



**FIRST QUANTUM**  
MINERALS LTD.

# **First Quantum Minerals Ltd. First Quarter 2022 Results Conference Call Transcript**

**Date:** Wednesday, April 27, 2022

**Time:** 9:00 AM ET

**Speakers:** **Bonita To**  
Director, Investor Relations

**Tristan Pascall**  
Chief Operating Officer

**Hannes Meyer**  
Chief Financial Officer

**John Gregory**  
Group Consultant

**Operator:**

Welcome to the First Quantum Minerals Ltd. First Quarter 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.

I would now like to turn the conference over to Bonita To, Director of Investor Relations. Please go ahead.

**Bonita To:**

Thank you, Operator, and thank you, everybody, for joining us today to discuss our first quarter results.

Before we begin, I will draw your attention to the fact that over the course of this call we will be making several forward-looking statements, and as such, I encourage you to read the cautionary note that accompanies this presentation, our MD&A, and a related news release. As a reminder, the presentation which accompanies this conference call is available on our website, and that all dollar references are in U.S. dollars, unless otherwise noted

On today's call, Tristan Pascall, our Chief Operating Officer will provide an overview of the operations and performance during the quarter; followed by Hannes Meyer, our Chief Financial Officer who will review the financial results. Tristan will wrap things up, after which we will open up the lines to take questions.

With that, I'll turn the call over to Tristan.

**Tristan Pascall:**

Thank you, Bonita, and thank you, everybody, for joining us on the call today.

Copper production in the first quarter of 2022 was softer than the previous quarter due to mill and power station maintenance at Cobre Panama, and as we saw the impact of an extended rainy season at our Zambian operations. At the same time, our operation faced inflationary pressures, particularly from the end of February onwards, as the conflict in the Ukraine and the associated sanctions imposed upon Russia has led to high energy and input costs.

Despite these challenges, the first quarter delivered another record in earnings and profits as a result of continued strong metal prices, as our exposure to spot prices has greatly improved with minimal remaining hedges in place. This enabled us to continue to deliver on our ongoing priority of reducing debt, which Hannes will speak to more in his presentation.

Before going into the operational performance during the quarter, I will address the changes that we made to guidance yesterday evening. The decision to change our guidance so early in the year was not taken lightly; however, the world has changed since we provided our guidance in January, and we felt it important to be transparent on the impact it is having on the Company.

For the last two years, each of our mines worked and delivered under restrictive conditions presented by the global pandemic, particularly around labour and logistics. While these restrictions have eased, they do nonetheless continue to be present, and the Ukraine crisis has laid on a number of further disruptions to an already complex situation. It was paramount that we reset realistic expectations for the year ahead, given the challenges that we see.

For 2022, we have lowered our production guidance to a range of 790,000 tonnes to 855,000 tonnes of copper production. The lower guidance reflects the impact on actual progress of mining compared to plan during an extended rainy season at our Zambian operations and higher maintenance in Panama. At Sentinel, the wet ground conditions constrained the planned waste stripping and delayed access to high grade ore in the east of the pit.

At both Cobre Panama and Sentinel, grades of the ore fit to the plant were impacted as mine production was behind the budgeted schedule in Q1, largely due to a backlog of truck maintenance which impacted machine availability. This was a direct impact of restrictions on labour and resources during the COVID-19 pandemic and is now subsiding, although the catch up on truck maintenance may take several months to resolve. At both Sentinel and Cobre Panama, grades are expected to return to planned levels over the coming months. At Kansanshi, the feed rates to the plant were lower than plan, and we consider this pattern will likely continue for the remainder of the year.

Onto costs. When we released our cost guidance in mid-January, it was based on the inflationary pressures that we were seeing at that time. Since early end of February, early March as a result of the conflict in Ukraine and the sanctions imposed upon Russia, most of our major input costs, such as fuel, explosives, sulphur, freight, reagents, and steel have increased significantly globally. I would note that

our coal collars at Cobre Panama in part have insulated us from the full impact of electricity price inflation. While it is too early to determine if these global cost increases are structural or transitory in nature, the impact of these higher costs cannot be ignored, and we felt more prudent to plan for the year under a conservative cost scenario that assumes these cost pressures remain for the balance of 2022.

Moving on to discussions in our host countries. I spent time in the quarter in Zambia, meeting with the President and Senior Ministers in its administration to plot a path forward for our business in Zambia. I'm grateful for their efforts and the collaborative nature of these discussions, which we hope will ensure that the appropriate and enduring investment conditions exist for First Quantum to advance the Kansanshi S3 expansion and the enterprise nickel project. Discussions with the government include seeking an agreed mechanism for repayment of that owed to the Company. These discussions continue to be constructive, such that we are hopeful that we can reach resolution in the very near term, and advance both projects this year as reflected in our guidance.

In Panama, discussions with the government are ongoing. The parties continue to finalize the details behind the benefits of the \$375 million per year contribution from Cobre Panama on a gross profit-based royalty. These details include the necessary protections to the Company's business for downside copper price and production scenarios, and to ensure that the new contract and legislation are both durable and sustainable. Once an agreement is concluded and the full contract is documented, it is expected that the newly drafted legislation would be put to the National Assembly.

Turning to our operations. The Company produced approximately 182,000 tonnes of copper during the first quarter, down around 10% quarter-over-quarter for the reasons I noted earlier. We saw some improvement in the shipping environment in January and February, and sales for the quarter totalled 197,000 tonnes. The shipping environments since March has become more challenging due to the Ukraine conflict, China's COVID lockdown which has impacted its ports, and the recent flooding in Durban in South Africa. This has created congestion and some delays in shipping our product during Q1, mostly in smaller volumes which is shipped from Zambian and Ravensthorpe in containers. We expect the challenging shipping environment to persist for the remainder of this year.

With respect to the port of Durban, damage has been extensive from the heavy rains. Some port operations have already resumed; however, priority has been given to shipments of seasonal produce, and it may still take a few months until operations of the port return to normal. In the meantime, the

Company's rerouting shipments of as much Zambian production as possible by other South African ports, which may themselves experience some capacity constraints.

Cobre Panama's performance of 78,000 tonnes for the quarter was impacted by SAG mill relines performed earlier in the quarter, as well as the backlog of truck maintenance which I spoke of earlier. The mills have since ramped up well and Cobre Panama achieved a record monthly mill throughput of 7.6 million tonnes in March. And we have the benefit of six new trucks which have already arrived on site at the end of Q1 for the Colina pit. We remain confident that mill throughput will ramp up over the course of 2022 to achieve between 85 million tonnes and 90 million tonnes for the year.

Along with the cost inflation resulting from the Ukraine crisis, Cobre Panama's cash costs of \$1.65 per pound were also impacted by exposure to spot prices during the planned maintenance to Unit 1 at the power station that was completed at the end of January. However, with the maintenance complete, costs have moved back in line with the collar and coal prices for the mine. This collar prevents further exposure to increases in the coal price until December 2023.

At Kansanshi, copper production of approximately 42,000 tonnes in the quarter was in part impacted by the rainy season, but production also reflected the nature of the ore body in the reduction in oxide ores and the ongoing challenge of the selective high-grade methodology in sulphide ores.

Sentinel's copper production of 52,000 tonnes for the quarter was particularly impacted by the rainy season where higher than normal rainfall impacted ground conditions and delayed access to higher grade ore in the east of the pit. As noted earlier, also contributing to the restriction of ore movement was limited truck availability and a backlog of truck maintenance due to restrictions on labour and resources during the COVID-19 pandemic.

Our revised copper production guidance assumes great improvement in the second half of this year. The fourth in-pit crusher was successfully commissioned during the quarter, which is expected to stabilize mine ore feed at an annualized rate of 62 million tonnes per annum.

Turning to some of our ESG highlights from the quarter, I'd like to start by congratulating our teams at Kansanshi and Sentinel, who were honoured with six awards from the Zambian Responsible Business Awards across various categories, including the 2021 Company of the Year, Corporate Social Responsibility award. These awards recognize organizations who take action while building coalitions

across communities, and it's great to see our programs in public health support, education, and environmental stewardships being recognized.

In Mauritania, 132 women recently completed our Annual Female Empowerment program. This targets improving literacy, numeracy, and livelihoods in the poorest neighborhoods of Akoujit, close to our Guelb Moghrein mine to improve standards of living.

Moving to Panama, where we continue to support the development of our host communities with a range of programs. In February, we were happy to sponsor the World Neighbourhood Basketball tournament which took place in Colón. Over 1,100 children took part in the five day festival of sport and culture, which highlighted the importance of sports and the development and well-being of our communities, as well as our ongoing commitment to supporting them.

With that, I'll turn over things to Hannes, and I'll be back in a few minutes to wrap up.

**Hannes Meyer:**

Thanks, Tristan, and good day to everyone.

I'd like to direct you to the slides titled Financial Overview. That's Slide 11.

Strong financial performance in the quarter was driven by higher realized metal prices, benefiting from a reduced hedge profile and resulted in a significant increase in EBITDA and net earnings with a quarterly record in both gross profit of \$908 million and adjusted earnings per share of \$0.70, and a further notable reduction in net debt. This was despite the inflationary pressures on cost.

Gross profit and EBITDA of \$908 million and \$1.2 billion, respectively, were significantly higher than the comparable quarter in 2021. As a result, there was a significant improvement reflected in net earnings attributable to shareholders of the Company of \$385 million and adjusted earnings of \$418 million. Net earnings include a \$14 million nonrecurring cost in connection with previously sold assets.

Net debt decreased by \$238 million this quarter, bringing the net debt level down to \$5.8 billion as at March 31, 2022, with a debt reduction program on track.

Cash flow from operating activities were \$666 million for the quarter, \$77 million lower than the same quarter in '21, due to higher receivable working capital balances at the end of the quarter, principally due to higher realized metal prices.

Copper C1 cash cost of \$1.61 per pound was \$0.37 per pound higher than the comparable quarter in 2021, impacted mainly by inflationary pressures seen over the past year and lower production.

The conflict in Ukraine and the associated wide-reaching sanctions imposed upon Russia has led to sustained higher energy and commodity prices, as Tristan covered earlier, has further contributed to the global inflationary environment since the Company provided three-year guidance in January 2022.

Turning to the next slide, Financial Overview Continued. Within the quarterly summary table, all metrics, except for cash flow from operating activities and net debt are quarterly records for the Company with high realized metal prices driving strong financial results.

Turning to the next slide on copper unit cash cost. Copper C1 cash cost and all-in sustaining cost of \$1.61 per pound and \$2.27 per pound were recorded in the quarter. That's all copper C1 cash cost was \$0.37 higher than Q1 '21, including the additional inflationary impact with increases seen in fuel, explosives, freight, reagents, and steel, as well as sulphur which impacts our Ravensthorpe nickel operation.

During January, Cobre Panama also experienced higher power costs during the January power plant maintenance period. C1 guidance has been increased to \$1.45 per pound to \$1.60 per pound to take account of the increases to cost environment since guidance was issued, as well as changes to our production guidance.

All-in sustaining costs for the quarter was \$0.55 higher than Q1 last year, due to higher C1 cost and further impacted by higher royalty costs due to higher copper prices. All-in sustaining costs guidance has been increased to \$2.15 per pound to \$2.30 per pound to take account of higher royalties as well as increased C1 cost.

The next slide provides more detail on the significant increase in gross profit year-on-year. Gross profit increased by 68% compared to Q1 2021, primarily due to higher realized metal prices and a reduced

hedge profile, which mitigated the impact of the higher operating cash costs and royalties, as well as the lower sales volumes.

Going to the next slide on net debt evolution, the Company's net data was reduced by \$1.8 billion since Q2 2020 to an amount of \$5.8 billion at quarter end. The Company's leverage ratio was 1.4 times at the quarter end. The '21 corporate facility as a single net debt to EBITDA covenant not exceeding 3.5 times, and it's tested on a semi-annual basis after the June and December results.

Turning to the next slide on debt maturity and hedge profile. On April 5, the Company redeemed at par \$500 million of the remaining \$1 billion senior unsecured notes due in 2023, which leaves \$500 million remaining of this bond. No new hedges were placed in the quarter, where all hedges maturing during Q2.

At quarter end, the Company had 15,000 tonnes of unmargined zero-cost copper collars sales contracts outstanding with maturities to the end of June 2022 at the weighted average price of \$3.75 per pound to \$4.63 per pound.

Thank you, and I will now hand it back over to Tristan.

**Tristan Pascall:**

Thanks, Hannes.

Despite the operational and inflationary challenges presented in the first quarter, we remain committed to improving our balance sheet. As Hannes commented, we continued to reduce our debt position during the quarter and also announced the early redemption of senior notes subsequent to the quarter. We also remain committed to our brownfield projects which continue to be compelling economics, despite the global inflationary environment.

At Cobre Panama, the CP100 expansion is now well underway with 55% of the overall project complete. Procurements is 100% complete with supply ex works almost fully complete and delivered to site is at 80% complete.

In the first quarter of 2022, we took delivery out of eight additional ultra class haul trucks, with the remaining two to be delivered during the second quarter of 2022. These units will support an additional



rope shovel which is expected to become operational during the second half of 2022. Pre-strip work for the Colina pit and earthworks for the associated overland conveyor and in-pit crusher crushing facility have commenced and are expected to continue throughout 2022 and into 2023.

In terms of the potential impact from the tight shipping market, construction completion continues to be targeted for 2023. Ball Mill 6 and its gearless drive motor are already on site. The major outstanding components that remain to be fully delivered are related to the decant water pipeline and the screening project, and deliveries are expected to be complete by mid this year.

The S3 expansion, which is awaiting Board approval, involves a 25 million tonne per annum expansion of the sulphide ore processing facility, increasing annual throughput to 53 million tonnes per annum. Our current guidance for S3 assumes construction in 2023 and '24 and first production in 2025. The long lead items yet to be ordered other SAG mill, ball mill, and in-pit crushing station; and our current planning assumes a two year delivery time and non and 9-12 months installation.

At the Enterprise project, we are also awaiting Board approval, the project has the potential to add 30,000 tonnes per annum of nickel and our current guidance assumes first production in 2023. In the context of the current inflationary pressures and tight shipping environment, the Enterprise project has the least exposure with the plant largely built as part of the Sentinel complex, and the remaining \$60 million spend relating to pre-stripping activities.

The Las Cruces underground project is our longer-dated brownfields project that has the potential to add approximately 45,000 tonnes of copper equivalents annually to our production profile. A reserve update is expected later this year, which should also provide more detailed CapEx and OpEx estimates. The four brownfield projects have us on track to produce around 1 million tonnes per annum of copper, while at the same time allowing us to continue our financial discipline in reducing debt and returning capital to our shareholders.

Our portfolio of growth options includes several major greenfield opportunities, notably Taca Taca and Haquira. In 2022, the work plans for these projects are focused in-country and on the ground at each site, and we are excited about the long-term optionality that both these projects offer.

Finally, I want to thank the team at First Quantum. The last two years during the pandemic brought many challenges, and current global events have introduced another layer of disruptions to meet and to overcome. I thank the entire team for their efforts and dedication to our success.

Operator, we would now be happy to take questions.

**Operator:**

Thank you. We will now begin the analyst question-and-answer session.

Our first question comes from Greg Barnes of TD Securities. Please go ahead.

**Greg Barnes:**

Yes. Thank you, Operator.

Tristan, related to the COVID restrictions and all the other issues that have happened over the past couple of years, are you seeing lagging impacts on your mine plans and mine sequences, as a result it'll feed through the balance of this year and into 2023?

**Tristan Pascall:**

Yes. Hi, Greg. Thanks for the question.

Yes, look, COVID-19, we have worked for the past two years under fairly serious restrictions, but nonetheless delivered throughout that time, including the ramp up of Cobre Panama. We were able to navigate most of the pandemic fairly well. Omicron certainly did impact the operation through December and January. January in this last quarter.

And yes, we have seen as a result of that—so for example, at Cobre Panama there was quite an impact of the number of cases in the maintenance section for example, and that has had an impact on truck availabilities causing us some backlog on truck maintenance, beyond what was normal maintenance on the mill relines and so on that was at Cobre Panama during the quarter.

So, that backlog will take several months, I think, to work through, and as a result of that, yes, I think we were behind in Q1 in terms of where we wanted to be in mine schedule. The copper is still in the

ground in front of us. We were just not on the schedule to face positions because of that truck availability.

As I said in my comments, we now have another further six trucks on-site as part of the uplift for the expansion, and that does give us some flexibility, and we have a program in place to address that backlog on maintenance and catch up. Although, I think that will take a few months.

**Greg Barnes:**

You talked a lot about OpEx inflation, but not a whole lot about CapEx cost inflation, and particularly S3. Do you still have a lot of things—or a number of things to order on the ball mills and what have you? Are you seeing cost pressures or even scheduling pressures on the S3 project? I know selling hasn't even been approved yet.

**Tristan Pascall:**

Sure, Greg. Yes, we would like to place orders I think for those big items. I mentioned that the mills and the in-pit crushing facilities by the end of this year are going well in Zambia. We have had a first look at it, and so the last time we went through the estimate was really at the end of last year. So, sort of Q3 2021 was the last time we really went into detail on those costs. There's potential exposure on some of that. I guess the key question is how much of this impact, particularly on steel and logistics and freight, is transitory in nature and how much will stick. By the time we come to do that, we'll certainly be looking at that in terms of the order book.

I will say that most of that CapEx will come through for S3 towards the end of 2023 and 2024, and in fact, as we sit in the 43-101, will extend into 2025. So, it is back weighted in our guidance, and so if we do see some of this current inflation environment around CapEx unwind, then there's potential to get that back.

As I said, at Panama, we are largely through procurement, 100% complete, and most of the kit already delivered on the site. And so, there's very limited exposure there.

**Operator:**

Our next question comes from Orest Wowkodaw of Scotiabank. Please go ahead.

**Orest Wowkodaw**

Hi. Good morning.

Most of your comments relating to the weaker Q1 and impacts to guidance seem fairly transitory in the sense of sort of just delayed, accessing higher grade ore, and things like that. But your comments around Kansanshi and the oxide seem different to that and perhaps would suggest there's something more pervasive here.

Can you give us more colour on what you're seeing there with the oxide, and I guess the mixed, and whether this is something that you're seeing that's actually below the mine plan from a structural nature and potentially below the multi-year guidance?

**Tristan Pascall:**

Thanks, Orest. Hi.

Yes, look, there's really two main areas at Kansanshi. So, the first was the rainy season, which did continue. We still had heavy rains in mid-April and late April in Zambia, so it did push on this year. Quite a lot of those oxide materials are in locations and the conditions can get quite muddy in order for us to be able to process that material. So, that was one impact. We are addressing that over the longer term, and you'll be aware we previously had a shaft that was dewatering under the pit, and we're now involved in sinking a decline that will resolve that into the longer term. The decline will finish about the end of next year in terms of greater dewatering capacity.

The other elements at Kansanshi is really around dilution and grade, and that is a longer-term element. We see it in the ore body that we become more of a sulphide operation, and really, that's the underlying driver to move across to the S3 project. S3 will change Kansanshi from being a selective high grade mine to a far higher volume, medium grade operation and will continue as a world class asset for another 20 years. So, I think this is demonstrating that the challenges on grade are there until we get into S3.

John Gregory, I don't know whether you would comment any further on the detail. I mean, the only other thing I would add is, in terms of guidance for next year, '23 and '24, we're doing a lot of work on stripping. The strip ratio is currently at around 2.7 versus the budget of 1.9, and we're really pushing quite harder over the last nine months to be sure that we have good grade exposed for '23 and '24.

But John, would you comment any further there?

**John Gregory:**

Yes. Sure, Tristan. I think you've covered the main areas. I would say on the oxide and mixed, access has been the issue as mentioned due to the rain season, it is in the upper weathered zones. So that copper is still there in oxide, and we will treat it going forward. We have modified the mine plans to ensure that we open up further working areas so that we will continue that during 2022 and ensure that '23 and '24 deliver the copper that we need, and we predict ahead of the S3 commissioning phase.

**Orest Wowkodaw:**

Sorry, so just to be clear, you're still—so you don't see any issue with respect to the grades in the ground. This is more of an access issue?

**John Gregory:**

Yes, the grades in the grounds are reconciling well from the grade control and ore control models back to the resource model. We are very confident about grades as seen. Its access areas of the mine that we are working and how the mineralization actually presents itself in those particular areas. So, we have been producing from areas that we hadn't anticipated in quarter one, primarily due to the wetter than expected conditions, providing wet under foot access and restricting us to certain areas.

**Operator:**

Our next question comes from Emily Chieng of Goldman Sachs. Please go ahead.

**Emily Chieng:**

Good morning, Tristan and Hannes. Thanks for taking my question.

My first one is around the cost inflationary guidance that was announced last night, and appreciate the update there. But how should we think about where the upside or downside pressures could be in related to those numbers? Maybe specifically related to fuel costs, how should we think about what's being baked into forecasts at this point?

**Tristan Pascall:**

Hi, Emily. Thanks.

Yes, look, fuel in our mix is one of the sort of strong movers in terms of cost breakdown, so we've seen fuel rise from this time last year at 7% of our cost structure overall to around 10% of our cost structure overall, so it's really moved on. We've seen sort of 25% to 30% increase in prices, is what's in.

What's baked in our costs at the moment is if these prices continue and we meet sort of reasonable production that is in mid-level of our production will come in sort of a mid-level of our cost guidance. Assuming that these current levels of fuel price, for example, are prevalent for the rest of the year, there's a little bit of upside in those costs if fuel does pick up. If we are at the bottom end of production, then we would be at the top end of the guidance for the year, as an example.

**Emily Chieng:**

Understood. That makes sense. Shifting back into the production side, appreciate the comments on Kansanshi, but if we take a look at what happened in Sentinel, it sounded like that was also an access issue that prevented access to the higher grades. As we see that grade improvement across throughout the second half of the year, should that therefore then bleed into 2023? And perhaps there's some upside to 2023 production guidance. Or are we too early to tell at this point?

**Tristan Pascall:**

Yes, Emily, we would leave guidance for '23, '24 to next year in January. But really, yes, it was a scheduling matter to wet conditions and getting into the east of the pit, so particularly, there's some high grade there that we want to get into, and we haven't been able to get into it as early as we hoped in the budget plan. That copper is still in the ground, it sits in front of us, and it's a matter of getting through a remaining sort of two to three benches to get into that material, and so we expect to be in that towards the end of Q2 from the middle of the year, and then we would be in that grade.

So, I don't know that we would see upside for '23, '24, but we'll address that in our guidance next year. What we do see is the copper that we'd expected is still there, we've just got to get to it.

**Operator:**

Our next question comes from Matthew Murphy of Barclays. Please go ahead.

**Matthew Murphy:**

Hi. I had another inflation question, more around labour in Zambia. I saw a headline Zambian inflation is actually slowing it appears. But what are you seeing on the ground there? I guess when we see conflict

in Ukraine and concerns around food price growth, like what's happening to the real cost of living of your workers there, and how does that affect your outlook on costs?

**Tristan Pascal:**

Yes. Thanks, Matthew.

Look, it's very important and something we do regularly with the workforce is look at their cost of living, and so in the past during times when inflation has been running away in Zambia, we've adjusted levels half yearly. So, for example, that's very appropriate that we look at that at the moment in Turkey, where we're seeing a very high—the currency falling away very quickly at the moment.

At Zambia, at the moment, that's not the case. The currency has improved under the new government, but they have removed a lot of the subsidies that were in place. So, for the average Zambian, certainly fuel prices has risen, fertilizer prices have risen, and that will impact food prices in the country. So, the basket of goods that our workforce deals with day-to-day, we look closely at with them, and we will adjust, if necessary, in terms of making sure that their cost of living is really what they are able to meet reasonably. So, it's something we keep an eye on closely.

At this stage, labour in Zambia is not—because of the Kwacha denomination, it's not the same cost that we're seeing for example in other economies in Latin America or in Australia as example. When we look across our business, labour is probably the one area which is not as connected to global inflation at this stage, but we're keeping a close eye on it.

**Matthew Murphy:**

Okay. Thank you.

**Operator:**

Our next question comes from Jackie Przybylowski of BMO Capital Markets. Please go ahead.

**Jackie Przybylowski:**

Thank you very much.

I wanted to ask you about the progress to replace Law 9 in Panama. I know in the MD&A, you have some comments on how that's going. It sounds like it's still in the drafting phase, if I'm reading it

correctly, and then it would have to go to the broader parliament for ratification. Can you provide an update on sort of the timing of how long you think it's going to take for that to be fully passed and enacted? Thanks.

**Tristan Pascall:**

Thanks, Jackie.

Yes, Law 9, we continue to make progress, and as you say, it's in the detailed drafting phase at the moment. The one change in April, we have seen the newspaper reports and we're yet to have official confirmation. But it does seem the Minister of Commerce, according to those newspaper reports that the Minister of Commerce will be potentially taking assignment in Washington, as the ambassador to Washington. That may be an element of—in terms of getting to fruition right now in April, potentially, will have an impact if there's a change in personnel from the Panamanian Government side. Again, that's not been confirmed, but there was a newspaper report on the April 11 to that effect.

So, that's the one area, but otherwise, in terms of the process, there's a lot of work going on in the detail drafting, and that continues to progress. We would hope to get to resolution, as we said before, very imminently, and then, yes, it will go into the National Assembly for ratification. The current session of parliament ends at the end of this month, but there has been indication the ministers have mentioned that there's a possibility of having an extraordinary session in order to deal with the legislation.

**Jackie Przybylowski:**

Maybe as a follow-up question, I can ask something similar in Zambia. It sounds like you continue to have a good and maybe even strengthening relationship with the Government of Zambia, which is great. Can you give us any kind of colour on how that might impact the Board full approval of the S3 and the enterprise projects, and when maybe we could expect to see an announcement on this?

**Tristan Pascall:**

Thanks, Jackie.

Look, I would hope it's in the near future. I was there last month, and we're in-country at the moment working that through, really around, as I mentioned, the topics of that. But also looking forward, Zambia has made it clear and this administration has made it clear the level of investment they want to encourage into the country that is to triple copper production. At that level, it's potentially \$30 billion that



would need to flow into investment in the country to deliver that over the next 10 years, beyond exploration and the front end, in order to establish those projects.

Certainly, First Quantum is very keen to be at the frontend of that and the business environment that would encourage that level of investment. So, those are the discussions we're having with the government in order to get a period of stability in front of us.

I would hope in the near future we have an answer on that.

**Jackie Przybylowski**

I apologize, because I know we're only supposed to ask two questions, but if I can maybe just follow up on what you just mentioned, Tristan. Would that suggest if you're keen to be on the frontend of a larger push to grow copper production in-country, would that suggest that you might look at future greenfield sites or something sort of outside of the assets you already own?

**Tristan Pascall:**

Jackie, Zambia's very prospective. I think we were very much focused on Kansanshi and Sentinel at this time and the commitment building towards a decision to commit \$1 billion at Kansanshi would certainly be our focus. I think we haven't been actively exploring in Zambia for some time. But certainly, exploration we would consider in terms of a broader remit. But at this stage, as we said, we wouldn't be looking to go into other operations at this time at Mopani or KCM or some of the other that's there. I think we're very much focused on our own portfolio.

Beyond that, in terms of prospectively and front end, that's a potential area we could look at on next exploration.

**Operator:**

Our next question comes from Ioannis Masvoulas of Morgan Stanley. Please go ahead.

**Ioannis Masvoulas:**

Hello. Thanks for the presentation.

The first question is on the cash costs at Cobre Panama. The collar structure for coal purchases keeps the costs contained to some extent. What would be the impact do you see on cash costs in Q1 if a collar was not in place?

**Tristan Pascall:**

Thanks, Ioannis.

Yes, so electricity at Panama is about 7% of our cost structure at the current time. So, exposure to the full coal price, we've moved that pretty significantly. Coal price collars kicked in at around \$88, \$89, and we would have exposure beyond that to where you see the current price.

**Ioannis Masvoulas:**

I see. Okay, that's very helpful. Thank you. The second question, going back to the fiscal talks in Panama, you mentioned potential or chance that the Minister of Commerce could move on from his current role. Do you foresee any risks around the principal items that you have already agreed, i.e., the \$375 million, if he gets replaced by someone else, or do you think that from today's point of view that's completely de-risked?

**Tristan Pascall:**

Yes, Ioannis. No, I don't think—it's been pretty consistent of the group, overall, the Panamanian Administration, in terms of their approach on these discussions. So, no, I think it's more just the mechanics and the logistics of getting through the process more than the fundamentals or the principles that are agreed.

**Operator:**

Our next question comes from Dalton Baretto of Canaccord. Please go ahead.

**Dalton Baretto:**

Thanks. Most of my questions have been answered. But Tristan, maybe I can ask you some of the finer details, I guess, on Panama.

You mentioned that you guys are into detailed drafting now, and then most of the primary items have been covered. Does that mean that you have an agreement in principle around downside protection

and the sustainability of the agreement and you're just working through mechanics, or is that still yet to be determined?

**Tristan Pascall:**

Yes, Dalton, I wouldn't get too dragged into specifics of what we're working on day-to-day. But yes, those principles were agreed, and the protections and so on are part of the effort now in terms of the drafting to get that in place. So, that will cover things—the broad level that Law 9 addressed, including those protections, including tax holidays, including all those details, that the drafting effort that's going on. Yes, I wouldn't get too much into which elements have been drafted so far and which elements are not. But broadly, all of that is a piece of work that's ongoing.

**Dalton Baretto:**

Okay. Great. Once this agreement has been ratified by parliament, what is the effective date? Will it be backdated to January 1, or will it be on a go-forward basis?

**Tristan Pascall:**

Yes, Dalton, I expect it to be on a go-forward basis. We've paid the Q4 royalties. Royalties are due, if I recall correctly, 60 days after the period end on a quarterly basis, and so our quarterly royalty for the end for December 30 has just gone through and been paid. The next one that would be due would be March 30, but it's only due at the end of May, so that would be the next date to consider. At that time, we would submit on the basis of what's currently in place, and we would have to deal with that if there's any change in the meantime.

But, no, our clear indication is that there wouldn't be any retrospectivity. There wouldn't be any look backwards, say every quarter that goes through is resolved, and there wouldn't be any look back to that.

**Operator:**

Our next question comes from Farooq Hamed of Raymond James. Please go ahead.

**Farooq Hamed:**

Thanks, Operator.

Tristan, earlier in the call you made a comment that the world has changed and that you're looking at your cost structure and you're trying to figure out if it's transitory or structural. As you're having your negotiations with various governments and drafting fiscal agreements, what positions can you kind of say that the governments are taking in terms of the cost pressures you're seeing and the margin pressures you're seeing? Are governments sympathetic to the cost pressures? Do they see it more as transitory? Or are they factoring it into the negotiations in terms of expected outcomes in terms of revenue sharing or profit sharing?

**Tristan Pascall:**

Yes, Farooq. That's a very good question.

I think what we're seeing, so far, is it's dawning still on governments as to the pressures. Certainly, some of that's come through already directly to consumers. So, if fuel impacts people directly, I don't think you've seen the full impact from food prices in some countries as of yet, because it takes time for those crops to come through, to be grown, and then obviously there's a lot of storage and logistics in the interim.

I don't think there's a full impact of that yet, and that's reflected in the conversations that some of it's starting to awaken, but not sort of full exposure of some of the broader impacts and, I guess, uncertainty about where those impacts could go. So, for example, if there's a further sanction on oil or other areas coming out of Russia, beyond what's currently in place.

But in terms of our conversations, we're very much focused to make sure that as we go up and down through the cycle that the protections in place. We are a cyclical industry, and so we need to be thinking of ups as well as down, and so it's part of our conversation to make sure that those level of protections are in place and that there's a viable business sustainable over a long period of time in order to invest a \$1 billion dollars Zambia or to continue forward in Panama for another 40 years or so.

**Farooq Hamed:**

Okay, so maybe we see some change in stances related to that.

My follow-up question is just related to the intensifying cost pressures we've seen in the last month or two months, post the Russia-Ukraine conflict. Can you talk to what options you have available to you in the very current environment in terms of locking in costs? Are suppliers willing to enter short-term

supply agreements at locked-in costs? Or are you really—at this point, are you kind of at the whim of the market in terms of supply demand and availability of input supplies?

**Tristan Pascall:**

Yes, Farooq, we have been able, prior to the Ukraine crisis, to put—somehow we were starting to see inflation, for example on sulphur, and we were able to put some elements in place for protection. I think then things have changed since the end of February and beginning of March and we're in a state of flux at the moment. So, at the moment, I think that's a harder discussion. I don't think the same would be achievable right now on coal or on sulphur for example.

The way I think a lot of that flux comes through is not just on pricing, it's also on lead times, and so the kind of congestion that you see in the Chinese ports means that it's not just the cost. It's also when will that item come through, and so that's what we need to be aware of as well. That comes to affect the market I think on things like spares or components that need to flow through, and so we're doing a lot of work to critically analyze which spares, which elements will there be a challenge on to make sure that we have that area covered.

It's in all areas, so for example, at the moment, we hear from our suppliers that filters the material, which is a high moving item. But the components that go into making air cleaners, air filters are harder to come by, because all the automotive industry including our end on the truck side of things is competing for the same filter cloth. The orders weren't in before during COVID, and now, actually, they've got quite extensive, plus there's the logistics, the shipping is going out in terms of duration.

So, it's a combination of factors, and I think it needs cool heads and working through the criticality to make sure that we don't get stock outs on those key items.

**Operator:**

Our next question comes from Lawson Winder of Bank of America Securities. Please go ahead.

**Lawson Winder:**

Hello. Thank you for the presentation, and I hope you're all well.

Yes, I guess just two questions for me. I'd like to follow up on the Kansanshi question. Hopefully, not to overdo this point, but you made one comment. Actually, John Gregory, I think it was you that made

that. You said it's more of an issue of how the mineralization presents itself in certain areas, and I just wanted to follow up on that in the context of sort of how the grades that Kansanshi performed in 2021, where they were quite materially below the technical report.

Also, in 2022, where your guiding is now quite a bit below the technical report. I'm just curious, when you make that statement, do you mean that where you expect to get oxide material, you're actually getting either mixed or sulphide?

**Tristan Pascall:**

John, do you want to take that?

**John Gregory:**

Hi. Yes. Sure. What the comment relates to, we're mining in different areas than the actual plan anticipated, where the plan would present that we work in certain cutback zones due to weather and other access issues. You can't work in that area, so you have to resort to another area of the mine, and that has a different style of mineralization. So, the ratio of oxide mix sulphide that we have anticipated in the current budget was not necessarily fulfilled during quarter one.

In terms of the technical report, we are working again in zones that have not necessarily aligned to the cutback sequence that was contained in the technical report, and we're in the process of reassessing the mine plan as we have this, as I mentioned previously, and we are looking at increasing our waste stripping so that we can ensure that we deliver on the plans for later on in this year, and '23 and '24.

**Lawson Winder:**

Okay. Thank you. I know it was a subtle difference, but that does help.

Finally, maybe could I just get your thoughts on M&A in the copper space? I know you guys are always looking. How would you describe the current opportunity set?

**Tristan Pascall:**

Sure, Lawson.

I think, yes, the succinct answer is we're focused on our portfolio. We think that the brownfields opportunity within the business is meaningful, and with the surge in inflation and so on, that that's the

right focus. More broadly, as you say, opportunities do come across the desk, and certainly, I think at the moment, copper continues to outperform in terms of price.

All, as we save on costs, all boats are rising on our input costs. But copper is outstripping them, and I think you saw that in Q1 results, that despite the level of costs rise, we did reach record profits for the quarter.

Yes, in terms of opportunities then does make it a challenging environment in order to put a peg on margin and how each asset line up. But I don't think you'll see First Quantum out there, front of line, bidding in direct competition on big assets where we try to look at things as where we can apply our capabilities to add value for shareholders, to add value that others have found challenging, or that we can work through at bringing a different approach, bringing a different way of doing things.

But as I said, our real focus at the moment is on the existing portfolio and the important work that we're doing in Argentina on Taca Taca, for example, and also in Haquira on the ground in order to bring those projects to a level where we could make a decision in the next couple of years as to whether to proceed.

**Bonita To:**

Operator, we're coming up to the hour, so this will be our last question, please. Thank you.

**Operator:**

Certainly. Our next question comes from Ed Brucker of Barclays. Please go ahead.

**Ed Brucker:**

Hi. Thanks for taking the question at the end here. So, just two quick ones, I think.

Just want to get your thought process around continuing to reduce debt at this point versus something like more share buybacks or more dividends, especially in the context of net leverage levels well below that two times target currently.

**Hannes Meyer:**

Yes. It's Hannes...

**Tristan Pascall:**

Yes, Hannes, do you want to take that one?

**Hannes Meyer:**

Sure. Look, we came out on our Capital Markets Day, the third week of January, and the maximum level, the limit would be two times net debt to EBITDA, but that is through the cycle price, so when current prices—if we look at our longer term prices, this is in excess of that, so we still got some work to do in terms of that, and if we're asked, that's the key is the debt reduction, and we've laid out the new dividend policy at this stage.

Tristan, I don't know if you want to carry on?

**Tristan Pascall:**

No, I think that's clear, Hannes. We have been cautious on the dividend policy, and so yes, we're focused on that as a means to capital returns in the near term. Buybacks, and so on, the Board would have that discretion in the future. But at this stage, as Hannes said, the focus is to continue the debt reduction and to cautiously commence on dividend returns.

**Ed Brucker:**

Great. Thanks. Just the cadence of the debt reduction in this year and then into early next, it looks like you did close to \$200 million taken out this quarter, which I think will leave about \$800 million left to get to kind of your additional \$1 billion in reduction. That coincidentally is the same amount as the term debt left outstanding in 2022, and then the rest of the \$500 million in the 2023 maturities. Just wanted to get your sense on where you'd look to reduce that debt.

**Hannes Meyer:**

Look, our bonds at '23 are callable at par, and the '24 step down in September to a callable at par level as well. I mean, the bonds carry a coupon of 7%, or around 7%, some of them just below that. So that's our most expensive data, and that would be key to reduce that.

The term debt today is—amortization schedule attached to that. So, we will pay that down in accordance with the amortization as and when it becomes due. So, I think the first focus would be on reducing the bonds, which in our portfolio is the most expensive data.



**Operator:**

This concludes the question-and-answer session. I would like to turn the conference back over to Tristan Pascall for any closing remarks.

**Tristan Pascall:**

Thank you to everyone for your continued support and for joining today's call. First Quantum will be hosting our first in-person event in Toronto next week, and we certainly hope to see many of you there. As well, we look forward to hosting our Cobre Panama tour later this year in September. Enjoy the rest of your day and we look forward to speaking to you again at our next quarterly update. Thank you.

**Operator:**

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