

26-Apr-2023

First Quantum Minerals Ltd. (FM.CA)

Q1 2023 Earnings Call

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A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. This is the conference operator. Welcome to the First Quantum Minerals First 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 back over – the conference over to Bonita To, Director-Investor Relations. Please go ahead.

Bonita To

Director-Investor Relations, First Quantum Minerals Ltd.

Thank you, operator. And thank you, everyone, for joining us to discuss our first quarter results. During the call, we will be making forward-looking statements. As such, I encourage you to read the cautionary notes that accompany this presentation, our MD&A and the related news release.

As a reminder, the presentation is available on our website and that all dollar amounts are in US dollars unless otherwise noted.

On today's call will be Tristan Pascall, our Chief Executive Officer, 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 then wrap things up, after which we will open up the line to Q&A.

And with that, I will now turn it 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. On our call today, we will discuss our first quarter results and provide an update on the business. In terms of production, 2023 did get off to a relatively slow start and were certainly lower than normal. Rudi will provide more details on the challenges we faced during the quarter. However, thus far in April, whilst it's still early days, we are back on track.

The temporary shutdown of Cobre Panamá was a one-off event and the operation was able to reach full capacity within two days of restarting. The rainy season in Zambia is substantially behind us. With the pumping capacity that was increased at Sentinel across the rainy season, we are already accessing higher grade ore in Stage 1, and by mid-May, we expect there will be water only in the sumps at the bottom of the pit. Overall, despite the low first quarter production numbers across the three main operating sites, production will improve in the second quarter and over the course of the year, particularly in the second half and we remain comfortable with the guidance provided in January.

Before we go onto the operations, there were several important achievements in the quarter that I don't want to be overlooked. I am pleased to update the market that commissioning work for the CP100 Expansion was completed seven weeks ahead of schedule. We achieved first ore through the new facilities during the quarter and throughput benefits from Ball Mill 6 were realized within that week. Similarly, the screening plant is achieving results ahead of plan. Although the optimization to integrate this system into the overall plant will be ongoing over the year, I'm very confident we remain on track to achieve 100 million tonnes per annum run rate by the end of this year.

In Zambia, we fed first ore through the Enterprise nickel plant and we are on track for first nickel production in the second quarter of this year. This operation, along with our Ravensthorpe mine in Australia will place First Quantum as one of the top nickel producers in the world, which complements our position as a leading copper producer and further increases our exposure to energy transition metals.

I'm also pleased that during the quarter, we signed a new partnership with Rio Tinto to move forward the La Granja project, one of the world's largest undeveloped copper ore bodies. Adding this major project to our portfolio as the operator will give First Quantum one of the leading copper growth profiles in the industry. We look forward to working with Rio Tinto on this exciting development and also potentially on future base metal opportunities and sharing of know-how and technical knowledge. We also formed a technology partnership with Hitachi Construction Machinery for the development of Hitachi's first battery mining trucks which we expect to be deployed at the Kansanshi mine by December this year.

As many of you are aware, we have made a commitment to significantly expand the trolley-assist networks at our mines over the coming years. When our trucks are connected to trolley-assist and powered by electricity, our diesel consumption is reduced by up to 90%, which reduces costs and emissions and at the same time, delivers operational efficiency benefits. This initiative with Hitachi represents an important milestone towards the future commercialization of battery technology and the ongoing decarbonization of our mining operations. We look forward to sharing similar initiatives with you at our virtual ESG Day on the 13th of June.

Last but not least, the Cobre Panamá, after many years of negotiations, an agreement with the Government of Panamá was reached in March. In my meeting with the President, while acknowledging that the negotiations were both rigorous and intense, we both agreed that the outcome and terms are mutually beneficial to both parties and provide clarity and stability to Cobre Panamá, our stakeholders, and the people of Panamá for the next 20 years to 40 years. It has been pleasing to see the collaborative efforts of the Cobre Panamá team and the government's team working together since that announcement.

And with that, I will hand it over to Rudi to review the operations.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

Thank you, Tristan. Total copper production for first quarter was approximately 139,000 tonnes, down from 206,000 tonnes in the fourth quarter of last year as each of our three largest operations had negative production impacts during the period. Copper production totaled 65,000 tonnes in the first quarter at Cobre Panamá, a decrease of 24,000 tonnes from quarter four last year as production was interrupted for 15 days as a result of the export restrictions imposed by the Maritime Port Authority.

During this temporary suspension, maintenance work that was planned for later in the year was moved to this period, and following the resumption of exports, production at Cobre Panamá returned to normal and achieved full throughput rates within days. As Tristan highlighted, we were also able to restart with much of CP100 Expansion project coming online and already Ball Mill 6 and the [ph] process were upgrades are being felt in terms of added production capacity. Copper C1 cash cost at Cobre Panamá was \$1.65 per tonne, \$0.02 higher than the previous quarter, mainly attributable to lower production levels. At Kansanshi, production continued to be impacted by mining from narrow veined areas, particularly in the Mine 11 area.

This area is of low elevation in the main pit and as such, provides the limited flexibility for adjusting of selective high-grade mining methodology when low mineralized veins are encountered. This meant that during the quarter, we did have a higher than expected reliance on using stockpiles to augment plant feed. Compared to the fourth quarter, there was also the seasonal impact of the rainy season. As such, Kansanshi's copper production in the first quarter was 29,000 tonnes, approximately 9,000 tonnes lower than the fourth quarter, while Copper C1 cash cost of \$2.88 per pound was \$0.07 higher than quarter four due to the lower production.

The impact of rainy season was more intense at Sentinel, with the area around the operation receiving the highest rainfall in 25 years. This resulted in a water accumulation at parts of the pit and challenging road conditions, both of which restricted access to certain mining areas in the pits and higher-grade ore. As a result, the mine plan was resequenced and first quarter copper production at Sentinel totaled only 36,000 tonnes at lower grade parts of the pit were mined. The lower volumes impacted C1 cash costs which rose to \$2.70 for the quarter. Despite the challenges encountered for the start of the year, we are maintaining our production guidance for each of the operations to which Tristan will provide more detail at the end of the call.

With that, I will hand the call over to Ryan to review the financials.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Thank you, Rudi. Starting with the market. The copper price rose 11% through the first quarter, and while data out of China continued to create volatility, global inventories remained very low. Despite the near-term uncertainty, the impending medium-term structural deficits from the copper market continues to be a focus, as evidenced by

recent M&A activity in the sector. First Quantum remains very well-positioned to benefit from its medium-term outlook as one of the few large copper-focused mining companies. During the first quarter, total revenue decreased 15%, driven by a reduction in copper sales of 49,000 tonnes. This decline was a direct result of the lower production levels, which Rudi described.

As can be seen on the waterfall on slide 16, Copper C1 cash cost of \$2.24 per pound were 20% higher than the previous quarter. This increase in cost on a unit basis was driven by the lower production in the quarter. The slide also highlight that there was relief from inflationary pressures as market prices for fuel, sulfur and freight continue to ease. As such, we remain confident in our cost guidance for the year.

Slide 18 shows that as a result of the lower revenues, Q1 EBITDA decreased to \$518 million. Net earnings decreased to \$75 million, and adjusted earnings per share reduced to \$0.11.

Moving on to slide 19 and our balance sheet. Debt reduction continues to be a priority. With peak debt in the second quarter of 2020, the company decreased net debt by \$2 billion and we continue to target an additional \$1 billion in debt reduction in the medium term. We have also been clear that in order to reduce financial risk in the future, we will be open to partnerships and large projects in order to share the capital burden. Our new 55% – 45% partnership with Rio Tinto La Granja is an example of this approach. And we'll continue to explore similar structures going forward.

Through the quarter, we redeemed \$850 million of senior notes due in 2024, which now means we have no bonds due until 2025. Net debt marginally increased from the previous quarter to \$5.8 billion due to the timing of working capital cash flows and higher capital expenditure incurred during the shutdown at Cobre Panamá. This CapEx was related to the reprioritization of waste stripping and major maintenance, which Rudi mentioned.

Net debt has benefited from the agreement we reached with the government of Zambia last year for repayment of the outstanding VAT based on offsets against income tax and receivables and royalties. This agreement continues to operate effectively. And as a result, we have seen a steady decrease in the overall VAT receivable position over the last few quarters. During the first quarter, we were granted offsets and refunds of \$66 million. And that brings the finance section to an end.

So I'll hand the call back to Tristan.

A. Tristan Pascal

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, Ryan. Before I move on to the progress of our brownfield projects, I would like to take this opportunity to discuss our guidance for the year. Despite the slow start, we remain comfortable with the guidance ranges provided in January. To provide the backdrop, 2022 was a difficult year, and when we approached our guidance for 2023, it was through that lens that difficult is the new normal. And seeing the start of this year, it was prudent that we took this approach.

At Cobre Panamá, while we had the 15-day stoppage, we also budgeted for a six-month ramp-up of the CP100 Expansion facilities, particularly the screening plant. The expansion facilities are operating at or above expectations and have been handed over from the in-house projects team to the Cobre Panamá operations team. And I would like to thank both those teams for this seamless transition. The expansion is ramping up well and we remain on schedule to exit the year at the targeted 100 million tonnes per annum.

At Kansanshi, we have made additional steps to address narrow veined areas such as those as we encountered in the Main 11 area in the first quarter. This includes drilling delineation beyond just our normal grade control holes with an extensive stab hole drilling in areas associated with vein mineralization. Over the last five months, we have built up capacity to now update our mine planning on a weekly basis, which we expect will allow for better planning going forward based on the most up-to-date information.

Additionally, efforts have been made on opening up mining areas at high elevations such as Main 15 and Main 17, which have historically provided higher grades. Although there will continue to be some risk associated with Kansanshi's production, the adjusted mine plan will reduce reliance on veined areas and lower grade stockpiles. And so, at this stage, we remain comfortable with the guidance for the year.

Moving on to Trident. And as noted by Rudi, rainfall was unusually high over the rainy season, with Sentinel experiencing higher rainfalls and Kansanshi in some of its other neighboring mines. Whilst the original mine plan called for more balanced production throughout the year, water in the bottom of the pit restricted access to higher grade zones, particularly in phase 1 of the pit throughout the first quarter. As a consequence, the mine plan has been rescheduled and even if total volumes remain substantively the same, we will now dispatch those higher grade zone areas across the remaining three quarters of the year. While still early in the quarter, April has already seen an improvement in this regard and production is expected to continue to improve over the course of the year, albeit mostly weighted to the second half.

Onto our brownfield projects. At Cobre Panamá during the quarter, we started construction of the molybdenum plant. This project is progressing well with completion of construction and start of commissioning expected by the end of the year. First molybdenum production is expected in early 2024. At S3, long lead items remain on track for delivery commencing in the second half of this year. Overall project procurement is approximately 25% committed and we continue to expect first production in 2025.

At Enterprise, despite a challenging rainy season, as I noted earlier, we achieved first ore through the plant in the first quarter and expect first nickel production in the second quarter and a ramp-up towards full production next year, 2024. At Las Cruces, the remaining water concession license was granted in March and all licenses and permits are now in place for the approval of the project. However, approval will be dependent on market conditions and our debt reduction objectives. In the meantime, work will continue to upgrade the resources to reserves. There is an investor tour to Las Cruces in May and we look forward to highlighting the potential of this asset.

As we approach the month of May, I will be coming up to one – my first year tenure as CEO of First Quantum. When I started this role, I had four primary strategic objectives. Firstly, to work with the government of Zambia for the solutions that would be conducive to further investment in the country. This was achieved last year with the change in the royalty regime and agreements in respect of VAT refunds and the ease of doing business in the country. This has allowed us to have comfort in sanctioning yesterday and Enterprise projects.

Secondly, to reach a new agreement with the government of Panama, which was achieved in early March. We expect that the Refreshed Contract will be presented before the National Assembly in the legislative term that commences on the 1st of July. Thirdly, to deliver on brownfield projects. And in this regard, it's been pleasing to see CP100 cross the finish line with Enterprise not far behind. And lastly, to improve the balance sheet. And despite the macro challenges and inflation environment over the past year, we have made progress and debt reduction will remain a focus.

Before I open up the line for Q&A, I also wanted to mention that we have a video of the CP100 Expansion facilities on our website, and I encourage everybody to watch it. It certainly demonstrates the in-house capabilities of First Quantum and the remarkable accomplishments of our teams. The market frequently discusses the need for more copper to achieve the global transition goals to cleaner energy, as well as the challenges of bringing on new supply due to a lack of shovel-ready projects and new discoveries.

However, it is often overlooked that the human capabilities to build new projects will also be a challenge to bringing on new supply. For this reason, and with our confidence in the strengthening long term prospects for copper, I'm excited about First Quantum's future as I firmly believe that we are uniquely positioned as a copper-focused producer, not only with the optionality in our greenfield projects, but also in the in-house capabilities of our teams to deliver these projects. I do hope you enjoy the video.

Thank you. And we will now be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. Analysts are permitted to ask one question and one follow-up question and are welcome to rejoin the question queue if they have more. [Operator Instructions] The first question comes from Emily Chieng from Goldman Sachs. Please go ahead.

Emily Chieng

Analyst, Goldman Sachs & Co. LLC

Q

Good morning. My first is around the greenfield growth that you've outlined. You've got Taca Taca, I think you're now La Granja in the portfolio. How should we think about the sequencing of those greenfield projects? And how should they sit among sequencing of the brownfield expansions you've got currently underway? And how does that compare to the comment that you make around the focus on inorganic growth and potentially pursuing other JV structures as well, similar to the La Granja acquisition?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Hi, Emily. Thanks for the question. Yeah, so we're very excited to have La Granja on board. As I said, it's one of the largest undeveloped copper deposits in the world, but and certainly will require a lot of effort and so on to get up to speed. Rio Tinto has done a fantastic job there in terms of preparing a platform and we believe we have the capabilities to now take it forward. But in terms of sequencing, in terms of the greenfield projects at this stage, Argentina and the Taca Taca project would be ahead of that just in terms of the knowledge that we already have around it and the processes for permitting. And the main question now, which is on the investment climate in Argentina.

So at this stage, we have that ahead. La Granja will take some time in terms of at least a couple of years of studies into the right approach to tackle the project. And then would be sequenced in that order after Taca Taca and Haquira at this stage, although we are making progress with the community, we would hold that after La Granja. In front of that, yes, we do continue to work on these brownfield developments. Certainly S3 fits neatly in terms of delivery by 2025, and our ongoing work on some of the other opportunities that we have in the business, for example, Las Cruces. We will schedule accordingly and to see whether it can fit in and whether it fits with the balance sheet and the debt reduction profile of the business.

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

A

Maybe, Emily, just to answer and build on Tristan's comment on the second half of your question around focus on inorganic growth. Perhaps to clarify the allusion to further joint venture projects such as La Granja may also be within our own portfolio. So as we look at those greenfield projects as Tristan's mentioned, I think given the focus on the balance sheet, we're very happy to work with partners going forward, either outside of our portfolio like we've now done with La Granja or within our portfolio.

Emily Chieng*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. That makes sense. Thanks, Ryan. My second question just around Sentinel and wanting to follow up on the comments around the dewatering there at the stage 1 pit. I guess it seems like you've made some access to those higher grades this year, but should we expect that to come more meaningfully in the latter part of the second quarter? Or how should we think about that access to the higher grades?

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

A

Thanks, Emily. Yeah. So no surprises the highest grades in the mine are at the bottom of the pit. That's why we mined that area first. So when we do get these excessive rainy periods, those are the areas that are challenged the most. And so we didn't have access. We had a blended approach obviously within the mine plan, we try and smooth that across the year. And so we've had restricted access. And so in the first quarter, we've been taking the lower grades that otherwise would have been blended across the year.

So now as we empty water and as we expect to have all the water out down to the sumps by mid-May, that high grade will come through and be sequenced across the three remaining quarters. So I think it will be more weighted to the second half of the year, sort of trending up 70,000 tonnes or so per quarter and trending up. And certainly, the initial in April, we've already been able to access some of those higher grades lowered down and that should continue to improve.

Operator: The next question comes from Jackie Przybylowski from BMO Capital Markets. Please go ahead.

Jackie Przybylowski*Analyst, BMO Capital Markets Corp. (Canada)*

Q

Thanks very much. And I did enjoy that video on CP100. So thanks very much for sharing that. I just – I guess I wanted to follow up on the comment, Tristan, that you made in the opening remarks. You said that you've got an investor tour going to Las Cruces in May, which is a bit of a surprise because we haven't been hearing much from Las Cruces. And I'm assuming that's just sort of convenient timing with an upcoming conference. But can you maybe talk about what you're planning to showcase there? I know you've recently received the licenses and permits you need, but it sounds like that's still a ways away from making a decision. And so can you talk a little bit about what you're planning to showcase on the tour?

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

A

Yes. Thanks, Jackie. So Las Cruces, yeah, we're not planning to sanction that decision. And certainly, the opportunity to provide a tour there was coinciding with the conference in Barcelona and that works very well. But we will be showcasing in particular the technology development there that the in-house team of First Quantum

has really delivered on, which is the polymetallic refinery technology, and we think can unlock a lot in the future in the pyrite belt of Portugal and Spain. But all of that is conditional on the project, on a standalone basis, making good sense. And that's what we continue to work through. And we will be explaining the underground mining methodology, our approach to de-watering there, and the good relationship that we have with regulatory authorities and the government there, and the need that Europe continues to express in terms of increasing its own domestic production of renewable energy metals such as copper. So we will be showcasing that. But and to really to take the opportunity around the Barcelona conference.

Jackie Przybylowski

Analyst, BMO Capital Markets Corp. (Canada)

Q

Perfect. Thank you very much. And maybe following up on the processing theme. You talked about La Granja, and just to follow up on Emily's question, maybe. We've heard in the past that this is a high arsenic ore body. And there's maybe been a bit of a challenge from that perspective to date. Can you talk about how you see the opportunities to process that ore body? And has technology evolved in a way that this makes more sense now or will make more sense in the next few years to process the ore? Or is there more work that needs to be done on that? Thanks.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Jackie. Yeah. We think Rio have done a fantastic job there in terms of understanding that. But there's more work to be done in terms of delineation, and in particular, on the zones where arsenic comes into play. And John Gregory, you might just comment a little bit further on how we see the mine plan evolving over time. But at this stage, we wouldn't be deploying any non-conventional processing technology. But we do believe that there's an approach we can take on the mining side to be able to overcome that. We've had that before at Guelb Moghrein and being able to cope with that high arsenic. But John, you might explain a little bit further.

John Howard Gregory

Group Consulting Mining Engineer, First Quantum Minerals Ltd.

A

Hi. Thanks, Tristan. Yes, Jackie, we've had the opportunity to look at the geological database and some preliminary aspects of the geology, and we are now embarking on a further campaign to understand the domaining. But one of things that is clear is the arsenic clearly is constrained in a structural manner. So therefore, it is domained and that's how we want to model it going forward. And in doing so, we will be able to optimize the initial mining process through conventional open pit operations with a degree of selectivity which will not inhibit production. And just to confirm that we are looking at conventional sulfide flotation as the means of processing this material.

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

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

I wanted to come back to the guidance for the year. I mean, based on what you did in Q1, by my math, you have to produce an average of 210,000 tonnes of copper in every quarter for the rest of the year just to make the low end of your copper production guidance. That seems like a stretch to me. Can you walk us through why you think that's a reasonable assumption at this point?

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

A

Thanks, Orest. Yeah. So that's reasonable to say that. But looking at what we have, so just walking through the three main sites at Cobre Panamá, bringing on the Ball Mill 6 and the process water plant upgrades have already been put in place. We believe we can be north of sort of 90,000 tonnes a quarter, and that's certainly the ore body and so on supports that, that doesn't result in any sort of change in sequencing or rescheduling of the mine plan. We did have some lower grades in Q1 as we went into the closure, and that was really just around managing how much concentrate we had in the shed at that time. We didn't want to push too much through, so we actually reserved some high grade areas over that period. But no major rescheduling is required there. And we're very confident in the ramp up of the CP100 Expansion. It's going very well so far. There is some work to be done in terms of the screening plant and its optimization in the wider plant. But Ball Mill 6 and the process water upgrades are going very well. So that's Cobre Panamá.

At Sentinel, it's really that all the grade that we had across the year remains available to us. It was always there, it was just that the higher grades were under that water. So that just is simply a rescheduling because we didn't have access. It would have otherwise been blended across the year. And now, we took lower grade areas by necessity in the first quarter and over the next three quarters, those higher grades come through. So the total for the year is the same and it's just that the high grades come over the next three quarters rather than in the first quarter.

And at Kansanshi, we were conservative on the assumptions around Kansanshi. There is some work – the challenge has really been on geology and greater dilution. And as Rudi mentioned, we were focused in the Main 11 area and now moving across into areas that have less of those finer structures. And we had a high level of stockpile processing in the first quarter, and we now expect to be taking more directly from mine feed, particularly from Main 15 and Main 17. And it's the proportion of those we think Kansanshi will be at or above through around 40,000 tonnes of copper production per quarter.

Orest Wowkodaw*Analyst, Scotia Capital, Inc.*

Q

Okay. Thank you. And just as a quick follow-up, can you maybe give us a color on the grade at Cobre Panamá in Q1? I mean, the 0.4% is a pretty low grade. Was that specific to just the operating challenges you're having with storage of concentrate or is there something else going on?

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

A

No, Orest. It was very much related to that. We did take the opportunity to go and make sure that we were finishing off on final walls, as the guys say, eating our vegetables. And that sets up the mine really well for the rest of the year because we were in lower grades for the reason you mentioned, because we have stopped essentially concentrate constrained. We couldn't store it anywhere. So we went to do that – did all of that background work, brought forward maintenance over that period of time. And now, we have the opportunity to go and take those some of the high grades that we put aside and so on over the course of the year remaining.

Operator: The next question comes from Shane Nagle from National Bank Financial. Please go ahead.

Shane Nagle*Analyst, National Bank Financial, Inc.*

Q

Thanks, operator. Tristan, just wondering, you've kind of outlined the mine sequencing for Kansanshi and dealing with some of that grade variability for 2023. As you've done some of the work, is there anything from the mine plan that may give you some hope or some potential upside over the next couple of years in terms of that variability or relying less on that ore stockpiles? Or is it just going to be a Q1 issue going forward as we're in the rainy season?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah, Shane. I think that's a reality. It's tough at Kansanshi at the moment. The reality is at Main 11 we were sort of at the bottom of the pit where things start to pinch out and so we limit in flexibility because we are at the bottom of the pit. And the mining methodology there remains selective. That's what we've been at Kansanshi for 20 years and we need to move across to the bulk mining methodology, but that relies on S3. So in the next couple of years, we will be – have these constraints over us on geology and the challenge on dilution.

We've been conservative in our estimates, our guidance for that. And as we go back up in the ore body to higher positions, and that's Main 15 and Main 17, we expect the impact to be less, but nonetheless, we will have that challenge once we get to S3 and have that running. We can very much take an average approach on a large block size, putting large volume through the mill, and that takes away all this sort of selective mining that we've been doing for 20 years and move us to a different basis. But until then, we will have these challenges.

Shane Nagle

Analyst, National Bank Financial, Inc.

Q

And then just on the – maybe going to the cost at Cobre Panamá, just remind us again, I mean, I believe the higher coal prices, if the hedges roll off next year or are in the guidance. But can you just remind me what assumption went into that in terms of the coal price. And then has there been any work on increasing potentially the amount of power that you draw from renewable sources in the country to maybe help offset some of that increase next year? Thanks.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Sure, Shane. Ryan, do you want to take that question?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah, Shane. So our guidance for next year and the following year assumes \$150 of coal price based on consensus pricing. You've seen thermal coal prices come below \$200, but if we see \$200 a tonne coal prices at Cobre Panamá, that makes about a \$0.05 increase in our C1 costs. We would note if you see spot prices in general continue, what you'll also see is a higher moly price which is now sitting around \$30 per pound, more than double what we assumed in our byproducts for next year. So if we assume the same – and that also has around \$0.05 per pound benefit. So coal stays where it is today. You'd see our cost go up by \$0.05 per pound relative to guidance. If moly stays where it is today, you'd see our costs go down by around \$0.05 per pound relative to our guidance.

Operator: The next question comes from Lawson Winder from Bank of America Securities. Please go ahead.

Lawson Winder*Analyst, BofA Securities*

Q

Hi. Good morning, everybody. Thank you for the update today and taking the question. I wanted to ask about the guidance as well. So I mean, it makes sense what you're saying about the production. It does look like you've set out a clear plan to achieve that. And I just wanted to ask kind of a similar question about the cash costs that you've now guided to. I mean, for example, like moving the ramp and changing the mine plan at Sentinel might add some additional costs. I'd be curious if maybe the cash cost guidance is where there's maybe a little bit more risk. I'd love your thoughts on that. Thank you.

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

A

Hi, Lawson. Yeah, Ryan, do you want to take that question as well?

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

A

Yeah. Lawson, if you look at slide 16 of the presentation, what it shows that versus Q4 last year, our costs went up by \$0.61 due to production, the lower production, which Tristan really talked about. But if you look at what the impacts of costs are due to changes in input costs, it was actually a \$0.23 lower per pound impact. So while overall costs were up quite substantially, that really was exclusively driven by the impact on production. And what that, to some extent, hides is that on things like fuel, things like grinding media, freight, diesel prices. We have seen some tailwinds through this quarter. And as an example, our guidance is based on \$100 per barrel oil and you've seen the oil price be at circa \$80 for most of the quarter. So certainly, some benefits there that we'll expect to see through the balance of the year, together with the improving production that's expected.

Lawson Winder*Analyst, BofA Securities*

Q

Okay. Fantastic. And then just a sort of a second follow-up question. I wanted to kind of get your thoughts on the MOU with Rio Tinto and development opportunities. So you specifically mentioned as jointly acquire and then develop? Thanks very much.

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

A

Yeah. Hi, Lawson. So, yeah. We're very excited about La Granja and the opportunity that that large project presents in our portfolio in terms of optionality and ability to really bring online something in a major mining jurisdiction really will make a significant difference to our copper profile. But also in terms of delivery of copper, that's very much needed in a market that structurally at the moment really looks like there's a big gaps opening up between supply and demand.

So as Ryan mentioned, we're happy to take that model elsewhere. But depending on the asset and the location. So whether that's with Rio, with others. What we do see is there are opportunities out there. And you probably won't see us in a big bidding war or so on. But where we can bring our capabilities to bear, we'll certainly look at it. The challenge will be to schedule those and to make sure that we don't overextend and don't overexert ourselves in terms of the human side of things. And that is that more and more, the industry has a limited ability in terms of engineering firms, in terms of the supply chain and so on, in order to develop these assets. And so getting that right in terms of sequencing is a key consideration.

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

Bryce Adams

Analyst, CIBC World Markets, Inc.

Yeah, hi all. Thanks for taking my questions. On de-watering capacity in Zambia, is that something that needs to increase every couple of years due to larger operations? Or when you increase capacity this year, should that then be right sized for Zambia weather?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, Bryce. Look, it's a very relevant question. And certainly through the rainy season, we dramatically increased our pumping capacity at Sentinel. But Rudi, could you just comment more there on our pumping volumes and where we're going to – we've certainly been upgrading those assets as we've gone along.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

Yeah. Sure, Tristan. Hi, Bryce. In preparation for this year's wet season, we already increased pumping capacity at Sentinel compared to previous years. And certainly, we didn't expect double the rainfall, that definitely caught us off guard. We have increased the funding capacity from the beginning of this year from 65 megabit cubes per day to 82. And there's some additional pumping, pipeline of pumping going in again to take it up to above 85 and that should suffice. We also have the – in the recent months, made provision to pump back contact water to the plant rather than spending a lot of cost on utilization of lime so that we can safely and within the limits of the regulations to discharge that water. So that water is now going back to the plant, which means that we can put – we're not testing it with pumping water from the pit to our environmental strictly ponds for this time. So we've created more space now as well in our ponds. So as far as the wet season is concerned, I'm quite confident that we won't experience a similar event in the upcoming wet season the end of this year.

Bryce Adams

Analyst, CIBC World Markets, Inc.

Okay. Certainly sounds challenging. My second question might be for you as well, Rudi. But at Enterprise, first ore to the plant in February, but first production isn't expected until Q2. Does that mean the first ore in February was just to crushing and grinding only? Or have I got that wrong?

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

No, pretty much as you indicated Bryce. At Enterprise we wanted to commission our crushing facilities and the mills. The mills have been installed for a long time as they were built originally with the Sentinel. So it's really just commissioning those things to make sure all of it gets out of the way. The wet season obviously impacted the Enterprise as well and we didn't mine as much as we wanted to. And we deliberately took a decision to open up the ore body a lot more so that when we do get going on the Enterprise flotation circuit, we know that we've got the required volume of ore behind in it. So that we can get the throughput rates up as quickly as possible. So that provides an additional opportunity for stripping above the ore block. We have recently started trucking 3,000 tonne a day to the Enterprise circuit anyway. So that's going quite well now that the rains have stopped.

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

Ioannis Masvoulas*Analyst, Morgan Stanley Securities Ltd.*

Q

Hello, Tristan and team. Thanks for taking the questions. My first question is on the Cobre Panamá fiscal agreement. Thus, we're still getting questions from investors on this. Can you give us a bit of color on how long was the Panamanian cabinet debated? Can they propose any and further changes or are the terms finalized? And any indication on whether there are any residual risks? Or you're confident that as things stand, the proposed agreements go through? Thank you.

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

A

Thanks, Ioannis. Yeah. Certainly, we were very happy through the quarter to resolve that in terms of contractual terms with the government of Panama. And my meeting with the President was a great point in time to talk about the future and going on with Cobre Panamá not only for the mine and for First Quantum, but for the community around us and for the country as a whole with a lot more clarity. So the process now is very clear. We've been going through this public consultation period, and the last public hearing was on the 24th of April.

So that's behind us. And we expect that to close out very imminently. And then, yes, it will go into a cabinet decision and really that's around the need for within the government to sign. That's a very straightforward process as far as we understand. And then from there, it would go into the National Assembly. And as we said in the MD&A, that's likely to be in the legislative term in July. And that would then be the final approval. And then we go forward from that point in time. In terms of any changes in the interim, whether that comes back from public consultation, we'll just have to see. We wouldn't expect on our side any major changes of major consequence, but we'll see how that goes and that's part of our consultation with the government.

Ioannis Masvoulas*Analyst, Morgan Stanley Securities Ltd.*

Q

Perfect. Thank you so much for that. And just a second question. I mean, we did cover the major copper assets in detail, but if you can talk about Ravensthorpe for a moment, I was looking at nickel payability and continue still to come down. It's 73% I think in Q1. It's probably the lowest in the asset's history. And since you restarted the mine, profitability and cash generation has been probably worse than you had anticipated. Can you talk about any potential and additional turnaround initiatives you're considering at the mine and how you're thinking about potential downstream investment or integration to improve the economics of the asset? Thank you.

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

A

Thanks, Ioannis. Yeah. Certainly, the nickel market has been challenging since the disruptions to the LME in March last year. And certainly, what we have seen is in recent times, LME coming back as a benchmark. We are happy with the level of nickel price as it currently stands on the LME, but it is the combination of the nickel price and the payabilities that do impact on our revenues. So both the payabilities have been moving more than the nickel price, I would say, and certainly volatile. It requires a lot of customer-to-customer conversation whilst the LME was less of a benchmark but starting to improve, and it has been going up and down.

In terms of improving that situation going forward, we're doing a lot of work in terms of the supply chain. And we'll continue to do that through the course of the year. But in terms of what we can do and what we can control in the operations, there's a solid work plan ahead of us, and that is we'd really like to get the full Ravensthorpe plant up and running per design. And there's a couple of areas that we've been working on that – in regards that beneficiation circuit, particularly from the bene pond and the rejects area. And then also in terms of bringing

material in from Shoemaker-Levy, we've had some – we've been mining our stockpiles and so on and that has meant that at times, we didn't have full picture on the feed and how much magnesium, how much the content of that ore was going to the plant. So those changes to both mining but also in the plant itself will have a big impact in terms of the costs that we're able to deliver at. And that then, alongside the pricing in the market really impacts the profitability at Ravensthorpe.

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

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, operator. Thank you, everybody, for joining us today. We look forward to seeing you at our upcoming investor events in Toronto and London. And we do hope you will join our virtual ESG event on June 13. Thank you again and have a good day.

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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