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Quadra Mining Ltd.

QUA-TSX

A Real Hedge on Green Shoot Uncertainty; 1Q09 Results

Event

Quadra reported better-than-expected 1Q09 financial results before market open on May-12-09.

Action

We re-iterate our **STRONG BUY** rating and C\$19.00 target price. We recommend buying Quadra's shares.

Analysis

- **Good 1Q09 performance** – Quadra reported EPS of US\$0.40. Adjusting the results for a US\$8.8 mln loss on derivatives, a US\$5.3 mln inventory write-down reversal related to Carlota leach pad and cathode inventory, and the associated tax impacts we estimate that the adjusted EPS was US\$0.45. This was significantly better than our estimate of US\$0.19 and consensus of US\$0.11.
- **Guidance maintained** – Robinson is expected to produce 140 mln lbs of copper and 100,000 oz of gold at a cash cost of US\$1.30/lb. Carlota is expected to produce 50 mln lbs of copper at a cash cost of US\$1.50/lb.
- **1Q09 cash costs** – The Robinson mine had a cash cost of US\$0.80/lb (RJ US\$1.22/lb) as the company carried out a lower-than-normal amount of stripping during the quarter due to the movement of key equipment. Quadra also capitalized US\$8.5 mln of pre-production stripping related to the Ruth pit. The strip ratio is expected to increase going forward, such that full year cash cost guidance for Robinson was maintained at US\$1.30/lb.
- **2009 capital cost guidance** – Management essentially maintained their forecast of US\$35 mln at Robinson, and US\$25 mln at Carlota (consistent with RJ). In addition to a US\$30 mln loan repayment on Franke, Quadra expects to spend an incremental US\$100 mln on Franke in 2009 to complete development and settle accounts payable.

Valuation

Quadra's shares trade at a P/NAV of 0.28x vs. the peer group of copper producers at 0.55x. 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\$)	19.00 =
Closing Price (C\$)	7.92
Total Return to Target	140%

MARKET DATA

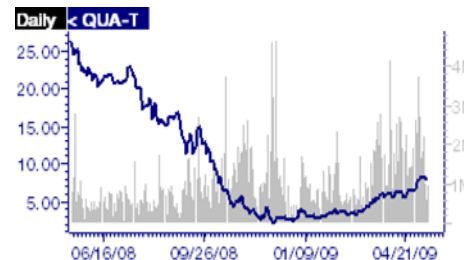
Market Capitalization (US\$mIn)	672
Current Net Debt (US\$mIn) (Q2-09E)	(116)
Enterprise Value (US\$mIn) (2009E)	556
Basic Shares Outstanding (mln)	99.0
Avg Daily Dollar Volume (3mo, mln)	n/a
52 Week Range (C\$)	\$1.97 - \$27.00

KEY FINANCIAL METRICS

FY-Dec 31	2008A	2009E	2010E
EPS (US\$)	0.61	1.27	3.30
P/E (x)	27.0	7.3	2.8
EPS - 1Q (US\$)	1.44	0.40	0.82
EPS - 2Q (US\$)	1.10	0.12	0.82
EPS - 3Q (US\$)	0.31	0.35	0.83
EPS - 4Q (US\$)	(1.94)	0.54	0.83
NAVPS (C\$)		27.86	
P/NAV(x)		0.28	
Revenue (US\$mIn)	488	544	861
EBITDA (US\$mIn)	183	227	515

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 Malmbjerg molybdenum project in Greenland.



Sources: Raymond James Ltd., Thomson ONE

Addressing the Negative Sentiment First

Based on our estimates, Quadra shares have traded at a steep discount to the peer group of copper producers. From our perspective this is largely due to two reasons:

1. **Concerns about the ability to successfully execute on the Carlota, and then the Franke ramp-up.** From our perspective, the re-start of Robinson was problematic and the problems were exacerbated by the onerous hedge position at the time which capped the cash flows as copper trended higher. Many lessons have been learned since and we believe the company is better positioned to manage technical risks with its new projects. Early indications on Carlota at least suggest positive progress. The company is still working through its full analysis of the Franke project.
2. **Concerns about the asset quality.** Obviously some mines are better than others and no mine is perfect. In the end it is the technical teams that make a tough mine work or make an easy mine difficult. We believe the negative perception on Quadra's assets is overly negative because management's technical ability has not been taken into consideration. This important point aside, asset quality is commonly measured by cash operating cost, and based on management guidance for Carlota and Robinson the company is expected to produce copper at approximately US\$1.35/lb (assumes US\$800/oz Au price) in 2009. Against a prevailing copper price of US\$2.07/lb, margins are healthy in our view.

But they are going to buy something...

- Unless a mining company is adding resources via successful exploration programs, the need to replace what was mined is a fundamental imperative for a mining company. Therefore a mining company must successfully explore, or else it must acquire. Quadra has had great success with Sierra Gorda, in our opinion, and is looking for further success on the ground it picked up when Centenario was acquired. That said, nearer term production has its own attractiveness at this point in the cycle.
- We would argue that given the disconnect between equity values and long-term fundamentals in the copper market now is the time to be buying producing assets. It has been said, and we agree, that the decline in mining equity values is excessive relative to the decline in long-term pricing assumptions. At this time, development projects are interesting from a valuation standpoint

but visibly demonstrating the ability to finance is the key hurdle to showing investors that such a transaction would be materially accretive. Of course, in our view, when copper eventually clears the US\$3.00/lb price level the realm of possibilities on the financing front is very likely to open up much wider than it has been of late.

- It may be surprising to some but Quadra Mining was founded as an acquisition company. Early in its life Quadra bought the Robinson asset from BHP (BLT-LN, not covered) for ~US\$14 mln. Although they failed due to Teck's (TCK.B-TSX, not covered) right of first refusal, Quadra did make the attempt at acquiring a 33.6% interest in Highland Valley Copper for US\$73 mln. Along the way, management assembled the very prospective Sierra Gorda option block, ran with the Magistral Cu-Mo project for awhile, bought the Carlota copper project, tried to buy Equatorial Mining and failed and followed up with the purchase of Carlota and later Malmbjerg, and more recently completed the Centenario acquisition.

But the costs are high...

- Quadra is maintaining its previously announced guidance of 190 mln lbs of copper production, 100,000 ozs of gold production at an average cash cost of US\$1.35/lb of copper (assumes US\$800/oz Au price). This guidance captures Robinson and Carlota only. Guidance on Franke is anticipated to be provided once the company completes the technical review of the opportunities at Franke. We estimate that for each US\$100/oz increase in the gold price, blended cash costs fall by US\$0.05/lb, implying that at a gold price of US\$1,000/oz, Quadra's cash costs could fall to US\$1.25/lb and then down to US\$0.98/lb once gold hits US\$1,500/oz. We forecast cash costs at Franke to average US\$1.39/lb over the life of the mine.

Events During and Subsequent to the 1Q09 Quarter

- **Provisional pricing adjustment** – In 1Q09 the company benefitted from a US\$14 mln positive provisional pricing adjustment (RJ US\$10 mln). As at Mar-31-09 Quadra had 27.7 mln pounds of copper provisionally priced at US\$1.83/lb. Given that the present spot price of copper is close to US\$2.09/lb and in our view trending higher, we expect the company to realize a positive provisional pricing adjustment in 2Q09E. Quadra's accounts receivable as at Mar-31-09 includes US\$10.5 mln for positive

provisional price adjustments for the 27.7 mln pounds of copper provisionally priced as of the end of 1Q09.

- **The acquisition of Centenario Copper** – On Apr-08-09 Quadra completed the acquisition and issued 14.4 mln common shares and 0.6 mln stock options in exchange for all of the outstanding common shares and stock options of Centenario.
- **Centenario debt outstanding** – The copper hedge positions inherited from Centenario Copper were closed out on Apr-09-09 following the completion of the acquisition, for proceeds of US\$30 mln. This was used to repay a portion of Centenario's outstanding long-term debt. Following a further repayment of US\$9 mln made by Quadra, there is approximately US\$30 mln in principal remaining from Centenario's loans that is due by May-14-09.
- **New copper put options** – On Apr-15-09 Quadra purchased copper put options for an additional 65 mln pounds at an exercise price of US\$1.50/lb and expiry between May and October 2009. These new put options are in addition to the 17.2 mln pounds of copper put options at US\$2.50/lb remaining from April to June 2009.
- **Equity financing** – On Apr-16-09 the company completed an equity offering that raised C\$86.6 mln in gross proceeds by issuing 18.6 mln common shares (including 2.4 mln shares issued upon exercise of the over-allotment option).

Mine and Project Updates

- **Robinson** – Robinson's cash costs were US\$0.80/lb in 1Q09, however, with the expectation of higher stripping going forward management's full year guidance is for a cash cost of US\$1.30/lb. Production guidance for 2009 is 140 mln pounds of copper and 100,000 ounces of gold. Quadra started mining activity in the Ruth area during the quarter, and expects to begin extracting ore from the Kimbley and Wedge pits in 2Q09.
- **Carlota** – Carlota shipped its first copper cathode in February 2009 and is in the process of ramping up. Management expects head grades to be lower in 2009 as they focus on the Pinto Creek diversion channel, which is scheduled to be completed by October 2009. Prior guidance for 2009 was maintained for 50 mln pounds of copper at a cash cost of US\$1.50/lb.
- **Franke** – Now that Quadra has full control over the Franke project following the recently completed acquisition of Centenario, the company is reviewing the technical data and intends to update the market on their expectations for the mine in the coming months. Commissioning at Franke has begun, specifically with regard to the crusher and water testing of the SX/EW plant. Quadra expects

to ramp-up operations at Franke in mid-2009, and management anticipates the first production of copper cathode in early 3Q09. Work on an optimized mine plan, and starting an exploration program are underway. Negotiations on the US\$37.5 mln project loan facility with WestLB for Franke are in the process of being finalized. The terms of the loan commitment letter require Quadra to hedge at least 43 mln pounds of copper at a minimum price of US\$1.75/lb over 2009 and 2010, and include a 67% cash flow sweep. Management is considering its options in this regard and among other ideas have considered using out-of-the-money puts or costless collars.

- **Sierra Gorda** – The company continued to progress the Sierra Gorda project, for which it expects to complete a scoping study in 2Q09 (no change from prior timelines).

Changes to our Estimates

We have updated our model to reflect the 1Q09 results, changes to the copper hedges, and the cost outlook for the completion of Franke. Our EPS estimates for 2009E, 2010E, and 2011E are US\$1.27 (no change), US\$3.30 (previously US\$3.25), and US\$3.87 (no change), respectively. The changes to our forecast are shown in Exhibit 1.

Exhibit 1: Changes to our Estimates

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	1.31	1.19	1.28
Total Production Cost (US/lb)	1.36	1.54	1.42	1.47
EPS Basic (US\$)	0.61	1.27	3.30	3.87
CEPS (US\$)	2.64	1.94	3.99	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	1.31	1.19	1.28
Total Production Cost (US/lb)	1.36	1.55	1.42	1.47
EPS Basic (US\$)	0.61	1.27	3.25	3.87
CEPS (US\$)	2.64	1.77	3.94	4.54
% 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%	0%	0%
EPS Basic (US\$)	0%	0%	2%	0%
CEPS (US\$)	0%	10%	1%	0%
Copper Price Forecast (US\$/lb)	3.16	2.24	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 per share to reflect the 1Q09 results, end-of-quarter balance sheet, changes to the copper hedges, as well as the updated guidance on the cost outlook for the completion of Franke. Our NAV/share increased slightly to C\$27.86 (previously C\$27.45). The details of our NAV estimate 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	3.65 NPV @ 8% Real FY End 2009
Malmbjerg	98.2%	-	0.00 NPV @ 8% Real FY End 2009
Franke	100.0%	530.9	5.05 NPV @ 8% Real FY End 2009E
Other Assets			
Cash and Marketable Securities		166.2	1.58 Balance sheet as at Q2-09E
Working Cap net of Cash and ST Debt		81.4	0.77 Balance sheet as at Q2-09E
Options and warrants		70.2	0.67 May 9/10, May 1/12
Debt and Obligations			
Short Term Debt		-	0.00 Balance sheet as at Q2-09E
Long-term Debt		(50.0)	(0.48) 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		<u>2,347.4</u>	<u>\$22.31</u> C\$27.86
Fully Diluted Shares Outstanding	105,199,954		
Basic Shares Outstanding	98,999,310		
Copper: '08A=US\$3.16/lb, '09E=US\$2.24/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\$16.19/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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COMPANY	SYMBOL	EXCHANGE	DISCLOSURES
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