

**MINING: BASE METALS & MINERALS**

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# Quadra Mining Ltd.

QUA-TSX

## Revised Mine Plan at Robinson – Stealth Gold Play No TARP Required

### Event

Before market open Jan-29-09, Quadra revised its mine plan at Robinson based on technical studies which support a new mining sequence. The new plan improves near-term cash flow and optimizes the overall progression of mining. According to management, the new plan is designed for a copper price in the range of \$1.50/lb to cover operating and capital costs, maintain a minimum cash cushion (US\$75 to US\$100 million) and facilitate ongoing production at Robinson for the foreseeable future.

### Action

We reiterate our STRONG BUY rating and our C\$18.00 target price.

### Analysis

- **Earnings positive in '09E and '10E.** After updating our model, we now estimate '09E and '10E EPS of US\$1.68 (prev. US\$1.42) and US\$3.83 in EPS (prev. US\$3.34), respectively. Our NAV estimate increases to C\$29.59 (prev. C\$29.53).
- **Copper production up, gold production and cash costs down.** In 2009 Robinson is now scheduled to produce 140 mln lbs of Cu (prev. 130 mln) and 100,000 ozs of Au (prev. 125,000 ozs) at a cash cost of US\$1.30/lb (prev. US\$1.40/lb). However, our cash costs estimate of US\$1.18/lb for '09E is based on a gold price of US\$1,000/oz versus Quadra's US\$800/oz basis.
- **A stealth gold producer.** At 100,000 ozs/yr Quadra has above average exposure to gold. We estimate, at current prices and based on '09E Carlota and Robinson forecast production, ~25% of Quadra's revenues are derived from gold. We estimate that for every US\$50/oz increase in the price of gold, cash costs decrease by ~US\$0.03/lb at Robinson and **assuming US\$1.50/lb Cu and management's cost guidance, gold production costs would average ~US\$500 per oz in '09E.**

### Valuation

Quadra's shares trade at a P/NAV of 0.10x vs. the peer group of copper producers at 0.38x. Our target price is based on a 0.60x P/NAV multiple (in-line with liquidity-adjusted, risk-adjusted historic producer target multiples).

### RATING & TARGET

RATING	STRONG BUY 1 =
Target Price (6-12 mths) (C\$)	18.00 =
Closing Price (C\$)	3.10
Total Return to Target	481%

### MARKET DATA

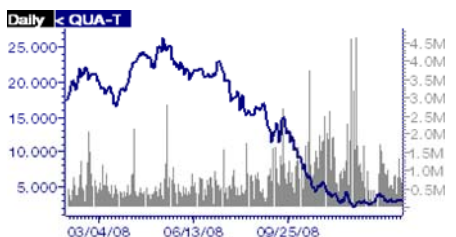
Market Capitalization (US\$mln)	165
Current Net Debt (US\$mln) (Q3-08A)	(266)
Enterprise Value (US\$mln) (2008E)	(102)
Basic Shares Outstanding (mln)	66.0
Avg Daily Dollar Volume (3mo, mln)	n/a
52 Week Range (C\$)	\$1.97 - \$27.00

### KEY FINANCIAL METRICS

FY-Dec 31	2007A	2008E	2009E
EPS (US\$)	2.80	1.23	1.68
P/E (x)	5.7	14.3	2.3
EPS - 1Q (US\$)	1.15	1.44	0.10
EPS - 2Q (US\$)	0.76	1.10	0.21
EPS - 3Q (US\$)	0.88	0.31	0.61
EPS - 4Q (US\$)	0.16	(1.37)	0.76
NAVPS (C\$)		29.59	
P/NAV(x)		0.10	
Revenue (US\$mln)	494	476	428
EBITDA (US\$mln)	223	175	188

### COMPANY DESCRIPTION

Quadra Mining Ltd. (QUA-TSX) is a multi-asset copper and base metal producing company. It owns and operates the Robinson Mine in Nevada, where it produces copper and gold and is in the process of constructing the Carlota copper project in Arizona. Quadra is also advancing the Sierra Gorda copper project in northern Chile and the Malmberg molybdenum project in Greenland.



Sources: Raymond James Ltd., Thomson ONE

**Exhibit 1: Changes to Estimates**

<b>New Estimates</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Attributable Cu Production (tonnes)	73,490	81,447	93,920	103,704
Attributable Au Production (ounces)	137,629	100,077	100,077	45,749
Copper Cash Cost (C1) (US\$/lb)	1.22	1.25	1.19	1.18
Total Production Cost (US/lb)	1.42	1.45	1.31	1.28
<b>EPS Basic (US\$)</b>	<b>1.23</b>	<b>1.68</b>	<b>3.83</b>	<b>4.67</b>
CEPS (US\$)	2.17	2.21	4.38	5.16
<b>Previous Estimates</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Attributable Cu Production (tonnes)	73,490	76,744	88,238	110,938
Attributable Au Production (ounces)	137,629	124,345	94,610	45,749
Copper Cash Cost (C1) (US\$/lb)	1.22	1.33	1.30	1.13
Total Production Cost (US/lb)	1.42	1.54	1.44	1.23
<b>EPS Basic (US\$)</b>	<b>1.23</b>	<b>1.42</b>	<b>3.34</b>	<b>5.14</b>
CEPS (US\$)	2.17	1.95	3.88	5.62
<b>% Change</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Attributable Cu Production (tonnes)	0%	6%	6%	-7%
Attributable Au Production (ounces)	0%	-20%	6%	0%
Copper Cash Cost (C1) (US\$/lb)	0%	-6%	-9%	4%
Total Production Cost (US/lb)	0%	-6%	-9%	4%
<b>EPS Basic (US\$)</b>	<b>0%</b>	<b>19%</b>	<b>15%</b>	<b>-9%</b>
CEPS (US\$)	0%	14%	13%	-8%
<b>Copper Price Forecast (US\$/lb)</b>	<b>3.16</b>	<b>2.31</b>	<b>3.10</b>	<b>3.23</b>
<b>Gold Price Forecast (US\$/oz)</b>	<b>873</b>	<b>1,000</b>	<b>1,050</b>	<b>950</b>

Source: Raymond James Ltd.

**THE NEW PLAN AT ROBINSON**

According to the release, the new plan alters the ore sequencing at the Robinson mine with mining now transitioning from the existing Veteran pit to a small satellite pit ("Kimbley Wedge") in 2010 and then to Ruth at the end of 2010. The "mostly" supergene Kimbley wedge was originally scheduled to be mined towards the end of the mine life and was characterized as "higher" grade copper and "lower" gold content. In addition, management indicated that the Ruth pit will be mined in two stages, in a way that defers dewatering as well as delivering the blending balance required for optimum metallurgical results. Data compilation from historic drill programs and recent hydrological drilling and piezometer testing now suggest lower dewatering requirements at Ruth and provides overall technical support for the new plan, according to the press release.

The Veteran extension, which was to add two years of additional reserves at Robinson and discussed in a press release in early December, will now be deferred until after the ultimate Ruth pit has been completed. According to management, this deferral significantly reduces stripping requirements in each of 2009 through 2011 together with the associated operating costs. Capital expenditures are also expected to be lower in 2009 due to lower dewatering requirements and reduced equipment purchase commitments.

No change in the Carlota mine plan was announced.

Exhibit 2 shows the revision to guidance Quadra management's guidance. Note that management's operating cost guidance of US\$1.30/lb assumes US\$800/oz gold. The cash cost would fall to US\$1.14/lb assuming a gold price of US\$1,000/oz. What is most interesting to us is that if gold does trade to US\$1,000/oz strictly due to U.S. dollar weakness, the copper price would also likely inflate in sympathy and Quadra would reap the gains via pure margin expansion as operating costs fall and the revenue line inflates.

#### Exhibit 2: Robinson Mine Management Guidance Revisions

<b>Robinson Mine</b>	<b>New '09E Guidance</b>	<b>Previous '09E Guidance</b>	<b>New '10E Guidance</b>	<b>Previous '10E Guidance</b>
Copper production (mln lbs.)	140 ↑	130	140-150 ↑	120-130
Gold production (000's ozs)	100 ↓	125	100-110 ↑	80-100
Onsite costs (US\$ mln) <sup>2</sup>	195 ↓	220	n/a	n/a
Offsite costs (US\$ mln)	65 ↑	60	n/a	n/a
Total onsite and offsite costs (US\$ mln)	260 ↓	280	n/a	n/a
Copper cash cost (C1) (US\$/lb) <sup>1</sup>	1.30 ↓	1.40	n/a	n/a
Capex and bonding (US\$ mln)	30 ↓	40	30 ↓	40

1- Assumes US\$800/oz gold by-product revenue in 2009

2- US\$2.32/gallon assumed for 2009 onsite costs (6 million gallons annual, ~2/3rds hedged at US\$2.80/gallon, balance at spot price of US\$1.50/gallon)

Source: Company Reports

Exhibit 3 shows the updated guidance for the firm. Note that no changes in Carlota were made at this time.

### Exhibit 3: Quadra Mining Management Guidance Summary

<b>Robinson</b>	<b>2009E</b>	<b>2010E</b>
Copper production (mln lbs.)	140	140-150
Gold production (000's ozs)	100	100-110
Capital Expenditures (US\$ mln)	30	30
Copper cash cost (C1) (US\$/lb)	1.30	n/a
<b>Carlota</b>	<b>2009E</b>	<b>2010E</b>
Copper production (mln lbs.)	50	70-75
Capital Expenditures (US\$ mln)	25	20
Copper cash cost (C1) (US\$/lb)	1.50	1.20
<b>TOTAL</b>	<b>2009E</b>	<b>2010E</b>
Copper production (mln lbs.)	190	210-225
Gold production (000's ozs)	100	100-110
Capital Expenditures (US\$ mln)	55	50
Copper cash cost (C1) (US\$/lb)	1.35	n/a

Source: Company Reports

### HIGHLIGHTS OF THE INVESTMENT CASE

- **Unhedged production on upside, protection on the downside** – Quadra shares have full exposure to higher copper and gold prices and downside protection on copper via a put option program of 35 million lbs (~54% of first half 2009 production) at an average strike price of US\$2.50/lb.
- **No debt** – Quadra does not have debt at this time, which means the company will not have to answer to any debt holders when pursuing its operating strategy. In our opinion, Management can operate the mines in the best interests of long-term shareholders as opposed to the short-term interests of the debt-holders.
- **100% US\$ denominated costs** – In our view, as the long-term trend in U.S. dollar weakness resumes, Quadra stands to benefit from possible margin expansion as US\$ denominated metal prices inflate at a faster rate than the company's 100%-US\$ denominated cost base.
- **Important gold by-product credit** – The Robinson mine is expected to produce 100,000 ounces of gold in 2009. We estimate that for every US\$50/oz increase in the gold price, the cash cost after by-product credits decrease by US\$0.03/lb at Robinson. Using management's guidance on operating costs, we estimate that cash costs after by-product credits at the Robinson mine fall to zero at a gold price of US\$2,600/oz.

- **Robinson the gold mine – cash costs of US\$500/oz?** Assuming copper as a by-product credit at Robinson, the mine would operate at US\$500/oz assuming a copper price of US\$1.50/lb.
- **Carlota ramp-up** –We expect the production diversification with Carlota to result in a trading multiple expansion assuming a successful ramp-up. Although costs in the first year of production have been guided to US\$1.50/lb, costs are expected to fall to US\$1.20/lb in 2010 once full production is achieved.
- **Production growth** – We estimate that Quadra will produce ~94,000 tonnes of copper in 2010 at average cash cost of US\$1.19/lb. This compares with our estimate for 2008 of ~74,000 tonnes of copper at an average cash cost of US\$1.22/lb.
- **Sierra Gorda project potential** – Quadra’s 100%-owned Sierra Gorda copper project is a company making asset in our view given its size and favourable location in Chile. Refer to our May-13-08 report “*Sierra Gorda Resource Update; Increasing Target Price,*” (share price \$26.31) for additional detail.

## Risks

Some of the risk factors that pertain to the projected 6-12 month stock price target for mining companies in our universe are as follows: Mining companies are subject to a range of risks, including, but not limited to: environmental risk, political risk, operational risk, financial risk, hedging risk, commodity price fluctuation risk, and currency risk. Any difference between our metal price forecasts and realized metal prices will likely have an impact on our earnings and valuation estimates for the mining companies in our research coverage universe. The operation of mines, and mills is complex and is exposed to a number of risks, most of which are beyond the company’s control. These include: environmental compliance issues; personal accidents; metallurgical/other processing problems; unexpected rock formations; ground or slope failures; flooding or fires; earthquakes; rock bursts; equipment failures; consultant errors and, interruption due to inclement, weather conditions, road closures, and/or local protests. Other risks include, but are not limited to: uncertainties surrounding reclamation costs; aging equipment and facilities which could lead to increased costs; strikes; and, transportation disruptions.

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