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First Quantum Minerals Ltd. (FM.CA)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the First Quantum Update on Cobre Panamá. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there'll be an opportunity to ask questions. [Operator Instructions]

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

Bonita To

Director-Investor Relations, First Quantum Minerals Ltd.

Thank you, operator. And thank you, everyone, for joining our call today. I would like to draw your attention to the cautionary statements at the end of our press release as we may be making forward-looking statements on this call. As a reminder, all dollar references are in US dollars unless otherwise noted.

On today's call will be Tristan Pascall, our Chief Executive Officer, with an update on the developments in Panamá and our Cobre Panamá mine.

And with that, I will turn it over to Tristan.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, Bonita, and thank you, everybody, for joining the call today. We've received several inquiries from the market regarding the situation in Panamá, and we wanted to take the opportunity to address these questions and provide an update on developments of the Cobre Panamá mine. But first, I'd like to provide some context.

First, Quantum came to Panamá in 2013 to take on a project that was unlikely to succeed as it was originally conceived. We did so in reliance and on the assurance and with the expectation that Panamá supported the project for a longstanding comprehensive agreement from 1997 that covered taxation, including mining royalties and other arrangements. The original concession contract, which predates First Quantum's involvement in the project was commensurate with similar incentives for other major mining projects at that time.

There were many risks to the development of Cobre Panamá. The project has very low ore grades compared with First Quantum's other mines and compared to other copper mines in Chile and Peru. At these low ore grades, Cobre Panamá required a high capital cost to deliver the volume required to make the mine economically viable. The harsh terrain and weather made construction difficult, and there was a lack of appropriately skilled mining labor due to the country's limited experience with complex mining projects.

In addition, the developer had to invest in very large infrastructure projects, including roads, power plants and housing, which often already exist for most other mining projects around the world. All of these elements made the capital intensive Cobre Panamá higher than historical norms. As a result, it took 22 years to bring Cobre Panamá into commercial production from that original contract date. Since we became involved, we have met all of our obligations and the project has been successfully developed into one of the world's largest, safest and most advanced copper mines, with total investments amounting more than \$10 billion since development. Again, this investment was made on the basis of the 1997 agreement.

Importance of Cobre Panamá cannot be overstated. It is the largest private investment in the history of Panamá and a critical contributor to the Panamanian economy. In 2018, however, just before the mine was beginning to generate its first copper shipments and revenue, Panamá Supreme Court declared that the law that approved our mining contract was unconstitutional. The decision was based on procedural technicalities taken by the government when the law was originally passed in 1997 and that were outside the company's control. Following the Supreme Court's decision, the government of Panamá issued public statements reaffirming that the contract remained valid. They assured us expressly and through their actions that the company's rights were not affected by the court decision. We continue to invest and operate on that basis.

As you are likely aware, we have been engaged with the government of Panamá for more than a year on a refreshed concession contract to secure the long-term future of the mine, remain appreciative of the government's continued good faith engagement with First Quantum and Minera Panamá, S.A. We believe we have come a long way on the agreement as a result of a lot of effort from both the government of Panamá and First Quantum, such that there are now only a few open, albeit important items to close out. Discussions are continuing and we remain ready to reach an agreement that is fair and equitable to both parties. We are prepared to agree with and in part exceed the objectives that the government outlined to us in January 2022 related to revenues, environmental protections and labor standards. We are prepared to accept these terms despite the additional time it will require to repay the large capital investment in the mine.

Let me highlight a few key terms that we are prepared to accept. Number one, a minimum of \$375 million in government income per year from royalties and taxes. This minimum payment includes downside protections that are aligned with the government's position. This minimum payment structure is a benefit to the government that we believe is both unique and unprecedented in the mining industry in any other jurisdiction. It would deliver revenue to the government that is several times higher than the existing contract from 1997.

Number two, a profit-based mineral royalty of 12% to 16%. The gross profit royalty rates are equivalent to higher levels than the 5% net smelter royalty rate established under the current Panamá Mining Code and would be amongst the highest, if not the highest, paid by copper miners in the Americas. Number three, the immediate end

to an income tax holiday and the application of withholding taxes on both interest and dividends. And number four, important environmental protection to labor standards, including training and development of our Panamánian workers and concrete benefits for the communities of the districts of Donoso and Omar Torrijos where the mine is located in Coclé and Colón province.

It is worth noting that the mine also provides social security contributions which we calculate to be about \$125 million per year, plus millions of dollars in additional payments for permits, fees and taxes that will no longer be exempt. All of these additional revenues will fund critical community needs such as pensions, infrastructure, scholarships, hospitals, agricultural projects and Internet connectivity according to the government. We want to reach an agreement on the outstanding items without further delay, but it must be a mutually beneficial outcome that provides the legal certainty that we need to help promote the sustainable development of Panamá, safeguarding our thriving Panamánian workforce and protecting our investment. In particular, the contract must be durable and stable. The key elements of the outstanding details to be finalized on the legal side include the security of surface rights, a stable tax and royalty regime and protections against expropriation and early termination.

On the economic terms, there is discussion on ensuring that infrastructure tax credits and depletion results in a reasonable balance of revenues. We are prepared to agree to Panamá's unique minimum payment objective and that government will share in the upside of higher copper prices through the upper bands of the gross profit royalty regime. We have also agreed to reduce the amounts of credits available and limit how much the tax credits can be used each year. Absent an agreement, we are concerned that the government will require us to put the mine under care and maintenance. This is a drastic and, in our view, unnecessary step, which could potentially have a significant impact on employees, our suppliers and the communities around us. This is not an action that should be taken lightly, but we will regrettably be compelled to follow the government's directive if the final outstanding terms cannot be resolved on a reasonable basis.

Suspending commercial operations of the mine will be damaging to the economy and could force us to suspend a significant amount of our valuable workforce, which is more than 90% Panamánian. This action, if required, would be subject to Panamá's legal and regulatory requirements and would be coordinated with the Ministry of Labor. This is not something that we want to do. We're doing everything possible to avoid the outcome. We asked for a reconsideration of the decision, which the Ministry of Commerce and Industries has rejected. As a next step, we are submitting an appeal to the Minister today, the 10th of January.

As required by government, we are currently working on a plan for how we would operate the mine under care and maintenance, pending local, legal and administrative actions that are in progress, this plan will be delivered to the government and they will need to review and respond to it. Due to the legal processes and the government's role in responding to the plan, the timing and impact of this requirement remain uncertain. I do want to underscore, however, that operations at Cobre Panamá continue as normal at this time and that our preferred outcome is obviously a balanced agreement and no disruption to the site and our employees. As we advised to the government, our Panamá-based subsidiary, Minera Panamá SA has initiated an arbitration process under the existing concession contract. We have also notified the government our intent to initiate international arbitration under the Canada-Panamá Free Trade Agreement. Both of these processes are underway in the initial stages. These are precautionary measures to protect the company. It remains our hope that we can reach an amicable agreement with the government.

Let me close by saying that we are proud of Cobre Panamá. This project now contributes some 5% of Panamá's GDP, makes up 75% of the country's export of goods and has created at least 40,000 jobs directly and indirectly that we estimate support 100,000 or more Panamánians. It has also further opened the world's eyes to the

potential Panamá offers and has encouraged other international capital to flow into the country. It does not make sense to jeopardize all of this for Panamá or for the company. That is why we continue to engage in good faith discussions with the government over the future of this project. In that regard, we are pleased that the government continues to seek a resolution.

Before we open the line to Q&A. I would like to take a minute to thank our colleagues at Cobre Panamá for their continued hard work and dedication. The success of Cobre Panamá is thanks to everything that they do every day. And thank you to everyone for taking the time to join today's call. We will continue to update you on developments as needed. With that, I would like now to pass the call to Bonita.

Bonita To

Director-Investor Relations, First Quantum Minerals Ltd.

Hi. Thank you, everybody. Due to limited time, we ask that analysts limit their questions to one and then return to the queue with any follow-up questions. And with that, I will ask the operator to open up the lines for Q&A. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the analyst question-and-answer session. [Operator Instructions] Our first question comes from Greg Barnes of TD Securities. Please go ahead.

Greg Barnes

Analyst, TD Securities, Inc.

Q

Yeah. Thank you, operator. Tristan, obviously, the current concession agreement differs very substantially from the new concession agreement. Can you talk through any other changes that you haven't discussed already? And I believe there was an article in the Globe Mail yesterday about the \$375 million payment and it stepped through various levels that the government wanted and it was confirmed that it wouldn't get that \$375 million minimum from 2026 onwards. Can you address that also?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Sure. Greg, thanks for the question. Yeah, look, we absolutely are prepared to accept the government's request for a minimum of \$375 million income per year. And again, that's a very unique regime. We don't believe that exists anywhere else in the world at the present time. That minimum is subject to certain exemptions and protections, and those have now been negotiated and aligned with government. They relate to the copper price, production levels and tax thresholds and are just reasonable in terms of the profitability and the ability of the business to pay that that cost.

But according to our estimates, Greg, Cobre Panamá will continue to generate at least \$375 million a year for the government income for many years unless the copper price or profitability declines substantially. Again, that minimum payment is unique, but it's – and uniquely beneficial to the government. Panamá's mining code, for comparison, as I said before, prescribes around a 5% royalty rate based on net smelter revenues and the original 1997 agreement was a 2% royalties based on net smelter revenues. So we are agreeing or prepared to agree to a rate of around 12% to 16% on a gross profit basis. And depending on copper prices, that probably equates or translates to a net smelter royalty of – in the range of 6.5% to 8%, at that sort of level.

And then to address, you talk about after 2026 and that was just – really relates to the tax credits that come through from the business. We've invested more than \$1 billion in infrastructure as part of the development of Cobre Panamá already. And there was credit for that infrastructure which is available to the country for the future. Roads, power lines, power stations and so on and the port. Those tax credits, we have made concessions already and concessions on deductions for ore depletion. We've tried to accommodate requests from government in that regard. We've agreed to concede more than \$250 million of those infrastructure tax credits that are already installed in the country and also to limit how much of these credits can be used each year, which in comparison to the normal tax regime, there's no limits on credits – tax credits can be used.

So, yes, from 2026 onwards, we consider we will be paying \$375 million. There's a minimum of – well, a maximum tax credit of \$35 million per year, but that will be part of our payment each year. And so we do see that government in – and what is the market outlook for copper prices will receive the minimum. Again, Greg, the agreement, as we said, is dramatically more favorable and will deliver more revenue to government than that existing contract from 1997. So we think it's a great deal for Panamá.

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

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

Hi. Good morning. Tristan, it sounds like you're more or less agreed on all the fiscal terms here with respect to the \$375 million, the exception and so forth. Can you maybe speak to then what is left to actually resolve here? I mean, you referred to, I guess, legal certainty, but can you please elaborate? I mean, what's the major sticking point here.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Sure. Yeah. So it's principally on the legal side. There's really, I suppose, one important point on the economic side that's left to close out. On the legal side, what we're asking for, I think, is very much norm for an investment of this stature and this size and scale. And those are really just to ensure legal protections and to ensure that the contract is durable and into the long term and support the project into the long term. So the specifics there – the security of surface rights, the stability of the tax and royalty regime, reasonable protections against lawful expropriation and early termination, and the clause around termination.

That economic point that I referenced is really the main item, is to ensure fairness and balance. We are prepared to accept the government's request for the minimum of \$375 million per year, subject to the protections that are already aligned. Again, that's a unique taxation regime, doesn't exist elsewhere. And yeah, Greg, made reference to the years after 2026 and I did provide the response in terms of tax credits and depletion. We have met the government requirement on downside protection to – and the government will share in the upside of higher copper prices through the upper band of the gross profit royalty regime, so towards a 16% and in high copper price years. So we consider the government will continue to generate at least \$375 million per year. We've tried to accommodate their requests around the economics and as I said, we've granted and conceded more than \$250 million of infrastructure tax credits and agreed to limit how much of the tax credit we would use each year. And we've also agreed to a depletion deduction regime that was more favorable to government than was in their earlier requests or was in the 1997 agreement. So yeah – Orest those are the main points outstanding. I don't think we're very far away. There has been progress and movement since December 14, and these final items do need to be resolved, but they do need to be resolved fairly for us to close this out.

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

Jackie Przybylowski

Analyst, BMO Capital Markets Corp. (Canada)

Q

Thanks very much for taking my question and thanks for doing this call. I just want to follow up on what you just said, Tristan, there's been progress in movement since December 14. We've seen some press articles recently. The government has put in a final contract for the talks have broken down. Can you talk a little bit about how the discussions have been going over the, say, last little while? Has the government presented you with some sort of ultimatum or deadline, or are the discussions still – would you characterize them as still friendly and corporative? Thank you.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Jackie. Yeah, look, it's a good question. There's been a lot of articles out there and there's been some discrepancies there. And I'm certainly happy to clarify on First Quantum from our perspective. We remain and we are engaged with the government of Panamá through this process in a respectful and in good faith. And we appreciate the continuing efforts made by the government to work with us in that regard. So that is continuing. In particular, we appreciate that the President has taken a personal involvement in the matter. And it's really part of that directive that the conversations continue on, and we remain engaged. So the December 14th deadline did pass, but we – it has been progressed since then and continued engagement. Conversations remain robust. And I think you see that come through in some of the news articles. But there has been good progress, as I said, on the economics. But it's really about ironing out these finer details on the remaining items.

So the conversation in the room in terms of drafting and so on is at the a level of detail. I can't go too much into that. But it does step forward through the engagement. And certainly from our side, we remain ready and we're committed to reach an agreement that's fair and balanced. You mentioned a deadline. We're not currently aware of a deadline or a clock that's running in regards to the current discussions. We are working according to the timetable, obviously, the 10 working days established to deliver the care and maintenance regime. But that's – at the moment, that's subject to legal actions from us. So the timing of that, the exact timing is not yet clear. But otherwise, there's no ultimatum that we're aware of.

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

Shane Nagle

Analyst, National Bank Financial, Inc.

Q

Yeah. Thanks, operator. Maybe just following on those comments about the 10 days you have to submit a care and maintenance plan. Obviously, the government directive here, you've been able to defer it somewhat legally. How long do you think you can stall that decision? And when could I guess you see that go in effect? And what might a shutdown here look like in terms of the impact and the costs of being on care and maintenance, should we think something similar to when the operations were shut down during COVID? Thank you.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Shane. Yeah, look, I think firstly, we want to say that we find that the care and maintenance orders would be drastic, a drastic step unnecessarily, especially given the efforts on both sides to reach an agreement. It's not

an action that should be taken lightly. It could have significant ramifications certainly for our workforce, for our suppliers, local communities. And again, our preference is to come to a mutually beneficial agreement. There's also the customers out there that take our copper concentrate and that's important into the market at the current time. Nonetheless, we're finalizing a plan for care and maintenance. That's been made clear that we need to do that. Yeah. Shane, we've been there before during the pandemic as you referenced. So I suppose there is a blueprint to work with there. But we are continuing to use legal recourse, including the submission of appeal today, as I said, that's an appeal to the Minister. But yeah, ultimately, we have 10 business days once the clock is ticking to submit that plan. And as I said, we're preparing that. It's obviously a complicated process to reduce the operations of the size and scale of Cobre Panamá. We would need to manage all the impacts across all the programs that we have inside and outside the mine, and also the impact on the workforce, obviously, with people such as the Ministry of Labor and inside the law in terms of the workforce and so on over that time.

But, slowing down our operations would have a very significant impact on them. I guess there's really three steps that we would go through or we will have to address. And I've mentioned the workforce, but there's thousands who would be suspended and others would lose income, obviously coordinated with the ministry. Secondly, there would be an economic hit, I mean both to the mine and also Panamá. Cobre Panamá, as I said, is about 5% of GDP at the moment and beyond the cost to the economy, cost to the government could be perhaps \$5 million to \$8 million a day. It will also impact all those programs I mentioned with the community, development, training, which is all focused on the long-term support of the project. And thirdly, I guess, importantly, there's a reputational element here which is important to us, but also I think is important for the country and we need to figure out how to manage that risk as well. Yeah.

Operator: Our final question comes from Abhi Agarwal of Deutsche Bank. Please go ahead.

Abhinandan Agarwal

Analyst, Deutsche Bank AG (UK)

Q

Good morning, and thanks so much for the call, Tristan. I had a question on the news flow regarding some disagreements around the environmental agreement, which was reached in 2021. The company, I mean, articles in local media discussing that FM has asked for more exploration, more land and exploration assets around the mine. And some comments around foreign ownership of Cobre, both as a function of the Jiangxi stake at the corporate level and the Korea Resources 10% stake on the asset level. Look, can you comment on those, please? Thank you.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Sure, Abhi, thanks. Yeah. Look we're not asking for anything unusual. We're not asking for anything additional on the environmental side. We completed the negotiations about labor and environment in September 2021, and that was – and we haven't asked for anything new since that time. The new contract as it currently stands or in the current draft format has environmental provisions that are above and beyond the 1997 contract and will allow more visibility and oversight on that side of things than before. And we're not asking for flexibility. We will be operating inside the laws of Panamá in that regard.

Look, in terms of the easements, we – while we generally believe that the area surrounding Cobre Panamá and the country in general is prospective, we've not sought to expand the area of the concession or demanded additional mineral rights as a condition of refreshing the contracts on our side. The concessions as they stand, the easements as they stand grant us rights to all mineral deposits. What was actually agreed in the refresh contract is we can limit that to copper and its associated minerals being moly, gold and silver. And all of that puts in place,

I think, a very reasonable position from our side on the environmental side. We're certainly not looking to expand that.

You mentioned the foreign stakes. And certainly, yes, there's a Korean government stake in Cobre Panamá of 10% that was as far as I recall, passed in legislation in 1991 that provided for that development. It's something that precedes First Quantum, but I think was an important step in terms of Panamá securing foreign investment. And so there was a specific piece of legislation that provided for the direct ownership of foreign government, which is South Korea in the projects and the remaining important partners. We're very supportive of their continued involvement in terms of how we are working with them, with the South Korean government in the investment in Panamá.

And in terms of the Jiangxi stake, look, they're just viewed as shareholders, and that hasn't come up in discussion. But alongside our other shareholders, I think, they see the investment in Panamá, the \$10 billion that's gone in funded by investors both debt and equity side of things that's important in the future that whatever agreement is resolved, there is some balance to it and continues to uphold the reputation of Panamá in that regard. That's very important for us because ultimately, Panamá is a good destination for investment, underlines our share price into the future, underlines the value of Cobre Panamá to the future. And I'm certain, that's what Jiangxi will be thinking about alongside our other investors.

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

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