to fiscal years beginning on or after 1 July 2006. Effective 1 January 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 financial statements for the years ended December 2006 and 2005 have been restated. A summary of the effect of this change is shown below:

Effect on consolidated balance sheet:

	31 December 2006	**31 December 2005**
Increase in concentrate inventory	2,618	3,400
Increase in future income tax assets	15,205	5,992
Decrease in other asset and deferred charges	(47,014)	(20,792)
Increase in deficit	(29,191)	(11,400)

Effect on consolidated statements of operations:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Increase in cost of sale and amortization, depletion and depreciation	27,004	17,392
Increase in future income tax recovery	9,213	5,992
Increase in loss/decrease in earnings	17,791	11,400

Effect on consolidated statement of cash flows:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Decrease in cash received from/increase in cash used in operating activities	(25,591)	(20,294)
Decrease in cash used in investing activities	25,591	20,294

Financial Instruments — Recognition and Measurement, Section 3855

In January 2005, CICA issued Section 3855 "Financial Instruments — Recognition and Measurement". This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. It also specifies how financial instrument gains and losses are to be presented. This standard is applicable for fiscal years beginning on or after 1 October 2006. Effective 1 January 2007, the Company will be required to adopt the new standard for Canadian GAAP purposes.

Comprehensive Income, Section 1530

As previously disclosed, the Company will be required to adopt Comprehensive Income, Section 1530 effective 1 January 2007 for Canadian GAAP purposes. This new standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on certain investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self—sustaining foreign operations, all of which are not included in the calculation of net earnings until realized.

Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the existing AcG—13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. This standard is applicable for fiscal years beginning on or after 1 October 2006. The Company does not currently apply hedge accounting to its derivative instruments and is accordingly not impacted by this standard on transition on 1 January 2007.

Financial Instruments and Other Instruments

The Company's revenues and cash flows are subject to fluctuations in the price of copper and gold. In addition there is a time lag between initial payment on shipment and final pricing which impacts its working capital position. To reduce the volatility in the expected final pricing of shipments the Company has entered into forward sales contracts for copper and gold and may enter into additional hedging contracts from time to time in the future.

At 31 December 2006 the Company's derivative positions and the associated unrealized losses were as follows:

Derivative Liability Positions as at 31 December 2006

Forward Contracts	**Metal under contract** *(Note 2)*	**Average Forward Price**	**Spot Price**	**Marked to Market Loss** *(Note 1)*
Copper	30,400 tonnes	$2.26/pound	$2.87 (three month)/ pound	$41,485
Gold	24,000 ounces	$429/ounce	$636/ounce	$4,983
Total				$46,468

The copper hedges are expected to settle by the end of the second quarter of 2007 and are associated with production that has been shipped but whose final pricing has not yet occurred or is in inventory.

The Company monitors the volume of copper and gold subject to final pricing. If the volume subject to final pricing in a given month varies from that previously estimated, the Company will amend the derivative contracts to match the month of final pricing.

Macquarie Bank Limited has provided the Company with a hedge line of credit, free from margin calls, on terms and conditions related to annual production which is agreed upon from time by time. The hedge line of credit is secured as part of the security arrangements in the amended credit agreement dated 19 December 2005.

The Company marks to market the outstanding derivative position at each reporting date in its financial statements. This may result in significant derivative assets or liabilities arising in the Company's balance sheet during 2007, as well as the associated significant earnings volatility.

Derivative Liability Positions as at 31 December 2005

Forward Contracts	**Metal under contract**	**Average Forward Price**	**Spot Price**	**Marked to Market Loss** *(Note 1)*
Copper	65,040 tonnes	$1.70/pound	$2.01 (three month)/ pound	$36,760
Gold	48,000 ounces	$413/ounce	$513 /ounce	$4,804
Total				$41,564

Note:

(1) The marked to market gain or loss is computed by computing the difference between the forward contract price and the fair value based on the forward curve for the metal at 31 December 2006.

(2) At 31 December 2006 metal under contract includes 2,500 tonnes of copper and 2,000 ounces of gold that was priced at 31 December 2006.

The volume of copper contracts outstanding decreased due to the settlement of hedges associated with the quotational periods of shipments offset by the placement of 15,200 tonnes of additional hedges in the fourth quarter of 2006 at a weighted average price of $3.16 per pound. The volume of gold sold forward decreased due to the settlement of contracts during 2006. The marked to market loss increased in 2006 compared to 2005 due to the increase in the price of copper and gold relative to the hedge price which offset the decrease in the volume of hedges outstanding.

Income Statement Presentation — Year ended 31 December

Forward Contracts	2006 Realized Loss	2005 Realized Loss	2006 Unrealized Loss (Gain)	2005 Unrealized Loss
Copper	$139,256	$25,686	$7,681	$29,557
Gold	$4,674	$521	($228)	$2,906
Total	$143,930	$26,207	$7,453	$32,463

Subsequent Events

Subsequent to 31 December 2006 the Mine entered into an agreement to purchase, on a take or pay basis, 504,000 gallons per month of diesel fuel at a price of $2.00 per gallon for the 12 month period beginning 1 February 2007.

On 6 March 2007, the Company completed a $200,000 syndicated private loan financing, which consists of a $150,000 First Lien Senior Secured Credit Facility (the "First Facility") and a $50,000 Second Lien Junior Secured Credit Facility (the "Second Facility") (together, the "Facilities"). The First Facility has a 5 year term and bears interest at LIBOR + 650 basis points. The Second Facility has a 7 year term and bears interest at LIBOR + 1,000 basis points. The Second Facility lenders received 2,027,776 warrants to purchase common shares of the Company at an exercise price of CAD$9.24 per share that expire 1 March 2012.

On 19 April 2007, the Company purchased a three year interest rate cap with a strike rate at 5.35%, on a notional amount of $100,000.

On 25 April 2007, the Company filed a preliminary prospectus with the British Columbia Securities Commission in connection with the previously announced CAD$131,040 bought deal financing arranged by a syndicate of underwriters.

On 25 April 2007, further to the announcement made on 30 March 2007 of recommended offers (the "Offers") by the Company to acquire the whole of the issued and to be issued share capital and traded warrants of International Molybdenum Plc ("InterMoly"), the Company posted the offer document containing the full terms and conditions of the Offers to InterMoly Shareholders and InterMoly Warrantholders, together with the prospectus equivalent document and two forms of acceptance. The Offers are initially open for acceptance until 18 May 2007.

Share Capital

The Company's issued and outstanding shares at 31 December 2006 totalled 38,129,024. During 2006 1,449,360 broker warrants issued in connection the Quadra's IPO, were exercised for proceeds of CAD$8,696. As of 1 May 2007 the issued and outstanding common shares of the Company were 38,144,356.

In February 2006 the Company completed an equity offering of 7,200,000 common shares. In conjunction with the share issuance, the Company granted the underwriters an option to buy additional 1,080,000 common shares. The option was subsequently exercised and the aggregate net proceeds of the offering were $42,250.

For the year ended 31 December 2006, the Company granted 1,029,100 stock options to directors, employees and contractors. All stock options have a two-year vesting period and expire after five years. For accounting purposes the Company estimated a value of $3.03 per stock option for total value of $3,116.

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.

Controls over Disclosure and Internal Control over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

The Company has a disclosure committee that consists of various employees of the Company including the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer. The committee and the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of 31 December 2006. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the design and operation of these disclosure controls and procedures are effective to provide reasonable assurance that material information relating to the Company and its subsidiaries that is required to be disclosed in reports that are filed or submitted under Canadian Securities legislation is recorded, processed, summarized and reported within the time period specified in those rules.

Internal Control over Financial Reporting means a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The design includes policies and procedures that:

1. pertain to the maintenance of records,

2. provide reasonable assurance that transactions are recorded appropriately and that receipts and expenditures are being made only in accordance with authorizations of management and directors, and

3. provide reasonable assurance regarding prevention or timely detection of material unauthorized acquisition, use or disposition, of the Company's assets.

During the process of management's review and evaluation of the design of the Company's internal control over financial reporting, it was determined that the design and evaluation of internal controls over information technology at the Robinson mine was not completed. The design, evaluation, implementation and testing of these controls is expected to be completed in 2007. Management is committed to improving the controls for information technology and will institute a remediation plan. Nothing has come to the attention of management that has indicated any potential weakness in the mine's internal controls over information technology has resulted in a material misstatement in the financial statements of the Company.

1 May 2007

This MD&A contains "forward-looking information" that is based on Quadra's expectations, estimates and projections as of the dates as of which those statements were made. This forward-looking information includes, among other things, statements with respect to Quadra's business strategy, plans, outlook, long-term growth in cash flow, earnings per share and shareholder value, projections, targets and expectations as to reserves, resources, results of exploration (including targets) and related expenses, property acquisitions, mine development, mine operations, mine production costs, drilling activity, sampling and other data, estimating grade levels, future recovery levels, future production levels, capital costs, costs savings, cash and total costs of production of copper, gold and other minerals, expenditures for environmental matters and technology, projected life of our mines, reclamation and other post closure obligations and estimated future expenditures for those matters, completion dates for the various development stages of mines, availability of water for milling and mining, future copper, gold, molybdenum and other mineral prices (including the long-term estimated prices used in calculating Quadra's mineral reserves), the percentage of production derived from mechanized mining, the percentage of production from milling, currency exchange rates, debt reductions, timing of expected sales and the percentage of anticipated production covered by forward sale and other option contracts or agreements, anticipated outcome of litigation and personnel issues. Generally, this forward-looking information can be identified by the use of forward-looking terminology such as "outlook", "anticipate", "project", "target", "believe", "estimate", "expect", "intend", "should", "scheduled", "will", "plan" and similar expressions. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause Quadra's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to:

- Uncertainties related to the accuracy of reserve and resource estimates and estimates of future production and future cash and total costs of production and the geotechnical or hydrogeological nature of ore deposits, diminishing quantities or grades of reserves and variable metallurgical performance of these reserves.

- Uncertainties related to expected production rates, timing of production and the cash and total costs of production and milling.

- Uncertainties relating to copper, gold, molybdenum and other mineral prices, which are beyond the Company's control.

- The Company sells concentrate material which is subject to provisional payments; uncertainty in the final metal prices used for the computation of final settlement exists such that final settlement could be less than the cost of production plus other liquidity requirements.

- Operating and technical difficulties in connection with mining development or production activities.

- Uncertainties with respect to the quantity or quality of molybdenum that may be produced at the Robinson Mine. The decision to proceed with the molybdenum recovery circuit was based on the Company's assessment of molybdenum recovered into copper concentrate since November 2004 and an outside consultant's review of historical data. Kennecott Copper Corporation, a previous owner of the property, had recovered molybdenum from ore from the earlier stages of the Robinson Mine's Tripp Veteran Pit and the Ruth Pit. While the historical data source is extensive, Quadra is presently unable to confirm the size or grade of the molybdenum resource.

- Uncertainties and costs related to Quadra's exploration and development activities, such as those associated with determining whether copper, gold, molybdenum or other mineral reserves exist on a property.

- Uncertainties related to feasibility studies and other studies that provide estimates of expected or anticipated costs, expenditures and economic returns from a mining project.

- Uncertainties relating to the availability of adequate water resources for mining and milling operations.

- Uncertainties related to the ability to obtain and retain necessary licenses, permits, electricity, surface rights and title for development projects and project delays due to third party opposition.

- Uncertainties in obtaining additional financing that may result in delay, postponement or even a loss of the property interest.

- Uncertainties related to the future development or implementation of new technologies, research and development and, in each case, related initiatives and the effect of those on our operating performance.

- Uncertainties related to judicial or regulatory proceedings.

- Changes in, and the effects of, the laws, regulations and government policies affecting our mining operations, particularly laws, regulations and policies relating to:

  - ➢ mine expansions, environmental protection and associated compliance costs arising from exploration, mine development, mine operations, reclamation and mine closures;

  - ➢ expected effective future tax rates in jurisdictions in which our operations are located;

  - ➢ the protection of the health and safety of mine workers; and

  - ➢ mineral rights ownership in countries where our mineral deposits are located.

- Changes in general economic conditions, the financial markets and in the demand and market price for copper, gold, molybdenum and other minerals and commodities, such as diesel fuel, petroleum, steel, concrete, electricity and other forms of energy, mining equipment, operating supplies, and fluctuations in exchange rates, particularly with respect to the value of the U.S. dollar and Canadian dollar, concentrate and transportation charges.

- The effects of forward selling instruments to protect against fluctuations in copper, gold, molybdenum and other metal prices and exchange rate movements and the risks of counterparty defaults, and mark to market risk.

- Unusual or unexpected formations, seismic activity, cave-ins, flooding, pressures, pit wall failures and other similar incidents (and the risk of inadequate insurance or inability to obtain insurance to cover these risks).

- Changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates.

- Environmental issues and liabilities associated with mining including processing and stock piling ore.

- Geopolitical uncertainty and political and economic instability in countries which we operate.

- Labour strikes, work stoppages, or other interruptions to, or difficulties in, the employment of labour in markets in which we operate mines, or extreme weather conditions, environmental hazards, industrial accidents or other events or occurrences, including third party interference that interrupt the production of minerals in our mines.

- Quadra's reliance on a single producing property.

- Uncertainties relating to acquisitions, including whether the recently acquired Carlota Project can ever be brought into production.

A discussion of these and other factors that may affect Quadra's actual results, performance, achievements or financial position is contained in the filings by Quadra with the Canadian provincial securities regulatory authorities, including Quadra's AIF. This list is not exhaustive of the factors that may affect our forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. Quadra disclaims any intent or obligations to update or revise publicly any forward-looking statements whether as a result of new information, estimates or options, future events or results or otherwise.

For the year ended 31 December 2007

The following is extracted from the Management Discussion and Analysis of Quadra Mining Ltd. for the year and the fourth quarter ended 31 December 2007. (References to page numbers in the extract reproduced below are to pages contained in the published management discussion and analysis of Quadra Mining Ltd. for the year and the fourth quarter ended 31 December 2007.)

The following Management Discussion and Analysis ("MD&A") of Quadra Mining Ltd. and its subsidiaries ("Quadra" or the "Company") has been prepared as at 19 February 2008 and is intended to be read in conjunction with the accompanying audited consolidated financial statements for the year ended 31 December 2007. This MD&A contains "forward looking information" and reference to the cautionary statement at the end of this MD&A is advised. Additional information relating to the Company, including its Annual Information Form, is available on the SEDAR website at www.sedar.com. The Company is a reporting issuer in all provinces and territories of Canada and its common shares are traded on the Toronto Stock Exchange under the symbol: QUA.

All financial information in this MD&A is prepared in accordance with the Canadian Generally Accepted Accounting Principles and all dollar amounts are expressed in thousands of United States dollars unless otherwise indicated.

Description of Business and Nature of Operations

Quadra is a mining company that owns and operates the Robinson copper mine ("Robinson Mine") near Ely, Nevada. In addition, Quadra holds a 100% interest in the Carlota Copper Project ("Carlota"), a heap leach — SX/EW copper project under construction in Arizona. The Company has an option to purchase the Sierra Gorda project ("Sierra Gorda"), a late stage exploration property near Antofagasta, Chile. The Company also owns an 82% interest in International Molybdenum Plc. ("InterMoly") which holds the rights to the Malmbjerg molybdenum project ("Malmbjerg") in Greenland. The strategic plan of the Company includes growth by optimising operations, developing projects, and pursuing merger and acquisition opportunities.

2007 and Fourth Quarter Highlights:

- Earnings for the year ended 31 December 2007 were $136,412 or $2.80 per share (basic) compared to earnings of $14,433 or $0.40 per share (basic) in 2006.

- The Company exceeded its 2007 production guidance of 125 million pounds of copper and 90,000 ounces of gold by producing 131.9 million pounds of copper and 108 thousand ounces of gold.

- The Robinson Mine generated net revenue of $494 million in 2007 from the sale of 134.2 million pounds of copper and 108 thousand ounces of gold in concentrates compared to net revenue of $393 million generated from the sale of 117.8 million pounds of copper and 70,000 ounces of gold in 2006.

- Fourth quarter 2007 revenues were $82 million and were lower than previous quarters in 2007 as a result of adjustments to provisional prices recorded in the third quarter, the lower realized price of copper in the fourth quarter, and timing of shipments through the year.

- The Company generated cashflow from operating activities (before working capital changes)* of $163 million in 2007 compared to $18.1 million in 2006.

- Cash and cash equivalents at 31 December 2007 was $263.6 million compared to $47.8 million at 31 December 2006.

- The cash cost per pound of copper produced* was $1.49 per pound in 2007 compared to $1.74 in 2006.

- Construction at Carlota continued on schedule and on budget with commencement of copper production anticipated in the second half of 2008.

- The Company continued its strategic growth plan in 2007 with the acquisition of an 82% interest in International Molybdenum Plc ("InterMoly"), holder of the rights to the Malmbjerg molybdenum project.

- The Company continued to advance the Sierra Gorda Project in Chile, announcing successful drill results and the acquisition of water rights.

- Due to a strong focus on safety and training at Robinson the Total Recordable Injury Rate has been reduced from 2.6 in 2006, to 1.0 for 2007 (2007 U.S. National Average is 3.3).

- In 2007 the Company was added to the S&P/TSX Composite Index.

* The cash cost per pound of copper produced, and offsite costs and onsite costs are non-GAAP financial measures that do not have a standardized meaning under Canadian Generally Accepted Accounting Principles ("GAAP"), and as a result may not be comparable to similar measures presented by other companies. The cash cost per of copper produced consists of onsite and offsite costs, less by-product revenue, divided by the pounds of copper produced in the period. Onsite costs consist of mining costs, equipment operating lease costs, mill costs, mine site general and administration costs, royalties and environmental costs. For financial statement reporting purposes, royalties are reported separately from cost of goods sold. Offsite costs consist of transportation, smelting and refining of concentrate. For financial statement reporting purposes, smelting and refining costs are netted against revenues. Cashflow from operating activities (before working capital changes) is also not a defined term under GAAP, and consists of cash provided from operating activities less net changes in non-cash working capital.

Financial Performance

Earnings

Earnings for the year ended 31 December 2007 were $136,412 or $2.80 per share (basic) compared to earnings of $14,433 or $0.40 per share (basic) in 2006. The increased earnings in 2007 result from higher sales volumes from the Robinson mine, increased metal prices, and lower derivative losses in 2007 as the Company settled its remaining forward sale contracts in the first half of the year.

For the fourth quarter of 2007, earnings were $7,990 or $0.15 per share (basic) compared to earnings of $50,960 or $1.34 per share (basic) in the fourth quarter of 2006. Earnings in the fourth quarter of 2007 were impacted by the declining copper price across the quarter and by the lower sales volumes due to the timing of shipments (see section below "**Fourth Quarter Revenues**"). The copper price fell from $3.66/lb. on 30 September 2007 to $3.04/lb. at year-end resulting in adjustments to provisional sales prices recorded in the third quarter and lower provisional prices for fourth quarter shipments.

The reduction in earnings in the fourth quarter of 2007 as compared to 2006, is also related to a gain on derivatives recognized in the fourth quarter of 2006 on the Company's forward sale contracts, due to the falling copper price in that period.

Operating income for 2007 increased to $216,766 from $154,208 in 2006, due to increased production and higher sales volumes from the Robinson mine, and higher average metal prices.

Revenues

All of the Company's revenues are generated by the Robinson Mine. Revenues from sales of concentrate are generally recognized at the time of shipment based on metal prices at that time; however, final pricing is not determined until a future date.

In 2007, revenues from concentrate sales were $493,848 compared to $393,257 in 2006. The increase is primarily due to increased production of copper and gold and higher average metal prices in the current year. In 2007, the Company sold 134.2 million pounds of copper and 108 thousand ounces of gold, compared to 117.8 million pounds of copper and 70 thousand ounces of gold in 2006. Revenues in 2007 were also positively impacted by a $18 million reduction in refining and treatment charges (which are netted against revenues on the statement of operations).

Fourth Quarter Revenues

Quarterly revenues are driven by sales volumes and copper prices. Fourth quarter revenues in 2007 were $81,667 and were impacted by a lower copper price in the quarter, associated negative pricing adjustments to third quarter shipment receivables, and by lower sales volumes than in the previous quarters of 2007.

	Copper Production	**Copper Sales**	**Copper Price at Quarter-end**
	(million lbs.)	*(million lbs.)*	*(per lb.)*
First quarter 2007	36.6	40.5	$3.12
Second quarter 2007	32.4	32.3	$3.47
Third quarter 2007	30.7	32.5	$3.66
Fourth quarter 2007	32.4	28.9	$3.04
Total	132.1	134.2	

Under the Company's current sales contracts, final pricing for copper sales is generally set at least four months after the time of shipment. Quarterly revenues include estimated prices for sales in the quarter, based on copper prices at quarter-end, as well as pricing adjustments for sales that occurred in previous quarters, based on the actual price received. There was a significant reduction in the price of copper at the end of the fourth quarter as compared to the third quarter, reducing the value of the copper sold, but only provisionally priced.

At 30 September 2007, the end of the previous quarter, receivables included approximately 42.5 million pounds of copper provisionally valued at $3.66 per pound. During the fourth quarter, 31.8 million pounds of copper that was provisionally valued at 30 September 2007 was settled at an average final price of $3.24 per pound. Fourth quarter revenues in 2007 include negative pricing adjustments of $19,821 related to third quarter sales. In the fourth quarter, the Company shipped approximately 28.9 million pounds of copper at an average provisional price of $3.21 per pound. At 31 December 2007, receivables include 38.2 million pounds of copper which has been provisionally valued at $3.04 per pound, based on copper prices at year-end. As at 19 February 2008 the copper price was $3.66 per pound.

Copper production and copper sales were substantially in line for the year. However in the fourth quarter, sales volumes were lower than production due to the timing of shipments.

Cost of Sales and Expenses

Cost of sales increased to $232,951 in 2007 from $206,910 in 2006, primarily due to the increase in sales volumes in the current year. Amortization, depletion and depreciation increased to $13,832 in 2007 from $11,260 in 2006, which is also primarily due to the increase in sales volumes in the current year.

Royalties and mineral taxes increased to $27,780 in 2007 from $18,720 in 2006. This increase in royalties and mineral taxes is primarily due to higher metal prices and increased production in the current year. In addition, in the first half of 2006, royalty costs of $3,677 were paid into a trust for qualified rehabilitation expenditures, and therefore did not impact the statement of operations.

General and administrative expenses increased to $10,274 in 2007 from $7,516 in 2006, due to increased activities at the corporate office.

The Company settled all of its remaining copper and gold forward contracts in the first six months of 2007. There were no forward sale contracts in place during the third and fourth quarter of 2007. The loss on derivatives for 2007 was $15,293 compared to $151,383 in 2006, and primarily relates to these forward sale contracts. The 2007 loss on derivatives also includes much smaller amounts related to copper put options, a take or pay fuel contract, and an interest rate cap contract (see **Financial Instruments and Other Instruments**).

Stock-based compensation expense increased to $5,386 in 2007 from $2,399 in 2006, due to an increase in the number of options granted and the increase in the fair value of each option. The loss on settlement of debt of $11,039 relates to the second lien secured credit facility which was retired in June 2007 (see **Liquidity and Capital Resources**). The Company realized a foreign exchange gain of $6,475 in 2007 compared to a loss of $106 in 2006. The proceeds of the May 2007 equity financing were denominated in Canadian dollars and the Company has benefited from a strengthening Canadian dollar since then. Net interest and other income totalled $3,948 in 2007 compared to a loss of $616 in 2006, primarily related to the increased interest income from higher cash balances in 2007.

In 2006, the Company earned a termination fee of $24,194 related to an option agreement with AMP Life Limited, the major shareholder of Equatorial Mining Limited, as a result of the Company's unsuccessful attempt to acquire all of the issued and outstanding common shares of Equatorial. The Company incurred total fees and costs of $9,820 related to this transaction, resulting in a net gain of $14,374 in 2006.

The Company recorded an income tax expense of $48,785 for 2007 compared with a recovery of $7,871 in 2006. The 2007 tax expense has been recorded based on an annual effective tax rate of 26%.

Fourth Quarter Cost of Sales and Expenses

In the fourth quarter of 2007, cost of sales was $55,358 compared to $58,673 in the fourth quarter of 2006, a decrease that is consistent with the lower revenue recognized in the current quarter due to the timing of shipments.

The loss on derivatives in the fourth quarter of 2007 was $772 and related to copper put options, a take or pay fuel contract, and an interest rate cap contract (see Financial Instruments and Other Instruments). In the fourth quarter of 2006, the Company recorded a gain on derivatives of $28,362 which related to forward sale contracts and the result of a falling copper price in that period.

Selected Annual Information

	2007	**2006**	**2005**
Statement of operations *($000's)*			
Revenues	493,848	393,257	228,235
Earnings (loss)	136,412	14,433	(13,423)
Basic earnings (loss) per share	$2.80	$0.40	$(0.49)
Diluted earnings (loss) per share	$2.72	$0.39	$(0.49)
Financial positions *($000's)*			
Total assets	789,219	335,966	250,642
Total long-term financial liabilities	213,724	37,061	50,478
Dividends	n/a	n/a	n/a

Summary of Quarterly Results

The following table summarizes the operating results of the most recent eight quarters (unaudited):

Summary of Quarterly Results

	2007				2006			
$000's	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of Operations								
Revenues — initial provisional price	110,012	127,985	129,832	127,533	117,300	83,253	115,353	81,497
Revenues — price adjustments	(22,215)	12,847	17,766	19,330	(9,912)	(5,474)	42,629	15,412
Refining and treatment charges	(6,130)	(6,245)	(6,459)	(10,408)	(8,215)	(9,856)	(15,757)	(12,973)
Revenues — total*	81,667	134,587	141,139	136,455	99,173	67,923	142,225	83,936
Operating income	14,649	64,527	72,618	64,972	30,713	24,005	72,431	33,181
Earnings (loss) before income taxes	10,810	63,739	50,772	59,876	56,375	26,960	(31,696)	(45,076)
Earnings (loss)	7,990	48,755	36,556	43,111	50,960	20,634	(21,997)	(35,163)
Basic earnings (loss) per share	$0.15	$0.90	$0.78	$1.13	$1.34	$0.55	$(0.59)	$(1.15)
Diluted earnings (loss) per share	$0.14	$0.86	$0.76	$1.12	$1.32	$0.54	$(0.59)	$(1.15)
Financial Position								
Cash	263,586	285,210	278,462	224,252	47,774	37,864	50,211	24,421
Total Assets	789,219	758,900	687,457	531,266	335,966	328,426	347,894	308,182
Total Liabilities and non-controlling interest	290,840	270,671	263,687	318,461	170,850	214,592	259,062	203,468
Shareholders' equity	498,379	488,229	423,770	212,805	165,116	113,834	88,832	104,714
Production Statistics — Robinson mine								
Copper production *(million lbs)*	32.4	30.7	32.2	36.6	35.3	33.3	27.8	25.0
Copper sales *(million lbs)**	28.9	32.5	32.3	40.5	34.1	19.6	33.1	31.0
Average provisional price per pound	$3.21	$3.46	$3.43	$2.66	$3.25	$3.39	$3.14	$2.21
Gold production *(ozs)*	27,048	24,138	25,893	31,040	27,646	20,425	12,532	14,471
Copper grade *(%)*	0.59	0.66	0.59	0.67	0.67	0.69	0.52	0.53
Gold grade *(g/t)*	0.38	0.39	0.36	0.46	0.41	0.32	0.24	0.27
Copper recovery	66.1%	58.1%	74.1%	75.0%	61.0%	63.4%	70.3%	69.5%
Gold recovery	59.2%	52.5%	64.0%	63.1%	53.7%	57.9%	47.5%	54.5%
Total onsite and offsite costs	73,164	68,940	69,397	66,090	64,166	67,219	67,979	62,622

* Revenues from sales of concentrate are recognized at the time of delivery which is generally upon loading of a ship at the port of Vancouver, Washington. Due to the timing of shipments, the amount of product sold in a quarter may differ from quarterly production volumes at the Robinson Mine in Ely, Nevada. Revenues are initially recognized based on metal prices at the time of shipment; however, final pricing is not determined until a future period. Price adjustments are recorded at each quarter-end prior to final settlement.

The quarterly performance of the Robinson Mine varies as a result of changes in head grade, metal recovery and waste stripping requirements. Due to the complex nature of the Robinson ore body, volatility in metal prices, and industry cost pressures the results have varied from quarter to quarter, and are expected to vary from quarter to quarter in the future.

Quarterly earnings during 2006 and the first two quarters of 2007 were impacted by derivative losses and gains related to outstanding forward sale contracts for copper and gold. There were no forward sale contracts in place during the third and fourth quarter of 2007.

In the third quarter of 2006, the Company recorded a net gain of $14 million from a termination fee related to the Company's unsuccessful attempt to acquire Equatorial Mining Limited.

The increased cash balance in the first and second quarters of 2007 is related to debt and equity financings that were completed in these periods (see **Liquidity and Capital Resources**).

Review of Operations and Projects

Robinson Mine (Nevada)

	Fourth Quarter		Year	
	2007	**2006**	**2007**	**2006**
Copper production *(Million lbs)*	32.4	35.3	131.9	121.4
Gold production *(ozs)*	27,048	27,646	108,119	75,074
Waste mined *(Tonnes 000's)*	13,600	13,964	59,296	59,212
Ore mined *(Tonnes 000's)*	3,451	4,121	14,380	15,281
Ore milled *(Tonnes 000's)*	3,753	3,919	14,171	13,860
Onsite costs	$57,273	$46,250	$209,071	$181,962
Offsite costs	$15,891	$17,916	$68,523	$80,024
Total costs	$73,164	$64,166	$277,594	$261,986
Capital expenditure	$6,127	$4,100	$24,150	$11,555
By product credits				
— Gold and silver	$20,925	$16,441	$78,454	$44,100
— Molybdenum	$1,132	$334	$2,868	$6,075
Copper grade *(%)*	0.59	0.67	0.63	0.61
Gold grade *(g/t)*	0.38	0.41	0.40	0.31
Copper recovery	66.1%	61.0%	67.4%	65.4%
Gold recovery	59.2%	53.7%	59.7%	53.6%
Mill Operating Time	95%	95%	92%	90%

During 2007 a total of 73.7 million tonnes of ore and waste were mined from the Veteran area of the Tripp-Veteran pit. Copper production in 2007 was 131.9 million pounds, compared to 121.4 million pounds in 2006. The increased copper production in 2007 is a result of increases in head grade, recoveries and mill throughput. The understanding of how to adjust to the variations within the deposit, together with continuous improvement activities, have resulted in better performance with respect to throughput, recovery and concentrate grade.

Gold production has exceeded expectations in 2007 increasing to 108,119 ounces from 75,074 ounces in 2006. The increase in gold recoveries and production in 2007 is primarily due to a higher gold head grade than that predicted by the block model. Technical studies, including re-assays of existing samples, are still underway to evaluate methods of improving the gold grade estimated in the Veteran pit.

Copper production in the fourth quarter was 32.4 million pounds compared to 35.3 million pounds in the fourth quarter of 2006. Gold production in the fourth quarter of 2007 was 27,048 ounces compared to 27,646 ounces in 2006. The reduced copper production is a result of lower head grades as mining activities moved as planned into lower grade material that was predicted to occur in the fourth quarter of 2007.

Robinson Operating Costs

Operating costs are comprised of onsite and offsite costs. Onsite costs are primarily driven by the volume of waste and ore moved, payroll costs, equipment maintenance costs, and royalties. Onsite costs in 2007 were $209,071 compared to 181,962 in 2006. The increased costs in 2007 primarily relate to a $5.2 million cost increase for tire replacements on haul trucks, an increase of $7.6 million for scheduled replacements of major components on mining equipment, and an additional $7.3 million of royalty costs. Royalty costs are higher in 2007 as a result of increased production, higher metal prices, and the impact of royalty costs now being fully payable (see "**Costs of Sales and Expenses**"). Onsite costs in the fourth quarter of 2007 were $57,273 compared to $46,250 in the fourth quarter of 2006. This increase is also related to tire costs and the replacement of major components on mining equipment scheduled for the fourth quarter 2007.

Offsite costs are primarily driven by smelting and refining charges, the volume of concentrate transported, and rail and ocean freight rates. Offsite costs in 2007 were $68,523 compared to $80,024 in 2006. This decrease is primarily due to lower rates for smelting and refining, which have fallen as a result of surplus smelting capacity, partially offset by higher volumes shipped and by increased ocean freight rates. There has been upward pressure on ocean freight rates through 2007. Offsite costs in the fourth quarter of 2007 were $15,891 compared to $17,916 in the fourth quarter of 2006, with the decrease also attributable to lower smelting and refining costs and lower volumes shipped.

The cash cost per pound of copper produced, including stripping costs, was $1.49 in 2007 as compared to $1.74 in 2006. The reductions in the cash costs per pound have primarily been driven by increased copper production and increased gold by-product revenue, partially offset by higher onsite costs in 2007. The cash cost per pound of copper produced is a non-GAAP term and consists of onsite and offsite costs, less by-product revenue, divided by the pounds of copper produced in the period.

Robinson Production Outlook

In 2008, the Company expects annual production of 130 million pounds of copper and 100,000 ounces of gold. Due to the continued complex nature of the Robinson ore body, metal production is expected to vary from quarter to quarter. This production guidance includes the impact of the supergene zone, which will again be encountered in 2008. Gold production exceeded expectations in 2007 and technical studies, including re-assays of existing samples, are underway to evaluate methods of improving the accuracy of the estimate of the gold grade in the Veteran pit.

The following table shows the proven and probable mineral reserves for the Robinson Mine as of 1 January 2008 (metric units except for gold troy ounces). The reserves were prepared under the supervision of Scott Hardy, P.Eng., and Juris Ore, both of Quadra Mining Ltd. Mr. Hardy is the designated Qualified Person as defined by National Instrument 43-101. Changes from the prior year's proven and probable mineral reserves relate primarily to the Veteran Pit and include ore and waste mined in 2007, changes to pit designs, adjustments arising from the complex mineralogy, and re-estimation of the deposit resources incorporating 2006-2007 development drilling.

Tripp-Veteran

Reserve		Copper	Gold	Contained Metal				Strip
Classification	Ore	Grade	Grade	Copper	Gold oz	Waste	Total	Ratio
	kt	*%*	*g/tonne*	*kt*	*(000's)*	*kt*	*kt*	
Proven	26,374	0.57%	0.35	151	299			
Probable	2,242	0.76%	0.29	17	21			
Proven and Probable	28,616	0.59%	0.35	168	320	74,672	103,288	2.61

Ruth

Reserve		Copper	Gold	Contained Metal				Strip
Classification	Ore	Grade	Grade	Copper	Gold oz	Waste	Total	Ratio
	kt	*%*	*g/tonne*	*kt*	*(000's)*	*kt*	*kt*	
Proven	60,459	0.63%	0.19	383	365			
Probable	13,647	1.12%	0.19	153	82			
Proven and Probable	74,106	0.72%	0.19	536	447	272,645	346,751	3.68

Stockpiles

Reserve		Copper	Gold	Contained Metal				Strip
Classification	Ore	Grade	Grade	Copper	Gold oz	Waste	Total	Ratio
	kt	*%*	*g/tonne*	*kt*	*(000's)*	*kt*	*kt*	
Proven	1,066	0.47%	0.15	5	5			
Probable								
Proven and Probable	1,066	0.47%	0.15	5	5	0	1,066	0.00

Total Robinson

Reserve		Copper	Gold	Contained Metal				Strip
Classification	Ore	Grade	Grade	Copper	Gold oz	Waste	Total	Ratio
	kt	*%*	*g/tonne*	*kt*	*(000's)*	*kt*	*kt*	
Proven	87,899	0.61%	0.24	539	669			
Probable	15,889	1.07%	0.20	170	103			
Proven and Probable	103,788	0.68%	0.23	709	772	347,317	451,105	3.35

Note:

Mineral reserves are based on a variable economic cutoff grade, or net value calculation, which includes all operating costs. This value is converted to recoverable copper pounds per ton cutoff grade and applied to resource material remaining inside the pit designs as of 1 January 2008. Resource materials classified as "Measured" and "Indicated" within the pit and above the cutoff are called "Proven" and "Probable" reserves. Certain materials were reduced from the resource tonnage by 18% due to the possibility of unfavorable metallurgical performance. The reserves are based on a variable copper prices starting at $2.50 per pound in 2008 decreasing to $1.75 by the end of mine life.

The global shortage of large off-road tires has been addressed by improvements in operating practices which are extending the useful life of all tires, with tire lives 40-50% greater than historical benchmarks. The Company has also entered into a tire supply agreement to help meet tire requirements for 2008-2009. While the shortage of tires continues, the situation seems to be moderating as additional production capacity and new producers come on line.

Mill recoveries in 2008 are expected to follow the trends previously observed in the Veteran pit, with higher recoveries from the hypogene material, and lower recoveries but higher grades from the supergene material. Ore is expected to be mined from upper benches of ore body, supergene material, early in 2008 and again towards the end of the year.

Exploration drilling in 2007 focused on the potential for additional reserves in the Veteran pit. The accumulated data was expected to be converted into a resource estimate by early 2008 but delays in getting assay information from third party labs have delayed full analysis until mid-year. Some of this drilling has been used to generate revisions to the resource and reserve estimate given above. Current drilling activity is now focused on collecting metallurgical samples and development drilling in the Ruth pit, which is expected to be the primary source of ore from 2010 onwards. Once this is completed, exploration drilling is planned in the Ruth pit area.

Robinson Operating Cost Outlook

Management is not aware of any significant changes in cost inputs for 2008.

Carlota Copper Project (Arizona)

The Company holds a 100% interest in the Carlota copper project, a heap leach — SX/EW copper project, currently under construction in Arizona. The budgeted construction cost is $218 million (including $29 million of working capital) and copper production is expected to commence in the second half of 2008. Primary access and haul roads have been completed and work is progressing on SX-EW platform concrete work, pre-production mining activities and development of the leach pad grading and drainage.

As of 31 December 2007, the Company has incurred capital expenditures of $93.3 million for construction, purchase of equipment and other project development costs. The Company also incurred capitalized interest and financing costs of $12.8 million.

On 4 October 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. 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. See section below “**Contingencies**”.

Carlota Outlook

Construction service and supply contracts will continue to be negotiated and awarded during the first quarter of 2008. Leach pad liner placement and development activities, SX-EW plant construction, power line installation, ancillary facilities construction and pre-production mining activities will continue in the first quarter. The Company reports the development of the project to be on schedule and on budget and anticipates commencement of copper production in the second half of 2008.

Sierra Gorda (Chile)

During 2007, the Company incurred costs of $11.1 million for exploration of the Sierra Gorda project and spent $0.9 million on claim option payments.

The results from deep sulphide drilling in 2006 moved the focus from an oxide heap-leach project to a potentially larger project that would encompass both heap leaching and primary sulphide production. The priority throughout 2007 was to evaluate and extend sulphide and oxide mineralization in the "281 Zone" — the area around the discovery hole from 2006 — in an effort to gather sufficient information to support an inferred category mineral resource in this zone. Drill results in 2007 continued to outline a significant sulphide system with large volumes of moderate grade material as well as deep high grade mineralization. In addition, the program evaluated covered oxide and sulphide targets generated by last year's shallow grid drilling, and other sulphide targets within the claim block. Over 48,000 metres of drilling has been completed in 2007, with five or six drill rigs on site for most of the year since commencement of the exploration program in April.

During 2007, the Company acquired water extraction rights from various sellers in Region II in northern Chile and has also entered into option agreements to acquire additional water rights in 2008. As of 31 December 2007 the Company had incurred total costs of $10.6 million on the water rights acquisition program, which includes acquisition costs, legal and other advisory services, payments under option agreements, and the fair value of common shares issued to acquire a private Chilean company.

Sierra Gorda Outlook

A technical report on mineral resources, reflecting 2007 drill results, is expected to be completed in the second quarter of 2008. The Company will then consider options for a development program which is expected to include definition drilling along with metallurgical, geotechnical and other engineering studies.

Malmbjerg Molybdenum Project (Greenland)

In 2007, the Company acquired 82.5% of the outstanding shares of International Molybdenum Plc ("InterMoly") which holds the rights to the Malmbjerg molybdenum project. On 27 April 2007 the Company mailed an offer ("the Offer") to acquire all of InterMoly's issued share capital (the "InterMoly Shares") and traded warrants (the "InterMoly Warrants"). The conditions of the Offer were satisfied or waived and the acquisition closed on 22 June 2007 with Quadra having received 82.5% of InterMoly

Shares and 90.8% of InterMoly Warrants. In September 2007, the Company completed the compulsory acquisition of the remaining outstanding InterMoly Warrants. A total of 3,293,111 common shares of the Company were issued in exchange for the interest in InterMoly. The fair value of the acquisition was $39.8 million, which includes transaction costs of $2.6 million.

The studies carried out by InterMoly before the acquisition proposed a conventional open pit operation with a production rate of approximately 23 million pounds per year of molybdenum.

As of 31 December 2007, the Company incurred costs of approximately $13.6 million on the project. In July 2007, the Company commenced the feasibility level studies required to make a development decision for the project. All field work planned for 2007 was completed and the site has been demobilized. Pilot plant testing of the bulk sample taken during the summer is underway.

Malmbjerg Outlook

Engineering and cost studies are proceeding on schedule. A technical report on mineral resources is expected to be completed in the second quarter. The results of these studies will be used to determine development plans, budgets and schedules.

Liquidity and Capital Resources

The Company's source of cash flow from operations is the Robinson Mine. The Company generated cash flow from operations (excluding working capital changes) of $162.5 million in 2007 compared to $18.1 million in 2006. This increased cash flow is driven by the higher revenues and sales volumes in 2007 and the lower derivative loss realized in 2007.

The Company incurred capital expenditures of $93.3 million at the Carlota project in 2007, for the purchase of mining equipment and other project construction costs. Capital expenditures at the Robinson Mine were $24.1 million and related to normal replacement and upgrades, tailings dam work, commencement of pre-mining works for the Ruth pit and the development and exploration drilling program. The Company spent a further $26.1 million on exploration and development of the Sierra Gorda and Malmbjerg projects.

In March 2007 the Company completed a $200 million syndicated private loan financing, consisting of a $150 million First Lien Secured Credit Facility ("First Facility") and a $50 million Second Lien Junior Secured Credit Facility ("Second Facility"). The First Facility has a 5 year term and bears interest at LIBOR + 6.5%. The Second Facility had a 7 year term and bore interest at LIBOR + 10%. The Second Facility was repaid in full in June 2007. With respect to the First Facility, the Company has certain prepayment options and the lenders have the ability to call a portion of the debt on a semi-annual basis (see **Commitments and Contractual Obligations**). The First Facility is secured by all Company assets except Sierra Gorda 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 $7.7 million in connection with arranging the Facilities, and also issued 2,027,776 warrants to the Second Facility Lenders. Each warrant entitles the holder to purchase a common share of the Company at an exercise price of $Cdn9.24 per share before 1 March 2012.

The Company repaid the $16.9 million balance that was outstanding under its working capital facility with Macquarie Bank Ltd. ("Macquarie"). This working capital facility and the hedge line of credit facility with Macquarie both expired in the first quarter of 2007.

In May 2007, the Company completed an equity financing with a syndicate of underwriters through which the Company issued 11.96 million units at a price of $Cdn12.60 per unit for gross proceeds of $Cdn150.7 million. 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 $Cdn20.00 for a period of three years. The Company incurred share issue costs of $5.8 million in connection with this offering.

A portion of the proceeds of the equity financing was used 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 $5.0 million to retire this debt.

At 31 December 2007 the Company had working capital of $287.2 million as compared to a working capital deficiency of $18.7 million at 31 December 2006. The increase in the working capital position is primarily due to the equity financing completed in May 2007, the long-term debt financing completed in March 2007, the settlement of the forward sale position, and the operating cash flow generated by the Robinson Mine. At 31 December 2007, accounts receivable and revenues includes approximately 38.2 million pounds of copper provisionally valued at $3.04 per pound. The final pricing for these provisionally priced sales is expected to occur between January 2008 and April 2008. Changes in the price of copper from the amounts used to calculate the provisional values will impact the Company's revenues and working capital position in the first quarter of 2008. On 19 February 2008 the copper price was $3.66/lb.

At 31 December 2007 the Company had cash and cash equivalents of approximately $263.6 million. These amounts are comprised of cash deposits and highly liquid investments that are readily convertible to cash. The counter-parties include banks, governments and government agencies.

Liquidity Outlook

The Company has expansion plans, including but not limited to, construction of the Carlota project where the Company expects to incur additional capital expenditures of approximately $125 million (including working capital requirements) to complete construction in the second half of 2008. The Company also expects to spend approximately $50 million on capital expenditures and environmental bonding at the Robinson Mine, primarily related to the development of the Ruth pit, which will become the primary source of ore in 2010, the exploration and development drilling program, and normal replacements and upgrades.

Under the terms of the First Facility debt, the Company's lenders will have the right to call approximately $42 million of the loan in March 2008, based on the excess cash flow generated in 2007 (see **Commitments and contractual obligations**).

Management believes that it will have sufficient cash to complete construction of the Carlota project based on the expected production results at Robinson and the Company's price protection program for copper (see **Financial Instruments and Other Instruments**), regardless of the cashflow sweep described above. Development of the Sierra Gorda and Malmbjerg projects in 2008 may require additional sources of financing, depending on the development plans, metal prices and whether or not the First Facility lenders exercise their call options in 2008.

Commitments and contractual obligations

	Payment Due By Period						
($000's)	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Senior secured credit facility and interest payments *(a)*	17,250	17,250	17,250	17,250	152,875	—	221,875
Deferred consideration *(b)*	15,104	—	—	—	—	—	15,104
Reclamation liabilities *(c)*	—	—	—	—	—	88,315	88,315
Take or pay contract *(d)*	7,608	6,600	3,300	—	—	—	17,508
Minimum lease payments (capital and operating)	12,917	12,812	15,692	7,381	1,627	—	50,430
Total	52,879	36,662	36,242	24,631	154,502	88,315	393,232

(a) Senior secured credit facility

Interest on the Company's $150 million First Facility is payable quarterly based on an annual interest rate of LIBOR + 6.5%. The Company is obligated to make a semi-annual offer to the lenders to repay an amount equal to 50% of excess cash flow, as computed under the terms of the First Facility. The Company also 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.

(b) Deferred gold consideration

As at 31 December 2007, 18,750 ounces of gold remained to be paid to the vendor as deferred purchase consideration for the acquisition of the Carlota project in 2005. This gold will be paid in three quarterly instalments during 2008. The deferred gold liability has an estimated fair value of $15,104 at 31 December 2007, based on the forward prices of gold over the expected payment schedule.

(c) Reclamation liabilities

The Company has estimated total future reclamation costs of $88.3 million (undiscounted), which primarily relate to the closure of the Robinson Mine. The Company has estimated the fair value of this liability to be $37.5 million at 31 December 2007 based on the estimated discounted future payments.

(d) Take or pay contracts

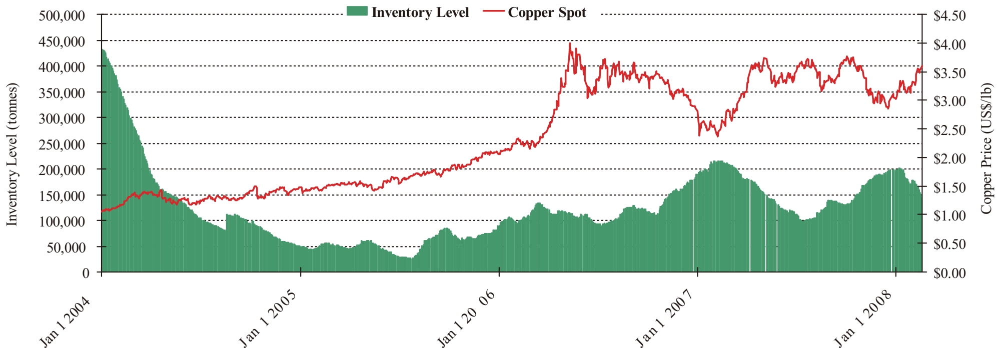
In 2007 the Company entered into an agreement to purchase, on a take or pay basis, 504,000 gallons of fuel per month until February 2008. The Company has also signed a three year tire supply contract for a total commitment of approximately $6,600 per year.

Market Trends and Fundamentals

Since 2003, the growing demand for copper, particularly in China, coupled with an inability of the copper industry to increase supply due to a lack of immediate development projects, has resulted in decreased inventories of copper. These low inventories, together with a weakening U.S. dollar, have led to a substantial increase in the copper price.

The following graph shows the inventory level, as published by the London Metal Exchange ("LME"), of copper and the spot price of copper from 2004 to 31 December 2007.

LME Copper Price & Inventory



Inventories published on the LME declined to a 30 year low of only 25,525 tonnes on 22 July 2005 but they have since rebounded to 197,450 tonnes as of 31 December 2007.

The copper price has remained volatile in 2007 with the spot price ranging from a low of $2.37 per pound to a high of $3.77 per pound during the year. At 31 December 2007 the closing spot price was $3.03 per pound. At 19 February 2008, the closing spot price was $3.66 per pound.

The reference price of copper metal is determined by trading on the LME, where the price is set in U.S. dollars at the end of each business day.

Financial Instruments and Other Instruments

The Company's revenues and cash flows are subject to fluctuations in the market price of copper and gold. In addition, there is a time lag between the time of initial payment on shipment and final pricing, and changes in the price of copper and gold during this period impact the Company's revenues and working capital position.

As of 31 December 2007 the Company has no outstanding forward sales contracts for copper or gold. As at 31 December 2006 the Company had forward contracts outstanding to sell 67 million pounds of copper at an average price of $2.26 per pound and 24,000 ounces of gold at an average price of $429/oz. The outstanding copper contracts related to metal produced in 2006 but the final pricing of the sales and settlement of the contracts did not occur until the first half of 2007. At 31 December 2006 the Company recorded a liability of $46.5 million based on the fair value of the outstanding forward contracts at that time. In the first and second quarters of 2007, the Company recorded realized derivative losses of $54.4 million on the income statement, based on the difference between the actual sales prices and the forward contracted prices.

In recognition of the volatility of the commodities market and in order ensure completion of construction at Carlota, the Company has instituted a floor price protection program. Under this program, the Company has purchased copper put options at various times during 2007 at a total cost of $11.5 million. At 31 December 2007 the Company had outstanding put options for approximately 149 million pounds of copper with an average strike price of $2.43 per pound and with maturity dates spread between January 2008 and September 2008. The fair value of the outstanding copper put options at 31 December 2007 was $8.8 million. The $2.8 million reduction in the fair value of the put options has been recognized as a derivative loss on the statement of operations in 2007.

In 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 ending on 1 February 2008. As at 31 December 2007, the fair value of the fuel contract was $0.5 million, resulting in an unrealized derivative gain of $0.5 million in 2007.

The Company's $150 million senior secured credit facility bears interest at a variable rate of LIBOR + 6.5%. As a condition of the $150 million credit facility, the Company purchased a contract which provides an interest rate cap. The contract effectively caps LIBOR at 5.35% for $100 million of debt until 6 June 2010. The cost of the interest rate cap was $0.5 million. The fair value of the interest rate cap was $0.1 million at quarter-end resulting in an unrealized loss of $0.4 million in 2007.

Contingencies

On 4 October 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 18 January 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 permit renewals required for the development and operation of Carlota will not be challenged in the future.

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.

Transactions with Related Parties

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

Critical Accounting Policies and Estimates

In preparing financial statements management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ materially from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting policies and estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

Mineral Properties

Mineral property development costs, including exploration, mine construction, and stripping costs, are capitalized until commercial production is achieved, and are then amortized over the remaining life of the mine based on proven and probable reserves. The determination of the extent of reserves is a complex task in which a number of estimates and assumptions are made. These involve the use of geological sampling and models as well as estimates of future costs. New knowledge derived from further exploration and development of the ore body may also affect reserve estimates. In addition the determination of economic reserves depends on assumptions on long-term commodity prices and in some cases exchange rates.

An impairment loss is recognized for a mineral property if its carrying value exceeds the total undiscounted cash flows expected from its use and disposal. Undiscounted cash flows for mineral properties are estimated based on a number of assumptions including long-term commodity, proven and probable reserves, estimated value beyond proven and probable reserves, and estimates of future operating, capital, and reclamation costs. Based on management's view of future metal prices and cost assumptions, the carrying value of the Company's mineral properties was not impaired at 31 December 2007.

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. The Company estimates provisional pricing for its concentrate 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. As a result, revenues include estimated prices for sales in that period as well as pricing adjustments for sales that occurred in the previous period. These types of adjustments can have a material impact on the revenues.

Asset Retirement Obligations, Reclamation and Mine Closure

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. In 2006 and 2007 the Company revised its estimate of the timing and amount of closure costs at the Robinson Mine which resulted in adjustments to the liability recorded in the Company's financial statements. 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 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.

Future Income Tax Assets

Management believes that uncertainty exists regarding the realization of certain future tax assets and therefore a valuation allowance of $36.5 million 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. The Company has recognized a net current future income tax asset of $12.1 million and a net non-current future income tax liability of $23.7 million that relates to the temporary difference created between the tax and accounting basis of assets and liabilities of operations based in the United States. Management estimates that, using long term copper prices in line with its mine plan estimates, the future taxable income will be sufficient to utilize the net tax assets which have been recognized.

Change in Accounting Policies

Effective 1 January 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.

Outstanding Share Data

The Company had 55,115,736 common shares issued and outstanding common shares at 31 December 2007. As of 19 February 2008 the Company had 55,332,113 common shares issued and outstanding.

Control Over Financial Reporting

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During the process of management's review and evaluation of the design of the Company's internal control over financial reporting in the fourth quarter of 2006, it was determined that the design and evaluation of internal controls over information technology at the Robinson Mine was not completed. The design and implementation of these controls has now been substantially completed.

Disclosure Controls and Procedures

The Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms.

19 February 2008

This MD&A contains "forward-looking information" that is based on Quadra's expectations, estimates and projections as of the dates as of which those statements were made. This forward-looking information includes, among other things, statements with respect to Quadra's business strategy, plans, outlook, long-term growth in cash flow, earnings per share and shareholder value, projections, targets and expectations as to reserves, resources, results of exploration (including targets) and related expenses, property acquisitions, mine development, mine operations, mine production costs, drilling activity, sampling and other data, estimating grade levels, future recovery levels, future production levels, capital costs, costs savings, cash and total costs of production of copper, gold and other minerals, expenditures for environmental matters and technology, projected life of Quadra's mines, reclamation and other post closure obligations and estimated future expenditures for those matters, completion dates for the various development stages of mines, availability of water for milling and mining, future copper, gold, molybdenum and other mineral prices (including the long-term estimated prices used in calculating Quadra's mineral reserves), the percentage of production derived from mechanized mining, the percentage of production from milling, currency exchange rates, debt reductions, timing of expected sales and the percentage of anticipated production covered by forward sale and other option contracts or agreements, anticipated outcome of litigation and personnel issues. Generally, this forward-looking information can be identified by the use of forward-looking terminology such as "outlook", "anticipate", "project", "target", "believe", "estimate", "expect", "intend", "should", "scheduled", "will", "plan" and similar expressions. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause Quadra's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to:

- Uncertainties related to the accuracy of reserve and resource estimates and estimates of future production and future cash and total costs of production and the geotechnical or hydrogeological nature of ore deposits, diminishing quantities or grades of reserves and variable metallurgical performance of these reserves.

- Uncertainties related to expected production rates, timing of production and the cash and total costs of production and milling.

- Uncertainties relating to copper, gold, molybdenum and other mineral prices, which are beyond the Company's control.

- Provisional payments on concentrate material that the Company sells; uncertainty in the final metal prices used for the computation of final settlement exists such that final settlement could be less than the cost of production plus other liquidity requirements.

- Operating and technical difficulties in connection with mining development or production activities.

- Uncertainties with respect to the quantity or quality of molybdenum that may be produced at the Robinson Mine.

- Uncertainties and costs related to Quadra's exploration and development activities, such as those associated with determining whether copper, gold, molybdenum or other mineral reserves exist on a property.

- Uncertainties related to feasibility studies and other studies that provide estimates of expected or anticipated costs, expenditures and economic returns from a mining project.

- Uncertainties related to capital cost estimates for mine construction activities.

- Uncertainties relating to the availability of adequate water resources for mining and milling operations.

- Uncertainties related to the ability to obtain and retain necessary licences, permits, electricity, surface rights and title for development projects and project delays due to third party opposition.

- Uncertainties in obtaining additional financing that may result in delay or postponement of development projects or even a loss of the mineral property interest.

- Uncertainties related to the future development or implementation of new technologies, research and development and, in each case, related initiatives and the effect of those on our operating performance.

- Uncertainties related to judicial or regulatory proceedings, including whether the permits required for development and operating activities will be obtained and whether existing permits will be challenged.

- Changes in, and the effects of, the laws, regulations and government policies affecting Quadra's mining operations, particularly laws, regulations and policies relating to:

  > mine expansions, environmental protection and associated compliance costs arising from exploration, mine development, mine operations, reclamation and mine closures;

  > expected effective future tax rates in jurisdictions in which Quadra's operations are located;

  > the protection of the health and safety of mine workers; and

  > mineral rights ownership in countries where Quadra's mineral deposits are located.

- Changes in general economic conditions, the financial markets and in the demand and market price for copper, gold, molybdenum and other minerals and commodities, such as diesel fuel, petroleum, steel, concrete, electricity and other forms of energy, mining equipment, operating supplies including truck tires, and fluctuations in exchange rates, particularly with respect to the value of the U.S. dollar and Canadian dollar, concentrate and transportation charges.

- The effects of derivative instruments to protect against fluctuations in copper, gold, molybdenum and other metal prices and exchange rate movements and the risks of counterparty defaults, and mark to market risk.

- Unusual or unexpected formations, seismic activity, cave-ins, flooding, pressures, pit wall failures and other similar incidents (and the risk of inadequate insurance or inability to obtain insurance to cover these risks).

- Changes in accounting policies and methods used to report Quadra's financial condition.

- Uncertainties associated with critical accounting assumptions and estimates.

- Environmental issues and liabilities associated with mining including processing and stock piling ore.

- Geopolitical uncertainty and political and economic instability in countries in which Quadra operates.

- Labour strikes, work stoppages, or other interruptions to, or difficulties in, the employment of labour in markets in which Quadra operates mines, or extreme weather conditions, environmental hazards, industrial accidents or other events or occurrences, including third party interference that interrupt the production of minerals in Quadra's mines or interrupt the delivery of Quadra's product to customers.

- Quadra's reliance on a single producing property.

- Uncertainties relating to acquisitions, including whether the Carlota copper project and recently acquired Malmbjerg molybdenum project can be brought into production.

- Breaching covenants and undertakings contained in debt facility agreements could result in a significant loss to Quadra.

A discussion of these and other factors that may affect Quadra's actual results, performance, achievements or financial position is contained in the filings by Quadra with the Canadian provincial securities regulatory authorities, including Quadra's Annual Information Form. This list is not exhaustive of the factors that may affect our forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. Quadra disclaims any intent or obligations to update or revise publicly any forward-looking statements whether as a result of new information, estimates or options, future events or results or otherwise, unless required to do so by law.

For the year ended 31 December 2008

The following is extracted from the Management Discussion and Analysis of Quadra Mining Ltd. for the year and fourth quarter ended 31 December 2008. (References to page numbers in the extract reproduced below are to pages contained in the published management discussion and analysis of Quadra Mining Ltd. for the year and fourth quarter ended 31 December 2008.)

The following Management Discussion and Analysis ("MD&A") of Quadra Mining Ltd. and its subsidiaries ("Quadra" or the "Company") has been prepared as at March 5, 2009 and is intended to be read in conjunction with the accompanying audited consolidated financial statements for the year ended December 31, 2008. This MD&A contains "forward looking information" and reference to the cautionary statement at the end of this MD&A is advised. Additional information relating to the Company, including its Annual Information Form, is available on the SEDAR website at www.sedar.com. The Company is a reporting issuer in all provinces and territories of Canada and its common shares are traded on the Toronto Stock Exchange under the symbol: QUA.

All financial information in this MD&A is prepared in accordance with the Canadian Generally Accepted Accounting Principles and all dollar amounts, except per share amounts, are expressed in thousands of United States dollars unless otherwise indicated.

DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Quadra is a mining company that owns and operates the Robinson copper mine ("Robinson Mine") near Ely, Nevada. In addition, Quadra holds a 100% interest in the Carlota mine ("Carlota"), a heap leach — SX/EW copper operation in Arizona. The Company also owns the Sierra Gorda project ("Sierra Gorda"), a late stage exploration property in northern Chile, through option agreements that were exercised in the second quarter of 2008, along with a 99% interest in the Malmbjerg molybdenum project ("Malmbjerg") in Greenland. The strategic plan of the Company includes growth by optimising operations, developing projects, and pursuing merger and acquisition opportunities.

2008 AND FOURTH QUARTER HIGHLIGHTS:

- Earnings for the year ended December 31, 2008 were $39 million or $0.61 per share (basic) compared to earnings of $135 million or $2.80 per share (basic) in 2007. The reduction in earnings was a result of a substantial fall in copper prices in the second half of 2008 and particularly in the last quarter and to a $96 million or $1.52 per share non cash write down of the Malmbjerg project.

- For the fourth quarter of 2008, the Company recorded a net loss of $126 million or $1.94 per share (basic) due to the $96 million Malmbjerg write down and the impact of the significant decline in copper prices.

- The Company generated cashflow from operating activities (before working capital changes)* of $166 million in 2008 compared to $163 million in 2007.

- The Company met its 2008 revised production guidance of 160 million pounds of copper and 130,000 ounces of gold by producing 160 million pounds of copper and 138 thousand ounces of gold.

- The Robinson Mine generated net revenue of $488 million in 2008 from the sale of 147 million pounds of copper and 127 thousand ounces of gold in concentrates compared to net revenue of $494 million generated from the sale of 134 million pounds of copper and 108 thousand ounces of gold in 2007.

- The cash cost per pound of copper produced* at Robinson was $1.15 per pound in 2008 compared to $1.49 in 2007.

- Earnings for the year ended December 31, 2008 included a gain of $38 million related to the Company's copper put options. For the first half of 2009, the Company has put options for 35 million pounds of copper at a strike price of $2.50/lb.

- Robinson continues to have one of the best safety records in the United States with a Total Recordable Injury Rate of 0.8 compared to the U.S. national average of 3.4.

- The construction of the Carlota mine was substantially completed on budget and on schedule. Leaching activities commenced in early October and the first production of copper cathode was achieved in December 2008.

- The Company made scheduled and accelerated option payments of $25 million to complete all payments due on the eight original Sierra Gorda option agreements.

- The Company completed a bought-deal equity financing for gross proceeds of $191 million and used the proceeds to retire its $150 million senior credit facility.

- The Company ended the year with cash and cash equivalents and marketable securities of $122 million.

- On February 6, 2009 the Company announced the proposed acquisition of Centenario Copper Corporation via a plan of arrangement. Upon closing of the transaction, each share of Centenario would be exchanged for 0.28 Quadra shares, resulting in the issuance of approximately 14.4 million Quadra common shares.

* See **"Non-GAAP Financial Measures"** for additional information.

FINANCIAL PERFORMANCE

Earnings

Earnings for the year ended December 31, 2008 were $38,609 or $0.61 per share (basic) compared to earnings of $134,545 or $2.80 per share (basic) in 2007. The reduction in earnings was a result of a substantial fall in copper prices in the second half of the year and particularly in the last quarter (see **"Market Trend and Fundamentals"**) and a $95,682 write down of the Malmbjerg project, offset by higher sales volumes from the Robinson mine, increased gold prices, and derivative gains related to the Company's copper put options. The write down of the Malmbjerg project is a result of the significant recent declines in molybdenum prices, the weak credit and financial markets, and the suspension of activities at the project.

For the fourth quarter of 2008, the Company posted a loss of $126,080 or $1.94 per share (basic) compared to earnings of $5,491 or $0.15 per share (basic) in the fourth quarter of 2007. The loss in the fourth quarter of 2008 was a result of the $95,682 impairment charge for the Malmbjerg mineral property, and the impact of the significant decline in copper price across the quarter. The copper price fell from $2.91/lb. on September 30, 2008 to $1.33/lb. at year-end resulting in adjustments to provisional sales prices recorded in the third quarter and lower provisional prices for fourth quarter shipments (see **"Fourth Quarter Revenues"**).

Operating income for 2008 decreased to $161,275 from $218,649 in 2007, due to sharp decline in copper prices in the fourth quarter of 2008 offset by increased production and higher sales volumes from the Robinson mine, and increased gold prices.

For the fourth quarter of 2008, the Company reported an operating loss of $93,422 compared to operating income of $15,085 in the fourth quarter of 2007. The 2008 fourth quarter operating loss includes negative provisional pricing adjustments of $65 million related to third quarter sales, and a $15 million leach pad inventory write down at Carlota. All of the Company's fourth quarter shipments were valued for accounting purposes at the period end copper price of $1.33/lb. (see **"Fourth Quarter Revenues"**).

Revenues

All of the Company's 2008 revenues relate to sales of copper concentrates from the Robinson Mine. The Carlota Mine produced 0.8 million lbs. of copper cathode in the fourth quarter of 2008 but did not sell any product. Revenues from sales of Robinson's concentrate are generally recognized at the time of shipment based on metal prices at that time; however, under the Company's current sales contracts which follow normal industry practice, final pricing for copper sales is generally set least four months after the time of shipment. As a result, quarterly revenues include estimated prices for sales in the quarter, based on copper prices at quarter-end, as well as pricing adjustments for sales that occurred in previous quarters, based on the actual price received and the price at quarter end for sales from previous quarters that were not settled in the quarter.

In 2008, revenues from concentrate sales were $487,501 compared to $493,848 in 2007. Sales volumes increased with 147.2 million pounds of copper and 127 thousand ounces of gold sold in 2008, compared to 134.2 million pounds of copper and 108 thousand ounces of gold in 2007. The impact of increased sales volumes was offset by a substantial fall in copper prices in the second half of the year and particularly in the fourth quarter of 2008. Revenues in 2008 were also positively impacted by a $12 million reduction in refining and treatment charges (which are netted against revenues on the statement of operations).

Fourth Quarter Revenues

In the quarter ended December 31, 2008, revenues from concentrate sales were ($7,058) compared to $81,667 for the fourth quarter of 2007. The negative fourth quarter revenues were a result of the negative provisional price adjustments of $85 million, that exceeded the initial provisional revenues of $78 million recorded on fourth quarter shipments. In the quarter, the Company sold 29.2 million pounds of copper and 22,844 ounces of gold, compared to 28.9 million pounds of copper and 27,089 ounces of gold in the fourth quarter of 2007. As a result of the declining copper price across the quarter, 2008 fourth quarter revenues include negative pricing adjustments of $65 million related to third quarter sales. In addition, the Company recorded negative price adjustment of $20 million related to the fourth quarter shipments which were revalued for accounting purposes at a price of $1.33/ lb. at December 31, 2008.

At September 30, 2008, the end of the previous quarter, accounts receivable included approximately 51.0 million pounds of copper provisionally valued at $2.91 per pound. During the fourth quarter, 38.2 million pounds of copper that had been provisionally valued at September 30, 2008 was settled at an average final price of $1.83 per pound. In the fourth quarter, the Company shipped approximately 31.1 million pounds of copper at an average provisional price of $2.02 per pound. At December 31, 2008, receivables include 43.2 million pounds of copper which has been provisionally valued at $1.33 per pound. At March 5, 2009, the copper price was $1.65 per pound (see **"Liquidity Outlook"**).

Cost of Sales and Expenses

Cost of sales increased to $254,511 in 2008 from $232,951 in 2007, primarily due to the increased operating costs at the Robinson Mine (see **"Robinson Operating Costs"**).

As a result of the significant decline in copper prices in the fourth quarter of 2008, the Company recorded a writedown of $15,249 to adjust the value of the Carlota leach pad and cathode inventory to its net realizable value. The cost of this initial inventory was higher than future anticipated costs, due to lower head grades and higher unit costs in the initial stage of mining. The net realizable value of this inventory was based on an estimated average copper price of $1.62 per pound (an estimated copper price over the remaining production period).

Amortization, depletion and depreciation increased to $19,071 in 2008 from $11,949 in 2007. The increase is a result of the amortization of additional capital assets acquired during 2008 and 2007.

Royalties and mineral taxes increased to $34,018 in 2008 from $27,780 in 2007 primarily due to increased royalty payments to Franco Nevada as a result of increased copper and gold production in 2008.

General and administrative expenses increased to $16,463 in 2008 from $10,274 in 2007, due to increased activities at the corporate office.

Stock-based compensation expense increased to $9,076 in 2008 from $5,386 in 2007. Stock-based compensation expense is based on the amortization of the fair value of options granted, as calculated on the date of the grant. Options granted in 2008 had a higher initial fair value than 2007 option grants, however, at the end of the year, these stock options were substantially out of the money.

In June 2008 the Company retired its $150 million first lien secured credit facility which resulted in a loss on settlement of debt of $15,940 in the second quarter of 2008. This loss was comprised of a $4,500 prepayment premium that was paid to the lenders, a $7,500 loan amendment fee that was paid in the first quarter of 2008, and $3,940 for amortization of debt issue costs that were capitalized for accounting purposes in 2007. In 2007, the Company retired its $50 million second lien secured credit facility and incurred a loss on settlement of debt of $11,039, which was comprised of a $5,000 prepayment premium paid to the lenders and $6,039 for the amortization of debt issue costs.

At the end of 2008, the Company reviewed the carrying value of the Malmbjerg mineral property in light of the significant decline in the price of molybdenum during the fourth quarter of 2008, the ongoing deterioration of global equity and credit markets, and the suspension of the Company's activities at the project. As a result of the review, and in accordance with Canadian GAAP, it was determined that the Malmbjerg mineral property was impaired and a write down of $95,682 was recorded in the fourth quarter of 2008.

For the year ended December 31, 2008, the Company recognized a derivative gain of $31,088, which primarily relates to the increase in value of the Company's copper put options, partially offset by a decrease in the fair value of fuel futures contracts (see section below **"Financial Instruments"**). In 2007, the loss on derivatives of $15,293 was primarily related to the settlement of copper and gold forward sales contracts.

The Company realized a foreign exchange loss of $3,674 in 2008 compared to a gain of $6,457 in 2007. The current year loss relates to the impact of the weakening Canadian dollar on the Company's Canadian dollar cash holdings. In 2008, net interest and other income totalled $4,321 compared to an expense of $807 in 2007. The increased income relates primarily to the change in the fair value of deferred gold consideration payable which resulted in an expense of $4,755 in 2007 and $1,535 in 2008.

The Company recorded an income tax expense of $17,240 in 2008, compared to $47,780 in 2007. The 2008 tax provision includes a future income tax recovery of $17,798 related to the write down of the Malmbjerg property. The tax expense for 2008, excluding the tax impact of the Malmbjerg write down, has been recorded based on an effective tax rate of 23% (2007: 26%). This lower effective tax rate is primarily due to the utilization of U.S. Alternative Minimum Tax credits which were earned in prior years.

Fourth quarter Cost of Sales and Expenses

Cost of sales for the fourth quarter of 2008 was $59,105 compared to $55,359 in the same quarter of 2007. The increase in cost of sales for the fourth quarter was mainly due to the increase in concentrate sale volume and operating costs at the Robinson Mine.

In the fourth quarter of 2008, and due to the significant decline in copper prices, the Company recorded a writedown of $15,249 to adjust the value of the Carlota mine's leach pad and cathode inventory to its net realizable value. The cost of this initial inventory was higher than future anticipated costs, due to lower head grades and higher unit costs in the initial stage of mining. The net realizable value of this inventory was based on an estimated average copper price of $1.62 per pound (an estimated copper price over the remaining production period).

At the end of 2008, the Company reviewed the carrying value of the Malmbjerg mineral property in light of the significant decline in the price of molybdenum during the fourth quarter of 2008, the ongoing deterioration of global equity and credit markets, and the suspension of the Company's activities at the project. As a result of the review, and in accordance with Canadian GAAP, it was determined that the Malmbjerg mineral property was impaired and a write down of $95,682 was recorded in the fourth quarter of 2008.

The Company also recognized a derivative gain of $37,434 in the fourth quarter of 2008, which primarily relates to an increase in value of the Company's copper put options, partially offset by a decrease in the fair value of fuel futures contracts of $6,667 (see section below **"Financial Instruments"**).

SUMMARY OF QUARTERLY RESULTS

The following table summarizes the operating results of the most recent eight quarters (unaudited):

SUMMARY OF QUARTERLY RESULTS

	2008 (As restated)**				2007 (As restated)**			
$000's	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of Operations								
Revenues — initial provisional price	80,796	184,719	183,046	170,174	110,012	127,985	129,832	127,533
Revenues — price adjustments	(84,560)	(64,398)	1,550	33,567	(22,215)	12,847	17,766	19,330
Refining and treatment charges	(3,294)	(4,364)	(4,026)	(5,709)	(6,130)	(6,245)	(6,459)	(10,408)
Revenues — total*	(7,058)	115,957	180,570	198,032	81,667	134,587	141,139	136,455
Operating income (loss)	(93,422)	34,320	104,001	116,376	15,085	65,002	73,094	65,468
(Loss) earnings before income taxes	(159,278)	33,626	81,000	100,501	6,964	64,181	51,606	59,574
(Loss) earnings	(126,080)	20,772	65,354	78,563	5,490	49,042	37,098	42,915
Basic (loss) earnings per share	$(1.94)	$0.32	$1.11	$1.42	$0.10	$0.90	$0.79	$1.13
Diluted (loss) earnings per share	$(1.94)	$0.31	$1.06	$1.39	$0.10	$0.87	$0.77	$1.11
Financial Position								
Cash and cash equivalents	107,797	266,384	262,155	305,292	263,586	285,210	278,462	224,252
Total Assets	851,967	1,057,458	981,687	855,961	789,219	758,900	687,457	531,266
Total Liabilities and non-controlling interest	120,435	179,198	128,735	287,474	290,840	270,671	263,687	318,461
Shareholders' equity	731,532	878,260	852,952	568,487	498,379	488,229	423,770	212,805
Production Statistics								
— Robinson mine								
Copper production (million lbs)	34.5	38.6	44.6	42.0	32.4	30.7	32.2	36.6
Copper sales (million lbs)*	29.2	40.4	38.7	38.9	28.9	32.5	32.3	40.5
Average final settlement price per pound	$2.45	$3.44	$3.81	$3.64	$3.24	$3.52	$3.37	$3.29
Gold production (ozs)	26,913	30,629	42,348	37,738	27,048	24,138	25,893	31,040
Copper grade (%)	0.68	0.64	0.72	0.68	0.59	0.66	0.59	0.67
Gold grade (g/t)	0.44	0.42	0.51	0.45	0.38	0.39	0.36	0.46
Copper recovery	68.1%	78.7%	81.8%	78.6%	66.1%	58.1%	74.1%	75.0%
Gold recovery	52.2%	65.8%	75.2%	72.6%	59.2%	52.5%	64.0%	63.1%
Onsite costs	59,659	61,102	61,229	55,580	57,273	52,656	53,716	45,424
Offsite costs	13,089	16,409	15,303	17,892	15,891	16,284	15,681	20,666

* Revenues from sales of concentrate are recognized at the time of delivery which is generally upon loading of a ship at the port of Vancouver, Washington. Due to the timing of shipments, the amount of product sold in a quarter may differ from quarterly production volumes at the Robinson Mine in Ely, Nevada. Revenues are initially recognized based on metal prices at the time of shipment; however, final pricing is not determined until a future period. Price adjustments are recorded at each quarter-end prior to final settlement. Copper sales volumes are reported based on the volume of pounds actually paid for by the customer (payable pounds). Payable pounds are generally 3-5% lower than the metal volume actually delivered, and the amount of the deduction varies depending on concentrate grade.

** The restatement of the quarterly results relates to the retroactive adoption of a new accounting standard, CICA HB 3064 *"Goodwill and Intangible Assets"* (see **"Change in Accounting Policy"**)

The quarterly performance of the Robinson Mine varies as a result of changes in head grade, metal recovery and waste stripping requirements. Due to the complex nature of the Robinson ore body, volatility in metal prices, and industry cost pressures the results have varied from quarter to quarter, and this is expected to continue in the future.

Quarterly earnings for the first two quarters of 2007 were impacted by derivative losses and gains related to outstanding forward sale contracts for copper and gold. There were no forward sale contracts outstanding since the second quarter of 2007.

In the third quarter of 2007, the Company retired its $50 million second lien facility and recorded a loss on settlement of $11 million. The $150 million senior credit facility was retired in the second quarter of 2008, resulting in a loss on settlement of $16 million.

The decline in the cash balance in the fourth quarter of 2008 is due to the decline in copper prices, and the resulting impact of settlement of provisional price adjustments.

In the fourth quarter of 2008, the Company recorded a $96 million write-down related to the impairment of the Malmbjerg mineral property.

SELECTED ANNUAL INFORMATION

	2008	**2007**	**2006**
		(As restated)	(As restated)
Statement of operations *($000's)*			
Revenues	487,501	493,848	393,257
Earnings	38,609	134,545	11,924
Basic earnings per share	$0.61	$2.80	$0.33
Diluted earnings per share	$0.60	$2.72	$0.32
Financial positions *($000's)*			
Total assets	851,967	765,622	322,495
Total long-term financial liabilities	46,442	205,465	37,061
Dividends	n/a	n/a	n/a

REVIEW OF OPERATIONS AND PROJECTS

ROBINSON MINE (NEVADA)

	Three months ended December 31		Year ended December 31	
	2008	2007	2008	2007
Copper production (Million lbs)	34.5	32.4	159.7	131.9
Gold production (ozs)	26,913	27,048	137,628	108,119
Waste mined (Tonnes 000's)	13,527	13,600	57,784	59,296
Ore mined (Tonnes 000's)	3,362	3,451	14,396	14,380
Ore milled (Tonnes 000's)	3,358	3,753	13,842	14,171
Onsite costs	$59,659	$57,273	$237,570	$209,071
Offsite costs	$13,089	$15,891	$62,693	$68,523
Total onsite and offsite costs	$72,748	$73,164	$300,263	$277,594
Capital expenditure	$13,681	$6,127	$49,426	$24,150
By product credits				
— Gold and silver	$18,072	$20,925	$115,103	$78,454
— Molybdenum	$177	$1,132	$1,403	$2,922
Copper grade (%)	0.69	0.59	0.68	0.63
Gold grade (g/t)	0.48	0.38	0.46	0.40
Copper recovery	68.1%	66.1%	76.7%	67.4%
Gold recovery	52.2%	59.2%	66.8%	59.7%
Mill Operating Time	94%	95%	94%	92%

During 2008 a total of 72.2 million tonnes of ore and waste were mined from the Veteran area of the Tripp-Veteran pit compared to 73.7 million tonnes in 2007. Copper production in 2008 was 159.7 million pounds, compared to 131.9 million pounds in 2007. The increase in copper production in 2008 was a result of higher than planned head grades as well as the operating practices and blending strategies developed during the year that delivered higher than anticipated copper and gold recoveries. Annual production performance for 2008 exceeded all production results since the mine commenced operations under the ownership of Quadra and based on records at hand, of any previous operator over the long history of the mine.

Gold production in 2008 increased to 137,628 ounces from 108,119 ounces in 2007. The increase in gold production is primarily the result of higher head grade and recovery.

Copper production in the fourth quarter of 2008 was 34.5 million pounds compared to 32.4 million pounds in the fourth quarter of 2007. Fourth quarter 2008 production was in the higher elevation supergene area of the Veteran pit and blending opportunities were limited, resulting in lower recoveries than the third quarter of 2008. Gold production in the fourth quarter of 2008 was 26,913 ounces compared to 27,048 ounces in 2007.

Robinson Operating and Capital Costs

Operating costs are comprised of onsite and offsite costs (see **"Non-GAAP Financial Measures"**). Onsite costs are primarily driven by the volume of waste and ore moved, payroll costs, equipment maintenance costs, and royalties. Onsite costs in 2008 were $237,570 compared to $209,071 in 2007. This increase primarily relates to $10.1 million for the cost of supplies (particularly fuel), $6.4 million in gainshare payments to employees related to the improved mill performance, and a $10.0 million increase in royalty costs due to increased royalty payments to Franco Nevada as a result of increased copper and gold production in 2008.

Onsite costs in the fourth quarter of 2008 were $59,659 compared to $57,273 in the fourth quarter of 2007. This increase is mainly related to a $4.5 million increase in royalty costs, $2.3 million for the cost of supplies, partially offset by a $4.4 million decrease in equipment maintenance costs.

Offsite costs are primarily driven by smelting and refining charges, the volume of concentrate transported, and rail and ocean freight rates. Offsite costs in 2008 were $62,693 compared to $68,523 in 2007. This decrease is primarily due to lower rates for smelting and refining, which have fallen as a result of surplus smelting capacity, partially offset by higher volumes of concentrate shipped and by increased average ocean freight rates. Although average ocean freight costs for the 2008 year were higher than 2007, there were significant declines in ocean freight costs in late 2008. Offsite costs in the fourth quarter of 2008 were $13,089 compared to $15,891 in the fourth quarter of 2007, with the decrease attributable to lower smelting and refining costs and lower ocean freight rates.

The cash cost per pound of copper produced, including stripping costs, was $1.15 in 2008 as compared to $1.49 in 2007. The reductions in the cash costs per pound have primarily been driven by increased copper production and increased gold by-product revenue, partially offset by higher onsite costs in 2008. The cash cost per pound of copper produced is a non-GAAP term and consists of onsite and offsite costs, less by-product revenue, divided by the pounds of copper produced in the period (see **"Non-GAAP Financial Measures"**).

Capital expenditures at the Robinson mine were $49,426 in 2008, which primarily related to development of the Ruth pit and the development and exploration drilling program, and also included normal replacements and upgrades and tailings dam work. Capital expenditures in 2008 were higher than the prior year amount of $24,150, due to increased development activity at Ruth, including dewatering and drilling.

Robinson Production Outlook

The Company has evaluated alternate mine plans for Robinson to allow for continuity of operations through the current global economic downturn and beyond. As a result, management has developed, and is proceeding with a new mine plan that is expected to result in significant capital and operating cost savings and increased copper production in 2009 and 2010 when compared to previous plans.

In 2009, the Company expects annual production of 140 million pounds of copper and 100,000 ounces of gold. Due to the continued complex nature of the Robinson ore body, metal production is expected to vary from quarter to quarter. Gold production is expected to be lower in 2009 than in 2008 due to anticipated lower gold grades in the Kimbley and Wedge pits.

The new mine plan alters the sequencing with mining now transitioning from the existing Veteran pit to 2 small satellite pits ("Kimbley" and "Wedge") in 2009 and then to the Ruth pit in 2010. Ruth will be mined in two stages, in a way that effectively deals with dewatering as well as delivering the blending balance required for optimum metallurgical results. This plan was developed based on additional information acquired from recent hydrological drilling and piezometer testing. The completion of the drilling and metallurgical program that commenced in 2007 supports the new plan, providing the appropriate ore sequencing for a blending strategy. Under this new plan the extension of the Veteran pit will be deferred until after the ultimate Ruth pit has been completed.

The Company has also developed contingent operating plans intended to allow the Company to maintain appropriate cash balances at lower copper prices. Depending on the outlook for metal prices and costs, Quadra may limit its activities to mining out the existing Veteran pit and deferring the development of the Ruth pit, or to suspending operations.

In February 2009, the Company filed an updated NI 43-101 Technical Report for the Robinson Mine. The following table shows the proven and probable mineral reserves for the Robinson Mine as of January 1, 2009 (metric units except for gold troy ounces). The reserves were prepared under the supervision of Scott Hardy, P.Eng., and Juris Ore, both of Quadra Mining Ltd. Mr. Hardy is the designated Qualified Person as defined by National Instrument 43-101. The reserve estimate was updated to reflect 2008 mining, changes to the resource model, and changes to the ultimate pit designs and operating plans. An updated resource model incorporating results from 2006 through 2008 exploration drilling was utilized in calculating the updated reserves estimate. The reserves also reflect updated pit designs as well as changes to anticipated metal prices, recoveries, operating conditions, operating costs. The reserve estimate allows for mining at Robinson until 2017.

				Total Robinson				
			Gold	**Contained Metal**				
Reserve		**Copper**	**Grade**	**Copper**	**Gold oz**	**Waste**	**Total**	**Strip**
Classification	**Ore kt**	**Grade%**	**g/tonne**	**kt**	***(000's)***	**kt**	**kt**	**Ratio**
Proven	117,976	0.55%	0.23	644	884			
Probable	3,717	0.42%	0.18	16	21			
Proven and Probable	121,693	0.54%	0.23	660	905	374,849	496,542	3.08

Note: Mineral reserves are based on a variable economic cutoff grade, or net value calculation, which includes all operating costs. This value is converted to recoverable copper pounds per ton cutoff grade and applied to resource material remaining inside the pit designs as of January 1, 2009. Resource materials classified as "Measured" and "Indicated" within the pit and above the cutoff are called "Proven" and "Probable" reserves. The reserves are based on long term metal prices of $2.00 per pound of copper and $800 per ounce of gold.

Robinson Cost Outlook

Onsite costs in 2009 are expected to be approximately $195 million, which is significantly lower than 2008 costs of $238 million due to the lower waste stripping requirements in 2009 under the new mine plan, as well as lower expected fuel and royalty costs. In October, the Company acquired NYMEX heating oil futures for 7.8 million gallons at an average price of $2.51/gallon. The futures contracts mature between December 2008 and November 2009, and were intended to reduce the impact of diesel price volatility over this period (see "**Financial Instruments**"). As a result, 2009 fuel costs are expected to be lower than those experienced in 2008.

Capital expenditures and bonding in 2009 are expected to be $35 million related primarily to development and dewatering of the Ruth pit, and an addition to the mill which is expected to improve copper recoveries in future years.

CARLOTA MINE (ARIZONA)

The Company holds a 100% interest in the Carlota Mine, a heap leach — SX/EW copper mine located in the Globe/Miami mining district of Arizona. Mine construction commenced in 2007 and was substantially completed at the end of September 2008, on schedule and budget. As of December 31, 2008, a total of $220 million had been spent on construction, purchase of equipment and other project development costs. In the fourth quarter of 2008, the Company also capitalized costs of $22 million related to building the initial leach pad inventory.

Approval of the modified Aquifer Protection Permit from ADEQ was received on October 10, 2008. Application of leaching solutions to the run-of-mine leach pad began immediately upon receipt of the permit and the harvesting of the first copper cathode from processing plant and supporting infrastructure was achieved 60 days later.

As of December 31, 2008 a total of 8.0 million tonnes of ore had been mined and placed on the leach pad for processing, which is estimated to contain approximately 32 million lbs. of recoverable copper. A total of 0.8 million pounds of copper cathode was produced in December 2008 by the conclusion of the testing and commissioning period.

Carlota Outlook

Ramp up activities in the processing plant will be completed in 2009. Cathode copper production is expected to be approximately 50 million pounds in 2009, due to the lower initial head grades as per the mine plan, which focuses on developing the ultimate pit wall benches required to support the Pinto Creek diversion channel. The Company began shipping cathode copper in January, and will begin recognizing revenues on the statement of earnings in the first quarter of 2009.

Total cash operating costs at the Carlota mine are expected to be approximately $75 million in 2009, resulting in unit cash operating costs of about $1.50 per pound. These operating cost forecasts exclude royalty payments and assume an acid price of $200/ton and a diesel price of $2.80/gallon. Recent information indicates that sulphuric acid supply and prices are softening.

The Company expects to incur $25 million of capital expenditures at Carlota during 2009 for the construction of the Pinto Creek Diversion and environmental bonding.

The following table shows the proven and probable mineral reserves for the Carlota Mine as of January 1, 2009 (metric units). The reserves were prepared under the supervision of Scott Hardy, P. Eng., and Jeff Hammerlind, both of Quadra Mining, Ltd. Mr. Hardy is the designated Qualified Person as defined by National Instrument 43-101. Changes from the prior National Instrument 43-101 filing relate primarily to mining of ore and waste during the 2007 and 2008 construction activities.

Carlota Probable Reserves Metric Units (0.10% Total Cu cutoff)

Deposit	Ore kt	Total Cu Grade %	Contained Cu kt	Waste kt	Total kt	Strip Ratio
Carlota-Cactus oxide	46,755	0.40	188			
Carlota-Cactus sulfide	18,190	0.64	116			
Sub Total	64,945	0.47	305	138,710	203,655	2.14
Eder North oxide	4,846	0.34	16			
Eder Junior oxide	471	0.28	1			
Sub Total	5,317	0.33	18	12,165	17,483	2.29
Total Reserve	70,262	0.46	323	150,875	221,138	2.15

SIERRA GORDA (CHILE)

In 2008, the Company incurred $20.0 million of costs on the Sierra Gorda project related to exploration activities and work associated with the ongoing scoping study. Metallurgical sampling was completed in the third quarter and testwork is underway on both sulphide and oxide material. Conceptual engineering and cost studies, geotechnical studies, and environmental studies are also in progress. Drilling has been focussed on defining and extending deep sulphide resources in the 281 Zone area and other targets identified by previous exploration.

In January and February 2004, Quadra, through its Chilean subsidiary, Minera Quadra Chile Limitada (MQCL), entered into letter agreements under which MQCL and the vendors agreed to enter into separate option agreements, which entitled MQCL to purchase the contiguous properties in Chile. The option agreements had differing terms, conditions and adjustments. In the second quarter of 2008, the Company made scheduled and accelerated payments totalling $24.9 million to exercise these Sierra Gorda option agreements. In June 2008, the Company entered into one new option agreement for property contiguous to Sierra Gorda. Three of the Sierra Gorda option agreements are the subject of litigation (see section below **"Contingencies"**).

In May 2008, the Company completed an updated Technical Report which includes a new mineral resource estimate for the project. The new estimate includes an indicated mineral resource containing 10.6 billion pounds of copper and 474 million pounds of molybdenum and an additional inferred mineral resource containing 5.5 billion pounds of copper and 211 million pounds of molybdenum. The Technical Report was prepared in compliance with requirements set out in National Instrument 43-101 by Steven Ristorcelli, P. Geo., Mine Development Associates of Reno, Nevada, assisted by Peter Ronning, P. Eng, New Caledonian Geological Consulting with the QA/QC work reviewed by Mr. Gary Lustig, P. Geo. Patrick Fahey, P. Geo, Vice President, Exploration for Quadra was also a co- author of the report.

In May 2008, the Company completed the acquisition of pumping rights to 319 litres per second of water located in Region II, northern Chile. These rights were acquired for a cash payment of $10.0 million and the issuance of 1,231,916 common shares at a value of $30.2 million. During the remainder of 2008, the Company acquired additional water rights located in Region II, northern Chile, for total payments of $7.4 million.

Sierra Gorda Outlook

The Company is advancing the project towards a "scoping study", which is intended to identify the basic project parameters including an updated resource estimate. This study is expected to be completed in the second quarter of 2009. While the Company intends to complete the scoping study, further development activities related to the project have been suspended due to the decline in the copper price. Quadra is seeking a partner, or partners, to advance this project through to production.

MALMBJERG MOLYBDENUM PROJECT (GREENLAND)

During 2008, the Company incurred development costs on the project of $7.1 million to advance permitting and engineering studies. During 2008, the Company also increased its interest in the Malmbjerg molybdenum project, from 82.5% to 99%, through the acquisition of additional shares in International Molybdenum plc. Site activities including baseline environmental work and geotechnical studies, were completed during the period July through early September.

During the fourth quarter, the Company continued discussions with the Greenland's Bureau of Minerals and Petroleum in connection with its application for an Exploitation License. The Danish-Greenland Joint Committee on Mineral Resources in Greenland considered the application in November 2008 and approved the granting of the permit. Certain administrative details are still being finalized and the permit should be officially issued in late March 2009.

At the end of 2008, the Company reviewed the carrying value of the Malmbjerg molybdenum project in light of the significant decline in the price of molybdenum during the fourth quarter of 2008 and the ongoing deterioration of global equity and credit markets. As a result of the review, it was determined that the Malmbjerg molybdenum project was impaired and a write down of $95,682 was recorded to adjust Malmbjerg's carrying value to an estimated fair value of $5,000.

Malmbjerg Outlook

The Company expects to receive final approval of its Exploitation License in the near future. However, additional development expenditures at Malmbjerg have been suspended due to the recent declines in metal prices. Quadra is seeking a partner or partners to advance the project through to production.

AGREEMENT TO ACQUIRE CENTENARIO COPPER CORPORATION ("CENTENARIO")

On February 8, 2009, the Company and Centenario entered into a definitive agreement whereby Quadra has agreed to acquire all the outstanding common shares of Centenario (the "Agreement"). The acquisition would be completed through a plan of arrangement under provisions of the Business Corporations Act. Pursuant to the Agreement, Centenario shareholders will receive 0.28 of a Quadra common share for each common share of Centenario, resulting in the issuance of approximately 14.4 million Quadra common shares. The proposed acquisition is subject to the satisfaction of a number of conditions, including Centenario shareholder approval, and completion of a restructuring of Centenario's long-term debt on terms acceptable to Quadra in its sole discretion.

In connection with the Agreement, and in order to provide Centenario with liquidity support, the Company has agreed to loan Centenario $3.5 million and subscribe to a private placement of 10,240,000 shares of Centenario at $Cdn0.80 per share. Completion of the loan and private placement are conditional upon, among other things, Centenario entering into a commitment letter with lenders with respect to the restructuring of Centenario's senior indebtedness on terms acceptable to Quadra.

The Company will acquire the remaining outstanding shares of Centenario through the share exchange in accordance with the Agreement. The transaction is expected to close in May 2009. Under the terms of the Agreement, all outstanding options of Centenario (including unvested options) will be exchanged for fully vested Quadra stock options exercisable for an aggregated of 592,900 Quadra common shares, based on the exchange ratio.

Centenario's principal asset is the Franke SX/EW, heap leach project in northern Chile. The Franke processing plant is designed with a nominal design capacity of 70 million pounds of copper cathode production per annum over its estimated current 8.6 year mine life. The Franke mine facilities are substantially complete and under pre-start-up testing.

Based on the currently anticipated restructured debt amount, Quadra and Centenario estimate that an additional $25 million in funding will be required to bring the Franke project to positive cash flow, based on the current Centenario start-up schedule. This $25 million funding requirement would be partially covered by the $3.5M loan and private placement.

LIQUIDITY AND CAPITAL RESOURCES

The Company's source of cash flow from operations during 2008 is the Robinson Mine. The Company generated cash flow from operations (excluding working capital changes) of $166.4 million in 2008 compared to $162.5 million in 2007. The decrease in cash flow is driven by the lower revenues in 2008 due to the decline in metal prices in the fourth quarter of 2008.

The Company incurred capital expenditures of $158.2 million at the Carlota project in 2008 for the purchase of mining equipment and other project construction costs. Capital expenditures at the Robinson Mine were $49.4 million and related to normal replacement and upgrades, tailings dam work, pre-mining works for the Ruth pit and the development and exploration drilling program. The Company spent a further $28.4 million on exploration and development of the Sierra Gorda and Malmbjerg projects. In addition, the Company spent $42.8 million on acquisition of land and water rights related to the Sierra Gorda project in 2008.

In 2008, the Company also made a net investment of $45.0 million in marketable securities, made environmental bonding payments of $9.0 million, and received $14.9 million for a refund of a security deposit. As at December 31, 2008, the quoted market price of the marketable securities had declined to $14 million. The Company also paid $16.9 million for the remaining deferred gold consideration to the vendors of the Carlota Mine during the year.

On June 5, 2008, the Company completed an equity financing with a syndicate of underwriters through which the Company issued 7,145,000 common shares at a price of Cdn$24.50 per share for net proceeds of $164.3 million. On July 8, 2008, the underwriters exercised a portion of their over-allotment option and purchased an additional 821,750 common shares at price of Cdn$24.50, for net proceeds of $19.0 million. The majority of the proceeds of this equity financing were used to retire the $150 million senior credit facility. A prepayment premium of $4.5 million was required in order to retire this debt.

At December 31, 2008 the Company had cash and cash equivalents of approximately $107.8 million. These amounts are comprised of cash deposits and highly liquid investments that are readily convertible to cash. The counter-parties include banks, governments and government agencies. The Company's cash balance declined significantly in the fourth quarter of 2008 due to the decline in copper prices, and the resulting impact of provisional price adjustments (see **"Fourth Quarter Revenues"**).

At December 31, 2008 the Company had working capital of $196.8 million as compared to a working capital of $287.2 million at December 31, 2007. The decrease in the working capital position is primarily a result of the Company incurring capital expenditures on mineral properties in excess of the cashflow generated from operating activities. At December 31, 2008, accounts receivable and revenues includes approximately 43.2 million pounds of copper provisionally valued at $1.33 per pound. The final pricing for these provisionally priced sales is expected to occur between January 2009 and April 2009. Changes in the price of copper from the amounts used to calculate the provisional values will impact the Company's revenues and working capital position in the first quarter of 2009. On March 5, 2008 the copper price was $1.65/lb.

Liquidity Outlook

The Company's future profitability and cash position is highly dependent on the price of copper and gold. With the commencement of cathode copper production at Carlota, the Company will have a second source of revenues commencing in the first quarter of 2009.

The Company's working capital position at December 31, 2008 includes 43.2 million pounds of copper provisionally valued at $1.33 per pound. Future changes in the price of copper will impact the final settlement price of these sales and the Company's cash position. The Company holds copper put options which, at $1.54/lb. copper (February 28, 2009), would provide cash proceeds of approximately $34 million during 2009 (see **"Financial Instruments"**).

In light of the recent significant decline in copper prices, the Company has evaluated alternate mine plans for Robinson with the objective of maintaining appropriate cash balances at lower copper prices, and at the same time maximizing the Company's ability to deliver metal into future higher metal price environments. On January 29, 2009 the Company announced that it is proceeding with a new mine plan for Robinson that will result in reduced costs and increased copper production in 2009 and 2010.

Assuming the closing of the Centenario acquisition, the Company expects to invest $25 million of cash into Centenario, based on the current business plan for the Franke mine.

The Company requires a copper price in the range of $1.50/lb for 2009 in order to maintain an appropriate cash balance and facilitate continuous production at its operations going forward. In the event of sustained lower metal prices, and in order to maintain an appropriate cash balance, the Company may need to reduce or suspend operations. In addition, if the Company's view of copper prices changes, the Company may elect to suspend mining operations in order to conserve mineral reserves and cash.

Commitments and contractual obligations

	Payment Due By Period						
($000's)	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**After 5 years**	**Total**
Reclamation liabilities	—	—	—	—	—	95,941	95,941
Minimum lease payments (capital and operating)	13,165	16,005	7,904	2,142	515	—	39,731
Total	13,165	16,005	7,904	2,142	515	95,941	135,672

Reclamation liabilities

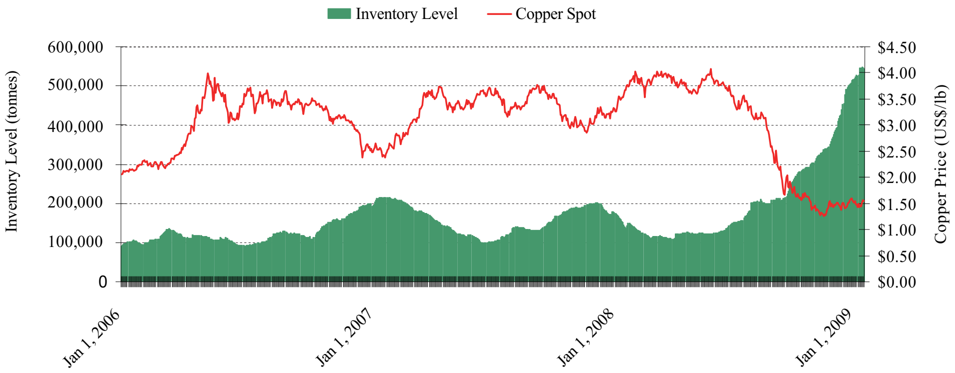
The Company has estimated total future reclamation costs of $95.9 million (undiscounted), which primarily relate to the closure of the Robinson and Carlota Mines. The Company has estimated the fair value of this liability to be $41.0 million at December 31, 2008 based on the estimated discounted future payments. To secure a portion of the closure costs related to the Robinson Mine and Carlota, the Company has posted environmental bonds and held cash in a reclamation trust totalling $55.4 million as at December 31, 2008. The Company revises the reclamation plan and cost estimate for the Robinson Mine annually as required by US Bureau of Land Management and adjusts the amount of the bond accordingly.

MARKET TRENDS AND FUNDAMENTALS

Between 2006 and mid 2008, the growing demand for copper, particularly in China, coupled with an inability of the copper industry to increase supply due to a lack of immediate development projects, together with a weakening U.S. dollar led to a substantial increase in the copper price. The subsequent global credit and consumer confidence crises and the resulting global economic downturn have led to a collapse in the price of copper. The outlook for copper is entirely dependent on the global economy.

The following graph shows the inventory level, as published by the London Metal Exchange ("LME"), of copper and the spot price of copper from 2006 to February 28, 2009.

LME Copper Price & Inventory



The copper price has remained volatile during the last year, with the spot price ranging from a low of $1.26 per pound to a high of $4.07 per pound during the twelve month period ended December 31, 2008. At December 31, 2008 the closing spot price was $1.32 per pound. At February 28, 2009, the closing spot price was $1.54 per pound.

The reference price of copper metal is determined by trading on the LME, where the price is set in U.S. dollars at the end of each business day.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's revenues and cash flows are subject to fluctuations in the market price of copper and gold. In addition, there is a time lag between the time of initial payment on shipment and final pricing, and changes in the price of copper and gold during this period impact the Company's revenues and working capital position.

In recognition of the volatility of copper prices the Company instituted a floor price protection program that covered the estimated period through Carlota production ramp up (June 2009). Under this program, the Company purchased copper put options at various times during 2007 at a total cost of $11.5 million and in 2008 the Company spent an additional $2.5 million on copper put options. During 2008 a total of 159 million pounds of copper put options expired unexercised. However in the fourth quarter of 2008, the Company received proceeds of $11.1 million from the exercise of put options for 21 million pounds of copper.

At December 31, 2008 the following copper put options were outstanding:

Expiry	Pounds (millions)	Strike price	Fair value
January to March 2009	17.8	$2.50	19,568
April to June 2009	17.2	$2.50	18,913
Total	35.0	$2.50	38,481

Under the terms of the derivative contract, if the average LME cash price for the month is less than the strike price, the Company will receive the difference in price for the contracted number of pounds. The counter-parties consist of several international financial institutions. The Company monitors its counter-party exposures and does not believe there are any issues at the current time.

The change in fair value of these copper put options is recorded as a derivative gain or loss on the statement of earnings. For the year ended December 31, 2008, the Company recorded a $27.3 million gain on derivatives resulting from an increase in fair value of the put options.

In October 2008, the Company entered into NYMEX heating oil futures contracts for 7.8 million gallons at a strike price of $2.51/gallon. The settlement of these contracts occurs between December 2008 and November 2009. The contracts were acquired at no cost but are subject to a margin call. The Company will pay or receive cash based on the difference between the strike price and the actual cost of NYMEX heating oil in the month of settlement. As at December 31, 2008, 0.7 million gallons of NYMEX heating oil had been settled at a price of $1.42 and a loss of $0.7 million was recorded. As a result of the declined NYMEX heating oil at December 31, 2008, the Company recorded a $7 million loss related to the reduction of fair value of the NYMEX heating oil future contracts.

CONTINGENCIES

(a) The Company has been served with four lawsuits that have been filed in Chilean courts against the Company's wholly-owned Chilean subsidiary, Minera Quadra Chile Limitada. The lawsuits were filed on August 13, 2007, April 2, 2008, June 20, 2008 and July 10, 2008. Based on advice of Chilean counsel, Quadra believes that the option agreements are valid and that the legal claims are without merit.

The plaintiffs are minority shareholders in the "sociedades legales mineras" (SLM) or legal mining companies that owned certain of the mining tenements that were optioned to Quadra in 2004. In three of the cases, the plaintiffs are requesting that the option agreements to purchase the mining tenements be declared null and void. The plaintiffs in these cases are claiming that the SLM's were not authorized to sell the mining tenements. In the fourth case, the plaintiffs argue that if any of the first three cases are successful, then further option agreements are invalid by virtue of the fact that the option agreements were intended to be exercised in either all or none of the cases.

The first three lawsuits relate to three of the ten option agreements that the Company entered into with respect to its Sierra Gorda mineral property. Although Quadra believes that the option agreements are valid and that the legal claims are without merit, the outcome is uncertain. The proceedings are subject to the procedural and substantive laws of Chile, and the allegations are based on the actions of the Optioners, in respect of which Quadra has no direct knowledge. The Company intends to vigorously defend these claims, however there is no assurance that it will be successful. A negative outcome in these proceedings could have a material adverse effect on Quadra.

(b) In January 2009, the United States Supreme Court declined to hear the Company's appeal of a 2007 ruling by the U.S. Court of Appeals for the 9th Circuit, which affects Carlota's National Pollutant Discharge Elimination System (NPDES) permit. The Company has exhausted all appeals in this matter. However, management has implemented a zero discharge change operating plan in order to obviate the need for such a permit.

(c) The Company is subject to other lawsuits from time to time which are not disclosed on the grounds that they are not material.

TRANSACTIONS WITH RELATED PARTIES

One of the directors of the Company is a partner of an affiliate of Blake, Cassels & Graydon LLP. During the year ended December 31, 2008, the Company incurred legal fees of $570 with that entity (year ended December 30, 2007: $890), which were at normal business terms.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing financial statements management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ materially from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting policies and estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

Mineral Properties

Mineral property development costs, including exploration, mine construction, and stripping costs, are capitalized until production is achieved, and are then amortized over the remaining life of the mine based on proven and probable reserves. The determination of the extent of reserves is a complex task in which a number of estimates and assumptions are made. These involve the use of geological sampling and models as well as estimates of future costs. New knowledge derived from further exploration and development of the ore body may also affect reserve estimates. In addition the determination of economic reserves depends on assumptions on long-term commodity prices and in some cases exchange rates.

An impairment loss is recognized for a mineral property if its carrying value exceeds the total undiscounted cash flows expected from its use and disposal. Undiscounted cash flows for mineral properties are estimated based on a number of assumptions including management's view of long-term commodity prices, proven and probable reserves, estimated value beyond proven and probable reserves, and estimates of future operating, capital, and reclamation costs. At the end of 2008, the Company reviewed the carrying value of all of its mineral properties for possible impairment, in light of the recent significant declines in metal prices and the ongoing deterioration of global equity and credit markets. Future undiscounted cash flows were estimated based on current cost assumptions and assumed future copper prices of $1.75/lb. in 2009, $2.50/lb. in 2010, $3.50/lb. in 2011, $2.50/lb in 2012-3, and $2.00/lb. long-term. For development stage properties, a comparison to the value of similar assets was also considered.

As a result of the significant decline in the price of molybdenum during the fourth quarter of 2008, the ongoing deterioration of global equity and credit markets, and the suspension of activities at the project, it was determined that the Malmbjerg mineral property was impaired and a write down of $95,682 was recorded in the fourth quarter of 2008.

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 product is sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. For sales of concentrates, final pricing is generally determined three to four months after the date of sale. The Company estimates provisional pricing for its product 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. As a result, revenues include estimated prices for sales in that period as well as pricing adjustments for sales that occurred in the previous period. These types of adjustments can have a material impact on revenues.

Asset Retirement Obligations, Reclamation and Mine Closure

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. In previous years the Company has revised its estimate of the timing and amount of closure costs at the Robinson Mine, which resulted in adjustments to the liability recorded in the Company's financial statements. In 2008, the Company revised its estimate of the amount of closure costs at the Carlota Mine. Accordingly, an adjustment to the liability had been recorded in the Company's financial statements. The estimate of the total liability for future site restoration costs is subject to change based on cost inflation, amendments to laws and regulations and may also change 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.

Future Income Tax Assets

Management believes that uncertainty exists regarding the realization of certain future tax assets and therefore a valuation allowance has been recorded as of December 31, 2008. For 2008 the Company expects to utilize $2.7 million of U.S. Alternative Minimum Tax ("AMT") credits, which were earned in prior years. At December 31, 2008 the Company had additional available AMT Credits of $17.7 million, which have not been recognized due to the uncertainty of realization. The Company also has not recognized the benefit of the tax basis of Carlota in excess of the acquisition price, and non-capital losses. However, the Company has recognized a net current future income tax asset for other temporary differences created between the tax and accounting basis of assets and liabilities in the United States. Management estimates that, using long term copper prices in line with its mine plan estimates, the future taxable income will be sufficient to utilize the future tax assets which have been recognized.

CHANGE IN ACCOUNTING POLICY

Goodwill and Intangible Assets

CICA issued Handbook Section 3064 "Goodwill and Intangible Assets" which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. This standard requires expenditures incurred to provide future economic benefits to an entity, but no intangible asset or other asset acquired or created be expensed when are they are incurred. It also requires the start-up costs be expensed when they are incurred unless these expenditures are included in the cost of an item of property, plant and equipment in accordance with Section 3061 "Property, Plant and Equipment". The new standard applies to fiscal years beginning on or after October 1, 2008. Earlier adoption is encouraged.

In the fourth quarter of 2008, the Company adopted this new standard. Accordingly, the deferred start up costs at the Robinson mine and the increase in value of the deferred gold consideration related to the Carlota mine that were capitalized to mineral property, plant and equipment previously should be expensed. This change in accounting policy has been applied retroactively and the financial statements for the year ended December 2007 have been restated. A summary of the effect of this change is shown below:

Effect on consolidated balance sheet as at December 31, 2007:

Increase in future income tax assets	8,259
Decrease in mineral property, plant and equipment	(23,597)
Decrease in retained earnings	(15,338)

Effect on consolidated statements of earnings for the year ended December 31, 2007:

Decrease in depreciation, depletion and amortization	(1,883)
Increase in interest and other expense	4,755
Increase in future income tax recovery	(1,005)
Decrease in earnings	1,867
Decrease in earnings per share — basic	$0.04
Decrease in earnings per share — diluted	$0.04

OUTSTANDING SHARE DATA

The Company had 66,000,747 common shares issued and outstanding at December 31, 2008. As of March 5, 2008 the Company had 66,000,747 common shares issued and outstanding.

CONTROL OVER FINANCIAL REPORTING

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management has evaluated the effectiveness of the design and operation of the Company's internal control over financial reporting as of the end of the period covered by this report. Based on the result of the assessment, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal controls over financial reporting are effective.

Disclosure Controls and Procedures

The Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. Management has begun assessing the implications of IFRS adoption and has identified a number of significant IFRS differences that will impact the Company's financial statements. There will be changes in accounting policies related to the adoption of IFRS and these changes may materially impact the Company's financial statements in the future.

The Company has appointed a project manager to lead the conversion to IFRS. The project manager is working with other members of the finance group to execute the implementation plan. An initial diagnostic review of significant IFRS differences has been completed by the Company's external auditors as part of the project planning. While the effects of IFRS have not yet been fully determined, the Company has identified several key areas where it is likely to be impacted by accounting policy changes, including the accounting for Property, Plant & Equipment, Asset Retirement Obligations, and Business Combinations. Further detailed analysis of these areas is underway, and no decisions have yet been made with regard to accounting policy choices.

A more detailed review of the impact of IFRS on the Company's consolidated financial statements, and other areas of the Company, is in progress and is expected to be completed by the end of 2009. Any changes required to systems and controls will be identified as the project progresses. Draft financial statements and disclosure information will be prepared for each quarter in 2010 and reporting under IFRS will commence in the first quarter of 2011.

NON-GAAP FINANCIAL MEASURES

The cash cost per pound of copper produced, and onsite costs and offsite costs are non-GAAP financial measures that do not have a standardized meaning under Canadian Generally Accepted Accounting Principles ("GAAP"), and as a result may not be comparable to similar measures presented by other companies. Management uses these statistics to monitor operating costs and profitability. Onsite costs include mining costs, equipment operating lease costs, mill costs, mine site general and administration costs, environmental costs and royalties. Offsite costs include the costs of transportation, smelting and refining of concentrate. For financial statement reporting purposes, smelting and refining costs are netted against revenues. Costs of sales, as reported on the statement of operations, is different that the costs of production because of changes in concentrate inventory levels. The following table shows a reconciliation of these non-GAAP financial measures to the consolidated statements of operations:

	Three months ended December 31		**Year ended December 31**	
	2008	**2007**	**2008**	**2007**
Cost of sales	59,104	55,359	254,511	232,951
Adjustment for change in concentrate inventory	1,097	6,909	1,434	(1,460)
Refining and treatment charges	3,294	6,130	17,396	29,243
Royalties	9,253	4,766	26,922	16,860
Total onsite and offsite costs	72,748	73,164	300,263	277,594
By-product revenues	(18,249)	(22,057)	(116,506)	(81,376)
	54,499	$51,107	183,757	196,218
Copper production (million lbs.)	34.5	32.4	159.7	131.9
Cash cost per pound of copper produced	$1.58	$1.58	$1.15	$1.49

Cashflow from operating activities (before working capital changes) is also not a defined term under GAAP, and consists of cash provided from operating activities less net changes in non-cash working capital.

March 5, 2009

This MD&A contains "forward-looking information" that is based on Quadra's expectations, estimates and projections as of the dates as of which those statements were made. This forward-looking information includes, among other things, statements with respect to Quadra's business strategy, plans, outlook, long-term growth in cash flow, earnings per share and shareholder value, projections, targets and expectations as to reserves, resources, results of exploration (including targets) and related expenses, property acquisitions, mine development, mine operations, mine production costs, drilling activity, sampling and other data, estimating grade levels, future recovery levels, future production levels, capital costs, costs savings, cash and total costs of production of copper, gold and other minerals, expenditures for environmental matters, projected life of Quadra's mines, reclamation and other post closure obligations and estimated future expenditures for those matters, completion dates for the various development stages of mines, availability of water for milling and mining, future copper, gold, molybdenum and other mineral prices (including the long-term estimated prices used in calculating Quadra's mineral reserves), currency exchange rates, debt reductions, timing of expected sales and final pricing of concentrate sales, the percentage of anticipated production covered by option contracts or agreements, anticipated outcome of litigation and personnel issues and the completion of the proposed acquisition in Centenario and related expenditures. Generally, this forward-looking information can be identified by the use of forward-looking terminology such as "outlook", "anticipate", "project", "target", "believe", "estimate", "expect", "intend", "should", "scheduled", "will", "plan" and similar expressions. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause Quadra's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to:

- Uncertainties related to the accuracy of reserve and resource estimates and estimates of future production and future cash and total costs of production and the geotechnical or hydrogeological nature of ore deposits, diminishing quantities or grades of reserves and variable metallurgical performance of these reserves.

- Uncertainties related to expected production rates, timing of production and the cash and total costs of production and milling.

- Uncertainties relating to copper, gold, molybdenum and other mineral prices, which are beyond the Company's control.

- Provisional payments on concentrate material that the Company sells; uncertainty in the final metal prices used for the computation of final settlement exists such that final settlement could be less than the cost of production plus other liquidity requirements.

- Operating and technical difficulties in connection with mining development or production activities.

- Uncertainties and costs related to Quadra's exploration and development activities, such as those associated with determining whether copper, gold, molybdenum or other mineral reserves exist on a property.

- Uncertainties related to feasibility studies and other studies that provide, among other matters, estimates of expected or anticipated costs, expenditures and economic returns from a mining project.

- Uncertainties related to the ability to obtain and retain or renew necessary licences, permits, and other government authorizations, including the necessary permits to complete the dewatering of the Ruth pit, at operating and development projects.

- Uncertainties related to the ability to obtain necessary electricity, surface rights, water rights and title for operating and development projects and project delays due to third party opposition.

- Uncertainties in obtaining additional financing that may result in delay or postponement of development projects.

- Uncertainties related to the future development or implementation of new technologies, research and development and, in each case, related initiatives and the effect of those on our operating performance.

- Uncertainties related to judicial or regulatory proceedings, including whether the permits required for development and operating activities will be obtained and whether existing permits will be challenged.

- Changes in, and the effects of, the laws, regulations and government policies affecting Quadra's mining operations, particularly laws, regulations and policies relating to:

    - mine expansions, environmental protection and associated compliance costs arising from exploration, mine development, mine operations, reclamation and mine closures;

    - expected effective future tax rates or royalties in jurisdictions in which Quadra's operations are located;

    - the protection of the health and safety of mine workers; and

    - mineral rights ownership in countries where Quadra's mineral deposits are located.

- Changes in general economic conditions, the financial markets and in the demand and market price for copper, gold, molybdenum and other minerals, diesel fuel, petroleum, steel, concrete, sulphuric acid, explosives, truck tires and other operating supplies, refining and treatment costs, transportation charges, electricity and other forms of energy, mining equipment, and fluctuations in exchange rates, particularly with respect to the value of the U.S. dollar and Canadian dollar.

- The effects of derivative instruments to protect against fluctuations in copper, gold and other metal prices, exchange rate movements, fuel price changes, and the associated mark to market risks.

- Uncertainties related to the collectibility of amounts owed to the Company by contract counter-parties including, but not limited to, sales contracts and derivative contracts.

- Unusual or unexpected formations, seismic activity, cave-ins, flooding, pressures, pit wall failures and other similar incidents (and the risk of inadequate insurance or inability to obtain insurance to cover these risks).

- Changes in accounting policies and methods used to report Quadra's financial condition.

- Uncertainties associated with critical accounting assumptions and estimates.

- Environmental issues and liabilities associated with mining including processing and stock piling ore.

- Labour strikes, work stoppages, or other interruptions to, or difficulties in, the employment of labour in markets in which Quadra operates mines, or extreme weather conditions, environmental hazards, industrial accidents or other events or occurrences, including third party interference that interrupt the production of minerals in Quadra's mines or interrupt the delivery of Quadra's product to customers.

- Quadra's reliance on a single producing property and on a start-up property.

- Uncertainties related to potential future breaches of covenants and undertakings contained in agreements, by Quadra or its suppliers, that could result in a significant loss to Quadra.

- Uncertainties related to Quadra's and Centenario's ability to satisfy the conditions to the proposed acquisition of Centenario by Quadra, some of which are not in either company's control.

- Uncertainties related to the amount of funding required to bring Centenario into positive cash flow.

A discussion of these and other factors that may affect Quadra's actual results, performance, achievements or financial position is contained in the filings by Quadra with the Canadian provincial securities regulatory authorities, including Quadra's Annual Information Form. This list is not exhaustive of the factors that may affect our forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. Quadra disclaims any intent or obligations to update or revise publicly any forward-looking statements whether as a result of new information, estimates or options, future events or results or otherwise, unless required to do so by law.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director or the chief executives (within the meaning of the Listing Rules) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(i) **Long position in the Shares**

Name of Director/ chief executive	**Capacity**	**Number of Shares**	**Total interests in underlying Shares pursuant to share options**	**Approximate % of shareholding in the Company**
Cai Yuan *(note)* (蔡原)	Beneficial owner and interest in controlled corporation	508,650,000	3,000,000	8.49%
You Xian Sheng (游憲生)	Beneficial owner	—	40,000,000	0.66%
Wang Hui (王輝)	Beneficial owner	—	35,000,000	0.58%
Yeung Kwok Kuen (楊國權)	Beneficial owner	—	35,000,000	0.58%
Chan Shou Wu (陳守武)	Beneficial owner	—	35,000,000	0.58%
Lam Ming Yung (林明勇)	Beneficial owner	—	3,000,000	0.05%

Name of Director/ chief executive	Capacity	Number of Shares	Total interests in underlying Shares pursuant to share options	Approximate % of shareholding in the Company
Chan Sze Hon (陳思翰)	Beneficial owner	—	3,000,000	0.05%
Chu Kang Nam (朱耿南)	Beneficial owner	—	3,000,000	0.05%
Goh Choo Hwee (吳慈飛)	Beneficial owner	—	3,000,000	0.05%
Lin Xiang Min (林香民)	Beneficial owner	—	3,000,000	0.05%
Yin Guangyuan (尹光遠)	Beneficial owner	—	35,000,000	0.58%
Qiao Hongbo (喬洪波)	Beneficial owner	—	10,000,000	0.17%
Su Qingyu (蘇慶玉)	Beneficial owner	—	10,000,000	0.17%
Qu Yanchun (曲彥春)	Beneficial owner	—	10,000,000	0.17%
Leung Lai Ming (梁麗明)	Beneficial owner	—	5,000,000	0.08%

Note: Mr. Cai Yuan, the chairman, an executive Director, is the 100% beneficial owner of Greater Increase Investments Limited which holds 500,000,000 Shares. Mr. Cai also holds 8,650,000 Shares under his name.

(ii) Interest in share options

Name of Director/ chief executive	Date of grant of share options	Exercisable period	Exercise price per Share *(HK$)*	Number of options outstanding
Cai Yuan (蔡原)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000
You Xian Sheng (游憲生)	14/10/2008	14/10/2008 – 13/10/2013	0.275	40,000,000
Wang Hui (王輝)	14/10/2008	14/10/2008 – 13/10/2013	0.275	35,000,000
Yeung Kwok Kuen (楊國權)	14/10/2008	14/10/2008 – 13/10/2013	0.275	35,000,000
Chan Shou Wu (陳守武)	14/10/2008	14/10/2008 – 13/10/2013	0.275	35,000,000
Lam Ming Yung (林明勇)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000

Name of Director/ chief executive	Date of grant of share options	Exercisable period	Exercise price per Share *(HK$)*	Number of options outstanding
Chan Sze Hon (陳思翰)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000
Chu Kang Nam (朱耿南)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000
Goh Choo Hwee (吳慈飛)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000
Lin Xiang Min (林香民)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000
Yin Guangyuan (尹光遠)	14/10/2008	14/10/2008 – 13/10/2013	0.275	35,000,000
Qiao Hongbo (喬洪波)	14/10/2008	14/10/2008 – 13/10/2013	0.275	10,000,000
Su Qingyu (蘇慶玉)	14/10/2008	14/10/2008 – 13/10/2013	0.275	10,000,000
Qu Yanchun (曲彥春)	14/10/2008	14/10/2008 – 13/10/2013	0.275	10,000,000
Leung Lai Ming (梁麗明)	14/10/2008	14/10/2008 – 13/10/2013	0.275	5,000,000

(b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

Up to the Latest Practicable Date, none of the Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Company were prepared.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(i) Long position in the Shares

Name of Shareholder	Capacity	Number of Shares	Approximate % of shareholding in the Company
Greater Increase Investments Limited *(note 1)*	Beneficial owner	500,000,000	8.30%
Kwok Man (郭敏) *(note 2)*	Beneficial owner and interest in controlled corporation	393,986,000	6.54%
Ho Ho Wai (何豪威) *(note 3)*	Beneficial owner and interest in controlled corporation	661,177,358	10.97%

Note:

1. These Shares are held by Greater Increase Investments Limited which is 100% beneficially owned by Mr. Cai Yuan, the chairman and an executive Director of the Company.

2. Out of 393,986,000 Shares, 368,686,000 Shares are held by Long Cheer Group Limited, which is 100% beneficial owned by Mr. Kwok Man. The remaining 25,300,000 Shares are held by Mr. Kwok Man personally.

3. Master Long Limited is a company wholly and beneficially owned by Mr. Ho Ho Wai. Pursuant to an agreement entered into between the Company, Master Long Limited and certain other parties in relation to the acquisition of 80% interests of King Gold Investments Limited, the Company would issue Shares equivalent to an amount of HK$140,000,000 (subject to adjustment) at an issue price of HK$0.212 per Share (namely, 660,377,358 Shares) to Master Long Limited as part of consideration for the acquisition. The remaining 800,000 Shares are held by Mr. Ho Ho Wai personally.

(ii) **Long position in the shares of other members of the Group**

Name of shareholders	Name of company	Capacity	Number of shares in the capital of the company	Approximate % of shareholding
Long Cheer Group Limited	Lead Sun Investments Limited	Beneficial owner	140	14%
Fit Plus Limited	Lead Sun Investments Limited	Beneficial owner	140	14%
See Good Group Limited	Lead Sun Investments Limited	Beneficial owner	150	15%
忻州開發天陽鈦業有限責任公司 (Xinzhou Tianyang Titanium Co., Ltd.)	山西神利航天鈦業有限公司 (Shanxi Shenli Aerospace Titanium Co., Ltd.)	Beneficial owner	Not applicable	10%
杉杉投資控股有限公司 (ShanShan Investments Holding Co., Ltd.)	哈爾濱松江銅業 (集團) 有限公司 (Harbin Songjiang Copper (Group) Company Limited)	Beneficial owner	Not applicable	24.92%
王保棟 (Wang Bao Dong)	巴林右旗諾爾蓋銅礦有限公司 (Balinyouqi Nuoergai Copper Mining Co. Ltd.)	Beneficial owner	Not applicable	40%

Save as disclosed in this circular, as at the Latest Practicable Date, so far as is known to the Directors, there is no other person who had an interest or short position in the shares and underlying shares of the Company which could fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. LITIGATION

As at the Latest Practicable Date, as disclosed in the interim report of the Company for the six months ended 30 June 2008, there is a dispute between two former shareholders of Top Rank International Group Limited, a subsidiary of the Company which owns 90% equity interest in Shanxi Shenli Aerospace Titanium Company, a company which holds a rutile mine. A judgement was made by the Shenzhen City Middle People's Court on 17 December 2007 in favour of the relevant members of the Group. As set out in the 2007 annual report and the announcement of the Company dated 18 March 2008, the Company has on 6 March 2008 received a copy of the Application for Civil Appeal (民事上訴書) dated 3 March 2008 from the plaintiff which was lodged with the Guangdong Province High Court (the "Application"), pursuant to which the plaintiff has made an application to the Guangdong Province High Court to appeal for the revocation of the judgement orders (a) and (c) made against the plaintiff as referred to in the announcement of the Company dated 4 February 2008 and for support of all claims of the plaintiff. The court hearing was held in June 2008 and, as at the Latest Practicable Date, the Company has not received any judgement issued by the Guangdong Province High Court in relation to the Application.

As at the Latest Practicable Date, save as disclosed, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

5. MATERIAL CONTRACTS

The following contracts (not being entered into in the ordinary course of business) have been entered into by the members of the Group within two years preceding the Latest Practicable Date and which are or may be material:

(a) the sale and purchase agreement dated 11 March 2007 entered into between the Company as purchaser and 赤峰金劍銅業有限公司 (Chi Feng Jin Jian Copper Company Limited), 蘇慶玉 (Su Qingyu), 王世遠 (Wang Shiyuan), 吳延忠 (Wu Yanzhong), 賀啟奎 (He Qikui), 劉曉波 (Liu Xiaobo), 矯海龍 (Jiao Hailong), 韓殿生 (Han Diansheng), 鞠海坤 (Ju Haikun), 陳旭東 (Chen Xudong), 李洪勝 (Li Hongsheng), 董文學 (Dong Wenxue) and 陳士忠 (Chen Shizhong) as the vendors, in relation to the sale of 75.08% of the equity interest in 哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited) to the Company at the consideration of RMB1,870,881,000;

(b) a placing agreement dated 21 June 2007 entered into between the Company and Morgan Stanley & Co. International plc. in relation to the placing of up to 1,305,872,000 Shares;

(c) the sale and purchase agreement dated 21 November 2008 entered into between Biogrowth Assets Limited, being a wholly-owned subsidiary of the Company and acting as the vendor, and United Easy Investments Limited, being the purchaser in relation to the sale and purchase of the entire issued share capital of Cell Therapy Technologies Centre Limited for a consideration of HK$15,000,000; and

(d) the sale and purchase agreement dated 22 December 2008 and two supplemental agreement dated 2 January 2009 and dated 16 March 2009 respectively (the "**King Gold S&P Agreements**") entered into between the Company as the purchaser, Joy Success Limited and Master Long Limited as the vendors; and Mr. Ho Yat Sum and Mr. Ho Ho Wai being the guarantors of the King Gold S&P Agreements in relation to the proposed acquisition of 80 shares of US$1.00 each in the share capital of King Gold Investments Limited for an aggregate consideration of HK$640,000,000.

Save as disclosed above, no material contract (not being a contract entered into in the ordinary course of business carried on by the Group) has been entered into by any member of the Group within two years preceding the Latest Practicable Date which are or may be material.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their associates has interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group, which is significant in relation to the business of the Group taken as a whole.

8. QUALIFICATION

The following sets out the qualification of the expert who has given an opinion or advice on the information contained in this circular:

Name	**Qualifications**
CCIF CPA Limited ("**CCIF**")	Certified Public Accountants

As at the Latest Practicable Date, CCIF was not beneficially interested in the share capital of any member of the Group, or did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or did not have any interest, either direct or indirect, in any assets which had been since 31 December 2007 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. CONSENTS

CCIF has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and/or summary of its opinions (as the case may be) and references its names in the form and context in which it appear herein.

10. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at Room 1306, 13th Floor, Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

(c) The company secretary of the Company is Ms. Leung Lai Ming. Ms. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants.

(d) The branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. MATERIAL ADVERSE CHANGE

Save as disclosed in the announcements of the Company dated 17 September 2008, 6 January 2009 and 23 January 2009, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Group were made up.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:00 a.m. to 5:00 p.m. (Monday to Friday) at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong from the date of this circular to 8 April 2009 (both days inclusive):

(a) the memorandum of association and Bye-laws of the Company;

(b) the annual reports of the Company for the two years ended 31 December 2007;

(c) the interim report of the Company for the six months ended 30 June 2008;

(d) the report on the unaudited pro-forma financial information of the Group dated 23 March 2009 issued by CCIF, the text of which is set out in Appendix II to this circular;

(e) written confirmation of CCIF confirming that there are no principal differences between the financial information of Quadra as prepared under the Canadian GAAP and such financial information if it were to be prepared under HKFRS and that there are no principal differences between the accounting policies of the Company and Quadra;

(f) the accountants' reports on the financial information relating to Quadra for the financial year ended 31 December 2006, the financial year ended 31 December 2007 and the financial year ended 31 December 2008 which are obtained on the website of Quadra, the text of which are set out in Appendix III to this circular;

(g) the contracts referred to in the section headed "Material Contracts" in paragraph 5 of this appendix;

(h) a copy of each circular published since the date of the latest published audited accounts;

(i) the written consents referred to in the section headed "Consents" in paragraph 9 of this Appendix; and

(j) the audited accounts of the Group for each of the three financial years ended 31 December 2007 and the unaudited accounts of the Group for the six months ended 30 June 2008.

中國礦業資源集團有限公司*

China Mining Resources Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00340)

NOTICE IS HEREBY GIVEN that a special general meeting of China Mining Resources Group Limited 中國礦業資源集團有限公司* (the "**Company**") will be held at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong on Wednesday, 8 April 2009 at 2:30 p.m. for the purpose of considering and, if thought fit, approving each of the following resolutions as an ordinary resolution of the Company, with or without amendments:

ORDINARY RESOLUTIONS

1. "**THAT** the directors of the Company be and are hereby authorised to exercise their discretion from time to time as to whether to proceed with the proposed acquisition of shares (the "**Quadra Shares**") of Quadra Mining Ltd., a company listed on the Toronto Stock Exchange (TSX: QUA) ("**Quadra**"), from parties which are independent of and not connected with the Company and its connected persons (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) by Best Tone Holdings Limited ("**Best Tone**"), a wholly-owned subsidiary of the Company, on the market (the "**Further Quadra Investment**") within a period of 12 months from the date of the meeting subject always to the following conditions:

   (a) the aggregate investment to be made by the Company for the Quadra Investment (as defined in the circular of the Company dated 23 March 2009) shall not exceed HK$200,000,000 (exclusive of transaction costs);

   (b) the consideration for the Further Quadra Investment shall not exceed CAD5.28 per Quadra Share (exclusive of transaction costs); and

   (c) the interests in Quadra Shares as held by the Company shall not exceed 19.9% of the then issued share capital of Quadra."

2. "**THAT**, subject to the passing of Resolution no. 1 as set out in the notice convening this meeting, the directors of the Company be and are hereby authorised to exercise their discretion from time to time as to whether to proceed with the proposed disposal(s) of all or any of the shares (the "**Quadra Shares**") of Quadra Mining Ltd., a company listed on the Toronto Stock Exchange (TSX: QUA) ("**Quadra**"), which have been and would be acquired by Best Tone Holdings Limited ("**Best Tone**"), a wholly-owned subsidiary of the Company, on the market (the "**Possible Quadra Disposal**") within a period of 12 months from the date of the meeting subject always to the following conditions:

   (a) the disposal of the Quadra Shares shall be made on the market to parties which are independent of and not connected with the Company and its connected persons (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"));

* *For identification purpose only*

(b) the average sale price for the Quadra Shares under the Possible Quadra Disposal shall not be less than CAD2.12 per Quadra Share; and

(c) the aggregation of the disposals of Quadra Shares under the Possible Quadra Disposal shall not constitute a very substantial disposal for the Company under the Listing Rules."

3. "**THAT** Deloitte Touche Tohmatsu be and are hereby appointed as auditors of the Company to fill the vacancy following the resignation of KPMG, and to hold office until the conclusion of the next annual general meeting of the Company and that the board of directors of the Company be authorised to fix their remuneration."

By the Order of the Board of
China Mining Resources Group Limited
Cai Yuan
Chairman

Hong Kong, 23 March 2009

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Notes:

1. A form of proxy for use at the special general meeting of the Company is enclosed.

2. A member entitled to attend and vote at the above meeting is entitled to appoint one or if he holds two or more shares, more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company.

3. In order to be valid, the form of proxy must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney, not less than 48 hours before the time for holding the meeting or adjourned meeting.

4. Where there are joint holders of a share of the Company, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose by deemed joint holders thereof.