



**First Quantum Minerals Ltd.**  
**Consolidated Financial Statements**  
**First Quarter – March 31, 2004**

(Unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

# First Quantum Minerals Ltd.

## Consolidated Balance Sheets

As at March 31, 2004 and December 31, 2003

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

|  | 2004<br>\$     | 2003<br>\$<br>(restated) |
|--|----------------|--------------------------|
| <b>Assets</b>  |                |                          |
| <b>Current assets</b>                                |                |                          |
| Cash and cash equivalents                            | 52,978         | 25,592                   |
| Accounts receivable and prepaid expenses             | 15,094         | 4,441                    |
| Inventory (note 3)                                   | 17,221         | 17,576                   |
|  | <u>85,293</u>  | <u>47,609</u>            |
| <b>Investments (note 4)</b>                          | 13,065         | 12,632                   |
| <b>Exploration properties</b>                        | 2,720          | 2,242                    |
| <b>Property, plant and equipment (note 5)</b>        | 135,530        | 96,603                   |
| <b>Other assets and deferred charges (note 6)</b>    | 5,218          | 3,049                    |
|  | <u>241,826</u> | <u>162,135</u>           |
| <b>Liabilities</b>                                   |                |                          |
| <b>Current liabilities</b>                           |                |                          |
| Accounts payable and accrued liabilities             | 22,738         | 17,738                   |
| Current portion of long-term debt (note 7)           | 22,325         | 16,326                   |
|  | <u>45,063</u>  | <u>34,064</u>            |
| <b>Long-term debt (note 7)</b>                       | 48,616         | 32,374                   |
| <b>Deferred stripping liability</b>                  | 2,033          | 2,718                    |
| <b>Future income tax liability (note 8)</b>          | 7,203          | 4,589                    |
| <b>Environmental and closure provisions (note 2)</b> | 4,924          | 4,578                    |
|  | <u>107,839</u> | <u>78,323</u>            |
| Minority interests                                   | 2,190          | 2,190                    |
|  | <u>110,029</u> | <u>80,513</u>            |
| <b>Shareholders' Equity</b>                          |                |                          |
| Equity accounts (note 9)                             | 157,076        | 113,102                  |
| Deficit  | (25,279)       | (31,480)                 |
|  | <u>131,797</u> | <u>81,622</u>            |
|  | <u>241,826</u> | <u>162,135</u>           |
| <b>Commitments and contingencies (note 12)</b>       |                |                          |

Approved by the Board of Directors



Director



Director

The accompanying notes are an integral part of these consolidated financial statements.

# First Quantum Minerals Ltd.

## Consolidated Statements of Earnings and Deficit

### For the three months ended March 31, 2004 and 2003

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

|  | Three months ended |                   |
|--|--------------------|-------------------|
|  | March 31,<br>2004  | March 31,<br>2003 |
|  | \$                 | \$                |
| <b>Revenues</b>  |                    | (restated)        |
| Owned Operations   |                    |                   |
| Copper   | 22,082             | 6,851             |
| Acid   | 3,170              | 3,328             |
| Other  | 256                | 86                |
|  | <u>25,508</u>      | <u>10,265</u>     |
| <b>Costs and expenses</b>  |                    |                   |
| Cost of sales  | 12,091             | 8,114             |
| Depletion and amortization   | 2,332              | 998               |
| Exploration  | 377                | 108               |
| Foreign exchange loss (gain)   | (209)              | 70                |
| Non-hedge derivative loss (gain)   | 338                | -                 |
| General and administrative   | 1,145              | 530               |
| Interest and financing fees on long-term debt  | 587                | 586               |
|  | <u>16,661</u>      | <u>10,406</u>     |
| <b>Earnings (loss) before income taxes, non-controlling interest and equity losses</b> | 8,847              | (141)             |
| <b>Tax expense</b> (note 8)  | 2,614              | 39                |
| <b>Non-controlling interest</b>  | -                  | -                 |
| <b>Equity loss (earnings)</b>  | (434)              | 11                |
| <b>Net earnings (loss) for the period</b>  | <u>6,667</u>       | <u>(191)</u>      |
| <b>Deficit - Beginning of period</b> (note 2)  | (31,479)           | (36,062)          |
| <b>Prior period restatement (stock-based compensation)</b> (note 2)                    | (467)              | -                 |
| <b>Deficit - End of period</b>   | <u>(25,279)</u>    | <u>(36,253)</u>   |
| <b>Earnings (loss) per common share</b>  |                    |                   |
| Basic and Diluted - \$ per share   | \$0.11             | \$(0.00)          |
| Weighted average number of shares outstanding  | 58,567,985         | 43,560,841        |

The accompanying notes are an integral part of these consolidated financial statements.

# First Quantum Minerals Ltd.

## Consolidated Statements of Cash Flows

For the three months ended March 31, 2004 and December 31, 2003

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | 2004               | 2003              |
|   | \$                 | \$                |
| <b>Cash flows from operating activities</b>                     |                    | <b>(restated)</b> |
| Net earnings (loss) for the period                              | 6,667              | (191)             |
| Items not affecting cash  |                    |                   |
| Depletion and amortization                                      | 2,332              | 998               |
| Amortization of financing fees                                  | 44                 | 82                |
| Environmental and closure provisions                            | 346                | 204               |
| Equity loss (earnings)  | (434)              | 11                |
| Unrealized foreign exchange losses                              | 390                | 210               |
| Stock-based compensation expense                                | 186                | -                 |
| Non-controlling interest  |                    | -                 |
| Future income tax expense                                       | 2,614              | 129               |
| Gain on equity dilution   |                    | -                 |
|   | <u>12,145</u>      | <u>1,443</u>      |
| Change in non-cash operating working capital                    |                    |                   |
| Decrease (increase) in accounts receivable and prepaid expenses | (2,771)            | (417)             |
| Decrease (increase) in inventory                                | 355                | (358)             |
| Decrease (increase) in other assets                             | (1,330)            | -                 |
| Increase (decrease) in accounts payable and accrued liabilities | (3,061)            | (1,020)           |
|   | <u>5,338</u>       | <u>(352)</u>      |
| <b>Cash flows from financing activities</b>                     |                    |                   |
| Proceeds from long-term debt                                    | 17,876             | 9,865             |
| Repayments of principal on long-term debt                       | (2,502)            | (10,272)          |
| Proceeds from issue of common shares and warrants               | 43,325             | 222               |
|   | <u>58,699</u>      | <u>(185)</u>      |
| <b>Cash flows from investing activities</b>                     |                    |                   |
| Net payments to acquire capital assets and investments          | (34,993)           | (3,134)           |
| Payments for deferred exploration and stripping costs           | (1,164)            | (660)             |
|   | <u>(36,157)</u>    | <u>(3,794)</u>    |
| <b>Effect of exchange rate changes on cash</b>                  | (494)              | -                 |
| <b>Increase (Decrease) in cash and cash equivalents</b>         | 27,386             | (4,331)           |
| <b>Cash and cash equivalents - Beginning of period</b>          | 25,592             | 8,180             |
| <b>Cash and cash equivalents - End of period</b>                | <u>52,978</u>      | <u>3,849</u>      |

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three months ended March 31, 2004 and 2003

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(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

#### 1. Basis of presentation

These interim consolidated financial statements do not contain all the information that is required of annual financial statements and they should be read in conjunction with the most recent annual financial statements of First Quantum Minerals ("FQM" or the "Company").

These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual financial statements of the Company except where indicated in note 2 of these interim consolidated financial statements.

#### 2. Changes in accounting policy

##### Asset Retirement Obligations

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) set out in Section 3110 "Asset Retirement Obligations". Under the new standard the Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset.

Upon adoption of these new recommendations the Company, increased its capital assets and environmental provisions by \$1,468 and \$2,898 respectively. It also decreased its future income tax liability, retained earnings and inventory balances by \$408, \$1,280 and \$258 respectively. As required by the new recommendation this change has been made retroactively with restatement of prior periods.

The restatement of previous periods has meant that certain comparative figures for the year ended 31 December 2002 presented in these financials have been restated from what was previously published. Specifically retained earnings and future income tax liability decreased by \$1,428 and \$528 respectively.

##### Stock-Based Compensation

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA), set out in Section 3870 "Stock-based Compensation and other stock-based payments". Under the new standard on stock-based compensation the Company is required to expense the fair value of the options granted to the Income Statement at the date of issue. The previous policy only required disclosure of the fair value in the notes to the financial statements.

The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is amortized over their vesting periods. Cash consideration received from employees when they exercise the options is credited to share capital.

Upon adoption of this standard the Company elected to retroactively adjust retained earnings without restatement. On Jan 1, 2004 the company decreased retained earnings by \$467 and increased contributed surplus and common shares by \$391 and \$76 respectively.

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three months ended March 31, 2004 and 2003

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

## 2. Changes in accounting policy (continued)

### Hedging Relationships

On Jan 1, 2004, the Company adopted CICA Accounting Guideline 13, "Hedging Relationships" ("AcG 13"), as a result of this the Company reviewed its existing hedge accounting treatment of certain derivative financial instruments in accordance with AcG 13, which establishes new criteria for hedge accounting.

Under the new guideline, the Company is required to document its hedging transactions and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. Derivative financial instruments that do not qualify for hedge accounting under AcG 13 are required to be marked-to-market with changes in the fair value of the derivative instruments recognized as unrealized gains or losses in the statement of operations.

During its review, the Company identified the certain cross-currency swaps and interest rate swaps, which had previously been designated as hedges of fluctuation in currency rate movements. Although some of its other derivative financial instruments would qualify for hedge accounting, most would not qualify under the stringent guidelines of AcG 13, even though, in management's opinion, some of these contracts continue to be effective in mitigating the Company's exposure to interest rate and foreign currency fluctuations.

Having reviewed the current guidelines relating to hedge accounting, management is of the opinion that in order to provide more transparency and consistency in the manner in which hedging transactions are reported, the Company will instead mark-to market all of its derivative financial instruments.

Upon adoption of this guideline the Company deferred previously unrecognized exchange rate losses of \$1,252 and non-hedge derivative losses of \$127 and increased the Bwana EIB loan by \$1,379 to adjust the carrying value of this loan to the spot rate effective as at December 31, 2003.

## 3. Inventory

|                           | March 31,<br>2004<br>\$ | December 31,<br>2003<br>\$ |
|---------------------------|-------------------------|----------------------------|
| Ore in stockpiles         | 8,689                   | 10,476                     |
| Work-in-progress          | 829                     | 767                        |
| Finished product          | 203                     | 202                        |
| Total product inventory   | 9,721                   | 11,445                     |
| Consumable stores         | 8,614                   | 7,245                      |
| Total inventory           | 18,335                  | 18,690                     |
| Less: Non-current portion | (1,114)                 | (1,114)                    |
|                           | 17,221                  | 17,576                     |

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three months ended March 31, 2004 and 2003

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

#### 4. Investments

|                              | March 31,<br>2004 | December 31,<br>2003 |
|------------------------------|-------------------|----------------------|
|                              | \$                | \$                   |
| Carlisa Investment Corp. (a) | 9,522             | 9,522                |
| Anvil Mining NL (b) - Shares | 3,543             | 2,943                |
| - Convertible note           | -                 | 167                  |
|                              | 13,065            | 12,632               |

a) The Company has an 18.8% interest in Carlisa that holds a 90% interest in Mopani.

b) The Company has an 18.1% (December 31, 2003: 17.0%) interest in Anvil Mining NL, a public company quoted on the Australian and Berlin Exchanges, which has an operating mine in the Democratic Republic of Congo (DRC). On January 19, 2004 the Company converted the remaining portion of its convertible note into common shares of Anvil.

#### 5. Property, plant and equipment

|                     | March 31, 2004 |                             |         |
|---------------------|----------------|-----------------------------|---------|
|                     | Cost           | Accumulated<br>amortisation | Net     |
|                     | \$             | \$                          | \$      |
| Land and Buildings  | 5,861          | 2,322                       | 3,539   |
| Mineral Property    | 35,847         | 16,214                      | 19,633  |
| Plant and Equipment | 82,986         | 36,007                      | 46,979  |
| Work-in-progress    | 65,379         | -                           | 65,379  |
|                     | 190,073        | 54,543                      | 135,530 |

|                     | December 31, 2003 |                             |        |
|---------------------|-------------------|-----------------------------|--------|
|                     | Cost              | Accumulated<br>amortisation | Net    |
|                     | \$                | \$                          | \$     |
| Land and Buildings  | 5,783             | 2,205                       | 3,578  |
| Mineral Property    | 35,441            | 16,896                      | 18,545 |
| Plant and Equipment | 78,584            | 32,920                      | 45,664 |
| Work-in-progress    | 28,816            | -                           | 28,816 |
|                     | 148,624           | 52,021                      | 96,603 |

#### 6. Other assets and deferred charges

|   | March 31,<br>2004 | December 31,<br>2003 |
|---|-------------------|----------------------|
|   | \$                | \$                   |
| Deferred finance fees - net of amortization | 3,221             | 1,935                |
| Non-current ore stockpiles (note 3)         | 1,114             | 1,114                |
| Other                                       | 883               |                      |
|   | 5,218             | 3,049                |

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three months ended March 31, 2004 and 2003

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

#### 7. Long-term debt

|  | March 31, 2004 | December 31, 2003 |
|--|----------------|-------------------|
|  | \$             | \$                |
| <b>Drawn debt facilities</b>               |                |                   |
| <b>Bwana and Comisa</b>                    |                |                   |
| SCB facility (a)                           | 23,283         | 25,074            |
| Bwana EIB facility (b)                     | 14,202         | 13,265            |
| Banque Belgoise facility (c)               | 5,400          | 6,000             |
|  | <b>42,885</b>  | <b>44,339</b>     |
| <b>Kansanshi</b>                           |                |                   |
| Kansanshi EIB facility (d)                 | 17,807         | -                 |
| Standard Bank facility (e)                 | 6,000          | -                 |
| ZCCM deferred payment (f)                  | 3,333          | 3,333             |
|  | <b>27,140</b>  | <b>3,333</b>      |
| <b>Other</b>                               | <b>916</b>     | <b>1,028</b>      |
| <b>Total long-term debt</b>                | <b>70,941</b>  | <b>48,700</b>     |
| Less: Current portion                      | (22,325)       | (16,326)          |
|  | <b>48,616</b>  | <b>32,374</b>     |
| <b>Undrawn debt facilities<sup>1</sup></b> |                |                   |
| <b>Kansanshi</b>                           |                |                   |
| Standard Bank Group and WestLB (g)         | 120,000        | 120,000           |
| Glencore International AG (i)              | 25,000         | -                 |
| Kansanshi EIB facility (d)                 | -              | 42,677            |
| Standard Bank facility (e)                 | -              | 6,000             |
|  | <b>145,000</b> | <b>168,677</b>    |

<sup>1</sup> Certain undrawn facilities have minor conditions precedent outstanding

#### a. Standard Chartered Bank (SCB)

On November 19, 2003, Bwana entered into a new long-term debt facility with SCB to re-finance the above facility, and provide additional funding for capital expenditure projects and general working capital purposes. The new SCB facility of \$30,000 is repayable in 14 equal quarterly instalments commencing in March 2004 and bears interest at a rate of LIBOR plus 2.5%.

The company has pledged as security the assets and undertakings of Bwana and the Company's investment in Anvil.

#### b. Bwana European Investment Bank (EIB) facility

In 2002, Bwana entered into a finance contract with EIB for 14,000,000 Euros for additional project financing on the expansion of Bwana. This facility bears interest at between 3% and 12.5% depending upon the price of copper and is repayable in six equal annual instalments commencing July 2003.

The company has pledged as security the assets and undertakings of Bwana pari passu with the pre-existing security provided to SCB.

As this facility is in Euros, the company has entered into cross-currency principal and interest rate swaps with a counterparty to mitigate the foreign exchange and interest rate risk. At March 31, 2004, the principal and interest rate swaps had fair values of \$160,000 (Dec 2003: \$468,000) and \$(372,000) (Dec 2003: \$(342,000)), respectively.

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three months ended March 31, 2004 and 2003

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(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

#### 7. Long-term debt (continued)

##### c. Banque Belgolaise facility

On May 2, 2003, the company entered into a long-term debt facility with Banque Belgolaise to assist with financing the Comisa mining fleet. The facility bears interest at LIBOR plus 3% and is repayable in 10 quarterly instalments commencing in February 2004.

The company has pledged as security the mining fleet of Comisa.

##### d. Kansanshi EIB facility

On December 11, 2003, Kansanshi entered into a subordinated facility agreement with EIB, for 34 million Euros (\$41.4 million), to finance the design, construction, operation and maintenance of the Kansanshi project. This facility is available for drawdown prior to October 31, 2006 and repayable in nine equal annual payments commencing October 31, 2007. Interest will be 7.2% until April 30, 2005 and thereafter will be recalculated annually, within a range of 3.2% to 13.2%, based on the average LME cash copper price for the preceding calendar year.

On March 9, 2004 the Company made the first draw down of this facility for €14.5 million (\$17.9 million) and as at March 31, 2004, €19.5 million (\$23.7 million) remains available for further draw down. During the quarter the Company entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on Kansanshi EIB facility. At March 31, 2004, the principal and interest rate swaps had fair values of \$(186,000) and \$29,000, respectively.

##### e. Standard Bank

On December 12, 2003, Kansanshi entered into a \$6,000 facility with Standard Bank, London to finance Kansanshi's capital contribution pursuant to a connection agreement between Kansanshi and ZESCO Limited (the Zambian power utility), which provides for the construction of a new power line to service the Kansanshi project. The full amount of this loan was draw down in the first quarter of 2004 and advanced directly to ZESCO Limited.

This facility bears interest at LIBOR plus 3.5%. The full amount of the loan is repayable on June 12, 2004. This loan also includes the issuance of 250,000 warrants valued as deferred finance costs.

##### f. ZCCM deferred payment

Consistent with the Kansanshi development agreement, the company agreed to pay \$667 to Zambian Consolidated Copper Mines (ZCCM) on the first business day of April, July and October 2003 and January, April and July 2004 subject to the price of copper. As at March 31, 2004 no further payments have been made to ZCCM.

#### Undrawn debt facilities

##### g. Standard Bank Group and WestLB

On December 12, 2003, Kansanshi entered into a secured \$120,000 senior facility agreement arranged and underwritten by Standard Bank Group and WestLB to finance the design, construction, operation and maintenance of the Kansanshi project.

The facility comprises two tranches of \$60,000, each available for drawdown until July 31, 2005. Tranche A is repayable in ten semi-annual instalments commencing six months after project completion; Tranche B is repayable in 21 quarterly payments before January 31, 2011. Interest on Tranche A is calculated at a fixed rate of 6%. Interest on Tranche B is calculated at LIBOR plus 3% during construction and LIBOR plus 2.5% during the repayment period.

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three months ended March 31, 2004 and 2003

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

#### 7. Long-term debt (continued)

##### h. Glencore International AG

In the first quarter of 2004, Kansanshi entered into a \$25,000 cost over run facility with Glencore International AG. The facility bears interest at LIBOR plus 3.5%. The loan is repayable in ten semi-annual instalments eighteen months after the project completion date.

#### 8. Future income taxes

|                           | March 31, 2004 | December 31, 2003 |
|---------------------------|----------------|-------------------|
|                           | \$             | \$                |
| Opening Balances          | 4,589          | 2,957             |
| Future Income tax expense | 2,614          | 1,632             |
| Closing Balance           | 7,203          | 4,589             |

The company has non-capital loss carry-forwards that are available for offset against future earnings. To date, the loss carry-forwards have been utilized so that no cash payments have been made for income tax purposes. The tax expense in the statement of earnings and deficit has been accrued as a result of operating profits at Bwana.

#### 9. Equity accounts

|   | March 31, 2004 | December 31, 2003 |
|---|----------------|-------------------|
| Represented by:                         | \$             | \$                |
| Common shares                           | 153,965        | 110,557           |
| Warrants                                | 777            | 777               |
| Contributed surplus                     | 2,334          | 1,768             |
|   | 157,076        | 113,102           |
| Number of shares issued and outstanding | 60,284,128     | 56,396,128        |
| Weighted Average Number of Shares       | 58,567,985     | 50,668,307        |

# First Quantum Minerals Ltd.

Notes to Consolidated Financial Statements

**For the three months ended March 31, 2004 and 2003**

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(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

## 10. Segmented information

The company's reportable operating segments are strategic business units that produce different but related products or services. Each business unit is managed separately because each requires different technology and marketing strategies.

### **Bwana and Comisa Operations (BCO)**

The Bwana plant and the Comisa mine are distinct legal entities and operations but from a management perspective are viewed as an integrated operation, with the Bwana plant processing the ore mined by Comisa. The Bwana plant in Zambia produces grade A copper cathodes from ore in tailings dumps and from Comisa's Lonshi open pit mine in the DRC. In addition, the Bwana plant manufactures sulphuric acid for use in processing the copper and for sale to third parties.

### **Kansanshi Copper Project (KCP)**

The Kansanshi project is located in the northwest province of Zambia, approximately 15 kilometres north of Solwezi. The project is in the construction phase which includes civil engineering and earthworks, with commissioning scheduled in late 2004 and commercial production commencing in 2005.

### **Carlisa (CAR)**

From April 1, 2000 to February 28, 2002, the company proportionately consolidated its investment in Carlisa. From March 1, 2002, the company now cost accounts for this investment (note 4) and therefore does not consolidate any of the results of the Carlisa controlled operations at Mopani.

Carlisa holds a 90% interest in Mopani, which comprises the Mufulira Division and Nkana Division both in Zambia.

### **Corporate Development and Administration (CDA)**

The corporate development and administration segment is responsible for the evaluation and acquisition of new mineral properties, regulatory reporting, and corporate administration. It also holds the Connemara gold mine in Zimbabwe which is currently on a care and maintenance basis.

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three months ended March 31, 2004 and 2003

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

For the three months ended **March 31, 2004**, segmented information is presented as follows:

|   | <b>BCO</b>    | <b>KCP</b> | <b>CAR</b> | <b>CDA</b>     | <b>Total</b>  |
|---|---------------|------------|------------|----------------|---------------|
|   | <b>\$</b>     | <b>\$</b>  | <b>\$</b>  | <b>\$</b>      | <b>\$</b>     |
| External Revenues   | 25,252        | -          | -          | -              | 25,252        |
| Interest and other income                                 | 7             | -          | -          | 249            | 256           |
| <b>Total Revenue</b>                                      | <b>25,259</b> | <b>-</b>   | <b>-</b>   | <b>249</b>     | <b>25,508</b> |
| Cost of Sales   | 12,091        | -          | -          | -              | 12,091        |
| <b>Segment gross profit</b>                               | <b>13,168</b> | <b>-</b>   | <b>-</b>   | <b>249</b>     | <b>13,417</b> |
| <b>Other Expenses</b>                                     |               |            |            |                |               |
| Depletion and amortization                                | 2,296         | -          | -          | 36             | 2,332         |
| Exploration   | 179           | -          | -          | 198            | 377           |
| Foreign exchange loss (gain)                              | (231)         | -          | -          | 22             | (209)         |
| Non-hedge derivative loss (gain)                          | -             | -          | -          | 338            | 338           |
| General and administrative                                | -             | -          | -          | 1,145          | 1,145         |
| Interest and financing fees                               | 577           | -          | -          | 10             | 587           |
| <b>Total Other Expenses</b>                               | <b>2,821</b>  | <b>-</b>   | <b>-</b>   | <b>1,748</b>   | <b>4,570</b>  |
| <b>Segment profit (loss) before the under noted items</b> | <b>10,347</b> | <b>-</b>   | <b>-</b>   | <b>(1,500)</b> | <b>8,847</b>  |
| Non-controlling interest                                  | -             | -          | -          | -              | -             |
| Equity loss (earnings)                                    | -             | -          | -          | (434)          | (434)         |
| Tax Expense   | 2,614         | -          | -          | -              | 2,614         |
| <b>Segment profit (loss)</b>                              | <b>7,733</b>  | <b>-</b>   | <b>-</b>   | <b>(1,066)</b> | <b>6,667</b>  |
| Capital asset additions                                   | 7,363         | 34,913     | -          | 2,312          | 44,588        |
| Total assets  | 91,450        | 95,811     | 9,522      | 45,045         | 241,828       |
| Inter-company balances included in total assets           | 19,656        | -          | -          | 101,704        | 121,360       |
| Total consolidated assets                                 | 111,106       | 95,811     | 9,522      | 146,749        | 363,188       |

Definitions:

BCO – Combined operations of Bwana and Comisa  
KCP – Kansanshi Copper Project

CAR – Carlisa holds the interest in Mopani Copper Mines  
CDA – Corporate Development and Administration which includes Connemara

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three months ended March 31, 2004 and 2003

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

For the three months ended **March 31, 2003**, segmented information is presented as follows:

|   | <b>BCO</b>    | <b>KCP</b> | <b>CAR</b> | <b>CDA</b>   | <b>Total</b>  |
|---|---------------|------------|------------|--------------|---------------|
|   | <b>\$</b>     | <b>\$</b>  | <b>\$</b>  | <b>\$</b>    | <b>\$</b>     |
| External Revenues   | 10,179        | -          | -          | -            | 10,179        |
| Interest and other income                                 | 11            | -          | -          | 75           | 86            |
| <b>Total Revenue</b>                                      | <b>10,190</b> | <b>-</b>   | <b>-</b>   | <b>75</b>    | <b>10,265</b> |
| Cost of Sales   | 8,069         | -          | -          | 45           | 8,114         |
| <b>Segment gross profit</b>                               | <b>2,121</b>  | <b>-</b>   | <b>-</b>   | <b>30</b>    | <b>2,151</b>  |
| <b>Other Expenses</b>                                     |               |            |            |              |               |
| Depletion and amortization                                | 973           | -          | -          | 25           | 998           |
| Exploration   | -             | -          | -          | 108          | 108           |
| Foreign exchange loss (gain)                              | 263           | -          | -          | (193)        | 70            |
| General and administrative                                | -             | -          | -          | 530          | 530           |
| Interest and financing fees                               | 575           | -          | -          | 11           | 586           |
| <b>Total Other Expenses</b>                               | <b>1,811</b>  | <b>-</b>   | <b>-</b>   | <b>481</b>   | <b>2,292</b>  |
| <b>Segment profit (loss) before the under noted items</b> | <b>310</b>    | <b>-</b>   | <b>-</b>   | <b>(451)</b> | <b>(141)</b>  |
| Non-controlling interest                                  | -             | -          | -          | -            | -             |
| Equity loss (earnings)                                    | -             | -          | -          | 11           | 11            |
| Tax Expense   | 39            | -          | -          | -            | 39            |
| <b>Segment profit (loss)</b>                              | <b>271</b>    | <b>-</b>   | <b>-</b>   | <b>(462)</b> | <b>(191)</b>  |
| Capital asset additions                                   | 2,452         | 619        | -          | 63           | 3,134         |
| Total assets  | 66,756        | 15,525     | 9,522      | 70,529       | 162,332       |
| Inter-company balances included in total assets           | (304)         | -          | -          | (62,892)     | (63,196)      |
| Total consolidated assets                                 | 66,452        | 15,525     | 9,522      | 7,637        | 99,136        |

Definitions:

BCO – Combined operations of Bwana and Comisa  
KCP – Kansanshi Copper Project

CAR – Carlisa holds the interest in Mopani Copper Mines  
CDA – Corporate Development and Administration which includes Connemara

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three months ended March 31, 2004 and 2003

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(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

#### 11. Hedging commitments

As at March 31, 2004, the Company had entered into a number of derivative instruments to minimize the risk exposure to copper prices, foreign currency, and interest rate movements. The Company has hedged 1,000 tonnes of its budgeted monthly production to December 2004 at the following prices; May to June 2004; \$1,987, July 2004 \$2,024 and August to December \$2,036 per tonne respectively. In addition, it had approximately 300 tonnes remaining on April hedges priced at \$2,070. At March 31, 2004 the fair value of these copper forwards was negative \$7.5 million.

The Company also entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on Bwana EIB facility. At March 31, 2004, the principal and interest rate swaps had fair values of \$160,000 (Dec 2003: \$468,000) and \$(372,000) (Dec 2003: (\$342,000)), respectively.

In addition, during the quarter the Company entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on Kansanshi EIB facility. At March 31, 2004, the principal and interest rate swaps had fair values of \$(186,000) and \$29,000, respectively.

#### 12. Commitments and contingencies

##### Kansanshi deferred consideration

Under the terms of the purchase agreement, the company has agreed to make a final payment to Cyprus Amax in connection with the Kansanshi acquisition. This amount will be calculated as \$25,000 less an amount equal to the average market value for the thirty days prior to the commencement of commercial production of the 1.4 million common shares that the company previously issued to Cyprus Amax.

##### Commitments

In conjunction with the development of Kansanshi and other projects, the company has committed to approximately \$83,800 in capital expenditures as at March 31, 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS AND FINANCIAL REVIEW

(May 11, 2004)

First Quarter ended March 31, 2004  
(expressed in U.S. dollars)

### Highlights

First Quarter ended March 31, 2004:

- ? Copper production of 9,689 tonnes (21 million pounds) with a cash cost (C1) of \$0.39 per pound
- ? Acid production of 34,344 tonnes of which 20,763 tonnes were sold externally
- ? Net earnings of \$6.7 million or \$0.11 per share
- ? Cash flow from operations, after operating working capital movements other than cash, were \$5.3 million or \$0.09 per share

### Summary of Financial and Operational Results

The following discussion, analysis and financial review is comprised of eight main sections:

1. Selected Annual Information
2. Discussion of Earnings and Operations
3. Discussion of Cash Flows
4. Discussion of Financial Position and Liquidity
5. Other Matters
6. Outlook
7. Critical Accounting Policies
8. Summary of Quarterly Results

For further information on the Company reference should be made to the Company's Annual Information Form (AIF) and also to its public filings that are available on [www.sedar.com](http://www.sedar.com).

### 1. Selected Annual Information

| Selected Annual Information        |            |                   |             |          |         |
|------------------------------------|------------|-------------------|-------------|----------|---------|
| Table 1                            |            |                   |             |          |         |
|                                    | 2004       | 2003 <sup>1</sup> | 2002        | 2001     | 2000    |
| Statement of Operations            | (3 months) | (12 months)       | (13 months) |          |         |
| (\$ millions)                      |            |                   |             |          |         |
| Total Revenues                     | \$25.5     | \$60.7            | \$51.3      | \$138.1  | \$91.2  |
| Net Earnings (Loss)                | 6.7        | 4.5               | (3.8)       | (21.0)   | 7.5     |
| Net Earnings per Share             |            |                   |             |          |         |
| Basic                              | \$0.11     | \$0.09            | \$(0.09)    | \$(0.58) | \$0.30  |
| Diluted                            | \$0.11     | \$0.09            | \$(0.09)    | \$(0.58) | \$0.27  |
| <b>Balance Sheet</b> (\$ millions) |            |                   |             |          |         |
| Total Assets                       | \$241.8    | \$162.1           | \$97.8      | \$154.7  | \$128.6 |
| Total long-term liabilities        | 62.8       | 44.3              | 24.3        | 58.0     | 52.6    |
| <b>Shareholders' Equity</b>        |            |                   |             |          |         |
| (\$ millions)                      | \$131.8    | \$81.6            | \$53.5      | \$46.3   | \$33.0  |
| <b>Cash Flow from:</b>             |            |                   |             |          |         |
| Operating activities               |            |                   |             |          |         |
| (\$ millions)                      | \$5.3      | \$15.9            | \$(4.1)     | \$6.5    | \$9.4   |
| Operating per share                | \$0.09     | \$0.31            | \$(0.09)    | \$0.18   | \$0.37  |

<sup>1</sup> 2003 figures have been restated to conform to new Canadian GAAP requirements

The comparison between financial years is complicated by the change in fiscal year end that occurred in 2002. This change means that the 2002 year is a 13 month period.

Comparison between years is further complicated by the results of Carlisa being proportionately consolidated from April 1, 2000 to March 1, 2002. After diluting its investment in Carlisa, the Company now cost accounts for its investment. To fully understand the impact of Carlisa, reference should be made to the 2002 audited annual financial statements.

## 2. Discussion of Earnings and Operations (year to date)

### Consolidated Revenue

Revenues increased to \$25.5 million (2003: \$10.3m; 2002: \$28.1m) which comprised copper revenues of \$22.1 million (2003: \$6.9 m; 2002: \$3.0 m), acid revenues of \$3.2 million (2003: \$3.3m; 2002: \$3.2m) and other revenue of \$0.2 million (2003: \$0.1 m; 2002: \$21.9m). Revenues were up 148% due to improved copper prices and a 122% increase in copper production at Bwana. Acid revenues were consistent with previous years as the decrease in acid available for sale was offset with slightly higher realized acid price. The higher acid price was as a result of passing on higher sulphur costs to customers. The decrease in other revenue in 2003 and 2002 from 2001 was due to the proportionate dilution of the Company's interest in Carlisa, which is now cost accounted.

| <b>First Quarter Revenues</b>    |             |             |             |
|----------------------------------|-------------|-------------|-------------|
| <b>Table 2</b>                   |             |             |             |
|                                  | <b>2004</b> | <b>2003</b> | <b>2002</b> |
| <b>Revenues (\$ millions)</b>    |             |             |             |
| Copper                           | \$22.1      | \$6.9       | \$3.0       |
| Acid                             | 3.2         | 3.3         | 3.2         |
| Other                            | 0.2         | 0.1         | 21.9        |
| <b>Total Revenue</b>             | <b>25.5</b> | <b>10.3</b> | <b>28.1</b> |
| <b>Sales Statistics (tonnes)</b> |             |             |             |
| Copper Sales                     | 9,693       | 4,456       | 2,080       |
| Acid Sales                       | 20,763      | 23,432      | 21,502      |
| <b>Realized Price</b>            |             |             |             |
| Copper (\$ per pound)            | \$1.03      | \$0.70      | \$0.65      |

The realized copper price rose to \$1.03 per pound (2003:\$0.70; 2002:\$0.65). The LME copper price increased during the first quarter as LME copper inventories continued to fall and demand remained strong from China. The average LME cash price for the first quarter of 2004 was \$1.24 (2003: \$0.76; 2002: \$0.68). The difference between the LME price and the realized price was due to realization charges and hedging activities. During the First Quarter the Company delivered into approximately 3,700 tonnes of copper forward contracts at a realized price of \$0.86 per pound.

### Consolidated Cost of Sales and Production Statistics

Cost of sales for the First Quarter ended March 31, 2004, were \$12.1 million (2003: \$8.1m; 2002: \$28.3m). The net increase in cost of sales was due to the 118% increase in copper cathode sold. The 2002 amount includes Carlisa cost of sales of \$24.1 million.

| <b>Quarterly Cost of Sales and Production Statistics</b> |             |             |             |
|--|-------------|-------------|-------------|
| <b>Table 3</b>   |             |             |             |
|  | <b>2004</b> | <b>2003</b> | <b>2002</b> |
| <b>Costs</b>   |             |             |             |
| Cost of Sales (\$ million)                               | \$12.1      | \$8.1       | \$28.3      |
| C1 Costs (\$ per pound)                                  | \$0.39      | \$0.44      | \$0.11      |
| C3 Costs (\$ per pound)                                  | \$0.53      | \$0.71      | \$0.36      |
| <b>Production Statistics (tonnes)</b>                    |             |             |             |
| Copper Production  | 9,689       | 4,359       | 2,080       |
| Acid Production  | 34,344      | 34,385      | 35,289      |
| Ore mined  | 58,111      | 0           | 28,355      |
| Ore Grade Mined  | 5.42%       | n/a         | 6.37%       |
| Waste mined  | 1,026,524   | 230,000     | 674,334     |

Other expenses for the First Quarter ended March 31, 2004 were \$4.6 million (2003: \$2.3m; 2002: \$3.4m). Other expenses were comprised of depletion and amortisation \$2.3 million (2003: \$1.0m; 2002: \$1.7m), general and administration costs of \$1.1 million (2003: \$0.5m; 2002: \$0.5m) and interest and financing expenses of \$0.6 million (2003: \$0.6m; 2002: \$1.1m). The movement in depreciation expense is due to the increased production at Bwana which uses the units of production method of depreciation.

### Mining

For the First Quarter ended March 31, 2004, approximately 66,462 tonnes (2003: 0t; 2002: 28,355t) of ore and approximately 1,026,524 tonnes (2003: 230,000t; 2002: 674,334t) of waste were mined in total. The strip ratio (ratio of waste to ore) for the quarter was 17.7:1 (2003: n/a; 2002: 23.8:1). During the wet season the Company predominantly focuses on pre-stripping for the forthcoming year's ore requirements, this has once again occurred in 2004. As a result of this pre-stripping campaign the Company deferred costs of approximately \$0.7 million (2003: \$0.6m) associated with its mining program.

For a full understanding of the implications of this policy reference should be made to the critical accounting policies in both the 2003 Annual Report and Management Discussion and Analysis.

### Processing

For the quarter, copper production increased to 9,689 tonnes (2003: 4,359t; 2002: 2,080t). The 122% increase over 2003 was due to the plant expansion completed at Bwana at the end of 2002 and modifications made in 2003. The first quarter of 2003, Bwana was only able to realize approximately 58% of the design capacity due to difficulties with processing Lonshi ore in the

wet. During the First Quarter of 2004, with the implementation of the ore delivery system, Bwana was able to achieve greater throughput and was able to exceed the design capacity of the plant. The Bwana plant is budgeted to produce 35,000 tonnes of copper cathode in 2004.

Cash costs (C1) for the quarter were \$0.39 per pound (2003: \$0.44/lb; 2002: \$0.11/lb) and total costs (C3) were \$0.53 per pound (2003: \$0.71/lb; 2002: \$0.36/lb). The increase in cash costs from 2002 relates principally to the processing of Lonshi ore rather than the Bwana tailings dump. The processing of Lonshi ore involves mining, transportation and milling that was not necessary for the tailings.

Acid production was 34,344 tonnes (2003: 34,385t; 2002: 35,289t). In the First Quarter of 2004, 20,763 tonnes (2003: 23,432t; 2002: 21,502t) of surplus acid production was sold. The decrease was due to the increased copper production in the first quarter, which meant there was less acid available for sale in 2004 versus 2003. Notwithstanding, on a per tonne of copper basis, acid consumption improved in the First Quarter.

### Consolidated Earnings

| Quarterly Net Earnings<br>Table 4 |        |         |          |
|-----------------------------------|--------|---------|----------|
|                                   | 2004   | 2003    | 2002     |
| <b>Earnings</b>                   |        |         |          |
| \$ (millions)                     | \$6.7  | \$(0.2) | \$(4.5)  |
| Basic earnings per share          | \$0.11 | \$0.00  | \$(0.10) |
| Diluted earnings per share        | \$0.11 | \$0.00  | \$(0.10) |

Net earnings for the quarter increased to \$6.7 million (2003: \$(0.2)m; 2002: \$(4.5)m) or \$0.11 per share (2003: \$0.00; 2002: \$(0.10)). Equity investment earnings for the quarter were \$0.4 million (2003: \$(11,000); 2002: \$0.1m). The improvement in equity investment earnings came as a result of positive earnings from Anvil's Dikulushi mine

in the Democratic Republic of Congo (DRC) on the back of improved production and stronger copper prices.

### 3. Discussion of Cash Flows

#### Consolidated Cash Flow

| Quarterly Cash Flows<br>Table 5       |        |         |         |
|---------------------------------------|--------|---------|---------|
|                                       | 2004   | 2003    | 2002    |
| <b>Cash Flows from: (\$ millions)</b> |        |         |         |
| Operating activities                  | \$5.3  | \$(0.4) | \$(1.8) |
| Financing activities                  | 58.7   | (0.2)   | (1.4)   |
| Investing activities                  | (36.2) | (3.8)   | 2.2     |

#### First Quarter ended March 31, 2004

The cash inflow from operating activities was \$5.3 million (2003: \$(0.4)m; 2002: \$(1.8)m) or \$0.09 per share (2003: \$(0.01); 2002: \$(0.04)). The significant turnaround in cash flow from operations is attributable to the improvement in

revenue resulting from increased production and improved copper prices. Cash flow from operating activities was impacted adversely by movements in operating working capital other than cash of \$6.8 million for the quarter.

Included within the cash flow from operating activities was an increase in accounts receivable and prepaid expenses, which were principally related to the timing of copper collections.

The cash inflow from financing activities was \$58.7 million (2003: \$(0.2)m; 2002: \$(1.4)m). On the February 10, 2004 the Company issued 3.75 million shares at \$CDN16.00 for the net proceeds of approximately \$43.2 million. In addition the Company also made the first drawdown on the Kansanshi EIB facility. The drawdown was for 14.5m Euro (\$17.9 million). At March 31, 2004, 19.5 million Euro remains undrawn.

The cash outflow from investing activities was \$36.2 million (2003: \$(3.8)m; 2002: \$2.2m). During the first quarter of 2004 the Company continued its capital investment in Kansanshi.

## Financings 2004

The following table provides detail of all the financings that were undertaken in 2004 and the actual use of proceeds compared with their stated use of proceeds at the time the financing was announced:

| Financing 2004<br>Table 6  |   |   |                             |
|--|---|---|-----------------------------|
| Lender / Source  | Amount  | Use of Proceeds   |                             |
|  |   | Proposed  | Actual                      |
| 3.75 million Common Shares @ CDN16.00<br>(Feb 10, 2004)<br>Standard Bank   | \$45.2 million<br>(gross proceeds)<br>\$6 million | For exploration, and development and<br>general corporate purposes.   | Proceeds still<br>available |
| European Investment Bank (EIB)(Kansanshi)<br>(First drawdown March 9, 2004)  | €34 million<br>(€14.5m drawn)                     | Financing of Kansanshi Powerline<br>Finance construction at Kansanshi | As proposed<br>As proposed  |
| Standard Bank Group and West LB facility <sup>1</sup><br>Banque Belgoise and Export Development<br>Bank of Canada <sup>1</sup> | \$120 million<br>\$30 million                     | Finance construction at Kansanshi<br>FQM Zambia Mining Fleet          | Undrawn<br>Undrawn          |
| Glencore International AG <sup>1</sup>   | \$25 million                                      | Kansanshi Cost Overrun Facility                                       | Undrawn                     |

<sup>1</sup>Subject to completion of minor conditions precedent in the agreements

## 4. Discussion of Financial Position and Liquidity

| Financial Position<br>Table 7             |            |            |            |
|---|------------|------------|------------|
|   | 2004       | 2003       | 2002       |
|   | Mar 31     | Dec 31     | Dec 31     |
| <b>Assets</b> (\$ millions)               |            |            |            |
| Cash and cash equivalents                 | \$53.0     | \$25.6     | \$8.2      |
| Total current assets                      | 85.3       | 47.6       | 23.3       |
| Total assets                              | 241.8      | 162.1      | 97.8       |
| <b>Liabilities</b> (\$ millions)          |            |            |            |
| Total current liabilities                 | \$45.1     | \$34.1     | \$17.7     |
| Net long-term debt                        | 48.6       | 32.4       | 20.1       |
| Total liabilities                         | 107.8      | 78.3       | 42.1       |
| <b>Shareholders' Equity</b> (\$ millions) | 131.8      | 81.6       | 53.5       |
| <b>Working capital</b> (\$ millions)      | \$40.2     | \$13.5     | \$5.6      |
| Weighted Average # Shares                 | 58,567,985 | 50,668,307 | 43,362,680 |
| Outstanding # of Shares                   | 60,284,128 | 56,396,128 | 43,506,628 |

### Cash and cash equivalents

At March 31, 2004, the Company had cash and cash equivalents of \$53.0 million (Dec 2003: \$25.6m; Dec 2002: \$8.2m). The increase in cash can be attributed to the equity financing that occurred on Feb 10, 2004 (\$43.2m) and positive cash flow from operating activities (\$12.1m).

### Current assets

Total current assets were \$85.3 million (Dec 2003: \$47.6m; Dec 2002 \$23.3m) the increase in current assets was due to increased cash and cash equivalent previously mentioned.

### Total assets

Total assets were \$241.8 million (Dec 2003: \$162.1m; Dec 2002: \$97.8m). The large increase is as a result of an increase in current assets and also capital assets. The capital assets have increased due principally to the continuing construction and investment at Kansanshi.

### Current liabilities

Current liabilities were \$45.1 million (Dec 2003: \$34.1m; Dec 2002: \$17.7m) the increase in the First Quarter of 2004 can be attributed to an increase in accounts payable associated with Kansanshi.

### Net long-term debt

Net long term debt was \$48.6 million (Dec 2003: \$32.4m; Dec 2002: \$20.1m) the increase was due to the \$17.9 million drawdown on the EIB Kansanshi facility, net of other repayments of \$2.5 million.

### Total liabilities

Total liabilities were \$107.8 million (Dec 2003: \$78.3m; Dec 2002: \$42.1m) which include provisions for deferred stripping, \$2.0 million (2003: \$2.7m) and future income taxes of \$7.2 million (2003: \$4.6m; 2002: \$3.5m). The deferred stripping liability decreased this quarter as the mining activities at Lonshi focussed on pre-stripping.

The provision for future income taxes continues to increase as the Company generates positive earnings at Bwana and utilizes accelerated capital allowances for tax purposes to minimize the amount of cash taxes payable.

Contractual Obligations

| Payments Due by Period   |        |                     |                |                |                |                |                |
|--------------------------|--------|---------------------|----------------|----------------|----------------|----------------|----------------|
| Table 8                  |        |                     |                |                |                |                |                |
| (\$ millions)            | Total  | Less than<br>1 year | 1 – 2<br>years | 2 – 3<br>years | 3 – 4<br>years | 4 – 5<br>years | There<br>after |
| <b>Long Term Debt \$</b> | \$70.9 | \$22.3              | \$12.3         | \$10.5         | \$7.1          | \$5.7          | \$13.0         |
| <b>Commitments</b>       | \$83.8 | \$83.8              |                |                |                |                |                |

Under the terms of the Kansanshi purchase agreement the Company is required to make a final payment to Cypress Amax. This amount will be calculated as \$25.0 million less an amount equal to the average market value, for the thirty days prior to the project achieving commercial production, of 1.4 million common shares of the Company. This amount has not been included in the table above.

Undrawn Debt Facilities

As at March 31, 2004 the Company had undrawn debt facilities of \$198.7 million (Dec 2003: 168.7m) that have been designated for the capital requirements of the Kansanshi project. Certain undrawn debt facilities are subject to the Company completing minor condition precedents in the debt agreements.

Working capital

As at March 31, 2004 the working capital of the Company was \$40.2 million (Dec 2003: \$13.5m; Dec 2002: \$5.6m). The improvement in the working capital ratio comes primarily from the positive cash flow from operations and the equity financing that was completed in February.

Shareholders' Equity

As at March 31, 2004, the Company had shareholders' equity of \$131.8 million (Dec 2003: \$81.6m; 2002: \$53.5m) during the quarter the Company raised \$43.2 million from the placement of 3.75 million shares for CDN\$16.00, the proceeds of which will be used to assist in funding the exploration and development of the Lufua Project in the DRC. Any additional proceeds will be used for potential acquisitions, working capital and general corporate purposes.

As at March 31, 2004 the Company had 60,284,128 common shares outstanding (Dec 2003: 56,396,128; Dec 2002: 43,506,628). In addition, to the outstanding common shares the Company had 2,840,500 options and 250,000 warrants outstanding. The weighted average number of shares outstanding for the quarter was 58,567,985 (Dec 2003: 50,668,307; Dec 2002: 43,362,680)

**5. Other Matters**

| Quarterly Segmented Discussion |        |       |        |
|--------------------------------|--------|-------|--------|
| Table 9                        |        |       |        |
| (\$ millions)                  | BCO    | CDA   | Total  |
| Revenue                        | \$25.3 | \$0.2 | \$25.5 |
| Cost of Sales                  | 12.1   | -     | 12.1   |
| Gross Profit                   | 13.2   | 0.2   | 13.4   |
| Other expenses                 | 5.5    | 1.2   | 6.7    |
| Net Earnings                   | 7.7    | (1.0) | 6.7    |

Segmented Information

For the First Quarter ended March 31, 2004, the combined operation at Bwana and Comisa (BCO) had revenues of \$25.3 million (2003: \$10.2m; 2002: \$6.3m). CDA refers to Corporate Development and Administration.

Kansanshi Copper Project ("Kansanshi")

Overall the Kansanshi project is approximately 64% complete.

Engineering and Design aspects on the project are approximately 99% complete, and construction is approximately 36% complete. US\$83.8 million of the direct capital cost of the process plant has been committed.

For a complete understanding of the Kansanshi project and its significance to the Company reference should be made to the 2003 Annual Report and Management Discussion and Analysis.

Deferred Exploration

As at March 31, 2004, the Company had deferred exploration costs of \$2.7 million (Dec 2003: \$2.2m; Dec 2002:\$1.0m), which consisted of deferred costs in relation to Lufua \$1.2 million (Dec 2003: \$1.1m), Lonshi \$1.1 million (Dec 2003: \$0.7m) and Zambian exploration projects \$0.4 million (Dec 2003:\$0.4m). Lufua is a copper-cobalt prospect located in the DRC. The deferred exploration costs for Lonshi are costs associated with the potential extension of the copper resource at the Lonshi mineral property in the DRC.

During the quarter ended March 2004, the Company expensed \$0.4 million (2003: \$0.1m; 2002: \$0.1m) on other exploration targets that were predominantly located within the DRC and Zambia. Exploration activities in the first quarter of each year are generally limited due to the wet season in Zambia and the DRC.

#### Investments -Carlisa

The Company holds an 18.8% interest in Carlisa Investment Corporation (Carlisa), which holds a 90% interest in Mopani Copper Mines Plc (Mopani). Mopani is a privately held company registered in Zambia. The carrying value of this investment as at March 31, 2004 is \$9.5 million (Dec 2003 and Dec 2002: \$9.5m). There were no movements in this investment in the First Quarter of 2004.

#### Investments -Anvil

The Company holds an 18.1% (2003: 17.0%; 2002: 18.6%) interest in Anvil, a public company quoted on the Australian and Berlin Stock Exchanges. The Company currently holds 36,996,171 shares (2003: 34,029,857; 2002: 31,148,857). The carrying value of this investment as at March 31, 2004 was \$3.5 million (2003: \$3.1m; 2002: \$2.8m).

The market value of this investment as at March 31, 2004 was approximately \$16.2 million (2003: \$10.5m; 2002: \$2.1m). On 23 March 2004, Anvil announced "its intention, subject to shareholders' and regulatory approvals, to undertake a restructuring and apply for a listing on the Toronto Stock Exchange."

Further information on Anvil can be found at [www.anvil.com.au](http://www.anvil.com.au).

#### Financial Instruments

As at March 31, 2004, the Company had entered into a number of derivative instruments to minimize the risk exposure to copper prices, foreign currency, and interest rate movements. The Company has hedged 1,000 tonnes of its budgeted monthly production to December 2004 at the following prices; May to June 2004; \$1,987 (\$0.90 lb), July 2004 \$2,024 (\$0.92 lb) and August to December \$2,036 (\$0.92 lb) per tonne respectively. In addition, it had approximately 300 tonnes remaining on April hedges priced at \$2,070 (\$0.94 lb). At March 31, 2004 the fair value of these copper forwards was negative \$7.5 million.

The Company also entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on Bwana EIB facility. At March 31, 2004, the principal and interest rate swaps had fair values of \$160,000 (Dec 2003: \$468,000) and \$(372,000) (Dec 2003: (\$342,000)), respectively.

In addition, during the quarter the Company entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on Kansanshi EIB facility. At March 31, 2004, the principal and interest rate swaps had fair values of (\$186,000) and \$29,000, respectively.

## **6. Outlook**

The Bwana Mkubwa SX/EW processing facility is forecast to produce 35,000 tonnes of copper cathode at improved C1 cash costs (C1) relative to 2003 results. Unit operating costs should continue to benefit from lower cost owner mining at the Lonshi mine, improved metal recoveries through the installation of two additional counter current decantation (CCD) tanks and the installation of the fourth rectifier at the new tank house. In addition to these capital projects, operational experience garnered over the past year should lead to further de-bottlenecking at the Bwana Mkubwa plant resulting in incremental operating efficiencies. During April, Bwana Mkubwa produced approximately 2,938 tonnes of copper cathode.

At Kansanshi, construction is well underway. Waste stripping and ore stockpiling should begin in the second quarter with first fill of reagents and "wet" circuit testing beginning in October. Commissioning will start during the fourth quarter during which fine-tuning and optimization of the mill, flotation, leach, filtration, solvent extraction, and electrowinning facilities, and build-up of in circuit inventory will take place. Improvements to the sulphide milling circuit resulting in name plate throughput of approximately 4 million tonnes per year will result in copper production outperforming the DFS forecasts in the early years of operation. In addition, studies are underway to consider bringing forward expansions scheduled in the DFS in years three and five with the aim of increasing copper output sooner.

At the newly discovered Lufua project in the DRC a resource calculation is expected to be completed during the second quarter. In-fill drilling to move the resource into the reserve category, metallurgical testing and preliminary feasibility work will be carried out in 2004.

A substantial exploration program is planned for DRC Pedicle region where First Quantum controls approximately 11,000 square kilometers of prospective geology. Drilling will take place on several copper soil anomalies including Lufua East, Nina,

Ndongo, Ndongo East and Lonshi South. Drilling will also take place in at the Mkushi prospect in Zambia and in Joint Venture with BHP Billiton at Mwinilunga and Luamata.

In Chile, a generative exploration program utilizing satellite imagery has yielded several potential targets. Follow up field work on colour alteration anomalies is in progress and a program to drill test these occurrences will be carried out in 2004.

## **7. Critical Accounting Policies**

The following section outlines those changes in accounting policies that have been occurred since the filing of the Company's 2003 Audit Financial Statements and the accompanying Management Discussion and Analysis. For a full understanding of the critical accounting policies of the company reference should be made to the aforementioned documents.

### Stock-Based Compensation

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA), set out in Section 3870 "Stock-based Compensation and other stock-based payments". Under the new standard on stock-based compensation the Company is required to expense the fair value of the options granted to the Income Statement at the date of issue. The previous policy only required disclosure of the fair value in the notes to the financial statements.

The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is amortized over their vesting periods. Cash consideration received from employees when they exercise the options is credited to share capital.

The adoption of this standard required retroactive adjustment to retained earnings without restatement. On Jan 1, 2004 the company decreased retained earnings by \$467,000 and increased contributed surplus and common shares by \$391,000 and \$76,000 respectively.

### Asset Retirement Obligations

Effective January 1, 2004, the Company adopted the recommendations of the CICA set out in Section 3110 "Asset Retirement Obligations". Under the new standard the company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset.

Upon adoption of these new recommendations the Company, increased its capital assets and environmental provisions by \$1.5 million and \$2.9 million respectively. It also decreased its future income tax liability, retained earnings and inventory balances by \$0.4 million, \$1.3 million and \$0.3 million respectively.

### Hedging Relationships

On Jan 1, 2004, the Company has adopted CICA Accounting Guideline 13, "Hedging Relationships" (AcG 13), the Company reviewed its existing hedge accounting treatment of certain derivative financial instruments in accordance with AcG 13 which establishes new criteria for hedge accounting.

Under the new guideline, the Company is required to document its hedging transactions and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. Derivative financial instruments that do not qualify for hedge accounting under AcG 13 are required to be marked-to-market with changes in the fair value of the derivative instruments recognized as unrealized gains or losses in the statement of operations.

During its review, the Company identified cross-currency swaps and interest rate swaps, which had previously been designated as hedges of fluctuation in currency rate movements. Although some of its other derivative financial instruments would qualify for hedge accounting, most would not qualify under the stringent guidelines of AcG 13, even though, in management's opinion, some of these contracts continue to be effective in mitigating the Company's exposure to interest rate and foreign currency fluctuations.

Having reviewed the current guidelines relating to hedge accounting, management is of the opinion that in order to provide more transparency and consistency in the manner in which hedging transactions are reported, the Company will instead mark-to market all of its derivative financial instruments.

The overall effect resulting from the application of AcG 13 was an increase to the Company's net profit after taxes for the quarter by \$0.1 million. For further information on the adoption of AcG 13 reference should be made to note 2 of the Financial Statements for the First Quarter ended March 31, 2004.

### Estimates, Risks and Uncertainties

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company's operations and results are subjected to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding mining and processing, mine development, copper prices, estimation of carrying values, government and environmental regulations, international operations, health, currency, inflation, key personnel, share market and capital requirements risks. For a full understanding of these risks and others, reference should be made to the Company's 'Annual Information Form'.

### Forward Looking Statements

Certain information contained in the Management's Discussion and Analysis constitutes "forward - looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, including but not limited to those with respect to the prices of gold, copper, cobalt and sulphuric acid, estimated future production, estimated costs of future production, the Company's hedging policy and permitting time lines, involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the actual prices of copper, gold, cobalt and sulphuric acid, the factual results of current exploration, development and mining activities, changes in project parameters as plans continue to be evaluated, as well as those factors disclosed in the Company's documents filed from time to time with the Alberta, British Columbia, Ontario and Quebec Securities Commission and the United States Securities and Exchange Commission and the Alternative Investment Market operated by the London Stock Exchange.

## 8. Summary of Quarterly Results

The following table sets out the financial performance, financial position and operation statistics for the Company for the last eight quarters. It should be noted that Q4 2002 is for 4 months due to the change in fiscal year end that occurred in 2002.

| Summary of Quarterly Results (unaudited) |            |            |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Table 10                                 |            |            |            |            |            |            |            |            |
| Statement of Operations and Deficit      | 2004<br>Q1 | 2003<br>Q4 | 2003<br>Q3 | 2003<br>Q2 | 2003<br>Q1 | 2002<br>Q4 | 2002<br>Q3 | 2002<br>Q2 |
| Total Revenues (\$ millions)             | \$25.5     | \$20.0     | \$17.8     | \$12.7     | \$10.3     | \$11.9     | \$6.3      | \$5.1      |
| Cost of Sales (\$ millions)              | 12.1       | 13.0       | 11.5       | 8.8        | 8.1        | 10.6       | 4.5        | 3.5        |
| Net Earnings (Loss) (\$ millions)        | 6.7        | 1.4        | 3.2        | 0.1        | (0.2)      | (1.0)      | (0.4)      | 2.1        |
| Basic Earnings per share                 | \$0.11     | \$0.02     | \$0.06     | \$0.00     | \$(0.00)   | \$(0.02)   | \$(0.01)   | \$0.05     |
| Diluted Earnings per share               | \$0.11     | \$0.02     | \$0.06     | \$0.00     | \$(0.00)   | \$(0.02)   | \$(0.01)   | \$0.05     |
| <b>Production Statistics</b>             |            |            |            |            |            |            |            |            |
| Ore Processed                            | 208,667    | 196,898    | 233,032    | 181,260    | 110,875    | 161,015    | 256,688    | 345,200    |
| Copper Grade %                           | 5.2        | 5.5        | 4.8        | 4.3        | 4.6        | 4.4        | 1.1        | 1.0        |
| Contained Copper (tonnes)                | 10,904     | 10,790     | 11,188     | 7,794      | 5,053      | 7,033      | 2,866      | 3,601      |
| Recovery %                               | 89         | 89         | 79         | 86         | 86         | 80         | 68         | 63         |
| Copper Produced (tonnes)                 | 9,689      | 9,558      | 8,862      | 6,734      | 4,359      | 5,595      | 1,945      | 2,258      |
| Acid Produced (tonnes)                   | 34,344     | 33,035     | 36,245     | 29,286     | 34,385     | 43,283     | 34,105     | 27,586     |
| Surplus Acid (tonnes)                    | 20,763     | 15,689     | 20,275     | 15,832     | 23,432     | 27,669     | 24,021     | 15,006     |
| <b>Financial Position (\$ millions)</b>  |            |            |            |            |            |            |            |            |
| Working Capital                          | \$40.2     | \$13.5     | \$9.6      | \$1.1      | \$0.8      | \$5.6      | \$(6.7)    | \$(7.4)    |
| Total Assets                             | 241.8      | 162.1      | 132.3      | 111.0      | 97.0       | 97.8       | 82.8       | 70.0       |