

MINING: BASE METALS & MINERALS

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Quadra Mining Ltd.

QUA-TSX

Dilutive Financing Closes, But Shares Poised For Performance

Event

We have updated our model following two significant events: 1) the completion of an equity financing to provide funds to complete the development of Centenario Copper's Franke project; and 2) the closing the Centenario acquisition.

Action

We recommend buying the shares of Quadra and reiterate our STRONG BUY rating and C\$18.00 target price.

Analysis

- **Equity issue** – On Apr-16-09 Quadra completed an equity financing that raised C\$86.6 million in gross proceeds by issuing 18.6 million common shares (including 2.4 million shares issued upon exercise of the over-allotment option). The net proceeds will be used to fund the completion of the Franke mine, as well as for working capital.
- **Centenario acquisition completed** – Centenario's common shares were delisted from the TSX following the close of trading on April 14. Approximately 14.3 mln Quadra shares were issued to Centenario shareholders (0.28 QUA share for each CCT share).
- **Quadra will report 1Q09 results on May 12** – We expect EPS of US\$0.09. The consensus EPS estimate for the quarter is US\$0.10.
- **Dilution and target multiple** – Taking into account the dilution from the recent equity offering our NAV per share declines to C\$25.89 (previously C\$30.29). We have increased our target price NAV multiple to 0.70x (previously 0.60x) to reflect Quadra's post-acquisition status as a leading intermediate copper producer with improved asset and geographical diversification (soon to be three mines in operation compared to two pre-acquisition).

Valuation

Quadra's shares trade at a P/NAV of 0.21x vs. the peer group of copper producers at 0.50x. Our target price is based on a 0.70x P/NAV multiple (in-line with liquidity and risk-adjusted producer target multiples).

RATING & TARGET

| RATING | STRONG BUY 1 = |
|--------------------------------|----------------|
| Target Price (6-12 mths) (C\$) | 18.00 = |
| Closing Price (C\$) | 5.52 |
| Total Return to Target | 226% |

MARKET DATA

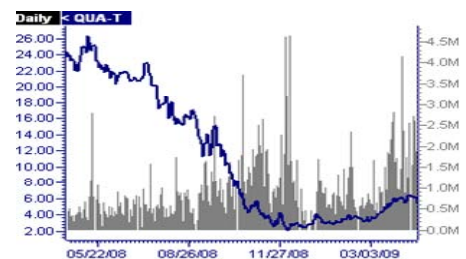
| | |
|-------------------------------------|------------------|
| Market Capitalization (US\$mIn) | 432 |
| Current Net Debt (US\$mIn) (Q2-09E) | (80) |
| Enterprise Value (US\$mIn) (2009E) | 353 |
| Basic Shares Outstanding (mln) | 99.0 |
| Avg Daily Dollar Volume (3mo, mln) | n/a |
| 52 Week Range (C\$) | \$1.97 - \$27.00 |

KEY FINANCIAL METRICS

| FY-Dec 31 | 2008A | 2009E | 2010E |
|-------------------|--------|-------|-------|
| EPS (US\$) | 0.61 | 1.21 | 3.24 |
| P/E (x) | 29.2 | 5.8 | 2.2 |
| EPS - 1Q (US\$) | 1.44 | 0.09 | 0.80 |
| EPS - 2Q (US\$) | 1.10 | 0.16 | 0.80 |
| EPS - 3Q (US\$) | 0.31 | 0.41 | 0.82 |
| EPS - 4Q (US\$) | (1.94) | 0.59 | 0.83 |
| NAVPS (C\$) | | 25.89 | |
| P/NAV(x) | | 0.21 | |
| Revenue (US\$mIn) | 488 | 514 | 854 |
| EBITDA (US\$mIn) | 183 | 229 | 508 |

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

Funding and Cash Flow to Complete Franke

Quadra and Centenario have received a signed commitment letter for US\$37.5 million from West LB in connection with a US\$50 million project loan facility for the development of the Franke mine. As of the last update on the project debt financing on Mar-20-09, the company was pursuing an overall facility of US\$50 million to complete the development of Franke. West LB will fund US\$37.5 million of this amount and Quadra intends to fund the remaining US\$12.5 million until syndication of the loan facility is completed.

As at Dec-31-08 Centenario had US\$60 million in accounts payable and obligations to contractors. Quadra estimates that an incremental US\$30 million is required to complete the development of the Franke mine and to bring it to a cash flow positive status. As of the end of March-2009 we estimate that Centenario had US\$69 million in debt that going forward will be carried on Quadra's balance sheet.

Changes to our Forecast

We have updated our forecast to reflect the increase to the number of shares outstanding and an updated status of the condition of Centenario's balance sheet accounts that are being absorbed by Quadra. Additionally, we have marked-to-market our copper and gold prices for 1Q09. Our EPS estimates for 2009, 2010, and 2011 are US\$1.21 (previously US\$1.52), US\$3.24 (previously US\$3.97), and US\$3.87 (previously US\$4.74), respectively.

Exhibit 1: Changes to our Forecasts

| New Estimates | 2008A | 2009E | 2010E | 2011E |
|--|--------------|--------------|--------------|--------------|
| Attributable Cu Production (tonnes) | 73,490 | 93,734 | 126,040 | 139,494 |
| Attributable Au Production (ounces) | 137,629 | 99,833 | 110,288 | 66,814 |
| Copper Cash Cost (C1) (US\$/lb) | 1.15 | 1.30 | 1.19 | 1.28 |
| Total Production Cost (US/lb) | 1.36 | 1.56 | 1.43 | 1.48 |
| EPS Basic (US\$) | 0.61 | 1.21 | 3.24 | 3.87 |
| CEPS (US\$) | 2.64 | 1.71 | 3.94 | 4.54 |
| Previous Estimates | 2008A | 2009E | 2010E | 2011E |
| Attributable Cu Production (tonnes) | 73,490 | 93,734 | 126,040 | 139,494 |
| Attributable Au Production (ounces) | 137,629 | 99,833 | 110,288 | 66,814 |
| Copper Cash Cost (C1) (US\$/lb) | 1.15 | 1.30 | 1.19 | 1.28 |
| Total Production Cost (US/lb) | 1.36 | 1.57 | 1.44 | 1.49 |
| EPS Basic (US\$) | 0.61 | 1.52 | 3.97 | 4.74 |
| CEPS (US\$) | 2.64 | 2.36 | 4.83 | 5.57 |
| % Change | 2008A | 2009E | 2010E | 2011E |
| Attributable Cu Production (tonnes) | 0% | 0% | 0% | 0% |
| Attributable Au Production (ounces) | 0% | 0% | 0% | 0% |
| Copper Cash Cost (C1) (US\$/lb) | 0% | 0% | 0% | 0% |
| Total Production Cost (US/lb) | 0% | 0% | -1% | 0% |
| EPS Basic (US\$) | 0% | -21% | -18% | -18% |
| CEPS (US\$) | 0% | -28% | -18% | -18% |
| Copper Price Forecast (US\$/lb) | 3.16 | 2.31 | 3.10 | 3.23 |
| Gold Price Forecast (US\$/oz) | 873 | 1,000 | 1,050 | 950 |

Source: Raymond James Ltd.

Revision to our NAV

We have revised our NAV to account for the increase to the number of shares outstanding and an updated status of the condition of Centenario's balance sheet accounts that are being absorbed by Quadra. Our NAV per share declines to C\$25.89 (previously C\$30.29). The details of our NAV calculation are shown in Exhibit 2.

Exhibit 2: Revised NAV

| | Quadra Mining Limited | | | |
|--|-----------------------|----------------|----------------|----------------------------|
| | Ownership | US\$(mln) | US\$/shr. | Valuation Basis |
| Operating Mines | | | | |
| Robinson | 100.0% | 551.8 | 5.24 | NPV @ 8% Real FY End 2009 |
| Projects | | | | |
| Sierra Gorda | 100.0% | 685.9 | 6.52 | NPV @ 8% Real FY End 2009E |
| Carlota | 100.0% | 383.6 | 3.64 | NPV @ 8% Real FY End 2009 |
| Malmbjerg | 98.2% | - | 0.00 | NPV @ 8% Real FY End 2009 |
| Franke | 100.0% | 530.9 | 5.04 | NPV @ 8% Real FY End 2009E |
| Other Assets | | | | |
| Cash and Marketable Securities | | 148.7 | 1.41 | Balance sheet as at Q2-09E |
| Working Cap net of Cash and ST Debt | | 80.6 | 0.77 | Balance sheet as at Q2-09E |
| Options and warrants | | 76.1 | 0.72 | May 9/10, May 1/12 |
| Debt and Obligations | | | | |
| Short Term Debt | | - | 0.00 | Balance sheet as at Q2-09E |
| Long-term Debt | | (69.0) | (0.66) | Balance sheet as at Q2-09E |
| Other | | - | 0.00 | |
| Corporate SG&A | | (72.5) | (0.69) | DCF @ 8% Real FY-09E |
| Deferred Taxes | | - | 0.00 | Balance sheet as at Q2-09E |
| Provision for Contingencies | | - | 0.00 | |
| Net Asset Value | | 2,316.1 | \$22.00 | C\$25.89 |
| Fully Diluted Shares Outstanding | 105,255,354 | | | |
| Basic Shares Outstanding | 98,999,310 | | | |
| Copper: '08A=US\$3.16/lb, '09E=US\$2.31/lb, '10E=US\$3.10/lb, '11E=US\$3.23/lb, L-T=US\$1.90/lb | | | | |
| Moly: '08A=US\$30.28/lb, '09E=US\$17.50/lb, '10E=US\$21.00/lb, '11E=US\$20.00/lb, L-T=US\$11.00/lb | | | | |
| Gold: '08A=US\$873/oz, '09E=US\$1,000/oz, '10E=US\$1,050/oz, '11E=US\$950/oz, L-T=US\$800/oz | | | | |

Source: Raymond James Ltd.

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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|--------------------|--------|----------|---------------|
| Quadra Mining Ltd. | QUA | TSX | 1a, 1b, 1e, 6 |

