



**First Quantum Minerals Ltd.**  
**Consolidated Financial Statements**  
**Second Quarter – June 30, 2005**

(Unaudited)

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

**First Quantum Minerals Ltd.**  
Consolidated Balance Sheets  
As at June 30, 2005 and December 31, 2004

(unaudited)

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

|   | 2005<br>\$     | 2004<br>\$     |
|---|----------------|----------------|
| <b>Assets</b>                                     |                |                |
| <b>Current assets</b>                             |                |                |
| Cash and cash equivalents                         | 56,464         | 50,356         |
| Restricted cash (note 8)                          | 4,297          | 1,931          |
| Accounts receivable and prepaid expenses          | 41,613         | 21,927         |
| Inventory (note 4)                                | 50,779         | 31,674         |
|   | <u>153,153</u> | <u>105,888</u> |
| <b>Investments</b> (note 5)                       | 9,522          | 15,340         |
| <b>Exploration properties</b>                     | 444            | 444            |
| <b>Property, plant and equipment</b> (note 6)     | 367,225        | 319,222        |
| <b>Other assets and deferred charges</b> (note 7) | 31,589         | 32,167         |
|   | <u>561,933</u> | <u>473,061</u> |
| <b>Liabilities</b>                                |                |                |
| <b>Current liabilities</b>                        |                |                |
| Accounts payable and accrued liabilities          | 43,970         | 33,884         |
| Current taxes payable                             | 9,005          | 3,248          |
| Current portion of long-term debt (note 8)        | 40,319         | 22,865         |
| Current portion of other liabilities (note 10)    | 12,737         | 12,012         |
|   | <u>106,031</u> | <u>72,009</u>  |
| <b>Long-term debt</b> (note 8)                    | 183,462        | 191,661        |
| <b>Asset retirement obligations</b>               | 4,162          | 3,762          |
| <b>Future income tax liability</b> (note 9)       | 15,280         | 12,313         |
| <b>Other liabilities</b> (note 10)                | 33,770         | 33,286         |
|   | <u>342,705</u> | <u>313,031</u> |
| Minority interests                                | 5,505          | 2,190          |
|   | <u>348,210</u> | <u>315,221</u> |
| <b>Shareholders' Equity</b>                       |                |                |
| Equity accounts (note 11)                         | 164,434        | 161,776        |
| Retained earnings (deficit)                       | 49,289         | (3,936)        |
|   | <u>213,723</u> | <u>157,840</u> |
|   | <u>561,933</u> | <u>473,061</u> |
| <b>Commitments</b> (note 14)                      |                |                |

**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 and six months ended June 30, 2005 and 2004

(unaudited)

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

|   | Three months ended     |                        | Six months ended       |                        |
|---|------------------------|------------------------|------------------------|------------------------|
|   | June 30,<br>2005<br>\$ | June 30,<br>2004<br>\$ | June 30,<br>2005<br>\$ | June 30,<br>2004<br>\$ |
| <b>Revenues</b>   |                        |                        |                        |                        |
| Copper  | 83,373                 | 23,398                 | 121,545                | 45,480                 |
| Acid  | 2,557                  | 2,927                  | 2,567                  | 6,097                  |
| Gold  | 585                    | -                      | 585                    | -                      |
|   | <u>86,515</u>          | <u>26,325</u>          | <u>124,697</u>         | <u>51,577</u>          |
| <b>Costs and expenses</b>   |                        |                        |                        |                        |
| Cost of sales   | 35,070                 | 13,079                 | 51,236                 | 25,170                 |
| Depletion and amortization  | 6,940                  | 3,046                  | 10,845                 | 5,378                  |
| Exploration   | 1,140                  | 589                    | 2,152                  | 966                    |
| Foreign exchange (gain) loss  | (4,231)                | 1,403                  | (5,048)                | 1,532                  |
| General and administrative  | 2,173                  | 1,480                  | 4,279                  | 2,625                  |
| Interest and financing fees on long-term debt                               | 3,383                  | 927                    | 4,233                  | 1,514                  |
| Other   | 2,490                  | (780)                  | 2,663                  | (1,036)                |
| Gain on disposal of investment  | -                      | -                      | (16,127)               | -                      |
|   | <u>46,965</u>          | <u>19,744</u>          | <u>54,233</u>          | <u>36,149</u>          |
| <b>Earnings before income taxes, minority interests and equity earnings</b> | 39,550                 | 6,581                  | 70,464                 | 15,428                 |
| <b>Income taxes</b> (note 9)  | 7,186                  | 2,638                  | 10,924                 | 5,252                  |
| <b>Minority interests</b>   | 3,315                  | -                      | 3,315                  | -                      |
| <b>Equity earnings</b>  | -                      | 170                    | -                      | 604                    |
| <b>Net earnings for the period</b>  | <u>29,049</u>          | <u>4,113</u>           | <u>56,225</u>          | <u>10,780</u>          |
| <b>Retained earnings (deficit) - Beginning of period</b>                    | 20,240                 | (25,279)               | (3,936)                | (31,946)               |
| <b>Dividends</b>  | -                      | -                      | (3,000)                | -                      |
| <b>Retained earnings (deficit) - End of period</b>                          | <u>49,289</u>          | <u>(21,166)</u>        | <u>49,289</u>          | <u>(21,166)</u>        |
| <b>Earnings per common share</b>  |                        |                        |                        |                        |
| Basic   | \$0.47                 | \$0.07                 | \$0.92                 | \$0.18                 |
| Diluted   | \$0.46                 | \$0.07                 | \$0.90                 | \$0.18                 |
| Weighted average number of shares outstanding (000's)                       | 61,499                 | 60,300                 | 61,384                 | 59,434                 |

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

# First Quantum Minerals Ltd.

## Consolidated Statements of Cash Flows

### For the three and six months ended June 30, 2005 and 2004

(unaudited)

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

|   | Three months ended |                  | Six months ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 30,<br>2005   | June 30,<br>2004 | June 30,<br>2005 | June 30,<br>2004 |
|   | \$                 | \$               | \$               | \$               |
| <b>Cash flows from operating activities</b>                     |                    |                  |                  |                  |
| Net earnings for the period                                     | 29,049             | 4,113            | 56,225           | 10,780           |
| Items not affecting cash  |                    |                  |                  |                  |
| Depletion and amortization                                      | 6,940              | 3,046            | 10,845           | 5,378            |
| Minority interest   | 3,315              | -                | 3,315            | -                |
| Provision for deferred stripping                                | 481                | -                | 4,384            | -                |
| Unrealized foreign exchange (gain) loss                         | (4,296)            | 1,331            | (4,859)          | 1,721            |
| Future income tax expense                                       | 3,150              | 2,638            | 2,967            | 5,252            |
| Stock-based compensation expense                                | 716                | 281              | 1,369            | 467              |
| Unrealized derivative instruments (gain) loss                   | 3,189              | -                | 3,626            | -                |
| Other   | 449                | 171              | 852              | 517              |
| Gain on disposal of investment                                  | -                  | -                | (16,127)         | -                |
|   | <u>42,993</u>      | <u>11,410</u>    | <u>62,597</u>    | <u>23,511</u>    |
| <b>Change in non-cash operating working capital</b>             |                    |                  |                  |                  |
| Decrease (increase) in accounts receivable and prepaid expenses | (26,528)           | (64)             | (17,938)         | (2,835)          |
| (Increase) decrease in inventory                                | (11,150)           | 482              | (18,880)         | 837              |
| Increase (decrease) in accounts payable and accrued liabilities | (3,021)            | (1,050)          | (691)            | (4,109)          |
|   | <u>2,294</u>       | <u>10,778</u>    | <u>25,088</u>    | <u>17,404</u>    |
| <b>Cash flows from financing activities</b>                     |                    |                  |                  |                  |
| Movement in restricted cash                                     | (2,542)            | (3,868)          | (2,365)          | (3,868)          |
| Proceeds from long-term debt                                    | -                  | 23,496           | 31,523           | 41,372           |
| Repayments of principal on long-term debt                       | (10,126)           | (2,524)          | (15,434)         | (5,026)          |
| Proceeds from issue of common shares and warrants               | 439                | 232              | 1,288            | 43,557           |
| Payments of dividends   | (3,000)            | -                | (3,000)          | -                |
| Payments for deferred premium obligation and finance fees       | (7,582)            | (879)            | (9,982)          | (2,209)          |
|   | <u>(22,811)</u>    | <u>16,457</u>    | <u>2,030</u>     | <u>73,826</u>    |
| <b>Cash flows from investing activities</b>                     |                    |                  |                  |                  |
| Net payments to acquire capital assets and investments          | (1,256)            | (45,397)         | (39,987)         | (80,346)         |
| Payments for deferred exploration and stripping costs           | (1,026)            | (2,305)          | (3,130)          | (3,469)          |
| Proceeds on disposal of investment                              | -                  | -                | 21,944           | -                |
|   | <u>(2,282)</u>     | <u>(47,702)</u>  | <u>(21,173)</u>  | <u>(83,815)</u>  |
| <b>Effect of exchange rate changes on cash</b>                  | 274                | (1,079)          | 163              | (1,573)          |
| <b>Increase (decrease) in cash and cash equivalents</b>         | (22,799)           | (20,467)         | 5,945            | 7,415            |
| <b>Cash and cash equivalents - beginning of period</b>          | 78,989             | 52,980           | 50,356           | 25,592           |
| <b>Cash and cash equivalents - end of period</b>                | <u>56,464</u>      | <u>31,434</u>    | <u>56,464</u>    | <u>31,434</u>    |

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three and six months ended June 30, 2005 and 2004

(unaudited)

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

#### 1. Nature of operations

First Quantum Minerals Ltd. ("FQM" or the "Company") is engaged in the production of copper, gold and acid and related activities including exploration, development and processing. These activities are conducted principally in Zambia, the Democratic Republic of Congo (DRC), and Mauritania.

#### 2. 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. 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 3.

#### 3. Change in accounting policy

Effective January 1, 2005, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) set out in Accounting Guideline 15, Consolidation of Variable Interest Entities (AcG-15). This guideline requires the consolidation of certain entities that are subject to control on a basis other than the ownership of voting interests. There was no impact on either Earnings or the Consolidated Balance Sheet from applying this guideline.

#### 4. Inventory

|                           | June 30,<br>2005<br>\$ | December 31,<br>2004<br>\$ |
|---------------------------|------------------------|----------------------------|
| Ore in stockpiles         | 22,296                 | 11,584                     |
| Work-in-progress          | 2,183                  | 1,283                      |
| Copper and concentrates   | 7,555                  | 243                        |
| Total product inventory   | 32,034                 | 13,110                     |
| Consumable stores         | 19,859                 | 19,678                     |
| Total inventory           | 51,893                 | 32,788                     |
| Less: Non-current portion | (1,114)                | (1,114)                    |
|                           | 50,779                 | 31,674                     |

#### 5. Investments

|                              | June 30,<br>2005<br>\$ | December 31,<br>2004<br>\$ |
|------------------------------|------------------------|----------------------------|
| Carlisa Investment Corp. (a) | 9,522                  | 9,522                      |
| Anvil Mining NL (b)          | -                      | 5,818                      |
|                              | 9,522                  | 15,340                     |

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

b) On February 28, 2005, the company disposed of all of its common shares in Anvil for net proceeds of \$21,944 or CA\$6.75 per share based on 4,029,617 shares resulting in a gain of \$16,127.

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three and six months ended June 30, 2005 and 2004

(unaudited)

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

#### 6. Property, plant and equipment

|                     | June 30, 2005 |                                   |           |
|---------------------|---------------|-----------------------------------|-----------|
|                     | Cost<br>\$    | Accumulated<br>amortization<br>\$ | Net<br>\$ |
| Land and Buildings  | 9,186         | 3,378                             | 5,808     |
| Mineral Property    | 50,843        | 18,835                            | 32,008    |
| Plant and Equipment | 350,870       | 60,670                            | 290,200   |
| Work-in-progress    | 39,209        | -                                 | 39,209    |
|                     | 450,108       | 82,883                            | 367,225   |

|                     | December 31, 2004 |                                   |           |
|---------------------|-------------------|-----------------------------------|-----------|
|                     | Cost<br>\$        | Accumulated<br>amortization<br>\$ | Net<br>\$ |
| Land and Buildings  | 7,234             | 2,742                             | 4,492     |
| Mineral Property    | 47,980            | 17,147                            | 30,833    |
| Plant and Equipment | 137,448           | 47,575                            | 89,873    |
| Work-in-progress    | 194,024           | -                                 | 194,024   |
|                     | 386,686           | 67,464                            | 319,222   |

#### 7. Other assets and deferred charges

|  | June 30,<br>2005<br>\$ | December 31,<br>2004<br>\$ |
|--|------------------------|----------------------------|
| Prepaid Power                                  | 10,643                 | 11,853                     |
| Deferred finance fees - net of amortization    | 13,242                 | 7,549                      |
| Deferred stripping asset                       | 3,810                  | 1,948                      |
| Fair value of derivative instruments (note 13) | 2,896                  | 9,988                      |
| Other  | 2,116                  | 2,116                      |
| Less: Current portion                          | (1,118)                | (1,287)                    |
|  | 31,589                 | 32,167                     |

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three and six months ended June 30, 2005 and 2004

(unaudited)

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

#### 8. Long-term debt

|   | June 30,<br>2005 | December 31,<br>2004 |
|---|------------------|----------------------|
|   | \$               | \$                   |
| <b>Drawn debt facilities</b>                                |                  |                      |
| SCB facility (a)  | 16,259           | 27,692               |
| Bwana EIB facility (b)                                      | 11,259           | 12,731               |
| Banque Belgolaise facility (c)                              | 5,000            | 9,000                |
| Standard Bank Group and WestLB (d)                          | 120,000          | 97,000               |
| Kansanshi EIB facility (e)                                  | 41,013           | 46,376               |
| Banque Belgolaise and Export Development Bank of Canada (f) | 30,000           | 21,477               |
| Other   | 250              | 250                  |
| <b>Total long-term debt</b>                                 | <b>223,781</b>   | <b>214,526</b>       |
| Less: Current portion                                       | (40,319)         | (22,865)             |
|   | <b>183,462</b>   | <b>191,661</b>       |
| <b>Available for drawdown</b>                               |                  |                      |
| Glencore International AG (g)                               | 25,000           | 25,000               |

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

In 2003, Bwana entered into a long-term debt facility with SCB of \$30,000 to re-finance an existing facility, and provide additional funding for capital projects and general working capital purposes. This facility is repayable in 13 equal quarterly instalments which commenced in October 2004 and bears interest at a rate of LIBOR plus 2.5%. A sinking fund has been established to meet the quarterly instalments and is recorded as restricted cash.

The company has pledged as security the assets and undertakings of Bwana.

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

In 2002, Bwana entered into a long-term debt facility with EIB for 14,000 Euros for additional project financing on the expansion of Bwana. This facility is repayable in six equal annual instalments which commenced July 2003 and bears interest at between 3% and 12.5%, based on the average realized cash copper price for the preceding financial year. The interest rate is at its lower limit at a realized copper price of less than \$1,400 per tonne and then increases incrementally until it reaches its \$2,400 per tonne upper limit.

The company has pledged as security the assets and undertaking 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.

Subsequent to June 30, 2005, the Company repaid this facility from the proceeds of a bridge facility with Standard Chartered Bank (note 15).

##### c. Banque Belgolaise facility

In 2003, the company entered into a long-term debt facility with Banque Belgolaise for \$6,000 to assist with financing the Comisa mining fleet. This facility was extended to \$10,000 to provide additional financing for Comisa's larger mining fleet. The facility was repayable in 10 quarterly instalments which commenced in December 2004 and bears interest at LIBOR plus 3%. A sinking fund has been established to meet these quarterly instalments and is recorded as restricted cash. On March 15, 2005, the facility was reduced to \$6,000 as a result of the Anvil disposition (note 5). The facility is now repayable in 6 quarterly instalments of \$1,000.

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

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three and six months ended June 30, 2005 and 2004

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(unaudited)

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

#### **d. Standard Bank Group and WestLB**

In 2003, Kansanshi entered into a secured \$120,000 senior debt 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 eleven semi-annual instalments commencing on January 31, 2006; Tranche B is repayable in 22 quarterly payments commencing on October 31, 2005. 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.

The company has pledged as security the assets and undertakings of Kansanshi, a mortgage over the shares of Kansanshi Holdings Limited and a guarantee of repayment by FQM.

#### **e. Kansanshi European Investment Bank (EIB) Facility**

In 2003, Kansanshi entered into a subordinated debt facility agreement with EIB, for 34 million Euros, 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, with a range of 3.2% to 13.2%, based on the average LME cash copper price for the preceding calendar year. The interest rate is at its lower limit at a realized copper price of less than \$1,300 per tonne and then increases incrementally until it reaches its \$2,200 per tonne upper limit.

As this facility is in Euros, the company has entered into cross-currency principal and interest rate swaps.

#### **f. Banque Belgoise and Export Development Bank of Canada**

In 2004, the company entered into a \$30,000 facility with Banque Belgoise and Export Development Bank of Canada.

This facility comprises two tranches repayable in 12 quarterly instalments commencing on July 31, 2005. Tranche A is for \$25,000 and bears interest at LIBOR plus 3% during the availability period and LIBOR plus 2.5% thereafter. Tranche B is for \$5,000 and 90% of this tranche bears interest at LIBOR plus 1%, while the remainder bears interest the same as tranche A. The availability period ended on March 31, 2005.

The company has pledged as security the assets and undertakings of FQM Zambia Ltd which includes the Kansanshi mining fleet.

#### **Undrawn debt facilities**

#### **g. Glencore International AG**

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

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three and six months ended June 30, 2005 and 2004

(unaudited)

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

#### 9. Future income tax liability

|                           | June 30,<br>2005<br>\$ | December 31,<br>2004<br>\$ |
|---------------------------|------------------------|----------------------------|
| Opening balances          | 12,313                 | 4,589                      |
| Future income tax expense | 2,967                  | 7,724                      |
| Closing balance           | 15,280                 | 12,313                     |

|                                      | Three months ended     |                        | Six months ended       |                        |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                      | June 30,<br>2005<br>\$ | June 30,<br>2004<br>\$ | June 30,<br>2005<br>\$ | June 30,<br>2004<br>\$ |
| Income tax expense consists of:      |                        |                        |                        |                        |
| Future income tax (recovery) expense | 3,150                  | 2,638                  | 2,967                  | 5,252                  |
| Current income tax expense           | 4,036                  | -                      | 7,957                  | -                      |
|                                      | 7,186                  | 2,638                  | 10,924                 | 5,252                  |

#### 10. Other liabilities

|   | June 30,<br>2005<br>\$ | December 31,<br>2004<br>\$ |
|---|------------------------|----------------------------|
| Unrealized fair value of derivative liability (note 13) | 10,545                 | 10,945                     |
| Deferred premium obligation (note 13)                   | 16,953                 | 19,231                     |
| Zesco Limited (a)                                       | 3,651                  | 3,579                      |
| ZCCM deferred payment (b)                               | 3,333                  | 3,333                      |
| Guelb Moghrein deferred payment (c)                     | 7,605                  | 7,370                      |
| Deferred stripping liability                            | 3,114                  | -                          |
| Other   | 1,306                  | 840                        |
|   | 46,507                 | 45,298                     |
| Less: Current Portion                                   | (12,737)               | (12,012)                   |
|   | 33,770                 | 33,286                     |

##### a. Zesco Limited

The company has entered into an agreement with Zesco Limited (Zesco) whereby Zesco will provide the Kansanshi mine with power for 10 years from the first day of commercial operations. The company agreed to pay a connection fee of \$10,000, of which \$6,000 was paid during 2004 with the balance of \$4,000 to be paid in equal semi-annual payments beginning in the fourth quarter of 2004. Interest is calculated on the outstanding balance at a fixed rate of 6% per annum.

##### b. ZCCM deferred payment

Consistent with the Kansanshi development agreement, the company agreed to pay \$3,333 to Zambian Consolidated Copper Mines (ZCCM). This balance is classified as current.

##### c. Guelb Moghrein deferred payment

The company agreed to pay a total of \$10,000 to acquire the rights to the 80% interest in Guelb Moghrein copper project. The first payment of \$2,000 was made in December 2004, with subsequent payments of \$3,000 due 12 months after the first payment date and \$5,000 due on the earlier of 24 months from the first payment date or upon commercial production. The discounted value of the deferred payments at June 30, 2005 is \$7,605.

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three and six months ended June 30, 2005 and 2004

(unaudited)

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

#### 11. Equity accounts

|   | June 30,<br>2005<br>\$ | December 31,<br>2004<br>\$ |
|---|------------------------|----------------------------|
| Common shares                             | 160,064                | 158,538                    |
| Contributed surplus                       | 4,370                  | 3,238                      |
|   | 164,434                | 161,776                    |
| Number of shares issued and outstanding   | 61,538                 | 61,239                     |
| Weighted average number of shares (000's) | 61,384                 | 60,123                     |

#### 12. 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 / Lonshi Operation (BLO)**

The Bwana plant and the Lonshi mine are owned by separate legal entities but from a management perspective are viewed as an integrated operation, with the Bwana plant, located in Zambia, processing the ore mined at Lonshi, which is located in the Democratic Republic of Congo. The BLO produces grade 'A' copper cathode and operates three acid plants which manufacture sulphuric acid. Two of these plants are located at Bwana, while the third plant is located at the KCO site.

##### **Kansanshi Copper / Gold Operation (KCO)**

The Kansanshi operation is located in the northwest province of Zambia, approximately 15 kilometres north of Solwezi. The project reached commercial production in April 2005 and has begun to produce grade A copper cathodes and copper in concentrate with a gold credit.

##### **Guelb Moghrein Project (GMP)**

The Guelb Moghrein project is located near Akjoujt in Mauritania. Project construction commenced in early 2005 and commercial production is expected to commence in 2006.

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

The corporate development and administration segment is responsible for the evaluation and acquisition of the 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, the Frontier project which is in the drilling and assessment phase, and the investment in Carlisa which holds a 90% interest in Mopani Copper Mines Ltd.

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three and six months ended June 30, 2005 and 2004

(unaudited)

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

For the six months ended **June 30, 2005**, segmented information is presented as follows:

|   | <b>BLO</b> | <b>KCO</b> | <b>GMP</b> | <b>CDA</b> | <b>Inter-</b>  | <b>Total</b> |
|---|------------|------------|------------|------------|----------------|--------------|
|   | <b>\$</b>  | <b>\$</b>  | <b>\$</b>  | <b>\$</b>  | <b>segment</b> | <b>\$</b>    |
|   |            |            |            |            | <b>\$</b>      |              |
| Revenues  | 83,282     | 45,063     | -          | 3,875      | (7,523)        | 124,697      |
| Segment profit (loss)                           | 28,660     | 16,709     | -          | 10,856     | -              | 56,225       |
| Property, plant and equipment additions         | 9,523      | 43,112     | 11,771     | 12         | -              | 64,418       |
| Total assets                                    | 192,566    | 373,949    | 22,213     | 212,127    | -              | 800,855      |
| Inter-company balances included in total assets | (83,886)   | -          | -          | (155,036)  | -              | (238,922)    |
| Total consolidated assets                       | 108,680    | 373,949    | 22,213     | 57,091     | -              | 561,933      |

For the six months ended **June 30, 2004**, segmented information is presented as follows:

|   | <b>BLO</b> | <b>KCO</b> | <b>GMP</b> | <b>CDA</b> | <b>Inter-</b>  | <b>Total</b> |
|---|------------|------------|------------|------------|----------------|--------------|
|   | <b>\$</b>  | <b>\$</b>  | <b>\$</b>  | <b>\$</b>  | <b>segment</b> | <b>\$</b>    |
|   |            |            |            |            | <b>\$</b>      |              |
| Revenues  | 51,805     | -          | -          | 2,010      | (2,238)        | 51,577       |
| Segment profit (loss)                           | 14,506     | -          | -          | (3,726)    | -              | 10,780       |
| Property, plant and equipment additions         | 11,945     | 70,077     | -          | 7,646      | -              | 89,668       |
| Total assets                                    | 92,837     | 139,209    | -          | 44,381     | -              | 276,427      |
| Inter-company balances included in total assets | 30,743     | -          | -          | 131,377    | -              | 162,120      |
| Total consolidated assets                       | 123,580    | 139,209    | -          | 175,758    | -              | 438,547      |

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three and six months ended June 30, 2005 and 2004

(unaudited)

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

For the three months ended **June 30, 2005**, segmented information is presented as follows:

|   | <b>BLO</b> | <b>KCO</b> | <b>GMP</b> | <b>CDA</b> | <b>Inter-<br/>segment</b> | <b>Total</b> |
|---|------------|------------|------------|------------|---------------------------|--------------|
|   | <b>\$</b>  | <b>\$</b>  | <b>\$</b>  | <b>\$</b>  | <b>\$</b>                 | <b>\$</b>    |
| External revenues                               | 44,423     | 45,063     | -          | 2,212      | (5,183)                   | 86,515       |
| Segment profit (loss)                           | 15,170     | 16,709     | -          | (2,830)    | -                         | 29,049       |
| Property, plant and equipment additions         | 6,874      | 18,449     | 8,282      | 5          | -                         | 33,610       |
| Total assets                                    | 192,566    | 373,949    | 22,213     | 212,127    | -                         | 800,855      |
| Inter-company balances included in total assets | (83,886)   | -          | -          | (155,036)  | -                         | (238,922)    |
| Total consolidated assets                       | 108,680    | 373,949    | 22,213     | 57,091     | -                         | 561,933      |

For the three months ended **June 30, 2004**, segmented information is presented as follows:

|   | <b>BLO</b> | <b>KCO</b> | <b>GMP</b> | <b>CDA</b> | <b>Inter-<br/>segment</b> | <b>Total</b> |
|---|------------|------------|------------|------------|---------------------------|--------------|
|   | <b>\$</b>  | <b>\$</b>  | <b>\$</b>  | <b>\$</b>  | <b>\$</b>                 | <b>\$</b>    |
| External revenues                               | 26,554     | -          | -          | 1,331      | (1,560)                   | 26,325       |
| Segment profit (loss)                           | 6,773      | -          | -          | (2,660)    | -                         | 4,113        |
| Property, Plant and equipment additions         | 7,721      | 35,380     | -          | 5,333      | -                         | 48,434       |
| Total assets                                    | 92,837     | 139,209    | -          | 44,381     | -                         | 276,427      |
| Inter-company balances included in total assets | 30,743     | -          | -          | 131,377    | -                         | 162,120      |
| Total consolidated assets                       | 123,580    | 139,209    | -          | 175,758    | -                         | 438,547      |

# First Quantum Minerals Ltd.

## Notes to Consolidated Financial Statements

### For the three and six months ended June 30, 2005 and 2004

(unaudited)

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

### 13. Financial Instruments

#### Derivative instruments

The company uses derivative instruments to mitigate the effect of certain risks that are inherent in its business and from time to time to address the requirements of its lending institutions.

As at June 30, 2005, the company had entered into a number of derivative instruments to minimize the risk exposure to copper and gold prices, foreign currency, and interest rate protection contracts.

For copper and gold forward, put and call option contracts, fair values were calculated using spot and forward prices and volatilities. For interest rate protection contracts, fair values were determined using market interest rates. For foreign currency protection contracts, fair values were determined using the exchange rate at period end. All changes in fair value of derivatives related to Kansanshi were capitalized as pre-commercial production costs up to April 19, 2005. Any changes in fair value subsequent to April 19, 2005 have been recorded as other expenses.

The fair values of these contracts at June 30, 2005 are as follows:

| <b>Estimated Fair Value:</b>                     | <b>June 30, 2005</b> | <b>December 31, 2004</b> |
|--|----------------------|--------------------------|
|  | \$                   | \$                       |
| <b>Asset (Liability)</b>                         |                      |                          |
| Copper put options (i)                           | 1,809                | 2,046                    |
| Copper call options (ii)                         | (1,397)              | -                        |
| Gold put options and forward contracts (iii)     | (8,839)              | (10,285)                 |
| Cross currency principal and interest swaps (iv) | 774                  | 7,282                    |
|  | <b>(7,653)</b>       | <b>(957)</b>             |

- i. In 2004, the Company entered into copper put option contracts on 210,240 tonnes of its expected copper production at Kansanshi beginning in 2005 and ending in 2007 at a price of \$1,800 (\$0.82lb) per tonne. Upon entering into these contracts, the company assumed a premium obligation of \$21,024, which becomes due and payable between January 2005 and December 2007. As at June 30, 2005, 182,424 copper put options were outstanding with a premium obligation of \$16,953.
- ii. In 2005, the Company entered into copper call option contracts on 13,908 tonnes of its expected copper production at Kansanshi beginning in July 2005 and ending in September 2005 at an average price \$3,368 per tonne (\$1.53lb) at 4,636 tonnes per month. The Company will receive an option premium amount of \$100 per tonne (\$0.046lb) as the call options mature each month.
- iii. In 2004, the Company has entered into put option contracts on 139,296 ounces at a forward price of \$350 per ounce for part of its gold production at Kansanshi beginning in 2005 and ending in 2009. To cover the cost of these put option contracts, the company has also entered into contingent gold forward contracts on 139,926 ounces of gold with a strike price of \$400 for part of its gold production at Kansanshi beginning in 2005 and ending in 2009. As at June 30, 2005, 7,422 contracts had expired unexercised leaving 131,874 put options and forward contracts outstanding.

As at June 30, 2005, the increase in gold prices has meant that the fair value of the put options had decreased to \$309 (December 2004: \$660) (note 7) and the liability associated with the forward contracts has decreased to \$9,148 (December 2004: \$10,945) (note 10).

- iv. The company has entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on the Bwana and Kansanshi EIB facilities.

# **First Quantum Minerals Ltd.**

Notes to Consolidated Financial Statements

**For the three and six months ended June 30, 2005 and 2004**

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(unaudited)

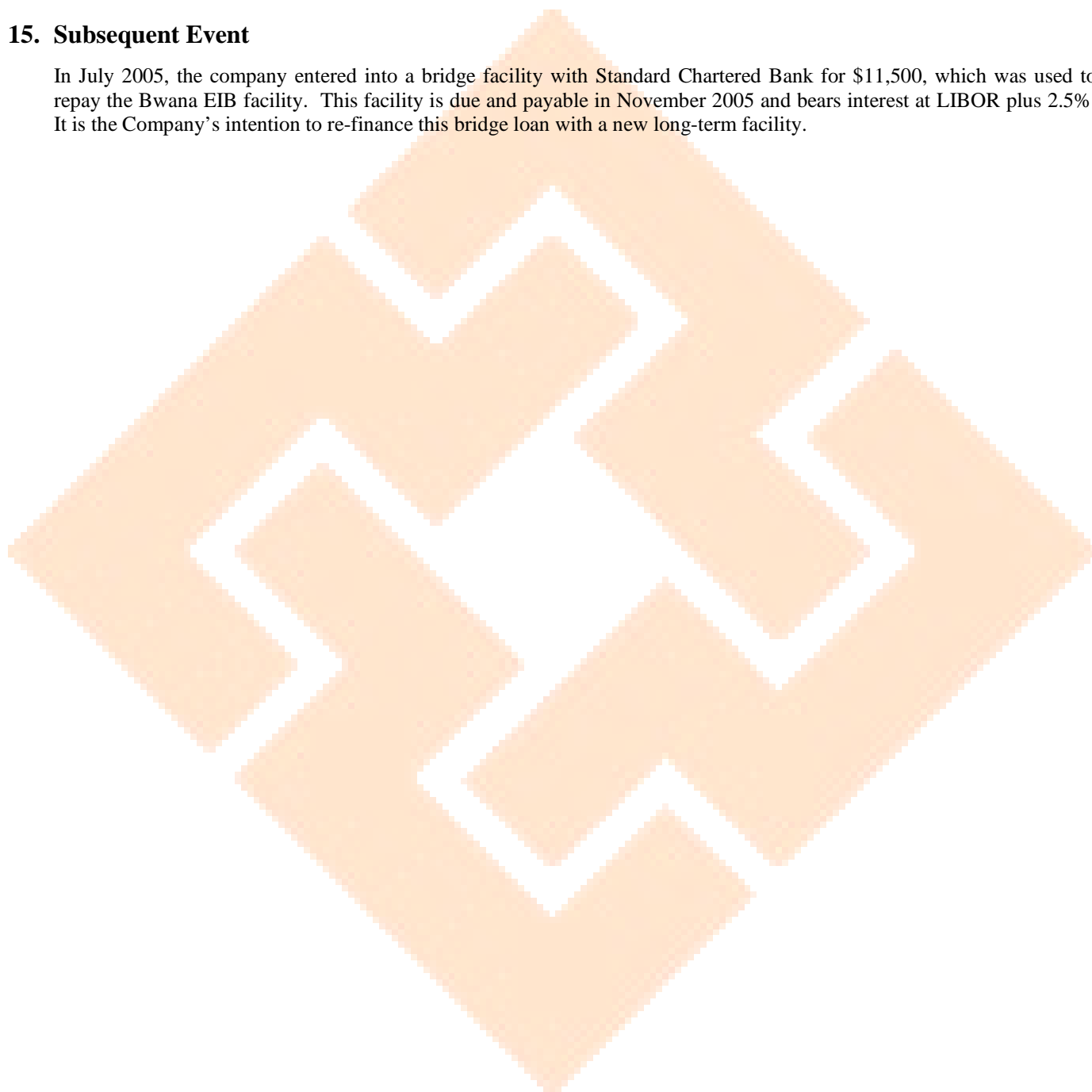
(expressed in thousands of U.S. dollars, except where indicated)

## **14. Commitments**

In conjunction with the development of Guelb Moghrein and other projects, the company has committed to approximately \$46,000 in capital expenditures as at June 30, 2005.

## **15. Subsequent Event**

In July 2005, the company entered into a bridge facility with Standard Chartered Bank for \$11,500, which was used to repay the Bwana EIB facility. This facility is due and payable in November 2005 and bears interest at LIBOR plus 2.5%. It is the Company's intention to re-finance this bridge loan with a new long-term facility.





# FIRST QUANTUM MINERALS LTD.

## Second Quarter and Six Months ended June 30, 2005

(expressed in US Dollars)

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### FIRST QUANTUM MINERALS REPORTS SECOND QUARTER NET EARNINGS OF \$29.0 MILLION, UP FROM \$4.1 MILLION A YEAR AGO.

#### **Management Discussion and Analysis and Financial Review** (August 9, 2005)

##### **Summary of Financial and Operational Results**

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

1. Quarter At A Glance
2. Company Overview
3. 2005 Second Quarter Discussion
4. 2005 Half Year Discussion
5. Discussion of Financial Position and Liquidity
6. Other Matters
7. Outlook
8. Critical Accounting Policies and Definitions
9. Selected Annual Information and 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). Information is also available at the company's website [www.first-quantum.com](http://www.first-quantum.com).

## 1. Quarter At A Glance

- Commercial production at Kansanshi was achieved on April 19, 2005
- Total copper production was 29,909 tonnes
- Net earnings of \$29.0 million or \$0.47 per share
- Operating cash flow before working capital movements was \$43.0 million or \$0.70 per share
- Interim dividend declared in August of CA\$0.02 per share
- Group cash costs (C1) were \$0.60 per pound and total costs (C3) per pound were \$0.80

## 2. Company Overview

First Quantum Minerals is a growing mining company whose principal activities include mineral exploration, development, mining, and the production of LME grade “A” copper cathode, copper in concentrate, gold and sulphuric acid.

The discussion and analysis contained in this MD&A follows the reporting segments as described in the Company latest Quarterly Financial Statements. For the purposes of this discussion, Bwana / Lonshi includes the open pit mine at Lonshi located in the Democratic Republic of Congo (DRC) and the Bwana processing plant located in Zambia. The Bwana / Lonshi operation produces grade “A” copper cathode and also includes three acid plants that manufacture sulphuric acid, two of these plants are located at Bwana while the other plant is located at the Kansanshi site near Solwezi, in Zambia.

The Kansanshi operation is located near Solwezi, in Zambia and produces grade “A” copper cathode and copper in concentrate. The concentrate produced also includes a gold credit. The Kansanshi operation consumes acid from Bwana / Lonshi operation’s Solwezi Acid Plant located on the same site as Kansanshi.

## 3. 2005 Second Quarter Discussion

### Earnings and Operations

#### Consolidated Revenue

Second quarter revenues were \$86.5 million, which included copper revenues of \$83.3 million, acid revenues of \$2.6 million and gold revenues of \$0.6 million. Copper revenues increased due to improvements in both the realized copper price and a 212% increase in copper production with the start of commercial production at Kansanshi.

Copper revenues at Bwana / Lonshi were \$38.9 million for the quarter. Copper revenues at Kansanshi were \$44.4 million comprised of \$30.3 million for copper cathode and \$14.1 million for copper in concentrate. Kansanshi revenue figures only include revenues from the commencement of commercial production (April 19, 2005).

The realized copper price per the statement of earnings and deficit was \$1.42 per pound for the quarter, which represents a significant increase from last year due to the rising market price for copper and the Company’s unhedged copper position. The realized copper price is calculated after deductions for treatment and refining charges (TC/RCS) and freight parity. The unadjusted copper price for the quarter was \$1.53 per pound compared with an average LME cash price of \$1.54 per pound.

Certain copper sales agreements entered into by the Company call for “provisional pricing” based on the average applicable copper price for a specified future monthly period. Any increase or decrease in copper price could therefore

| Consolidated Q2 Revenues               |             |               |               |
|--|-------------|---------------|---------------|
| Table 1                                |             |               |               |
|  | 2005        | 2004          | 2003          |
| <b>Revenues (millions)</b>             |             |               |               |
| Copper                                 | \$83.3      | \$23.4        | \$10.3        |
| Gold                                   | 0.6         | -             | -             |
| Acid                                   | 2.6         | 2.9           | 2.4           |
| <b>Total Revenue</b>                   | <b>86.5</b> | <b>\$26.3</b> | <b>\$12.7</b> |
| Realized Copper Price (per lb)         | \$1.42      | 1.11          | \$0.70        |
| <b>Sales Statistics <sup>(1)</sup></b> |             |               |               |
| Copper (tonnes)                        | 26,535      | 9,553         | 6,721         |
| Gold (ounces)                          | 1,370       | -             | -             |
| Acid (tonnes)                          | 14,939      | 19,149        | 15,832        |
| Unadjusted Copper Price (per lb)       | \$1.53      | \$1.14        | \$0.73        |
| Average LME Copper Price (per lb)      | \$1.54      | \$1.26        | \$0.74        |

(1) Copper sales and production volumes refer to contained copper in either concentrate or cathode.

result in the copper revenues for the Quarter being adjusted to reflect the change in the actual future copper price. Included within copper revenue for the quarter was 20,500 tonnes of copper that has been provisionally priced at an average of \$1.55 per pound. The average LME cash price for the month of July was \$1.64.

### Consolidated Cost of Sales

| <b>Consolidated Q2 Cost of Sales</b>  |             |             |             |
|---|-------------|-------------|-------------|
| <b>Table 2</b>  |             |             |             |
|   | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Costs of Production</b>  |             |             |             |
| Cost of Sales (millions)  | \$35.0      | \$13.1      | \$8.8       |
| Cost of Sales % <sup>(1)</sup>  | 40%         | 50%         | 69%         |
| C1 Costs (per lb) <sup>(2)</sup>  | \$0.60      | \$0.48      | \$0.44      |
| C3 Costs (per lb) <sup>(2)</sup>  | \$0.80      | \$0.67      | \$0.69      |
| <b>Production Statistics</b>  |             |             |             |
| Copper Produced (tonnes)  | 29,909      | 9,585       | 6,734       |
| Gold Produced (ounces)  | 1,370       | -           | -           |
| Acid Produced (tonnes)  | 69,218      | 34,265      | 29,286      |
| <sup>(1)</sup> Calculated as a percentage of total revenue  |             |             |             |
| <sup>(2)</sup> For the definition of cash (C1) and total costs (C3), reference should be made to section 8. |             |             |             |

Cost of sales as a percentage of revenue decreased to 40% in the second quarter of 2005. Although unit costs have risen from 2004, the cost of sales have decreased as a percentage of revenue which is explained by rising copper prices and the company selling copper concentrate for the first time in the second quarter.

As the TC/RC's are recognized as a revenue deduction, they are not included within the cost of sales. Notwithstanding, in calculating the group cash costs, which represent the cost of production, the TC/RC

costs are added to the cash and total costs to approximate the cost of producing finished copper.

### Bwana / Lonshi

#### Mining

During the second quarter, approximately 319,000 tonnes of ore and approximately 4,025,000 tonnes of waste were mined from Lonshi. The strip ratio for the quarter was 13:1, which was greater than the revised life of mine strip ratio of 12:1. With the end of the wet season, mining rates and costs improved as a majority of the material mined came from the two southern cutbacks, which will continue to provide the ore production in the third quarter. Waste stripping also commenced in the North cutback.

At quarter end, the current mine plan at Lonshi was under review and a new mine plan is expected during the third quarter. It is expected that this new mine plan will result in an increased strip ratio at Lonshi. In addition, the mining fleet at Lonshi continues to grow to cope with the ore demands from Bwana, which is resulting in an acceleration of the depletion of the oxide reserves at Lonshi, which will also be considered in the new mine plan.

#### Processing

During the second quarter, copper production increased to 11,717 tonnes. The 22% increase over 2004 was principally due to the increase in electrical current flow through the tank house at Bwana that began during quarter three 2004.

| <b>Bwana / Lonshi Q2 Cost of Sales</b>  |             |             |             |
|---|-------------|-------------|-------------|
| <b>Table 3</b>  |             |             |             |
|   | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Costs</b>  |             |             |             |
| Cost of Sales (millions)  | \$16.5      | \$13.1      | \$8.8       |
| Cost of Sales % <sup>(1)</sup>  | 37%         | 50%         | 69%         |
| Cash Costs (per lb) <sup>(2)</sup>  | \$0.57      | \$0.48      | \$0.44      |
| Total Costs (per lb) <sup>(2)</sup>   | \$0.79      | \$0.67      | \$0.69      |
| <b>Production Statistics (tonnes)</b>   |             |             |             |
| Waste Mined (000's)   | 4,025       | 2,854       | 1,343       |
| Ore Mined (000's)   | 319         | 85          | 12          |
| Ore Grade Mined   | 5.5%        | 5.2%        | 4.3%        |
| Ore Processed (000's)   | 328         | 237         | 181         |
| Ore Grade Processed   | 4.1%        | 4.6%        | 3.7%        |
| Copper Produced   | 11,717      | 9,585       | 6,734       |
| Acid Produced   | 69,218      | 34,265      | 29,286      |
| <sup>(1)</sup> Calculated as a percentage of total revenue  |             |             |             |
| <sup>(2)</sup> For the definition of cash and total costs, reference should be made to section 8. |             |             |             |

Cash costs were \$0.57 per pound and total costs were \$0.79 per pound of copper. The increase in costs can be principally attributed to a \$0.10 increase per pound in ore costs and associated transportation costs. The increase in ore costs have resulted from ore that was mined in the first quarter, during the wet season with a higher cost base, working its way through the ore stockpiles. By the end of the quarter the costs were starting to decline as the mining fleet was able to increase production as mining conditions have improved. In addition, Bwana has also started to process lower ore grades during this period of high copper prices which has resulted in higher transportation costs on a unit basis from the Lonshi pit. The acid cost at Bwana is \$0.04 per pound higher than the second quarter of 2004 due to the increased copper production and the high gangue acid consumption through the copper circuit. The increased ore and acid cost

have however been partially offset by the additional acid credit from the Solwezi Acid Plant of \$0.07 per pound. The gangue acid consumption was 2.7:1 in the second quarter.

Acid production increased to 69,218 tonnes, of which 34,309 tonnes were produced at Ndola and 34,909 tonnes at Solwezi. Of the total acid produced, 14,939 tonnes were sold externally and 18,824 tonnes were sold within the group.

### Kansanshi

#### Mining:

During the quarter, 2,051,000 tonnes of ore and 3,185,000 tonnes of waste were mined. The world shortage of tires continues to limit mining capability, although the situation has improved from the first quarter. During the first quarter up to 50% of the 100 tonne trucks had been unavailable due to the tire shortage. This percentage has dropped significantly in the second quarter as truck availability continues to improve. Notwithstanding, the company is continuing to investigate options to reduce its reliance on the 100 tonne trucks.

The tire shortage has not impacted the amount of ore available for processing at Kansanshi; but has resulted in the deferral of some waste stripping which will be caught up once all the equipment is available, which is anticipated will be during the third quarter.

#### Processing:

For the quarter, contained copper production increased to 18,192 tonnes which comprised 7,963 tonnes of copper in concentrate and 10,229 tonnes of copper cathode. The company commenced commercial production at Kansanshi on April 19<sup>th</sup> 2005, after the company had achieved between 65 – 70% of design capacity at Kansanshi continuously for at least one week.

#### Cathode

By the end of the quarter, Kansanshi had produced in excess of 3,600 tonnes of copper cathode for May and June and the oxide circuit was running well. For the quarter, the cash cost for cathode was \$0.61 per pound and the total cash cost was \$0.80 per pound. With the increase in cathode production and other efficiencies it would be expected that unit costs will fall in the coming quarters.

#### Concentrate

The sulphide circuit start-up has been successful, however the hardness of a portion of the sulphide ore has restricted ore throughput, the company is currently investigating methods of fixing this problem with the main focus on blending of the harder ore with softer ores. The cash costs for copper in concentrates, which includes the TC/RC's, was \$0.65 per pound and the total cash cost was \$0.81 per pound for the second quarter. Unit costs are expected to fall as throughput increases in the coming quarters.

### Other Expenses and Consolidated Earnings

Other expenses consisted of depreciation of \$6.9 million (Q2 2004: \$3m; Q2 2003: \$1.6m) and general and administration expenses of \$2.2 million (Q2 2004: \$1.5m; Q2 2003: \$0.7m). The movement in depreciation expense is consistent with the start-up of production at Kansanshi.

Income tax expense for the quarter includes the recognition of a previously

| <b>Kansanshi Q2 Cost of Sales<br/>Table 4</b>  |             |
|--|-------------|
|  | <b>2005</b> |
| <b>Costs</b>   |             |
| Cost of Sales (millions)   | \$18.5      |
| Cost of Sales % <sup>(1)</sup>   | 41%         |
| Cash Costs (per lb) <sup>(2)</sup>   | \$0.63      |
| Total Costs (per lb) <sup>(2)</sup>  | \$0.80      |
| <b>Production Statistics (tonnes)</b>  |             |
| Waste Mined (000's)  | 3,185       |
| Ore Mined (000's)  | 2,051       |
| Ore Grade Mined  | 2.0%        |
| Sulphide Ore Grade Processed   | 2.0%        |
| Oxide Ore Grade Processed  | 1.8%        |
| Copper Cathode Produced  | 10,229      |
| Concentrate Produced <sup>(3)</sup>  | 7,963       |
| Concentrate Grade  | 29%         |
| <small><sup>(1)</sup> Calculated as a percentage of total revenue</small>  |             |
| <small><sup>(2)</sup> For the definition of cash and total costs, reference should be made to section 8.</small> |             |
| <small><sup>(3)</sup> Refers to contained copper in concentrate</small>  |             |

| <b>Q2 Other Expenses and Net Earnings<br/>Table 5</b> |             |             |             |
|---|-------------|-------------|-------------|
|   | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Other Expense (millions)</b>                       |             |             |             |
| Depreciation  | \$6.9       | \$3.0       | \$1.6       |
| Exploration   | 1.1         | 0.6         | 0.1         |
| General and Admin                                     | 2.2         | 1.5         | 0.7         |
| Interest  | 3.4         | 0.9         | 0.4         |
| <b>Earnings</b>                                       |             |             |             |
| Net Earnings (millions)                               | \$29.0      | \$4.1       | \$(0.2)     |
| Basic earnings per share                              | \$0.47      | \$0.07      | \$0.00      |
| Diluted earnings per share                            | \$0.46      | \$0.07      | \$0.00      |

unrecognized tax asset at Kansanshi, which has attributed to the lower tax rate for the quarter. Net earnings for the quarter increased to \$29.0 million or \$0.47 per share as a result of commercial production being achieved at Kansanshi.

## Cash Flow

### Consolidated Cash Flow

The cash inflow, after non-cash working capital movements, from operating activities was \$2.3 million or \$0.04 per share (2004: \$0.18; 2003: \$0.04). The difference between operating cash flow and earnings principally arises from timing differences due to the startup of Kansanshi, as inventory increased by \$11.1 million and accounts receivable increased by \$26.5 million. Both of these movements are consistent with an operation achieving commercial production. The cash flow from operating activities before non-cash working capital movements was \$43.0 million or \$0.70 per share.

The cash outflow from financing activities was \$22.8 million. During the quarter, no cash was drawn down from debt facilities, as the development of Guelb and other capital projects were funded out of surplus operating cash flow.

The company also repaid \$10.1 million (2004: \$2.5m; 2003: \$3.8m) of long term debt during the quarter. The cash outflow from investing activities was \$2.3 million. In addition, \$2.5 million was allocated to sinking funds for future long-term debt repayments and classified as restricted cash during the period.

| <b>Q2 Consolidated Cash Flows</b>        |             |             |             |
|--|-------------|-------------|-------------|
| <b>Table 6</b>                           |             |             |             |
|  | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Cash Flows from: (millions)</b>       |             |             |             |
| Operating activities                     |             |             |             |
| Before working capital movements         | \$43.0      | \$11.5      | \$2.6       |
| After non-cash working capital movements | 2.3         | 10.8        | 1.9         |
| Financing activities                     | (22.8)      | 16.5        | 7.3         |
| Investing activities                     | \$(2.3)     | \$(47.7)    | \$(7.9)     |

## 4. 2005 Half Year Discussion

### Earnings and Operations

#### Consolidated Revenue

Six month revenues were \$124.7 million which included copper revenues of \$121.5 million, acid revenues of \$2.6 million and gold revenues of \$0.6 million. Copper revenues increased due to improvements in both the realized copper price and an increase in copper production with the start of commercial production of Kansanshi.

Copper revenues at Bwana/Lonshi were \$77.1 million for the six months. Copper revenues at Kansanshi were \$44.4 million comprised of \$30.3 million for copper cathode and \$14.1 million for copper in concentrate. Kansanshi revenue figures only include revenues from the commencement of commercial production (April 19, 2005).

| <b>Consolidated Six Month Revenue</b>  |             |             |             |
|--|-------------|-------------|-------------|
| <b>Table 7</b>                         |             |             |             |
|  | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Revenues (millions)</b>             |             |             |             |
| Copper                                 | \$121.5     | \$45.5      | \$17.2      |
| Gold                                   | 0.6         | -           | -           |
| Acid                                   | 2.6         | 6.1         | 5.7         |
| <b>Total Revenue</b>                   | 124.7       | 51.6        | 22.9        |
| Realized Copper Price (per lb)         | \$1.43      | \$1.07      | \$0.70      |
| <b>Sales Statistics <sup>(1)</sup></b> |             |             |             |
| Copper (tonnes)                        | 38,535      | 19,246      | 11,177      |
| Gold (ounces)                          | 1,370       | -           | -           |
| Acid (tonnes)                          | 14,988      | 39,912      | 39,264      |
| Unadjusted Copper Price (per lb)       | \$1.51      | \$1.10      | \$0.73      |
| Average LME Copper Price (per lb)      | \$1.51      | \$1.25      | \$0.75      |

<sup>(1)</sup> Copper sales and production volumes refer to contained copper in either concentrate or cathode.

The realized copper price per the statement of earnings and deficit was \$1.43 per pound for the six months, which represents a significant increase from last year due to the rising market price for copper and the Company's unhedged copper position. The unadjusted copper price for the six months was \$1.51 per pound compared with an average LME cash price of \$1.51 per pound.

Included within the six month copper revenues were 20,500 tonnes of copper that has been provisionally priced at \$1.55 per pound. The average LME cash price for the month of July was \$1.64.

**Consolidated Cost of Sales**

Cost of sales were \$51.2 million, the increase in cost of sales was principally as a result of the increase in copper production associated with the start of commercial production at Kansanshi.

| <b>Consolidated Six Month Cost of Sales</b>  |             |             |             |
|--|-------------|-------------|-------------|
| <b>Table 8</b>   |             |             |             |
|  | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Costs of Production</b>   |             |             |             |
| Cost of Sales (millions)   | \$51.2      | \$25.2      | \$17.0      |
| Cost of Sales % <sup>(1)</sup>   | 41%         | 49%         | 74%         |
| C1 Costs (per lb) <sup>(2)</sup>   | \$0.60      | \$0.44      | \$0.44      |
| C3 Costs (per lb) <sup>(2)</sup>   | \$0.78      | \$0.59      | \$0.70      |
| <b>Production Statistics</b>   |             |             |             |
| Copper Produced (tonnes)   | 49,434      | 19,274      | 11,093      |
| Gold Produced (ounces)   | 1,370       | -           | -           |
| Acid Produced (tonnes)   | 124,493     | 68,609      | 63,671      |
| <sup>(1)</sup> Calculated as a percentage of total revenue   |             |             |             |
| <sup>(2)</sup> For the definition of cash (C1) and total (C3) costs, reference should be made to section 8 |             |             |             |

**Bwana / Lonshi****Mining:**

For the six months ended June 30, 2005, approximately 471,000 tonnes of ore and approximately 6,621,000 tonnes of waste were mined from Lonshi. The strip ratio for the first six months was 14:1, which was greater than the revised life of mine strip ratio of 12:1.

**Processing**

For the six months ended June 30, 2005, copper production increased to 23,745 tonnes. The 23% increase over 2004 was principally due to the increased electrical

current flow through the tankhouse that began in the third quarter of 2004.

The increase in cash costs from 2004 can be principally attributed to an increase of \$0.09 per pound due to ore and transportation costs at Lonshi and a \$0.06 per pound increase in acid costs due to the increased gangue acid consumption as a result of processing more dolmitic ore.

These increased costs have been offset by the acid credit of \$0.04 per pound from the Solwezi Acid Plant.

Acid production was 124,493 tonnes of which 67,245 tonnes were produced at Ndola and 57,248 tonnes at Solwezi. Of the total acid produced, 14,988 tonnes were sold externally and 23,253 tonnes were sold within the group.

| <b>Bwana / Lonshi Six Month Cost of Sales</b>   |             |             |             |
|---|-------------|-------------|-------------|
| <b>Table 9</b>  |             |             |             |
|   | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Costs</b>  |             |             |             |
| Cost of Sales (millions)  | \$32.7      | \$25.2      | \$17.0      |
| Cost of Sales % <sup>(1)</sup>  | 39%         | 49%         | 74%         |
| Cash Costs (per lb) <sup>(2)</sup>  | \$0.57      | \$0.44      | \$0.44      |
| Total Costs (per lb) <sup>(2)</sup>   | \$0.77      | \$0.59      | \$0.70      |
| <b>Production Statistics (tonnes)</b>   |             |             |             |
| Waste Mined (000's)   | 6,621       | 3,889       | 1,770       |
| Ore Mined (000's)   | 471         | 151         | 12          |
| Ore Grade Mined   | 5.4%        | 4.8%        | 4.4%        |
| Ore Processed (000's)   | 592         | -           | -           |
| Ore Grade Processed   | 4.6%        | -           | -           |
| Copper Production   | 23,745      | 19,274      | 11,093      |
| Acid Production   | 124,493     | 68,609      | 63,671      |
| <sup>(1)</sup> Calculated as a percentage of total revenue  |             |             |             |
| <sup>(2)</sup> For the definition of cash and total costs, reference should be made to section 8. |             |             |             |

Kansanshi

## Mining:

For the six months ended June 30, 2005, 4,171,000 tonnes of ore and 4,836,000 tonnes of waste had been mined. As with other mining operations around the world, the shortage of mining truck tires was a problem at the start of the year, with at times up to 50% of the company's 100 tonne trucks being unavailable due to a lack of tires. Availability, improved significantly in the second quarter, however the Company is continuing to investigate options to reduce its dependency on the 100 tonne trucks. Notwithstanding, the shortage of tires has not limited ore production and has only resulted in some waste stripping being deferred.

## Processing:

For the six months ended June 30, 2005, copper production increased to 25,689 tonnes, including 14,942 tonnes of copper in concentrate and 10,747 tonnes of copper cathode. As commercial production only commenced on April 19, 2005, reference should be made to Section 2 to fully understand the production for the first six months at Kansanshi.

**Kansanshi Six Month Cost of Sales and  
Production Statistics  
Table 10**

|  | <b>2005</b> |
|--|-------------|
| <b>Costs</b>   |             |
| Cost of Sales (millions)                                   | \$18.5      |
| Cost of Sales % <sup>(1)</sup>                             | 41%         |
| Cash Costs (per lb) <sup>(2)</sup>                         | \$0.63      |
| Total Costs (per lb) <sup>(2)</sup>                        | \$0.80      |
| <b>Production Statistics (tonnes)</b>                      |             |
| Waste Mined (000's)  | 4,836       |
| Ore Mined (000's)  | 4,171       |
| Ore Grade Mined  | 2.2%        |
| Sulphide Ore Grade Processed                               | 1.8%        |
| Oxide Ore Grade Processed                                  | 1.8%        |
| Copper Cathode Produced                                    | 10,747      |
| Contained Copper in<br>Concentrate Produced <sup>(3)</sup> | 14,942      |
| Concentrate Grade  | 29.0%       |

<sup>(1)</sup> Calculated as a percentage of total revenue

<sup>(2)</sup> For the definition of cash and total costs, reference should be made to section 8

<sup>(3)</sup> Refers to contained copper in concentrate.

**Consolidated Six Month Other Expenses and Net Earnings  
Table 11**

|                                 | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|---------------------------------|-------------|-------------|-------------|
| <b>Other Expense (millions)</b> |             |             |             |
| Depreciation                    | \$10.8      | \$5.4       | \$2.6       |
| Exploration                     | 2.2         | 1.0         | 0.2         |
| General and Admin               | 4.3         | 2.6         | 1.2         |
| Interest                        | 4.2         | 1.5         | 1.0         |
| <b>Earnings</b>                 |             |             |             |
| Net Earnings (millions)         | \$56.2      | \$10.8      | \$(0.2)     |
| Basic earnings per share        | \$0.92      | \$0.18      | \$0.00      |
| Diluted earnings per share      | \$0.90      | \$0.18      | \$0.00      |

Other Expenses and Consolidated Earnings

Other expenses for the six months ended June 30, 2005 were \$19.1 million (2004: \$11.0m; 2003: \$6.2m). Other expenses consisted of depreciation of \$10.8 million (2004: \$5.4m; 2003: \$2.6m) and general and administration expenses of \$4.3 million (2004: \$2.6m; 2003: \$1.2m). The increase in depreciation expense is due to the increased production associated with the startup of commercial production at Kansanshi.

Net earnings for the six months increased to \$56.2 million or \$0.92 per share, including the gain on sale from Anvil of \$16.1 million or \$0.26 per share.

**Cash Flow**Consolidated Cash Flow

The cash inflow from operating activities after capital movements was \$25.1 million or \$0.41 per share (2004: \$0.29; 2003: \$0.03). The significant turnaround in cash flow from operations is attributable to the improvement in earnings resulting from increased copper production (including the startup at Kansanshi) and the strong copper prices. The cash flow from operating activities before non-cash working capital movements was \$62.6 million or \$1.02 per share. The difference between the cash flow before and after working capital movements can be attributed to the build up of both accounts receivable and inventory at Kansanshi.

The cash inflow from financing activities was \$2.0 million. During the first six months, approximately \$31.5 million (2004: \$41.4m; 2003: \$20.6m) was drawn down from debt facilities, principally related to Kansanshi. No significant

**Consolidated Six Month Cash Flows  
Table 12**

|   | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|---|-------------|-------------|-------------|
| <b>Cash Flows from: (millions)</b>        |             |             |             |
| Operating activities                      |             |             |             |
| Before non-cash working capital movements | \$62.6      | \$23.6      | \$4.1       |
| After non-cash working capital movements  | 25.1        | 17.4        | 1.5         |
| Financing activities                      | 2.0         | 73.8        | 7.1         |
| Investing activities                      | \$(21.2)    | \$(83.9)    | \$(11.7)    |

financings occurred in the first half of 2005. The company also repaid \$15.4 million (2004: \$5.0m; 2003: \$14.1m) of long term debt in the first six months of the year.

Included within financing activities was the payment of \$3 million for dividends.

## 5. Discussion of Financial Position and Liquidity

### Cash and cash equivalents

At June 30, 2005, the Company had cash and cash equivalents of \$56.5 million. The strong cash flow from operations and proceeds from the Anvil disposal have principally been applied to further capital investment at Kansanshi and Guelb which has meant that the cash position has only marginally increased.

### Restricted Cash

As at June 30, 2005, the Company had \$4.3 million in cash that is being held as sinking funds for debt repayment.

| <b>Financial Position – Assets</b> |                |                |                |
|------------------------------------|----------------|----------------|----------------|
| <b>Table 13</b>                    |                |                |                |
|                                    | <b>2005</b>    | <b>2004</b>    | <b>2003</b>    |
|                                    | <b>Jun 30</b>  | <b>Dec 31</b>  | <b>Dec 31</b>  |
| <b>Assets (millions)</b>           |                |                |                |
| Cash and cash equivalents          | \$56.5         | \$50.4         | \$25.6         |
| Restricted cash                    | 4.3            | 1.9            | -              |
| Current assets                     | 153.2          | 105.9          | 47.6           |
| Property, plant & equipment        | 367.2          | 319.2          | 96.6           |
| Other assets and deferred charges  | 31.6           | 32.2           | 3.0            |
| <b>Total assets</b>                | <b>\$561.9</b> | <b>\$473.1</b> | <b>\$162.1</b> |

### Current assets

Total current assets were \$153.2 million. The increase in current assets was principally due to the increase in accounts receivables and inventory associated with the start of commercial production at Kansanshi.

### Other assets and deferred charges

Total other assets and deferred charges were \$31.6 million which is principally comprised of fair value of derivatives of \$2.9 million (2004: \$10.0m), long-term prepayment to Zesco of \$9.5 million (2004: \$10.6m), deferred financing fees of \$13.2 million (2004: \$7.5m; 2003: \$1.9m), and deferred stripping asset of \$3.8 million (2004: \$1.9m; 2003: \$(2.7m)). The fair value of derivatives is comprised of copper puts and calls, gold puts and forwards, cross currency and interest rate swaps. Reference should be made to section 6 of this MD&A.

### Current liabilities

Current liabilities were \$106.0 million. The increase for the first six months of 2004 can be attributed to an increase in accounts payable associated with Kansanshi and an increase in the current portion of long-term debt as the loans for Kansanshi became fully drawn.

| <b>Financial Position - Liabilities</b> |                |                |               |
|---|----------------|----------------|---------------|
| <b>Table 14</b>                         |                |                |               |
|   | <b>2005</b>    | <b>2004</b>    | <b>2003</b>   |
|   | <b>Jun 30</b>  | <b>Dec 31</b>  | <b>Dec 31</b> |
| <b>Liabilities (millions)</b>           |                |                |               |
| Current liabilities                     | \$106.0        | \$72.0         | \$34.1        |
| Long-term debt                          | 183.5          | 191.7          | 32.4          |
| Other liabilities                       | 33.8           | 33.3           | 3.1           |
| <b>Total liabilities</b>                | <b>\$342.7</b> | <b>\$313.0</b> | <b>\$78.3</b> |

### Long-term debt

Long term debt was \$183.5 million. Long-term debt decreased by \$8.2 million which included repayments of \$15.4 million that occurred in the first half of the year. A majority of this decrease can be attributed to the sale of the Anvil shares, which were being held partially as security for loans. With the sale of the shares the company agreed to repay an additional \$9.5 million of the Bwana Standard Chartered Bank (SCB) and Banque Belgolaise (BBL) loans.

| <b>Financing 2005 <sup>(1)</sup></b> |                |                        |               |
|--------------------------------------|----------------|------------------------|---------------|
| <b>Table 15</b>                      |                |                        |               |
|                                      |                | <b>Use of Proceeds</b> |               |
| <b>Lender / Source</b>               | <b>Amount</b>  | <b>Proposed</b>        | <b>Actual</b> |
| Standard Chartered Bank (SCB)        | \$11.5 million | Bridging Facility      | As proposed   |

<sup>(1)</sup> Only includes new facilities entered in 2005

The Company is currently looking at restructuring a number of its non-Kansanshi related loans to provide greater financial flexibility for the group for its borrowing arrangements and also mitigate the impact the strong copper prices are having on the copper linked interest rates at Bwana.

As part of this initiative, in July 2005, the Company entered into a bridge facility with SCB of \$11.5 million to repay its Bwana European Investment Bank (EIB) facility. This bridge loan bears interest at LIBOR plus 2.5% and is repayable 3 months after the utilization date, which was July 15, 2005. It is anticipated that this loan will form part of a larger loan facility that is currently being negotiated.

#### Other Liabilities

Other liabilities were \$33.8 million, which were principally comprised of the long-term portion of the deferred premium obligation of \$10.9 million (2004: \$13.8m) associated with the copper puts at Kansanshi (reference should be made to Section 6 of the MD&A for further discussion on these derivatives), \$10.5 million (2004: \$10.9m) for the unrealized fair value of the gold forwards at Kansanshi and \$4.7 million (2004: \$3.6m) for the long term position of the deferred payment associated with the Guelb acquisition.

#### Total liabilities

Total liabilities were \$342.7 million which include future income taxes of \$15.3 million (2004: \$12.3m; 2003: \$4.6m). The provision for future income taxes continues to increase as the Company utilizes accelerated capital allowances for tax purposes at Kansanshi to defer its cash taxes payable.

#### Contractual Obligations

Under the terms of the Kansanshi purchase agreement the Company was required to make a final payment to Phelps Dodge upon reaching certain production thresholds as defined in the agreement. A final payment of \$1.7 million was made during the second quarter.

| Payments Due by Period   |         |                     |                |                |                |                |                |
|--------------------------|---------|---------------------|----------------|----------------|----------------|----------------|----------------|
| Table 16                 |         |                     |                |                |                |                |                |
| (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>Term Debt</b>         | \$223.8 | \$40.3              | \$44.8         | \$37.3         | \$30.7         | \$27.3         | \$43.4         |
| <b>Deferred Payments</b> | 14.5    | 6.7                 | 5.1            | 0.4            | 0.4            | 0.4            | 1.5            |
| <b>Commitments</b>       | \$45.7  | \$45.7              | \$-            | \$-            | \$-            | \$-            | \$-            |

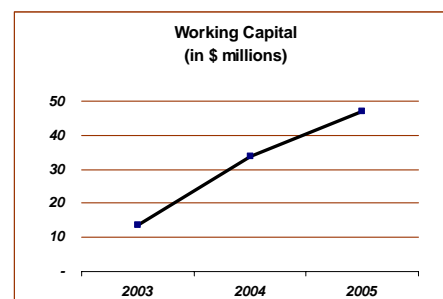
Under the terms of the Guelb Moghrein development agreement announced on July 14, 2004, the Company has conditionally agreed to make the following payments; \$2.0 million upon satisfaction of certain conditions (first payment date); \$3.0 million, 12 months after first payment date; and \$5.0 million, 24 months after first payment or commercial production. The first payment was made in December 2004 and the remaining payments have been recorded at their discounted value as there is no interest payable on these amounts. As at June 30, 2005 the discounted value was \$7.6 million (2004: \$7.4m).

#### Undrawn Debt Facilities

As at June 30, 2005 the Company had undrawn debt facilities of \$25 million (Dec 2004: \$56.5m) that have been designated for the capital requirements of the Kansanshi project. The Company will draw upon these facilities as required.

#### Working capital

As at June 30, 2005 the working capital of the Company was \$47.1 million (Dec 2004: \$33.9m; Dec 2003: \$13.5m). The increase in the working capital comes primarily from the company's increase in accounts receivable and inventory at Kansanshi.



Shareholders' Equity

As at June 30, 2005, the Company had \$164.4 million in common shares and contributed surplus. During the period, there was only minimal activity in the equity accounts which was generally limited to the exercising and expensing of stock options.

As at June 30, 2005, the Company had 61,537,828 common shares and 2,833,800 options outstanding.

Dividends

During the first six months of 2005, the Company has provided for and paid \$3.0 million in dividends as a result

of declaring its inaugural dividend in March 2005, of CA\$0.06 per share. In August, the company declared an interim dividend of CA\$0.02 per share which will be paid during the third quarter. The interim dividend is consistent with the Company's dividend policy of declaring an interim dividend of one-third of the prior year's full dividend.

| <b>Financial Position - Equity</b> |               |               |               |
|------------------------------------|---------------|---------------|---------------|
| <b>Table 17</b>                    |               |               |               |
|                                    | <b>2005</b>   | <b>2004</b>   | <b>2003</b>   |
|                                    | <b>Jun 30</b> | <b>Dec 31</b> | <b>Dec 31</b> |
| Shareholders' Equity (millions)    | \$213.7       | \$157.8       | \$81.6        |
| Equity Accounts (millions)         | \$164.4       | \$161.8       | \$113.1       |
| Retained Earnings (millions)       | \$49.3        | \$(4.0)       | \$(31.5)      |
| Weighted Average # Shares (000's)  | 61,384        | 60,123        | 50,668        |
| Outstanding # of Shares (000's)    | 61,538        | 61,239        | 56,396        |

**6. Other Matters**Kansanshi Copper-Gold Deposit, Zambia

The Kansanshi plant reached commercial production on April 19, 2005. All revenues and costs prior to this period have been deferred, which has resulted in \$12.0 million in revenue being deferred up to commercial production. In March 2005, the Company completed an independent operations review which accelerated the mining schedule and production rates that were contemplated in the original Definitive Feasibility Study (DFS). The key parameters of the independent operations review are highlighted in the table below:

The original DFS had envisioned the treatment of 4 million tonnes of oxide ore and 2 million tonnes of sulphide ore (4O+2S) to produce an average of 100,000 tonnes of finished copper production per year. The revised plan considers capital additions carried out to the sulphide milling circuit during initial construction at Kansanshi will double design throughput of sulphide ore to 4 million tonnes per year (4O+4S). This results in the copper concentrate production substantially outperforming the DFS forecasts in 2005 when an aggregate production of 91,000 tonnes is planned.

| <b>Independent Operations Review Parameters</b> |             |                  |
|---|-------------|------------------|
| <b>Table 18</b>                                 |             |                  |
|   | <b>2005</b> | <b>2006-2009</b> |
| <b>Mining</b>                                   |             |                  |
| Ore (tonnes)                                    | 8,885       | 50,587           |
| Waste (tonnes)                                  | 15,795      | 85,184           |
| Strip Ratio                                     | 1.78        | 1.70             |
| <b>Processing</b>                               |             |                  |
| Total Concentrate (tonnes)                      | 171,982     | 1,077,185        |
| Copper in Concentrate (tonnes)                  | 48,155      | 301,613          |
| Copper Cathode (tonnes)                         | 42,845      | 282,921          |
| Total Copper Production (tonnes)                | 91,000      | 584,534          |
| Gold Production (ounces)                        | 36,022      | 196,403          |

Under the revised plan, peak production will be approximately 163,000 tonnes of copper, (92,000 tonnes of which would be produced from concentrates) and 60,000 ounces of gold in 2007. The revised plan estimates an average cash cost over the first 5 years of copper production of \$0.45 / lb. The increase in cost, compared to the original DFS is mainly attributable to the increased volumes of copper in concentrate produced under the revised plan and general increases in consumable costs.

Guelb Moghrein Copper-Gold Deposit, Mauritania

Guelb is located 250 kilometres northeast of the nation's capital, Nouakchott, near the town of Akjoujt, in Mauritania. It consists of an open pit mineable copper/gold deposit. In January 2005, the detailed design and engineering contract was awarded with site establishment commencing in March 2005. The company expects to develop Guelb in 2005 with commercial production start-up expected in the first quarter of 2006. Production will be initially targeted at approximately 30,000 tonnes of copper and 50,000 ounces of gold per year in the form of a copper-gold concentrate which will be trucked to the port of Nouakchott and exported to international smelters

As at June 30, 2005, the Company had capitalized acquisition and development costs totalling \$22.0 million (2004: \$10.3m). Of the capitalized amount, \$7.6 million relates to the discounted value of two future acquisition payments which are due to be paid in 2005 and 2006 respectively.

Overall the project is approximately 50% complete with detailed design being 96% complete with the only major outstanding item being final details on the Orapa powerhouse. The recent military coup in Mauritania has had no impact on the construction programme and the country returned to normal within 24 hours. Civil engineering is currently ongoing with the foundations for the SAG and regrind mills having commenced. The Environmental and Social Impact Assessment report will shortly be submitted to the Ministry of Mines and Industry in Nouakchott for review.

#### Frontier Copper Deposit, DRC

In May 2004, First Quantum announced the results of an independent copper-cobalt resource estimate completed at Frontier Project located in Haut Katanga Province, DRC. As at June 30, 2005 a project engineering study was substantially complete and a final report is expected in the third quarter of 2005.

As at June 30, 2005, the company had spent \$5.0 million (2004: \$3.7m) on this project. Geological work is continuing with a further 2000 new soil samples being taken to expand the geochemical database. Work is ongoing on an environmental impact assessment at Frontier as well as considering aspects such as power supply.

#### Kashime Copper Prospect, Zambia

In December 2004, the Company announced the results of a reverse circulation drill program completed at the Kashime copper prospect (Kashime). Mineralization at Kashime occurs as disseminated to semi massive bornite and chalcopyrite, oxidized in part, and is hosted by an altered, schistose, carbonaceous sandstone unit overlain by a barren hanging wall dolomitic marble. The mineralized unit dips southwards at 10 – 20 degrees, and depth of oxidation is controlled by proximity to faulting. The 2004 drill program tested the most anomalous 1,000 metre long section of a 2,000 metre long, +300 parts per million copper soil anomaly. Highlights from the 13 hole drill program included 56 metres grading 2.08% copper; 55 metres grading 1.20% copper and 101 meters grading 0.92% copper.

At the end of July, the Company has completed 40 holes for approximately 5,600 metres of diamond drilling over a strike length of 3,500m. Assays results have been received for one half of the drill holes and a potential resource estimate will be determined once all the assays are available.

During the six months ended June 2005, the Company expensed \$2.2 million (2004: \$1.0m; 2003: \$0.2m) on other exploration targets that were predominantly located within the DRC and Zambia. Of this amount, \$0.6 million was related to the Kashime Prospect. As at June 30, 2005, no costs associated with this exploration property had been deferred.

#### 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). The carrying value of this investment as at June 30, 2005 is \$9.5 million. There has been no movement in this investment since 2002.

For the first six months of 2005, Mopani produced approximately 64,000 tonnes of finished copper and 900 tonnes of cobalt. As the majority owner of Mopani is a private company registered in Zambia, only limited public information is available for dissemination.

#### Investments - Anvil

On February 28, 2005, the Company disposed of all of its 4,029,617 common shares in Anvil at a net price of CA\$6.75 per share. In the first quarter of 2005, the Company recognized a gain of approximately \$16.1 million on the Anvil Sale. The Company continues to hold 296,631 warrants in Anvil at an exercise price of CA\$1.13.

#### Financial Instruments

The Company enters into derivative instruments to minimize the risk exposure to copper and gold prices, foreign currency, and interest rate movements and, from time to time, to address the requirements of its lending institutions. These instruments consist of forward and option contracts, interest rate protection contracts, and foreign currency protection contracts.

For copper and gold forward put option contracts, fair values were calculated using spot and forward prices and volatilities. For interest rate protection contracts, fair values were determined using market interest rates. For foreign currency protection contracts, fair values were determined using the exchange rate at quarter-end. All changes in fair value of derivatives related to Kansanshi were capitalized as preproduction up to April 19, 2005. Any changes in fair value subsequent to April 19, 2005 have been recorded as other expenses.

The put options offer downside protection while allowing the Company to participate in any copper and gold price appreciation above the put option strike prices.

#### *Copper Financial Instruments*

In 2004, the Company entered into 210,240 copper put option contracts on its expected production at Kansanshi beginning in 2005 and ending in 2007 at a price of \$1,800 per tonne (\$0.82/lb). Upon entering into these contracts the company assumed a premium obligation of \$21 million, the net present value of this liability was recorded as a deferred premium obligation. As at June 30, 2005, 27,816 copper put option contracts had been settled, which has reduced the deferred premium obligation to \$17 million. As at June 30, 2005, 182,424 copper put options were outstanding and the fair value of these options per contract was \$17 (Dec 04: \$18).

During the second quarter of 2005 the Company sold 13,908 tonnes of call options contracts at an average strike price of \$3,368 per tonne exercisable at 4,636 tonnes per month between July and September 2005. The Company will receive a premium of \$100 per tonne as the call options mature each month which will be offset against the deferred premium payable in those months.

#### *Gold Financial Instruments*

In 2004, the Company has entered into 139,296 put option contracts on ounces at a forward price of \$350 per ounce for part of its gold production at Kansanshi beginning in 2005 and ending in 2009. To cover the cost of these put option contracts that the Company also entered into contingent gold forward contracts on 139,926 ounces of gold with a strike price of \$400 per ounce for part of its gold production at Kansanshi beginning in 2005 and ending in 2009. As no premium is payable on this combined position, no obligation has been recognized.

As at June 30, 2005, the 7,422 ounces had been accounted for leaving 131,874 ounces of put options and forward contracts outstanding. The combined fair value per contract was negative \$69 (Dec 04: \$74). As at June 30, 2005 the company had recorded the fair value of the gold put options of \$0.3 million as an asset and the fair value of the gold forward contracts of \$9.1 million as a liability on the balance sheet.

#### *Other Financial Instruments*

The Company has entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on the Bwana and Kansanshi EIB facility. At June 30, 2005, the fair value of these instruments was \$0.8 million and has been accounted for in the balance sheet as unrealized fair value of derivative instruments.

## **7. Outlook**

With Kansanshi reaching commercial production in mid-April, the second quarter results do not include a full quarter of production from Kansanshi. This coupled with commercial production levels being only 65 – 70% of design capacity should result in an increase in the copper production at Kansanshi in Q3 when the operations achieve at least full design capacity. In July, Kansanshi produced 4,363 tonnes of cathode, which meant that the plant has exceeded 3,600 tonnes of copper cathode for the last three months. Concentrate production for the month of July was 3,207 tonnes. The hardness of a portion of the sulphide ore has reduced throughput through the mill but blending with softer sulphide ores has been initiated to alleviate this problem.

Kansanshi, however still remains on target to achieve its forecast of 91,000 tonnes of copper for the year.

A \$29 million capital program in 2005 will expand the sulphide circuit to eight million tonnes of treatment capacity which will result in an average of 145,000 tonnes of finished copper production per year during 2006-2009. An additional expansion of the sulphide circuit is also under consideration to increase the sulphide treatment capacity to 12 million tonnes of sulphide ore to maintain annual copper production of 145,000 tonnes as oxide ore is depleted and sulphide ore grades begin to fall.

First Quantum has also been investigating alternative processing routes for a portion of the increased copper concentrate production. To this end, the Company has purchased a second-hand pressure oxidation facility. The pressure oxidation facility has been dismantled and is enroute to Kansanshi. Once on site, the pressure oxidation facility and ancillary equipment will be reconstructed and commissioned for use. An additional advantage of this technology at Kansanshi is that it will generate much of the acid required for oxide leaching. It will also enable the leach circuit to operate at elevated temperatures and hence, substantially improve copper recovery in mixed ores. A full report of the impact of this process route is being prepared by independent consultants, Bateman Engineering Pty Ltd.

With a strong start to the year, the Bwana / Lonshi operation is currently on track to exceed its initial production estimates of between 40,000 to 45,000 tonnes of copper cathode in 2005 with 23,745 tonnes of copper cathode already

produced in the first half of 2005. With initial estimates indicating an increasing strip ratio in the revised mine plan at Lonshi, expected in quarter three, the ore costs are likely to remain higher than initially expected. Full year cash costs are now expected to be between \$0.60 per pound and \$0.65 per pound. In July, the Bwana / Lonshi operation produced 4,292 tonnes of copper cathode.

At Guelb, the project engineering study is now complete and construction is well underway with the project now 50% complete. Commercial production is expected in the first quarter of 2006. The Company remains unable to release an engineering report as the current resource statement is not compliant with National Instrument 43-101.

At Frontier, the project engineering study is substantially complete. This coupled with an updated resource/reserve statement is expected to be published in the third quarter of 2005. At the Kashime prospect initial diamond drilling has been completed with an initial reserve estimate expected once the final assay results are available.

## 8. Critical Accounting Policies

In preparing financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Specifically, estimates and assumptions are made in regards to reserve and resource estimation; future copper, cobalt, sulphuric acid and gold prices; foreign currency exchange rates; stock prices; estimated costs of future production; changes in government legislation and regulations; estimated future income tax amounts; and the availability of financing and various operational factors.

Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

The following section outlines those critical accounting policies that have changed since the filing of the Company's 2004 Audited Financial Statements or that are particularly relevant to the current year.

### Calculation of Cash and Total Costs

The consolidated cash (C1) and total (C3) costs presented for the Group are a non-GAAP measure that is prepared on a basis consistent with the industry standard Brooke Hunt definitions. Notwithstanding, for the purposes of preparing the segmented cash and total costs the preparation basis differs from the Brooke Hunt definitions.

In calculating the cash and total costs for each segment, the costs are prepared on the same basis as the segmented financial information that is contained in the financial statements. This means that the cash costs at the Bwana/Lonshi division include a credit for acid produced from the Solwezi acid plant which would differ from the strict Brooke Hunt definitions. The calculation of the cash costs therefore include credits for both acid plants located at Ndola and the acid plant located at Solwezi.

For the purposes of calculating the cash costs at Kansanshi, treatment and refining charges that are normally deducted from concentrate revenues are added to the cash costs in attempt to show the cash costs of producing finished copper. The revenues presented in the income statement for concentrates are shown net of these deductions and therefore the cost of sales in the financial statements does not include treatment and refining charges.

Cash costs therefore include all mining and processing costs less any profits from by-products such as gold or acid, that are allocated to that segment. In addition, treatment and refining revenue deductions on concentrates are added to cash costs to arrive at an approximate cost of finished copper. Total costs are cash costs plus depreciation, interest, realized foreign exchange and site administration costs.

The cash and total costs per pound presented in this MD&A have only been calculated post commercial production at Kansanshi, therefore any costs and production related to Kansanshi prior to April 19, 2005 has not been considered in determining the cash and total costs of the consolidated group or Kansanshi.

### Consolidation of Variable Interest Entities

Effective January 1, 2005, the Company was required to adopt CICA Accounting Guideline 15, Consolidation of Variable Interest Entities (AcG-15). This standard harmonizes Canadian guidance with the equivalent US standard, FASB Interpretation No. 46R (FIN 46R), Consolidation of Variable Interest Entities. AcG-15 establishes accounting

guidance for consolidation of variable interest entities by the primary beneficiary and applies to any business enterprise, public or private, that has a controlling interest, contractual relationship or other business relationship with a variable interest entity. There has no financial impact upon adoption of this new guideline.

#### Pre-production costs

Determination of the start of commercial production is an important consideration as during the development phase costs will continue to be capitalized / deferred while during the production phase these costs would be treated as operating expenses. As noted in the company's financial statements the company defers all production costs and revenues until such a time that the project achieves commercial production.

The exercise of assessing when commercial production levels are achieved is not straight-forward and requires consideration of many factors including, but not limited to, when; a nominated percentage of design capacity for the mine and mill has been achieved; mineral recoveries reaching or exceeding expected levels and the achievement of continuous production. The company, when evaluating whether or not commercial production has been achieved or not, will generally consider that commercial production has been achieved when between 65% and 70% of design capacity has been achieved continuously for a period of at least a week and recoveries are approaching expected levels. Notwithstanding, each project is also viewed in isolation and specific circumstances may exist that alter the above general framework on any individual project

#### 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.

## 9. Summary of Quarterly Results

### 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:

| Summary of Quarterly Results (unaudited)   |         |         |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Table 19   |         |         |         |         |         |         |         |         |
|  | 2005    | 2005    | 2004    | 2004    | 2004    | 2004    | 2003    | 2003    |
|  | Q2      | Q1      | Q4      | Q3      | Q2      | Q1      | Q4      | Q3      |
| <b>Statement of Operations and Deficit</b><br>(millions, except where indicated) |         |         |         |         |         |         |         |         |
| Total Revenues   | 86.5    | \$38.2  | \$30.7  | \$31.2  | \$26.3  | \$25.3  | \$19.9  | \$17.7  |
| Cost of Sales  | 35.0    | 16.2    | 14.5    | 14.1    | 13.1    | 12.1    | 13.0    | 11.5    |
| Net Earnings (Loss)  | 29.0    | 27.2    | 9.3     | 7.9     | 4.1     | 6.7     | 1.4     | 3.3     |
| Basic Earnings per share   | \$0.47  | \$0.44  | \$0.16  | \$0.13  | \$0.07  | \$0.11  | \$0.02  | \$0.06  |
| Diluted Earnings per share   | \$0.46  | \$0.43  | \$0.15  | \$0.13  | \$0.07  | \$0.11  | \$0.02  | \$0.06  |
| Realized copper price  | \$1.42  | \$1.44  | \$1.20  | \$1.16  | \$1.11  | \$1.03  | \$0.84  | \$0.75  |
| Cash Costs (C1) (per lb) <sup>(1)</sup>  | \$0.60  | \$0.58  | \$0.48  | \$0.45  | \$0.48  | \$0.39  | \$0.47  | \$0.42  |
| Total Costs (C3) (per lb) <sup>(1)</sup>   | \$0.80  | \$0.75  | \$0.59  | \$0.68  | \$0.67  | \$0.53  | \$0.66  | \$0.47  |
| <b>Financial Position</b> (millions)   |         |         |         |         |         |         |         |         |
| Working Capital  | \$47.1  | \$61.4  | \$33.9  | \$51.8  | \$28.0  | \$40.2  | \$13.5  | \$9.6   |
| Total Assets   | \$561.9 | \$523.1 | \$473.1 | \$385.0 | \$276.4 | \$241.8 | \$162.1 | \$132.3 |
| Weighted Average # Shares (000's)  | 61,499  | 61,267  | 60,942  | 60,668  | 59,434  | 58,568  | 55,984  | 54,707  |
| <b>Bwana/Lonshi Production Statistics</b>  |         |         |         |         |         |         |         |         |
| <i>Mining:</i>   |         |         |         |         |         |         |         |         |
| Waste Mined (000's)  | 4,025   | 2,596   | 2,926   | 4,213   | 2,854   | 1,036   | 885     | 1,833   |
| Ore Mined (000's)  | 319     | 152     | 261     | 257     | 85      | 66      | 439     | 260     |
| Ore Grade %  | 5.5     | 5.3     | 6.4     | 4.7     | 5.2     | 5.4     | 5.5     | 4.8     |
| <i>Processing:</i>   |         |         |         |         |         |         |         |         |
| Ore Processed (000's)  | 328     | 264     | 256     | 278     | 237     | 209     | 197     | 233     |
| Contained Copper (tonnes)  | 13,354  | 13,804  | 12,824  | 12,908  | 10,813  | 10,904  | 10,790  | 11,188  |
| Grade %  | 4.1     | 5.2     | 5.0     | 4.6     | 4.6     | 5.2     | 5.5     | 4.1     |
| Recovery %   | 88      | 87      | 85      | 88      | 89      | 89      | 89      | 79      |
| Copper Produced (tonnes)   | 11,717  | 12,028  | 10,942  | 11,330  | 9,585   | 9,689   | 9,558   | 8,862   |
| Acid Produced (tonnes)   | 69,218  | 55,275  | 35,671  | 35,920  | 34,265  | 34,344  | 33,035  | 36,245  |
| Surplus Acid (tonnes)  | 14,939  | 49      | 9,664   | 16,884  | 19,149  | 20,763  | 15,689  | 20,275  |
| Cash Costs (per lb) <sup>(1)</sup>   | \$0.57  | \$0.58  | \$0.48  | \$0.45  | \$0.48  | \$0.39  | \$0.47  | \$0.42  |
| Total Costs (per lb) <sup>(1)</sup>  | \$0.79  | \$0.75  | \$0.59  | \$0.68  | \$0.67  | \$0.53  | \$0.66  | \$0.47  |
| <b>Kansanshi Production Statistics</b>   |         |         |         |         |         |         |         |         |
| <i>Mining:</i>   |         |         |         |         |         |         |         |         |
| Waste Mine (000's)   | 3,185   | 1,651   | 2,857   | 1,175   | -       | -       | -       | -       |
| Ore Mined (000's)  | 2,051   | 2,120   | 1,346   | -       | -       | -       | -       | -       |
| Ore Grade %  | 2.0     | 1.7     | 2.4     | -       | -       | -       | -       | -       |
| <i>Processing:</i>   |         |         |         |         |         |         |         |         |
| Ore Processed (000's)  | 1,129   | 688     | -       | -       | -       | -       | -       | -       |
| Contained Copper (tonnes)  | 21,145  | 11,541  | -       | -       | -       | -       | -       | -       |
| Recovery %   | 86      | 65      | -       | -       | -       | -       | -       | -       |
| Copper Produced (tonnes)   | 18,192  | 7,497   | -       | -       | -       | -       | -       | -       |
| <i>Combined Cash Costs:</i>  |         |         |         |         |         |         |         |         |
| Cash Costs (per lb) <sup>(1)</sup>   | \$0.63  | -       | -       | -       | -       | -       | -       | -       |
| Total Costs (per lb) <sup>(1)</sup>  | \$0.80  | -       | -       | -       | -       | -       | -       | -       |
| <i>Cathode Cash Costs:</i>   |         |         |         |         |         |         |         |         |
| Cash Costs (per lb) <sup>(1)</sup>   | \$0.61  | -       | -       | -       | -       | -       | -       | -       |
| Total Costs (per lb) <sup>(1)</sup>  | \$0.80  | -       | -       | -       | -       | -       | -       | -       |
| <i>Concentrate Cash Costs:</i>   |         |         |         |         |         |         |         |         |
| Cash Costs (per lb) <sup>(1)</sup>   | \$0.65  | -       | -       | -       | -       | -       | -       | -       |
| Total Costs (per lb) <sup>(1)</sup>  | \$0.81  | -       | -       | -       | -       | -       | -       | -       |

<sup>(1)</sup> For the definition of cash and total costs, reference should be made to section 8.