



QUADRA MINING LTD.

Q2 2009 CONFERENCE CALL

August 13th, 2009, 11.00am ET

Good morning ladies and gentlemen. I'd like to welcome you to this conference call, during which we will discuss Quadra Mining's Second Quarter 2009 financial results, as well as update you on the Robinson and Carlota operations, the progress being made at the Franke Mine and our development projects, Sierra Gorda in Chile and Malmbjerg in Greenland. With me today on the call are Jack Miller COO, Derek White, our Executive Vice President, Corporate Development, and Stuart McDonald, our CFO. We will all be available to answer any questions following my overview.

During the course of this conference call, we may make forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ from those expressed or implied by such statements. Statements relating to production, revenues, growth, profits, and operating expenses depend on future market conditions and risks, and are considered forward-looking, thereby providing no guarantee that they will be realized. In this regard, I also refer you to the cautionary statement relating to forward looking information included in the Press Release and MD&A. Those statements apply to this call as well. Please also note that all monetary amounts are US\$ unless otherwise stated.

While we had some previously announced setbacks at Robinson and Carlota, as a company we've continued to advance our growth strategy during the second quarter with the completion of the acquisition of Centenario Copper and its Franke mine, where we have now harvested our first copper, and more recently we released the Sierra Gorda scoping study, which indicated that the project makes sense and that we should drive on towards pre-feasibility and feasibility.

From an earnings perspective, in the second quarter we recorded a Canadian GAAP loss of \$7.3 million, or \$0.08/share. The second quarter results were obviously impacted by the low production at Robinson and Carlota which in turn impacted sales volumes. There was also a \$17 million derivative loss, or \$0.18/share, related to mark to market accounting of copper puts and collars, driven by the increasing copper price. Without these derivative losses we would have reported a profit of approximately \$0.06 per share in the second quarter.

During the second quarter of 2009 we continued to see an improvement in the base metal market, with copper prices rising from \$1.83 per pound at the end of March 2009 to \$2.32/lb at the end of June, and that positive trend has continued into July and August. Ironically, the increase in metal price resulted in the mark to market losses on both the Company's ongoing copper put program, and on

the copper puts and collars that were required to be put in place for the Franke project loan. It should be noted that our copper put option program has been successful on a cashflow basis, with approximately \$23 million of cash proceeds realized from put options in the first half of 2009, but obviously it has less value now than it did at the end of the first quarter and this flows to earnings. The Franke collar contracts establish a price cap for 27 million pounds at \$2.16/lb. mostly in 2010. To give you some depth perception, the 27 million pounds represents less than 10% of our expected production through the end of 2010. These mark to market adjustments will be with us going forward, although they only have much of an impact if the price changes significantly as it has this quarter.

Before we get to the operations review, I'll just run through some additional financial metrics of interest.

- Revenues for the second quarter were \$95 million with Robinson generating approximately \$80 million and Carlota contributing \$15 million.
- Our EBITDA was \$28 million or \$0.30 per share basic compared to \$105 million or \$1.79 per share (basic) for the same period in 2008.
- Operating income for the second quarter was \$24 million, compared to \$70 million for the same period in 2008.
- We ended the second quarter with a strengthened cash position of \$124.5million, compared to \$111 million at the end of the previous quarter.

Moving on to an operational overview, **Robinson** performed below forecast during the quarter producing 23 million pounds of copper and 18 thousand ounces of gold. As a result of low concentrate production and the timing of shipments, copper sales were also below average with 24 million pounds sold.

The production shortfall at Robinson resulted from our inability to execute our blending strategy, with access to the hypogene ore in the plan restricted because of concerns with the stability of the north pit wall in the Veteran Pit. This ore was required to blend with the supergene ore being mined from the Wedge pit in order to achieve the optimum recovery and concentrate grades. The stability issue was related to normal pit wall movement that is typical in most open pits and at a more detailed level to protection from falling rock. The concerns were raised by the Mine Safety and Health Administration or MSHA, the Federal enforcement agency responsible for safety and health in US mines. Obviously, we have been working with MSHA to address their concerns and by the end of the quarter had come up with an acceptable solution which included some additional mitigation measures above and beyond our normal practices and some changes to the mine plan. We are installing additional protective and monitoring equipment and berms and expect to access a sustainable quantity of clean hypogene ore and resume the blending strategy that has typically delivered good recoveries and concentrate grade shortly. I should emphasize that this was not a new situation at Robinson and that we believe that our normal practice measures were sufficient. As a result, we reduced copper production guidance to

130 million pounds for the year. Our gold guidance remained unchanged at 100,000 ounces.

Looking at onsite and offsite costs as a whole, inputs were generally down this quarter from the same period last year with lower fuel prices, lower expenses relating to tires and lower royalty expenses due to the decrease in copper price as well as to lower sales volumes. Offsite costs also decreased as compared to the same reporting period from last year with lower ocean freights, lower concentrate sales volumes offset slightly by higher smelting and refining rates.

Clearly with the reduction of copper pounds produced, the unit costs increased. Combined with a relatively low gold by-product credit, the cash cost per pound for the quarter was \$1.59, however, for the six months ended June 30th, the unit cost is \$1.10.

Turning to **Carlota**, the operation also performed below expectations producing just under 7 million pounds of cathode copper during the quarter. Sales were slightly above this, as they included some of the cathode produced in previous quarters. A total of 6 million tonnes of ore and waste were mined during the quarter, with ore production lower than planned because of two separate issues. The key development at Carlota is the construction of the diversion channel for Pinto Creek. This is being installed in one of the ultimate pit wall benches. The benches above this have required more work than originally planned as well as the allocation of equipment that would otherwise have been stripping and mining ore. As a result this has delayed access to the higher grade ore with a year

to date shortfall on the leach pad of approximately 1 million tons. The second issue, as outlined in the production release in early July, was the rate of leaching which has been 20% lower than anticipated primarily, we believe, because of the segregation of fines and coarse material as ore is dumped; but also in part due to the acid balance which is affected by the availability of fresh ore. We have revised the dumping methodology and improved ripping, and expect the acid balance to resolve itself when we get into higher grade ore. I should point out that there are inherent challenges with any SX/EW operation and that there are no issues at this point with the fundamental metrics of recovery and head grade. In any event, we reduced production guidance for 2009 from 50 million pounds to 35 million and while we don't typically give quarterly guidance – it's worth noting that the third quarter production will look similar to the second with a significant increase expected in the last quarter of the year.

Carlota's onsite costs for the three month period ended June were \$18 million which is in line with the Company's expectations. Until we ramp up and reach a more 'normal' level of production, we don't see unit costs [on a per pound basis] as a useful metric.

Moving on to our third operating asset, during the quarter we successfully completed the acquisition of Centenario Copper Corporation and their **Franke Mine** for approximately \$68 million. The mine brings an additional 70 million lbs of cathode copper per annum over a nine year mine life and being in northern Chile – an area we know well – the acquisition fit our strategic criteria of an

accretive transaction in a politically safe jurisdiction.

We completed the financing for this project with a \$71 million bought deal raised in April and closed a \$37.5 million syndicated project loan facility to complete development of the mine in May.

We inherited \$80.6 million in accounts payable following the acquisition and settled approximately \$41 million of these liabilities during the second quarter. We also incurred additional capital expenditures of \$17 million on construction, start-up activities and other project development costs.

At site, we made progress on several fronts. The senior management team was put in place at the operation, the mining contractor remobilized and mining operations commenced, including hauling ore from the Franke Pit to the primary crusher, crushed and agglomerated leach material was delivered to the leach pads and commissioning of the processing facilities was completed. We are pleased to announce today that, we commenced leaching and began harvesting cathode approximately two weeks ago with the first shipments expected in September. Ramp-up activities are continuing.

We did face some challenges which delayed the start of the ramp up schedule by a month or so. The biggest issues were pond construction quality and the type and installation of primary crusher feeder in place, which has not been able to deliver the performance required. We have decided to change the vibrating feeder as installed to an apron feeder, which we think is a more appropriate tool for the application. While the pond issues are

substantially resolved, the feeder remains a work in progress, limiting production to about 60% of design until the modification is completed, currently scheduled for year-end. In the interim, we will be installing a portable crusher to mitigate the impact by augmenting the current system. Notwithstanding these issues, we expect 10 – 15 million pounds of cathode copper from Franke this year.

Moving onto our development projects, as a subsequent event to the quarter, we completed and made public significant results from the **Sierra Gorda** scoping study. The study supports the positive economics that we needed to move the project forward towards feasibility, development and production. We believe that we have the makings of a very substantial long life project and one that would be pivotal to the growth and future of the Company.

We covered the details of the scoping study and technical report by press release on July 23rd but to quickly recap – the study supports an open pit and concentrator operation processing 111,000 tonnes of mill feed per day, producing between 250 and 400 million pounds of copper per annum over a 25 year mine life at an average cash cost of \$0.79 per pound. The project would also have significant molybdenum production, averaging 33 million pounds per year over the first eight years, and declining thereafter. This high level of molybdenum production results in an average cash cost of \$0.34 per pound produced during these first eight years. Using a long term copper price of US \$2.00 per pound, molybdenum price of US \$12 per pound and gold price of US \$800 per ounce, the

project produces an after-tax net present value (10% discount rate) of US \$622 million and an internal rate of return of 16%.

In terms of next steps, we now intend to advance the project towards pre-feasibility and feasibility studies at a cost of \$40 million - \$50 million, net of any land and water acquisition costs and costs associated with the ongoing litigation. The next steps include further metallurgical testwork to better define molybdenum recovery and concentrate grade, progression of the Environmental Impact Study and associated permits, evaluation of all water supply options, infill drilling, and further trade-off and optimization studies to continue to improve project economics.

With this study, we are also now better positioned to pursue discussions with potential partners, recognizing that we do not have the capacity to finance the project on our own.

At **Malmbjerg** there is little new news to report except we did receive the exploitation license for the project during the quarter. Going forward, we will continue with environmental studies, community relationship building and we will continue to advance partnership options.

In reviewing the second quarter generally, we had several operational challenges which are always disappointing however, we have strong teams at both operations and we are confident that the solutions we have in place will resolve these issues.

With that - I will conclude our formal remarks, thank you for listening and hand the floor over to the operator so that we can take any questions you may have.

Operator

The first question is from Tom Meyer of Raymond James. Please go ahead.

Tom Meyer, Raymond James

Thank you. Hi, Paul. On Sierra Gorda, at what point, timing wise, would you not just entertain but seriously consider bringing in a partner at a size, ah, a reasonable size level? Will we get past pre-feas, will it be well into feas, or will it be sooner than that?

Paul Blythe, President & Chief Executive Officer

Good morning, Tom. Right now we're looking for a partner. We think now is an appropriate time. Not to say that we have to commit to a partner. If we can't get to an arrangement that makes sense to us, we won't do it, but we think that a partner becoming involved with the project now will pay dividends down the line in our ability to move forward once we have a feasibility study in place, because obviously that partner would be up to speed.

Tom Meyer, Raymond James

And in terms of the valuation on the entry point, will you be using the Quadra share price as a reference point or will you be using the DCF as calculated in the scoping study and then just debating prices and discount rates?

Paul Blythe, President & Chief Executive Officer

Historically when these transactions have taken place it's focused on the value of the project, so it would be on the cash flow, net present value, the metrics around the project, it won't reference Quadra per se, is our expectation.

Tom Meyer, Raymond James

And now onto my favourite topic, on the hedging front, two points. One, at what point do you stop spending \$3.5 million a quarter buying out-of-the-money puts and would you consider, given what looks to be some sort of squeeze in the copper market, at some point in the near term are you in a position to rid yourself of the Franke "costless collar"?

Paul Blythe, President & Chief Executive Officer

Okay, I'll start with the first one. We made the mistake in 2008 of stopping buying out-of-the-money puts, approximately after the first quarter,

the second quarter of that year, on the basis that it was a waste of time because the copper price wasn't going to collapse. The rest, as they say, is history. And bear in mind of course that these out-of-the-money puts are getting cheaper and cheaper as the copper price rises. The closer to the actual copper price the puts are, the more expensive they are, so they're becoming cheaper and cheaper. At this point we still think, notwithstanding our own bullish view on copper, we still think it's the right thing to do to maintain that insurance. It actually paid for itself eventually with what happened, you know, in the back end of 2008 and into 2009. But I don't think you'll be looking at \$3.5 million for the cost of those going forward to be substantially less than that.

In terms of the second question, yes, we're continually studying the instrument that was put in place as a requirement of the Franke debt. We haven't made any firm decisions on it but it is an issue that we're aware of and as to how best to move forward on it.

Tom Meyer, Raymond James

Okay, thanks very much. I'll pass it on.

Paul Blythe, President & Chief Executive Officer

Thanks, Tom.

Operator

Thank you. The next question is from Orest Wowkodaw of Canaccord Adams. Please go ahead.

Orest Wowkodaw, Canaccord Adams

Hi, good morning. I was wondering if you could give us an update on Carlotta. Are you starting to see the leaching rates increase? Can you give us any update, you know, for where the recoveries were in Q2 and where are they now?

Paul Blythe, President & Chief Executive Officer

Yeah, but bear in mind Carlotta is a run-of-mine heap leach and doesn't lend itself to instantly seeing what's going on. What we've done there, as I mentioned in the sort of formal presentation part, there's really three issues there. The biggest one is we're not delivering fresh ore. This was always the case. The availability of fresh ore as we worked towards putting the diversion channel in was what it was. We're not mining for ore, we're mining to get the diversion channel in and the ore that comes our way is what's in the plant. That has a significant effect on the acid balance. The overall recovery depends on the total acid that is put through the system and we can't balance our acid up until we get a steady state operation there. We've also brought two much larger dozers on site to improve the ripping and pad construction. It's going to take a couple of quarters at least before we are comfortable making a prediction as to how it works out. So really there's no new news at the

moment. We start getting into high-grade ore in a month or so and obviously even when we get high-grade ore it's going to take a while before we see the impact of that. I think the key for me is the recovery issue that where we've finished leaching we've trenched and drilled and looked at what the input recovery is and, you know, the recovery is okay, it's just the rate of leaching that's the issue.

Orest Wowkodaw, Canaccord Adams

And when you said previously that you expect Q3 production to be similar to Q2, does that anticipate, does that also imply to Carlotta or were you just talking to Robinson?

Paul Blythe, President & Chief Executive Officer

I was actually just talking about Carlotta.

Orest Wowkodaw, Canaccord Adams

Okay, so basically flat production in Carlotta in Q3.

And then just finally, I guess at the end of the previous quarter you held 5.7 million shares of Hud Bay and I see there's some realized losses here from selling securities. Can you give us an update? Did you sell any of the Hud Bay shares or was that something else?

Paul Blythe, President & Chief Executive Officer

Yeah, we did sell down some of our position in Hud Bay.

Orest Wowkodaw, Canaccord Adams

And can you give us how many shares you own, say, at the present time?

Paul Blythe, President & Chief Executive Officer

Not of the top of my head, no, I can't.

Orest Wowkodaw, Canaccord Adams

Or at the end of the quarter I suppose.

Paul Blythe, President & Chief Executive Officer

It was about 3 million shares I think we have left.

Orest Wowkodaw, Canaccord Adams

Okay. Thank you very much.

Operator

Thank you. The next question is from David Charles of GMP Securities. Please go ahead.

David Charles, GMP Securities

Yes, good morning. Orest asked one of my questions so I'll maybe ask another one. I just wanted to confirm, Paul, that you're actually mining now in the hypogene zone in the Veteran Pit and that you've been pretty much mining there since the beginning of the quarter. Can you confirm that?

Paul Blythe, President & Chief Executive Officer

We are mining in the hypogene pit in Veteran but we're not mining where we want to be underneath, where the issue with (inaudible) is underneath the north wall of the pit. And it will be approximately the middle of the month (inaudible) and assuming no more issues on it before we get to the, ah, well can I call it the best of the best in terms of hypogene. We expect to be at least 50 percent from the pit by the end of the month.

David Charles, GMP Securities

So, you know, just with that in perspective, so basically I'll take it that you're in the Veteran Pit, as you have been for a little while now. Is there any risk for any reason that you're current 130 million pounds guidance out of, you know, out of Robinson might change between here and the end

of the year or are you fairly comfortable that you have the flexibility to pick up anything you may not have mined in the first little while of this quarter by year end?

Paul Blythe, President & Chief Executive Officer

Well, you know, this is Robinson; to give you a carte blanche that there's no risk would be to exaggerate the position. There's always a risk. We're as confident as we can be, you know, we don't take guidance lightly, that that's what can be done if everything stays in place and there's no surprises. So I'm not going to give you a guarantee but that's our best thinking on guidance where we sit now.

David Charles, GMP Securities

So it's safe to say then that you're comfortable with your guidance at the moment.

Paul Blythe, President & Chief Executive Officer

Yeah. (Inaudible)

David Charles, GMP Securities

Okay, thank you.

Paul Blythe, President & Chief Executive Officer

Thanks.

Operator

Thank you. The next question is from John Hughes of Desjardins Securities. Please go ahead.

John Hughes, Desjardins Securities

Thank you, operator. Just a couple quick ones. In the quarter were there any accounting adjustments to Carlotta's leach, the leach pad or cathode inventory?

Paul Blythe, President & Chief Executive Officer

I'll pass that over to Stuart.

Stuart McDonald, Chief Financial Officer

John, no, there was no adjustments. Yeah, no adjustment this quarter at all.

John Hughes, Desjardins Securities

Thank you. And is there any intention to sell additional marketable securities in the third quarter?

Paul Blythe, President & Chief Executive Officer

There's been no decision made on any marketable securities at this point.

John Hughes, Desjardins Securities

All right. Robinson Q3, again, you know, we recognize the relative variability quarter to quarter but I'm just wondering in terms of, you've touched on it, Paul, but how the mining is going and where you're mining etcetera, the guidance, at least in terms of straight-line guidance, the 35 million pounds per quarter for the second half of the year, um, should we skew that a little bit into the fourth quarter given what discussion you've had in terms of, you know, what type of ore you are in and where you want to be in the pit so far in the quarter?

Paul Blythe, President & Chief Executive Officer

Yeah, okay, John. You know, normally we try to avoid quarter by quarter guidance but, yeah, we're only, as to David's question before, we're only now at the point where all the measures that are required by Msure(sp.) are in place and we can get back into the best of the hypogene ore in Msure. So your assumption is not unreasonable.

John Hughes, Desjardins Securities

Great. The Sierra Gorda timeline for pre-feasibility and feasibility, can you sort of look out a little bit further into the future? You know, even like irrelevant of whether you secure a partner in the shorter versus intermediate term, what kind of timeframe we're looking at for undertaking and completing the pre-feas for example.

Paul Blythe, President & Chief Executive Officer

We'll we've got really three or four activities on a parallel track, which would be getting it through to bankable feasibility study. we also have to get the permits in place before we have a go decision. We also have to, the land that we require, we have to get approval. We have provisional approval but that's not the same as full approval. There's still some outstanding litigation. So all of those things have to be resolved in parallel. And the feasibility study itself or the next stage we're working through, next year we'll see the bulk of the work done.

John Hughes, Desjardins Securities

And one last one, almost an aside, but the tire expense I know was down again in the quarter, so should we assume from that that, you know, last year there was a lot of discussion on difficulty sourcing radial versus (inaudible) as one example and I'm just wondering is that—are you able to source all the hardware you need, tires, etcetera, in terms of reasonable timeframe and cost?

Paul Blythe, President & Chief Executive Officer

Yeah, I learned more about tires than I ever wanted to know over the last four years, but we've had radial tires on all four (inaudible) at both Robinson and Carlotta for six, eight months now. The supply position is much, much better than it was. And, yeah, tires don't come up at all as a conversation point within Quadra. So, yeah, we're in much better shape now than we have been really since get go.

John Hughes, Desjardins Securities

That's it for me. Thank you, Paul. Thank you, gentlemen.

Operator

Thank you. The next question is from George Topping of Blackmont Capital.

George Topping, Blackmont Capital

Thank you. Hello, Paul. I wonder if you could talk more about the partners you're looking for in Malmbjerg and Sierra Gorda, if you're looking for passive or active, public or private, or are you approaching them or have you been approached already on these projects?

Paul Blythe, President & Chief Executive Officer

I think we really have to split it into two. Start with Sierra Gorda. Essentially on both the primary focus will be on financial partners, usually partners that would be interested in securing offtake in exchange for bringing financing to the table.

In terms of who has approached whom, we've had various approaches really since the discovery hole at Sierra Gorda and we've maintained contact. Now that we have a scoping study we've moved more to leading the charge and indicating what we're looking for. And the structure we're looking at is an option that would provide a party with exclusive rights to work with us on the development of the project in exchange for a lump sum in financing. I mean obviously until we have a definitive feasibility study and so on we can't expect anybody to totally commit to the project. In an ideal world the partner would work with us so that by the time we got to the feasibility study they were familiar with and agreed with all of the conclusions of the study.

In terms of Malmbjerg, a much wider mandate. We're looking at everything from partnering it to selling it, depending on what the interest is and what the deal looks like. At the moment, you know, we always have our ambiguities around moly and right now moly is pretty buoyant. We think this is a good time to look for a partner. We still think it's an excellent project because it's a very clean concentrate that's produced from it. We're looking at a much wider range of outcomes or, as they say, strategic alternatives.

George Topping, Blackmont Capital

Right. Okay, good. And then secondly just could you give us your views on the TC/RC market right now and where you see it going over the rest of the year?

Paul Blythe, President & Chief Executive Officer

Yeah, certainly on a spot basis right now there's some pretty good deals out there. You know, we've seen some 20 and 2s. So I think the overall settlement—obviously the big negotiation between the majors and in particular BHP Billiton and various Japanese smelters always sets the benchmark. We think it's going to come down from where it is now. There's definitely, we feel, a shortage of concentrate. We don't have anything in place for next year but we had a lot of interest. And it's quite early to see that interest so... We're certainly not particularly concerned that we're going to see upward pressure on it in the visible term, which is, say, into next year.

George Topping, Blackmont Capital

Good. Thank you.

Operator

Thank you. The next question is from Onno Rutten of UBS Securities. Please go ahead.

Onno Rutten, UBS Securities

Yeah, good morning, Paul, and good morning everyone. First of all on Veteran, if we move along over the next few quarters, could you explain to us the impact that the changes in the mine plan could have on the overall resource size of what's left in the Veteran Pit?

Paul Blythe, President & Chief Executive Officer

It's a little, but like a couple of months. It's not, you know, it's not huge. It's an additional (inaudible) that we've had to install on a bench so we can't mine that bench now. The impact is minor and it's—we expect it to be offset by other material that converts into ore that's currently waste. We're not—actually, to be honest, we haven't calculated out the exact number, but it's very small.

Onno Rutten, UBS Securities

Okay. And then any changes in the strip ratio of the mining what's left there? Do you have to do a bigger push back essentially, or...?

Paul Blythe, President & Chief Executive Officer

Nope. No, there's no impact on the strip ratio at all. It mainly affects the bottom of the pit where we are now. there's just some material we can't

access. And, as I say, we expect that to be offset by other material that will convert to ore.

Onno Rutten, UBS Securities

So the mine life of Veteran in the current plan goes out until 2011 let's say? Or...?

Paul Blythe, President & Chief Executive Officer

Yeah. But the main player after next year is the Ruth pit but, yeah, Veteran goes on into 2011.

Onno Rutten, UBS Securities

Okay. And then on Carlotta, um, could you differentiate maybe let's say between the heaps that you had been building, are you trying to rip those open and still try to get the flow right through it or are you going to write off those heaps and then move to different areas and start building new heaps with the new method?

Paul Blythe, President & Chief Executive Officer

We've gotten recovery, it's the rate of recovery from the heaps we've got, the heaps, you know, the original flow rate, probably the number is not useful but the flow rate that we can get through the heaps is about 20 percent less than the flow rate that was used for design in the feasibility study/43-

101. The impact of that and the amount of acid that goes through the heaps, the two things, the (inaudible) amount of solution, the amount of acid, because we haven't had fresh ore, which (inaudible), so we haven't been able to put as much acid through and we can't get the same flow rate through. It's not that we're getting no flow rate through, we're getting 80 percent of target. What all of that means is it just takes 20, 30, 40 percent longer to get to where we want to be, which knocks our guidance of course because the copper is late coming out. We don't have any fundamental issues. So we think the ripping will improve that and we can get that 20 percent back, which obviously significantly reduces our working capital.

Don't misunderstand that these things are plugged or anything. We've got reasonable porosity, we're just not at the design porosity we were looking for.

Onno Rutten, UBS Securities

Okay. Okay. That's a very useful clarification. And then the bigger rippers that you have now, are you applying that still on the old material or is that really your new procedure for putting new heaps in place?

Paul Blythe, President & Chief Executive Officer

A bit of each. Obviously on the new material we're following that procedure. We're working back through as equipment availability allows, you

know, the less leaching that's been done, the sooner we re-rip to get the best possible results. And it's a bit of a work in progress but, you know, at some point we need to evaluate it and see whether in fact we've got the right diagnosis here.

Onno Rutten, UBS Securities

Okay. Yeah, okay. Always tough in the first few months on the heap.

And last question on Franke. The other \$40 million in accounts payable, will that be settled in the third quarter?

Stuart McDonald, Chief Financial Officer

Yeah, there's only about \$12 million left of the historical payables we inherited and those will be settled over the third and fourth quarters of this year. So \$12 is the number.

Onno Rutten, UBS Securities

But the MD&A said I think \$81 or \$82 in accounts payable, of which—

Stuart McDonald, Chief Financial Officer

Right. So the way it worked we inherited about \$80, we've settled about \$40 so far, we have another \$12 to go, and then we reach a sustainable kind of working capital level, you know, that will just maintain itself in operations.

Onno Rutten, UBS Securities

Okay. Okay, very good. And is that included, the \$12, in the guidance for \$50 million for the back end of the year?

Stuart McDonald, Chief Financial Officer

No, that's a separate number.

Onno Rutten, UBS Securities

That's a separate number. Okay. And could you split \$50 inside cost for this CapEx?

Stuart McDonald, Chief Financial Officer

Yeah, um—

Onno Rutten, UBS Securities

(Inaudible)?

Stuart McDonald, Chief Financial Officer

It's about \$40 million of OpEx and \$10 million of CapEx.

Onno Rutten, UBS Securities

Okay, so that's the only CapEx left then to fix the feeder issues, etcetera.

Stuart McDonald, Chief Financial Officer

Right.

Onno Rutten, UBS Securities

Okay. Very well, thank you.

Paul Blythe, President & Chief Executive Officer

Thanks, Onno.

Onno Rutten, UBS Securities

Yes, thank you.

Operator

Thank you. The next question is from Alex Terentiew of Scotia Capital. Please go ahead.

Alex Terentiew, Scotia Capital

Good morning. The majority of my questions have been asked but I guess I have one small one here. In light of what come about with Teck this morning where there were some legal challenges to

previously-granted water permits, ah, do you guys have any concerns over your water supply for Franke or for Sierra Gorda? Now I know for Sierra Gorda you are looking at a desalinization plant but I was just wondering if you could comment on that.

Paul Blythe, President & Chief Executive Officer

Good morning, Alex.

Just taking the questions in order, at Franke we have an agreement with Codelco on the supply of water for Franke. We don't see that as challengeable. They've had that water for a lot of years, a lot of decades actually, so we don't see any issues there.

With respect to Sierra Gorda, our base case, as you—we're actually not looking at desalinization, we're looking at actually using sea water for the main part of the process. There will be some desalinization but the bottom line is we're look at sea water as the base case, really because we don't have the permits for the water that we've acquired and until we do, or at least until we're much further down the track, we don't think it appropriate to use that in our economic analysis.

I'm not cited yet on what the tax issue is with water there but, you know, we obviously didn't buy this water completely blind, we did as much work as we could on its permitability. Our understanding is it's legally permissible—and then there's the but—but we haven't done it yet, so that's why we're not (inaudible). We understand that the sensitivity of

water resources in Chile and we need to get further down the track in terms of actually engaging the various authorities that license it before we can say yea or nay on that issue.

Alex Terentiew, Scotia Capital

Okay, great. thank you.

Operator

Thank you. Once again, if you have a question, please press star one at this time.

We have a follow-up question from Orest Wowkodaw of Canaccord Adams. Please go ahead.

Orest Wowkodaw, Canaccord Adams

Hi. I just wanted to work—just an accounting question here to get to the adjusted earnings: What tax rate should I assume on that \$17 million of derivative charges and the \$7 million of realized marketable losses?

Paul Blythe, President & Chief Executive Officer

I'll pass that to you, Stuart.

Stuart McDonald, Chief Financial Officer

I would use 24, Orest. That's our effective rate that we are (inaudible) right now for the whole year and that's the rate we've used for the six months.

Orest Wowkodaw, Canaccord Adams

Okay, so 24 percent. So that would give you an adjusted earnings of about \$0.12 on the quarter? Backing those two items out?

Stuart McDonald, Chief Financial Officer

I haven't done the math backing both of those items out but it sounds about right.

Orest Wowkodaw, Canaccord Adams

All right. Thanks a lot guys.

Operator

Thank you. There are no further questions registered at this time. I would now like to turn the meeting over to Mr. Blythe.

Paul Blythe, President & Chief Executive Officer

Thank you. And thank you everybody for listening.
If you have any more questions, of course, feel free
to contact any of us here. Thank you.

Operator

Thank you. The conference has now ended.
Please disconnect your lines at this time. Thank
you for your participation.