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First Quantum Minerals Ltd. (FM.CA)

Q3 2023 Earnings Call

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Bonita To

Director-Investor Relations, First Quantum Minerals Ltd.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

OTHER PARTICIPANTS

Jackie Przybylowski

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Orest Wowkodaw

Analyst, Scotiabank

Greg Barnes

Analyst, TD Securities, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. This is the conference operator. Welcome to the First Quantum Minerals Limited Third Quarter 2023 Results Conference Call. As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. [Operator Instructions]

I would now like to turn the conference over to Bonita To. Please go ahead.

Bonita To

Director-Investor Relations, First Quantum Minerals Ltd.

[audio gap] (00:00:45-00:01:14) , with opening remarks followed by Rudi Badenhorst, our Chief Operating Officer, who will provide an overview of our operations. Ryan MacWilliam, our Chief Financial Officer will review our financial results, and Tristan will wrap things up, after which we will open up the line to take questions.

And with that, I will now turn the call over to Tristan.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, Bonita. And thank you, everybody, for joining us on our conference call today to discuss our third quarter results.

I'm speaking to you today from our Sentinel and Enterprise operations here in Zambia. I'm pleased that production at our three largest operations continued to improve in the third quarter, which Rudi will provide more detail in his review of operations. As well, we saw a modest easing with some of our input costs. As a result of our focus on productivity and costs, our third quarter EBITDA of \$969 million was a meaningful improvement from the second quarter, despite the continued weakness in the copper price.

Before continuing with details on our third quarter results, it is pleasing to share with you that the Concession Contract surrounding the Cobre Panamá mine was enacted into law at the end of last week, which marked the final step in revising the legal framework for the mine. The new law received strong support at the National Assembly with 47 votes in favor of the new agreement out of a total of the 55 votes that were registered. I would like to thank the team in Panamá for their hard work and collaboration with the Government of Panamá to ensure the successful passage of the contract into law.

With the law published in the Official Gazette, First Quantum will soon be making payments to cover taxes and royalties for 2022 and the year-to-date in 2023, which Ryan will provide more details on in his financial review. With the legal certainty at Cobre Panamá now established, we look forward to continuing our contribution to the economic benefits of the country through employment, supplying from local businesses, and all our other programs in-country. Nevertheless, we have seen protests from various groups across the country, which acts as a reminder that we as a mining company and the industry as a whole need to do more hard work in communicating the many benefits that our mines can bring to the surrounding communities and our host countries.

And with that, I would like to hand the call over to Rudi.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

It was pleasing to see improvements continue from the second quarter with each of the three mine operations having production increases in the third quarter. Total copper production was nearly 222,000 tonnes during the period, up over 34,000 tonnes quarter-over-quarter as grades and throughput improved at each of Cobre Panamá, Kansanshi and Sentinel. Copper C1 cash cost in the third quarter improved considerably at all three of the operations. Group-wide C1 costs averaged \$1.42 per pound during the third quarter, a \$0.56 per pound improvement over the second quarter, which was primarily driven by the higher production volumes, although there was an easing in some input costs, which Ryan will speak to in his remarks.

At Cobre Panamá, the operation delivered record copper production of 113,000 tonnes, 25% higher than the second quarter as grades improved and load throughput was higher with the continued successful ramp-up of the CP100 Expansion project. Throughput was over 24 million tonnes during the quarter, and we remain on track to exit 2023 at a consistent and reliable annualized rate of 100 million tonnes through the plant. There is currently a drought in Panamá, which is impacting water levels in the Panamá Canal and has led to some vessel restrictions. At this time, the Cobre Panamá operations are not impacted by the canal, with most of the mine supplies sourced from South America and delivered through our own port. With regards to concentrate shipments, the only impact on Cobre Panamá are slightly longer voyage times for concentrate shipments to customers based in Asia that have not chosen alternative shipping routes.

Moving over to Zambia. At Kansanshi, copper production of approximately 40,000 tonnes was nearly 5,000 tonnes higher than in the second quarter. Production during the third quarter continued to focus on mining cutbacks at elevated benches with higher grades, and this is expected to continue into the fourth quarter. At Sentinel, grades continue to improve in the third quarter, allowing for copper production to improve by nearly 10,000 tonnes to 64,000 tonnes in Q3. The improved copper production was driven predominantly by higher grades, while throughput was challenged by hard ore found in the lower levels of Stage 1 and 2 pits. This harder ore impacted mining, crushing and milling rates during the quarter, and is expected to continue into the fourth quarter. As such, along with the challenges experienced earlier in the year at Sentinel, 2023 production guidance has been lowered for the operation, which Tristan will address in his closing remarks.

Thank you. And I will now hand the call over to Ryan to review the financials.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Thank you, Rudi. The copper price was broadly flat quarter-on-quarter, averaging \$3.79 per pound in Q3, 1% lower than in Q2. However, copper prices fell towards the end of the quarter to just over \$3.60 per pound as expectations of higher-for-longer interest rates with a knock-on impact on industrial activity and rising geopolitical tensions have led to a risk-off market sentiment. Despite this, copper demand, particularly in China, remains robust on the back of continued electric grid and electric vehicle spending, a reminder that the lifeblood of energy transition will flow through copper veins.

As Rudi described, production was very strong through the quarter, and resulted in a 23% increase in copper sales to 219,000 tonnes, which is a record for First Quantum. This meant that despite the flat copper price, revenues increased by 23% to \$2 billion. As Rudi also noted, there is a drop in Panamá that has led to longer voyage times through the canal for some of our shipments. Based on the structure of these contracts, however, the company's revenue recognition and timing of cash receipts on these shipments is not impacted by these delays.

The record quarterly copper production also benefited unit costs, helping drive copper C1 cash costs down 28% to \$1.42 per pound. Cash cost also benefited from higher byproduct credits, as well as lower consumable costs as fuel, sulfur, and explosive prices all reduced compared to the previous quarter. It is worth noting that Brent crude oil prices increased from \$75 per barrel at the beginning of the quarter to \$92 per barrel at the end, driven by OPEC cuts and tension in the Middle East. This has the potential to impact costs towards the end of the year once existing field inventories are worked through.

On labor costs, it was pleasing to see the Cobre Panamá collective bargaining contract successfully signed in September. This agreement will be in force for the next four years, providing more certainty in our labor spend. More broadly on cost, we have narrowed our C1 guidance for the year to \$1.75 to \$1.85 per pound. This mostly reflects a weaker copper production at Sentinel in H1, offset by the strong production in Q3 across the other sites and the expected strong end to 2023.

Slide 17 highlights that third quarter EBITDA increased 71% to \$969 million, the highest in the last year. This significant increase was a result of the record quarterly sales and lower costs. Net earnings attributable to shareholders increased to \$325 million and adjusted earnings per share increased to \$0.52. The effective tax rate has averaged 17% year-to-date with full year guidance between 40% and 45%. Effective tax rates in the final quarter will be higher, as income tax expense for 2023 is adjusted under the Refreshed Concession Contract at Cobre Panamá.

As noted in our MD&A, it is intended that the charge relating to the taxes and royalties up to the year end 2022 will be excluded from 2023 adjusted earnings. So, the full year guidance rate of 40% to 45% reflects 2023 tax and royalty payments only. I would also note that the anticipated top-up under the new structure in Panamá is treated as a royalty and not a tax in the calculation of effective tax rates.

Moving on to our balance sheet. Net debt reduced slightly by \$13 million to \$5.64 billion this quarter. Despite strong EBITDA growth, net debt was impacted by unfavorable changes in working capital; the successful completion of the La Granja acquisition and the resulting \$105 million payment to Rio Tinto; and an increase in capex spend of \$49 million. The increase in capex reflects a steady progress in the S3 expansion project at Kansanshi, which Tristan will describe later.

Lastly, on capital allocation. Current copper prices are well below the level needed to incentivize Greenfield developments, particularly when one considers the high capex and opex inflation in recent years. For context, in real terms, this week's opening copper price of \$3.54 per pound is equivalent to a price of around \$2.90 per pound in 2018. Our capital allocation focus therefore remains on strengthening the balance sheet and less capital intensive brownfield projects like S3. Rather than allocating any material capital to our portfolio of Greenfield projects.

Additionally, with CP100 commissioned in Q1 and Enterprise now producing nickel concentrate, the brownfield expenditure on two of our three key projects is behind us, with the production growth to come as Cobre Panamá and Enterprise ramp up. Current liquidity remained strong at \$2.3 billion, supported by the issuance of the \$1.3 billion 8-year bonds in the previous quarter. That positions us well to cover the Cobre Panamá taxes and royalties, which are payable soon as a result of finalizing the legal framework in Panamá.

Total payments for the year will be comprised of tax and royalties for up to the year-end 2022 of \$395 million, of which \$45 million is already paid and approximately another \$215 million will be payable soon to cover the first three quarters of 2023, resulting in a near term payment of \$565 million. For 2023 as a whole based on current copper prices, we expect a total payment of \$375 million for the year that includes the top-up payment. This will result in a total tax and royalties payable for 2022 and 2023 in Panamá of \$770 million. And that brings the finance section to an end.

I'll now hand the call back to Tristan.

A. Tristan Pascal

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks for that, Ryan. As Rudi noted, the first quarter saw production improvements. However, regrettably, we are lowering our copper production forecast for 2023 to 745,000 to 775,000 tonnes, mainly due to Sentinel. At Cobre Panamá, the CP100 Expansion project continued to ramp up very well. The operation continues to achieve periods of design capacity and remains on track to exit the year at a consistent rate of 100 million tonnes per annum. As such, we have tightened our copper production guidance for Cobre Panamá to between 365,000 to 375,000 tonnes of copper. Construction of the moly plant continues to progress well and commercially production of that unit, which is expected in 2024.

At Kansanshi, mining will continue to focus on the upper benches of Main 15 and Main 17 and we expect the strong growth to continue in the fourth quarter. Kansanshi continues to perform within our expectations, albeit at the bottom end of the range. As such, our copper production guidance range has been tightened to between 130,000 to 140,000 tonnes. Gold production has been lowered to between 65,000 to 70,000 ounces to reflect gold grades encountered to date. Current levels of copper and gold production

will remain at or near these levels until the S3 Expansion project comes online. The S3 Expansion continues to progress well. We have started receiving long-lead items during this past quarter, including the first ultra-class trucks and initial components of the mills and primary crusher. Earth and construction works continue and are expected to accelerate into next year. We remain on schedule for first production from the S3 Expansion in the second half of 2025.

At Sentinel given the challenges early in the year and the harder than expected ore counted in the third quarter, we have lowered copper production guidance to between 220,000 to 230,000 tonnes. However, work is being done to bring in the softer ore with mining starting in Stage 3, which should start to meaningfully contribute to ore feed in the second quarter of next year. As well over the last several months, a lot of work has been conducted to better prepare the mine for the upcoming rainy season, including mining down the saddle zone between Stage 1 and Stage 2 and adding additional pumping capacity. We continue to review the impact of harder ore on the coming year mine plan, but at this stage we expect to be able to blend more effectively with the wet season infrastructure being installed. We will address guidance in January, but at this stage we are holding to our previous outlook for 2024 and 2025.

At Enterprise, another important milestone was achieved during the quarter with first sale of nickel concentrate. The focus remains on stripping of waste and the final ramp-up of the process plant to full production capacity, which is expected next year. We encountered challenging metallurgical characteristics of a shallow ore due to weathering leading to a reduction in our 2023 guidance to between 3,000 tonnes to 5,000 tonnes of contained nickel. However, a good understanding of the process impact of this material has been developed and we expect plant recovery and concentrate quality to continuously improve as we gain greater exposure to less weathered ore deeper in the mine.

Lastly, it was with great sadness that we announced the passing of our Chairman, Philip Pascall, during the quarter. I am in Zambia right now, where Philip was posthumously honored for his work and contributions to the country with the Eagle of Zambia Award by President Hichilema yesterday. Philip was a great mentor and inspirational leader, and his loss has been felt deeply across the company and the communities that First Quantum operates within. The outreach from the investment and mining community has been tremendous and humbling. I would like to sincerely thank everybody for their condolences and the sharing of memories of Philip. Built on the legacy of the Founders of the company, we remain committed to the trajectory of First Quantum and we believe we have both the projects and the capability and people to deliver that into the future in an environmentally and socially responsible manner and in the financially disciplined approach, cognizant of continuing to improve our balance sheet.

With that, I will be happy to take questions now. Thank you.

QUESTION AND ANSWER SECTION

Operator: We will now begin the analyst question-and-answer session. [Operator Instructions] The first question comes from Jackie Przybylowski with BMO Capital Markets. Please go ahead.

Jackie Przybylowski

Analyst, BMO Capital Markets

Q

Thanks very much. And just to echo what you said at the end of your remarks, Tristan, I'll pass on my condolences to you and the team on the passing of Philip. It's a huge loss to First Quantum, of course, and the whole industry. And my question is on your guidance revisions both on those volumes and the costs. It seems like Q3 was a strong quarter across your operations. And my understanding based on prior comments from yourselves was that Q4 is expected to be fairly strong as well. So, I'm wondering if that's changed – if your expectations for Q4 has changed or if you're just reflecting some more of a cautious outlook, just given what we know from the first half of the year?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yes, thanks, Jackie. And I'll ask Ryan to provide some more detail. But yeah, we have tightened the guidance. And as you say, that's built off, particularly at Cobre Panamá, very strong performance in the quarter. And we're very pleased with the progress from the CP100 Expansion in terms of the impact that it's having. What we do see is the grades were higher at CP100 during the quarter and they will come off a little bit in the fourth quarter, just in the normal course of the mine plan for the year. And so it's not really conservatism there, but just focus on the existing mine plan. At Sentinel, look, we're in a good position to face the wet season and perhaps I can just ask Rudi to comment a little bit more on that. Rudi, would you just cover that in terms of outlook for the remaining quarter of Sentinel and perhaps also at Kansanshi and then Ryan if you could just comment on the cash cost outlook. Thank you.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

A

Yes, thanks, Tristan. Hi, Jackie. Thanks for that question. At Sentinel, we experienced a difficult first half of 2023 as a result of the impact of the rainy season, which we discussed on the last call. But we've made a lot of infrastructure investment on the dewatering capability and capacity at Sentinel, effectively tripling its input to dewatering capacity to over 10,000 cubic meters per hour. We've finalized the final environmental treatment pond construction activity during this latter part of Q3. We've also finalized pumping water back to the plant and using it primarily in the plant rather than in utilizing and discharging to the environment under the regulatory limits. So, effectively meaning that we do not have to hold back and wait for water to be neutralized at Sentinel before we can discharge, because all of that's now going into the plant.

Secondly, at Sentinel as well, the saddle that is between Stage 1 and Stage 2 that in the previous wet season resulted in the damming of water has been completely mined out. And, as far as the hard ore is concerned, yes, certainly we experienced some very hard ore in the bottom of Stage 1 and Stage 2 pits, during the quarter, we're mining in an area of the old block called Domain 4, which has hard kyanite. And although that will remain with us during the course of the fourth quarter in both of Stage 1 and Stage 2, we are already noticing drilling and blasting, punching through that domain into the one below which is has seen slightly softer ores. So,

we are currently situated in Stage 1 pit, in the hard stuff, it won't migrate out of that towards Q1, Q2 of next year. But it certainly will be with us for the remainder of this year.

Ryan MacWilliam*Chief Financial Officer, First Quantum Minerals Ltd.*

A

Then, Jackie, maybe if I just jump in on costs. So, we still expect to finish within our initial costs guidance. What we've done is we've moved up our bottom end from \$1.65 to \$1.75, and that's largely a function of what Rudi described, the weak production from Sentinel for most of this year, which is somewhat offset by slightly better cost inputs, most notably diesel and explosives than what we assumed at the beginning of this year. So, we now have a new cost guidance, \$1.75 to \$1.85 per pound of copper.

Jackie Przybylowski*Analyst, BMO Capital Markets*

Q

That's super helpful. Thanks, Ryan and Rudi and Tristan. And if I could ask a follow-up on maybe to Ryan, you've got a number of cash outflows coming up with the tax settlement as part of this agreement with the Government of Panamá and the La Granja acquisition completion and the work you're doing on S3 and other projects. Can you talk a little bit about your balance sheet and where you see your balance sheet sort of going over the next couple of quarters with those cash outflows and sort of how you expect to fund those if it's through just cash on hand or any other way of funding them? Thank you.

A. Tristan Pascall*Chief Executive Officer & Director, First Quantum Minerals Ltd.*

A

Sure, Jackie. Go ahead, Ryan.

Ryan MacWilliam*Chief Financial Officer, First Quantum Minerals Ltd.*

A

So, we saw leverage metrics improved through the quarter. We were at 2.2 times net debt to EBITDA at the end of Q2. Because of the strong EBITDA performance we're now at just above 2 times net debt to EBITDA. So, pleasing to see that progress of the stronger off the back of stronger EBITDA. And that was also in a quarter where we made \$105 million payment to Rio Tinto for La Granja. So, that payment is now behind us. In terms of what is ahead, as you note, we've got the payment associated with the settlement and agreement, and new legal framework in Panamá that will be paid shortly. And we're in a fortunate position where we have \$2.3 billion of liquidity, strong liquidity on the balance sheet to address that. And then going into next year, it will be as before, continue to remain disciplined about capital, certainly not looking at spending material capital on greenfield projects and being disciplined around the capital that goes into our brownfield projects which are being advanced.

Jackie Przybylowski*Analyst, BMO Capital Markets*

Q

That's super helpful. Congratulations again on a really great quarter. Thank you.

Operator: The next question comes from Orest Wowkodaw with Scotiabank. Please go ahead.

Orest Wowkodaw*Analyst, Scotiabank*

Q

Hi. Good morning. And my condolences as well, no doubt Philip is a legend of the mining industry. Just following up on Jackie's questions, if I'm hearing you correctly, I think you said that you expect the harder ore at Sentinel to

spill over into the first half of 2024. Has that already been factored into the existing guidance for Sentinel for next year of 245,000 tonnes to 265,000 tonnes? Or are you finding the ore is harder than what's assumed in the current mine plan in that guidance?

A. Tristan Pascall*Chief Executive Officer & Director, First Quantum Minerals Ltd.*

A

Sure Orest. So, I'm here at Sentinel now and just looking at what that harder material was and look, it's chemically altered rather than, anything you can see delineated or otherwise. So, it's an area that we really saw as we approached it in terms of drilling performance, the grade control drilling and then the production drilling. So, it really did affect us in Q3. We are starting to get through, it's very much a horizontal band that runs through. And as I said, it's sort of chemical alteration. So, very hard to pick up other than in a physical parameter, but we believe that it is present in the pit and in that horizontal band. We threw some of it in the areas in the bottom of Stage 1. But we do see it continue and as Rudi said we will see that continue to Q4. It was part of the mine plan before, but we did see that during the course of the year, we were going to be indexed across different areas of the pit that would have provided flexibility. The wet weather in Q1 hampered that flexibility and we were very much more sequential as the year turned out that as we mined Stage 2 and we went to Stage 1 and I think next year with the additional water infrastructure in place, we'll see much more of a blended, mixed mine plan across the year. And that's why we say we are where we're at in terms of guidance for next year. We will address that in we're going through the budgets right now at the moment to address that in January, but at this stage, no reason to pre-empt that.

Orest Wowkodaw*Analyst, Scotiabank*

Q

Okay. And thank you for that. And just as a follow up question from Ryan, I didn't quite catch some of the numbers that you disclosed with respect to the upcoming payments here in Q4. Can you just give us that total again for the total payments? I think in Panama relating to both 2022 and I guess what would that be the first three quarters of 2023?

Ryan MacWilliam*Chief Financial Officer, First Quantum Minerals Ltd.*

A

Sure, Orest. So, we'll be paying \$395 million, which is for all payments up until the end of 2022. In addition to that, we'll be paying a large portion of our 2023 taxes and royalties, effectively a catch up for this year. And that combined number is at \$565 million. We do expect across 2022 and 2023 to pay total tax and royalties of \$770 million. But obviously some of that those payments will occur in 2024.

Orest Wowkodaw*Analyst, Scotiabank*

Q

Okay. So, that \$770 million includes a Q4 number in it?

Ryan MacWilliam*Chief Financial Officer, First Quantum Minerals Ltd.*

A

Correct.

Orest Wowkodaw*Analyst, Scotiabank*

Q

Okay. All right. Thanks so much.

Operator: The next question comes from Greg Barnes with TD Securities. Please go ahead.

Greg Barnes

Analyst, TD Securities, Inc.

Q

Yes, thank you. Tristan, with Law 406 now in place, there are a number of Supreme Court rulings and government actions that relates to Law 9, one of them being that Law 9 was unconstitutional. Do all those fall away now and they become really non-issues for you?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah. Hi, Greg. Thanks. Look, so certainly we're very pleased to have the contract passed into law. The process has alleviated a lot of the concern around that. It received really good support through the National Assembly at 47 votes of the 55 that were cast. And I guess that level of support speaks to the authority of the passing of the contract, the unconstitutionality motion Panamá is a litigious environment and so there is an ongoing unconstitutionality proceedings. We're not a party to those proceedings, so we don't have a detail with specific nature. But it is common practice as I said in Panamá and other mining jurisdictions for challenges like this to be filed, because of the passing and the status, the involvements and the and the deliberation that was involved in establishing now the new legal framework to go forward, it went through public – due public process, it went through the National Assembly.

Our understanding is that due legal process has been adhered to and the Government of Panamá has certainly assured us of the same. Once the details emerge, from those proceedings, we will be able to take part in the proceedings. But, we do see this as just a normal course of action in litigious environments. But we have confidence in the standing off of this process that's taken this long to get to this point. And again we're pleased to have it passed into law.

Greg Barnes

Analyst, TD Securities, Inc.

Q

Okay. That's great. Thanks. Thanks, Tristan. Just a second question and maybe a bit out of left field, but with respect to Ravensthorpe, it continues to lose money. The nickel price is weak and the outlook isn't great. And I just noted in the MD&A that it appears that there was a cash call and POSCO didn't participate. Is there any thought about the future operational viability of Ravensthorpe from here?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah. Thanks, Greg. Look, Q3 at Ravensthorpe, we were impacted by ongoing maintenance. It's a feature of the salt water that we take there and but also adaption of the plant to the material characteristics of Shoemaker-Levy so for example, magnesium content and so on and the density around what comes in from Shoemaker-Levy, so that adaption is ongoing. I think it will continue to impact us in Q4. We have a major shut on the acid plant coming up. We need to renew the catalyst there and that shut will improve significantly the electrical side and the acid plant performance and efficiency. Really the ongoing focus for us at Ravensthorpe is to get to the 30,000 tonnes per annum plant design capacity. And that really does start to deliver a lot in terms of maintenance improvements. We've put in place those adaptations to the front-end beneficiation, that deal with density and deal with beneficiation from Shoemaker-Levy and also on the back-end on rejects handling and so on. But Ryan, you might comment on POSCO's decision around the cash input.

Ryan MacWilliam*Chief Financial Officer, First Quantum Minerals Ltd.*

A

Sure. So, I would note firstly on the market side, the nickel price has struggled through Q3 and on top of that, payabilities for products like MHP remain low, a function of just the sheer amount of volume of nickel that is coming out of Indonesia. So, I think for us and everyone in the nickel that is exposure to the nickel sector at the moment, we are spending a lot of time on what we can do to enhance operating margins and that's some of activities that Tristan talked about. So certainly a pertinent question, Greg. In terms of POSCO specifically, they had certainly invested in Ravensthorpe to procure MHP for nickel sulfate plant which they were looking to build at this stage, they've delayed that plant given the volumes that are coming out of Indonesia. So, there is less incentive for them to fund Ravensthorpe going forward given what the strategic rationale for their initial investment was.

Greg Barnes*Analyst, TD Securities, Inc.*

Q

Okay, thanks, Ryan. That's helpful.

Operator: The next question comes from Ralph Profiti with Eight Capital. Please go ahead.

Ralph M. Profiti*Analyst, Eight Capital*

Q

Thanks, operator. Good morning, everyone. Tristan, at Sentinel when you look into Q4 and into 2024, you've addressed sort of the water issues and the tail events on potential water inflows. So, I thank you for that. Can you maybe expand on that and talk a little bit about energy and grid availability? As it pertains to some of the changes you're making in the combination circuit with that finer grind? And also how is the mine shaping up for things like maintenance given the increased wear with this harder ore?

A. Tristan Pascall*Chief Executive Officer & Director, First Quantum Minerals Ltd.*

A

Thanks, Ralph. Rudi, do you want to answer that question and I'll come in at the end if needed.

Rudi Badenhorst*Chief Operating Officer, First Quantum Minerals Ltd.*

A

Yes, Tristan. Hi, Ralph. Look, every wet season when it approaches in Zambia, the question of electricity comes up. Certainly we have as per our previous experience, there's no desire whatsoever to limit security of supply to our operations. And certainly we've had a good rainy season last year. We've also just in the process of finalizing our long-term power supply agreements with the electricity provider and that effectively has been agreed for both Sentinel and Kansanshi. And just did drafting final documents there. So, as far as electricity supply is concerned, I think there's no concern on our part. And certainly as a company we are also looking at joint ventures with others, like Total for example, looking at the installation of renewable energies in Zambia. So, I think that long term, we're fine there. The harder ore as Tristan explained, and I said earlier as well, is mainly situated in Domain 4 with higher kyanite, with a band that runs through the pit, and it's been getting us trouble with throughput on the crushers and the mills during the last quarter, and looks like we're punching through that in the main pit now, although it will linger in Stage 2. But also the availability of the third cutback Stage 3 towards the West that we are now actively in, in mining that will deliver ore through the end of Q1 into Q2 next year makes the blending characteristics so much better. So, we've had a bit more abrasion in our crushers during this last quarter,

but we don't expect to see that prolonging. And at this very minute, we are also busy with a mine to mold study utilizing the expertise of a vendor to help us with some of those material selections.

Ralph M. Proffitt

Analyst, Eight Capital

Q

Got you. Thanks, Rudi. That's helpful.

Ryan, when do the 2024 tax installments come due? Right. Just thinking a little bit forward, are those frontend loaded towards the year? And going forward, how will tax installment payments be made? Just thinking about timing.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Yes. In general, we make the royalty payments on a quarterly basis, and then the top-up generally comes in the first part of the next year. So, you're now going to see us move to a fairly normal approach in terms of timing of taxes and royalties, Ralph.

Ralph M. Proffitt

Analyst, Eight Capital

Q

Got you. Thanks, team.

Operator: The next question comes from Bryce Adams with CIBC Capital Markets. Please go ahead.

Bryce Adams

Analyst, CIBC World Markets, Inc.

Q

Tristan and team, thanks for the call, and well done on the operational results. I have another question on Panamá and the new mine contract. It's signed into law, but it sounds like there's still quite a lot of protesting and opposition in the country. Do you think it's a risk that a presidential candidate picks up on this and uses it as part of their campaign election and that a new government in May next year might want to revisit that contract? Quite a few ifs in there, but in terms of risk management, is that a scenario that you've thought through and planned for?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah. Hi, Bryce. Thanks for the question. Look, again, we're pleased to have the contract passed into law, and that was the outcome in terms of the vote in the National Assembly after due democratic process, which included that it was returned to the committee, and then between the company and government, we addressed the queries that came back from the committee and back from the democratic process, which were related to sovereignty. And then, that went forward into the National Assembly. And again, it was very strongly supported, 47 votes in the final reading of the 55 that were submitted.

So, it's been thoroughly reviewed by the National Assembly. It's been through the public process – the public participation. Look, the protests we acknowledge, and certainly it highlights the need for us to, and the industry as a whole to continue to improve disclosure, improve our communication, improve our engagement, and the discussions of benefits of mining around the economy, employment, our community impacts, the positive social contribution, our environmental standing.

We note the President's comments, his message to the nation yesterday on the topic, and we certainly support his comments on the impacts around the new framework and the renewed and strengthened benefits deployed to Panamá, and the environmental and social standing of the contract.

In terms of the election, yes, that will be in May next year, and the new President will come in place in July. Given the process to-date, we believe things are in a strong legal standing, and the risk is low. But we have confidence in the legal process today that given the exhaustive process that has been put in place.

Bryce Adams

Analyst, CIBC World Markets, Inc.

Okay, thanks. I appreciate the discussion. That's it for me.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, Bryce.

Operator: The next question comes from Ioannis Masvoulas with Morgan Stanley. Please go ahead.

Ioannis Masvoulas

Analyst, Morgan Stanley Securities Ltd.

Yes. Thanks very much for the presentation, and my condolences as well. My first question is around the gold production outlook at both Kansanshi, which is on a better footing now and Cobre with the CP100 progressing well. Do you have better line of sight on the midterm gold production guidance? Is there any potential upside or downside versus the published technical reports on either asset?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Rudi, would you like to take the question on gold guidance, please?

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

Thanks, Tristan. Thank you, Ioannis. So, we're currently going through our budgeting and re-planning process, and obviously we'll update on guidance in January. Gold grades, especially at Kansanshi, really relate to the challenges to the gold grades in Kansanshi seen with the overall decline in copper grades. There's been historically quite a good correlation between declining copper grade and the gold following suit. So, copper and gold production going forward should be pretty similar to 2023 levels until we see the S3 Expansion in Kansanshi kick in.

Ioannis Masvoulas

Analyst, Morgan Stanley Securities Ltd.

Okay, great. Very clear. And then, the second question on the balance sheet. Despite the very strong cost performance in the quarter, you still haven't managed to bring down net debt. Part of it, of course, is the La Granja deal and the outflow. But bigger part is also the working capital investment in the quarter. Could you provide a bit of color what happened there? And should we expect a release in Q4 that would temper the tax payments at Cobre? Thank you.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Ryan, do you want to take that?

A

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Sure, Tristan. So, Ioannis, what you saw at the end of Q2 was receivables were unusually low for us, and they've now moved to a more normalized levels. So, I wouldn't expect future working capital releases and I would now treat as that we're at normalised. We're at normalised working capital levels, and generally that's just driven by the timing of shipments of copper concentrates, whether they fall before or after the end of the quarter.

A

Ioannis Masvoulas

Analyst, Morgan Stanley Securities Ltd.

Great. Thanks very much.

Q

Operator: The next question comes from Alex Terentiew with Stifel. Please go ahead.

Alex Terentiew

Analyst, Stifel Nicolaus Canada, Inc.

Hi, everybody. Most of my questions have been asked, but I wanted to just ask one more here on Cobre Panamá. It had a very strong quarter in Q3, kind of looked like it was firing on all cylinders here. I know you're ramping up to 100 million tonnes a year, but the quarter already had 98 on an annualized basis. What's the bottleneck here in this mine? Is there opportunities to get it above 100? Are you going to be going into some harder ore that's going to slow things down? I'm just trying to see what the opportunities are for your largest kind of lowest cost mine to deliver to the upside in future years.

Q

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Yeah. Thanks, Alex. Look, again, we're in the process of updating our budgets, and we'll come back in January on guidance for the coming years. But general comment on the CP100, yeah, we're very pleased with the progress. It's certainly delivering. And again, we have a lot of confidence in being able to achieve a consistent run rate of 100 million by the end of the year.

A

Look, I think we will see higher maintenance as the high throughput continues on. As I said, we also had higher grades this quarter, and next quarter in the normal course of the mine plan, we do expect slightly lower grade still within the original setting. So, we did provide some guidance for the year. But look, the overall bottleneck at Cobre Panamá, once we resolve the comminution circuits, the frontend screening, the pebble crushing and secondary crushing, and then also as we have put in place the improved process water supply, the bottleneck comes to the SAG mills. And the SAG mill is the biggest capital item of the process plant. If you decide to put in a new SAG mill, you need everything downstream on blast. And so, what you're talking about is a new process plant.

We're not at that stage yet where we're considering a second processing plant at Cobre Panamá. We want to see this run continuing and deliver the 100 million expansion. That decision is not in front of us at the moment. There's optionality around that in the future in terms of copper price and balance sheet position and so on. But really, Alex, that's where you get to the bottlenecks next is at the big SAG mills, and those are the big capital cost item if you want to grow beyond that.

Alex Terentiew*Analyst, Stifel Nicolaus Canada, Inc.*

Okay. Sounds good. Thank you very much.

Q

Operator: The next question comes from Edward Goldsmith with Deutsche Bank. Please go ahead.

Edward Goldsmith*Analyst, Deutsche Bank AG*

Hi. Two questions from my side. Firstly, on Kansanshi. How should we think about the grade profile next year given the current focus on the higher grade cutbacks? And secondly, on La Granja. Can you outline the milestones and timeline to completing the feasibility study? Thank you.

Q

A. Tristan Pascall*Chief Executive Officer & Director, First Quantum Minerals Ltd.*

Thanks, Edward. Rudi, do you want to take the first question on Kansanshi guidance and grades?

A

Rudi Badenhorst*Chief Operating Officer, First Quantum Minerals Ltd.*

Thank you. Look, quarter four's throughput certainly will improve Kansanshi as we mine back the Main 15, 16, and 17 cutbacks to the South, and removal of waste dump around the Main 18 cutback. Those higher upper benches do mine easier due to the presence of oxide and weathered mixed material before we get into a competent sulphide. So, they do mine a little bit easier, and we're expecting to see higher grades there as a result of this transformed mineralization.

A

The benefit of that through 2023 will be seen in quarter four. So, primary message I guess still is the pit is migrating from a higher grade, low volume operation through to a larger volume, lower grade operation, similar to Sentinel and Cobre Panamá, and that's the reason for S3 expansion. So, until such time as we see S3 kick in, we'll be looking at similar sort of production levels.

A. Tristan Pascall*Chief Executive Officer & Director, First Quantum Minerals Ltd.*

And Edward, in terms of your question on La Granja, look, we were very pleased to finalize that transaction with Rio Tinto during the quarter. Rio is a well-capitalized industry leader, and we're very excited about the opportunity posed by La Granja, the opportunity to be a major partner in a large world-class orebody in the country that's been very reasonable to build mines and operator for the last 20 years is very exciting for us. Obviously, coming from when we're in a financially sound position that we do that in a disciplined manner.

A

But look, in terms of your question on development timeline, the initial two to three years is really focused on two key areas. The community engagement number one, and that relates to Rio has had an excellent program there in terms of world-class community engagement, and we will continue that on in terms of the project. And the second area is on the feasibility, and really that's around mostly delineating the orebody, not so much in terms of expanding, it's already one of the world's largest undeveloped assets, but more around delineation and the phasing of development of the project. So, we're currently mobilizing the first drill rig to do the infill drilling, to do the metallurgical test work, to look at the geotechnical side, to upgrade the resource, and be able to develop a high-level project layout on La Granja. That will be conducted in-house. The timetable for that over the next two years will then put us in a position to be able to put all of the engineering studies and so on in place thereafter and develop the asset we expect over a period of around four years.

So, something in the order of six years is appropriate for La Granja. So, in terms of timetable, we still see Taca Taca is more advanced at this stage. Obviously, there's no sanction to proceed at the current time. We're certainly awaiting the output of the ESIA permitting process and also the final decision and the election of Argentina and what the incoming government will do in terms of potentially improving the Argentina as a destination for investment, so. But La Granja we're very excited by the project, but it will take that time, possibly two years initially, and then six years in total to develop.

Edward Goldsmith

Analyst, Deutsche Bank AG

Thank you.

Q

Operator: The next question comes from Ian Rossouw with Barclays London. Please go ahead.

Ian Rossouw

Analyst, Barclays Capital Securities Ltd.

Thank you. Just one question for me for Ryan, just on the outstanding VAT balances within the Zambian operations. I see there was some negative adjustments for phasing expected just for the, I guess, future noncurrent balances? Is that related to, I guess, changes on the cost base or is it pricing assumptions? Maybe if you can just provide some details on that, please.

Q

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Yeah. Ian, that would be a combination of a couple of things. So, there's quite a lot in there. But the balance of it comes out of that slight adjustment.

A

Ian Rossouw

Analyst, Barclays Capital Securities Ltd.

Okay. I mean, presumably that talks to the future expectations of profitability of Kansanshi then being slightly lower?

Q

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Yeah. So, the way that...

A

Ian Rossouw

Analyst, Barclays Capital Securities Ltd.

Does that actually...

Q

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Yeah, exactly. So, the way that that agreement works is we now can deduct a set percentage of taxes and royalties each quarter. And obviously as copper prices move up or down, so that number grows or reduces depending on what our taxes and royalties are. So, that's generally what affects the phasing of that. So, the lower the copper prices, the less we're able to offset, and therefore the longer that VAT becomes due.

A

Ian Rossouw

Analyst, Barclays Capital Securities Ltd.

Q

Okay, great. And what copper price sort of deck, do you use consensus prices or what do you use within that analysis?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah. It's broadly consensus, Ian.

Ian Rossouw

Analyst, Barclays Capital Securities Ltd.

Q

Okay. Thanks.

Operator: This concludes the question-and-answer session. I would now like to turn the conference back over to Tristan Pascall for any closing remarks. Please go ahead.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, operator. And thank you, everybody, for joining us today. I certainly look forward to our next update with you early in the New Year. Thanks, everyone.

Operator: This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.

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