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Quadra Mining Ltd.

QUA-TSX

Production Delay Not a Miss in 3Q09 – Ramping into 2010

Event

Quadra reported lower-than-expected 3Q09 production results before market open on Oct-13-09. Operating cost data was not provided.

Action

We recommend buying Quadra's shares.

Analysis

- **Robinson.** Robinson's performance was roughly in-line with our estimates, 33.6 mln pounds of copper and 21,142 ounces of gold versus our expectation of 36.4 mln pounds of copper and 23,212 ounces of gold. Although production was roughly in-line, sales volume in 3Q09 was adversely affected by the need to defer one sale of concentrate because of low production in 2Q09 and the stockpiling of some lower grade concentrate produced in 3Q09 which is being blended back into the system. 2009 production guidance remains at 130 mln pounds of copper and 100,000 ounces of gold.
- **Carlota.** Carlota produced 6.6 mln pounds in 3Q09 versus our expectation of 13.2 mln pounds. The biggest reason for the shortfall is lower tonnage of ore placed on the leach pads as well as slower-than-expected percolation of acid solution through the leach pads. Carlota is now able to deploy equipment from the creek diversion project to the mine, granting it access to higher grade ore. Management guided to 9 mln pounds of copper production in 4Q09, which equates to 29 mln pounds of copper in 2009, a slight decrease in previous 2009 guidance of 35 mln pounds.
- **Franke.** Production totaled 4.1 mln pounds in 3Q09 versus our expectation of 6.6 mln pounds. The ramp up continues as crushing capacity is being brought up to design capacity with the aid of a portable crusher while the crushing and feeding circuits are redesigned. Management guided to between 6 mln and 8 mln pounds of copper production in 4Q09. However, Franke has not achieved commercial status yet, so sales of cathode will not flow through the income statement, but will add to the cash balance nonetheless. We assume Franke begins commercial production in 2Q10.

Valuation

Quadra's shares trade at a P/NAV of 0.57x vs. the peer group of copper producers at 0.81x. Our target price is based on a 0.70x P/NAV multiple (in-line with liquidity and risk-adjusted comparable producer target multiples).

RATING & TARGET

RATING	STRONG BUY 1 =
Target Price (6-12 mths) (C\$)	19.00 =
Closing Price (C\$)	14.79
Total Return to Target	29%

MARKET DATA

Market Capitalization (US\$m)	1,327
Current Net Debt (US\$m) (3Q09E)	(15)
Enterprise Value (US\$m) (2009E)	1,312
Basic Shares Outstanding (mln)	99.2
Avg Daily Dollar Volume (3mo, mln)	n/a
52 Week Range (C\$)	\$1.97 - \$15.48

KEY FINANCIAL METRICS

FY-Dec 31	2008A	2009E	2010E
EPS (US\$)	0.61	0.53	2.99
P/E (x)	25.5	30.7	5.5
EPS - 1Q (US\$)	1.44	0.40	0.57
EPS - 2Q (US\$)	1.10	(0.08)	0.77
EPS - 3Q (US\$)	0.31	0.05	0.82
EPS - 4Q (US\$)	(1.94)	0.28	0.82
NAVPS (C\$)		25.74	
P/NAV(x)		0.57	
Revenue (US\$m)	488	405	805
EBITDA (US\$m)	183	147	475

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

Changes to our Estimates

We have lowered our 2009E EPS to US\$0.53 from US\$1.05 to account for the data from the 3Q09 production report and the removal of cathode sales from Franke from the income statement. The profit margin on sales from Franke is to be credited against the project's capital costs, so Quadra can still make "money" it just gets accounted for differently than a conventional sale. We have also lowered our 2010E EPS to US\$2.99 from US\$3.19 solely due to the impact of reclassifying Franke's cathode sales. Our 2009 production estimate is in-line with the expectations management provided in the press release, see Exhibit 2. Our NAV decreases nominally to C\$25.74 from C\$26.26.

Exhibit 1: Changes to our Estimates

New Estimates	2008A	2009E	2010E	2011E
Attributable Cu Production (tonnes)	73,490	76,470	126,040	139,494
Attributable Au Production (ounces)	137,629	99,833	110,288	66,814
Copper Cash Cost (C1) (US\$/lb)	1.15	1.33	1.19	1.28
Total Production Cost (US/lb)	1.36	1.58	1.43	1.49
EPS Basic (US\$)	0.61	0.53	2.99	3.85
CEPS (US\$)	2.64	1.37	3.68	4.53
Previous Estimates	2008A	2009E	2010E	2011E
Attributable Cu Production (tonnes)	73,490	84,384	126,040	139,494
Attributable Au Production (ounces)	137,629	99,833	110,288	66,814
Copper Cash Cost (C1) (US\$/lb)	1.15	1.32	1.19	1.28
Total Production Cost (US/lb)	1.36	1.58	1.43	1.49
EPS Basic (US\$)	0.61	1.05	3.19	3.86
CEPS (US\$)	2.64	1.94	3.89	4.53
% Change	2008A	2009E	2010E	2011E
Attributable Cu Production (tonnes)	0%	-9%	0%	0%
Attributable Au Production (ounces)	0%	0%	0%	0%
Copper Cash Cost (C1) (US\$/lb)	0%	1%	0%	0%
Total Production Cost (US/lb)	0%	0%	0%	0%
EPS Basic (US\$)	0%	-49%	-6%	0%
CEPS (US\$)	0%	-30%	-5%	0%
Copper Price Forecast (US\$/lb)	3.16	2.24	3.10	3.23
Gold Price Forecast (US\$/oz)	873	999	1,050	950

Source: Raymond James Ltd.

Exhibit 2: 2009 Production Guidance

	New '09E Guidance	Previous '09E Guidance
Robinson Mine		
Copper production (mln lbs.)	130 =	130
Gold production (000's ozs)	100 =	100
Carlota Mine		
Copper production (mln lbs.)	29 ↓	35
Franke Mine		
Copper production (mln lbs.)	10	n.a.

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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STRONG BUY 1: the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. OUTPERFORM 2: the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. MARKET PERFORM 3: the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. UNDERPERFORM 4: the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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COMPANY	SYMBOL	EXCHANGE	DISCLOSURES
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