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First Quantum Minerals Ltd. (FM.CA)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome, everyone, to the First Quantum Minerals' Second Quarter 2026 Results Conference Call. Today's conference is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

At this time, I would like to hand the conference over to Bonita To, Director-Investor Relations and Capital Markets. Please go ahead.

Bonita To

Director-Investor Relations, First Quantum Minerals Ltd.

Thank you, operator, and thank you, everyone, for joining us today to discuss our second quarter results.

During the call, we will be making forward-looking statements. And 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 references are in US dollars unless otherwise noted.

On today's call are Tristan Pascall, our Chief Executive Officer; Ryan MacWilliam, our Chief Financial Officer; and Rudi Badenhorst, our Chief Operating Officer.

And with that, I will turn the call over to Tristan for opening remarks.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, Bonita, and thank you, everybody, for joining us on the call today. It's been a very busy first half of the year for First Quantum and in broader markets, so I'm pleased to have this opportunity to discuss these updates alongside our second quarter results.

During the second quarter, we continued to deliver steady operations, and it was pleasing that the S3 circuit in Kansanshi continued to operate above expectations, which Rudi will discuss later in the call. We remain well-positioned for further production in the second half of the year with continued solid performance from S3, debottlenecking work at Sentinel, and the processing of stockpiled ore at Cobre Panamá.

With our hedging program concluded, as Ryan will discuss later, we are once again fully exposed to spot copper prices. Alongside stronger production, this will position the company for improved free cash flow generation at current copper prices. We remain well-positioned in terms of our cash flow, liquidity, and balance sheet to cope with ongoing market volatility, even as we continue our focus on cost management across the business.

At Cobre Panamá, we continued work on the stockpile processing programs in the quarter with an acute focus on safety, equipment integrity, and operation stability. This measured approach allows for the successful recommissioning of one of the site's three milling trains, Train 3, in May and production of first concentrate in June, which is earlier than our third quarter target. I'm very pleased with this performance, and I would like to thank the team onsite, including the approximate 1,000 skilled Panamanians who have rejoined or newly joined Cobre Panamá. This achievement reflects their hard work and the effectiveness of the preservation and site management program maintained over the past several years that enabled a high level of readiness and reliability across the operation.

Following the successful recommissioning, the focus was on operational stabilization, and I'm pleased to report that Train 3 achieved stable operations and a total of 2.1 million tonnes ore processed through the second quarter to produce approximately 3,200 tonnes of copper in concentrate.

Stockpile processing through Train 3 has performed well, with both mechanical and operational performance tracking within expectations. Cobre Panamá now has approximately 3,000 people onsite, and we have restarted procurement amongst local Panamanian suppliers. Our activity to-date continues to provide confidence in the team and in the asset.

Environmental stewardship remains a core priority, and stockpile processing will mitigate environmental and operational risks associated with prolonged onsite storage of mineralized material.

During quarter two, the remaining milling trains, Train 1 and 2, along with the regrind and columns area were undergoing inspection repairs and preventative maintenance to support the next phase of the stockpile processing program. So far, indications are that the extent of repair that's similar to Train 3 and the other concentrate columns areas, respectively.

Subsequent to the quarter-end, processing was successfully swapped over from Milling Train 3 to Milling Train 2 as part of the maintenance cycling strategy. The power station and port continue to operate well, and we expect our first concentrate shipment in August. Concentrate grades will be lower while we continue inspection repairs and preventative maintenance of the regrind and columns area of the Cobre Panamá process plant. Due to the global shortage, there is strong demand for the concentrate and additionally, at current processing rates and spot copper prices, we expect free cash flow from Cobre Panamá to be neutral to positive.

Moving forward, we remain focused on maintaining this conservative measured approach in order to ensure the highest-quality operations. With an estimated 38 million tonnes of mineralized ore containing approximately 70,000 tonnes of recoverable copper, we anticipate that we have sufficient stockpile to support within 12 months of processing at current rates.

Also in the quarter, the comprehensive audit of Cobre Panamá was published and now available to the public on the MiAmbiente website. The audit process has been approximately eight months and involved the preparation and submission of thousands of documents, participation of management, and support for numerous site inspections and field visits. This was undoubtedly the most extensive and rigorous independent review audit undertaken at Cobre Panamá, and one of the most thorough independent audits of any mine globally.

The audit concluded that Cobre Panamá is a professionally managed and technically sound operation with a high degree of regulatory compliance, achieving an overall score of 87.73 out of 100. Importantly, the report found that the project's core systems, infrastructure controls, and management processes are functioning effectively.

As with any comprehensive review of this nature, the audit also identified areas where further improvements can be made. 361 out of 370 commitments were fulfilled, with 7 areas being in partial compliance, but with no areas fundamentally absent. The improvements required in these areas are related primarily to long-term reforestation, biodiversity, and restoration programs that are correctable and not considered acute environmental incidents. We welcome these findings as continuous improvement has always been a fundamental part of how we operate, and we view the recommendations as a valuable opportunity to further strengthen an already robust operation.

The audit is now being reviewed by a high-level ministerial commission led by the Ministers of Commerce and Industries, Economy and Finance, and the Environment. As communicated publicly by government, the ministerial commission is undertaking a comprehensive technical evaluation of the audit findings and will provide an informed recommendation on the future of the mine to present in due course. In the meantime, we remain focused on the execution of the stockpile processing program, and we remain ready to engage constructively with the Government of Panama to achieve a fair and durable resolution for the mine.

Additionally, we continue our outreach efforts through workforce and community initiatives in Panama, and it's pleasing to share that our recruitment initiatives to support the hiring of staff for the preservation activities achieved over 50% participation from communities in the mine's local area of influence, and the participation rate for women was approximately 17%. Our educational program added over 500 students during the quarter and supports over 4,000 students in Panama, while our entrepreneurial program graduated over 700 individuals during the same period, taking the total to over 1,000 graduates to-date. We have also launched an environmental education initiative, which is expected to reach more than 50,000 students in school across Panama.

Moving on to Zambia, I want to thank the team at Kansanshi for co-hosting the 2026 International Mines Rescue Competition. This is a significant achievement not only for Kansanshi and First Quantum, but also for Zambia, as it marks the first time an African nation has hosted this event. The competition brought together 22 teams from 10 countries across four continents and tested participants under real-world emergency response scenarios. We are proud to have played a role in bringing the global mining community together in Zambia towards improving safety performance across our industry.

Continuing with Zambia, I am proud to share that 2026 marks a significant milestone with First Quantum as we've celebrated 30 years of partnership investments in shared growth with the people of Zambia. Over the past three decades, we have invested not only world-class mining operations but also in the people, communities, local suppliers, and local businesses, helping to create lasting value and opportunities across the country.

Our success is closely linked to the success of the communities in which we operate, and that belief continues to guide our approach today. A recent example is the handover of infrastructure and learning materials valued at more than K12.9 million to several schools in Solwezi, helping create better learning environments and opportunities for young people. Ultimately, it is the talent, dedication, and ambition of Zambians that power our operations and position us for the future.

As we celebrate our 30-year milestone, we remain committed to operating safely, responsibly, and transparently, and continuing to be a long-term partner in Zambia's development.

Thank you and I will now pass the call to Rudi to discuss our operational results.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

Thank you, Tristan. Higher production at Sentinel and the commencement of stockpile ore processing at Cobre Panamá led to a 4% quarter-over-quarter increase for total copper production of just over 100,000 tonnes in the second quarter. Copper sales totaled 93,300 tonnes, approximately 7,000 tonnes below production, due to timing differences between sales and production.

At Kansanshi, copper production in the quarter was 44,000 tonnes, down approximately 1,000 tonnes from the previous quarter due to lower throughput as the S3 and mixed circuits underwent planned maintenance during the period. The S3 concentrator, however, delivered the highest monthly throughput in May since commissioning and operated above design capacity throughout the second quarter. This performance was driven by increased operating time, strong utilization and milling rates, which supported the processing of long-term lower-grade stockpiles. S3 continues to take a high proportion of feed from surface stockpiles, which are tarnished and lower grade than freshly mined ore.

Copper production guidance for 2026 remains unchanged at 175,000 to 205,000 tonnes, whilst gold production guidance is 110,000 to 120,000 ounces. This will be supported by continued strong performance at S3. Additionally, while ore will continue to be predominantly sourced from low-grade stockpiles, fresh ore from the South East Dome, that is harder and higher in grade, will be gradually introduced in the S3 circuit during the second half of this year.

Also at Kansanshi, we opportunistically sold surplus sulphuric acid during the quarter. Through proactive management of higher acid-consuming oxide ore and acid inventories, we generated surplus acid available for third-party sales totaling approximately 36,000 tonnes and expect sales to continue into the third quarter.

At Sentinel, copper production was 50,000 tonnes, an increase of 5,000 tonnes from the previous quarter. This increase was attributed to higher grades and recoveries offset by lower throughput, a result of the planned five-day total plant shutdown at Trident that was completed in June. We continue to effectively manage through bolt fatigue with Ball Mill 2 and expect to resolve the issue permanently during the annual planned maintenance downtime in June 2027, with a replacement of a section of the third can and discharge end.

Production guidance for 2026 remains unchanged at 190,000 to 220,000 tonnes of copper. Production is weighted towards the second half of the year, with improving mill throughput and an improvement in grades as mining progresses within Stage 2 of the pit.

Enterprise produced just over 11,000 tonnes of nickel, a 9% decrease from the previous quarter, mainly due to the aforementioned total plant shutdown. Production guidance for 2026 is maintained at 30,000 to 40,000 tonnes of contained nickel.

We are continuing to focus on improving ore quality and grade control through ongoing RC drilling while also refining mining practices, including reducing the ore bench heights to minimize dilution and enhance recovery. All grades at Enterprise are expected to be lower in the third quarter, but in line with the mine plan.

The development of permanent ramps is underway to improve mining productivity, and the pit dewatering Stage Tank Pad is scheduled to be handed over to our Projects Team in early July, after which mining activities will focus on increasing the ore footprint through lowering current cutbacks, sump development, and South Wall mining in preparation for the oncoming rainy season.

Lastly, looking at Guelb, copper production was 2,000 tonnes and gold production was 6,300 ounces, which includes output from reprocessed tailings through the CIL plant. Production guidance for 2026 remains approximately 7,000 tonnes of copper and 30,000 to 40,000 ounces of gold. The operation will continue processing sulphide and copper ore plus gold-containing tailings through the CIL plant, with intermittent stockpiled oxide gold ore treatment to support the most favorable transition to full oxide ore gold production.

In summary, as Tristan noted, we delivered consistent operations in the second quarter, and we are set up well to deliver stronger copper production in the second half of the year.

Thank you. And with that, I will turn the call over to Ryan for the financial review.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Thank you, Rudi. The copper price remained strong in the second quarter, trading between $5.50 and $6.40 per pound. This was due to tariff-related stockpiling in the US, a tight copper concentrate market, and sulphuric acid supply concerns. Continued strong demand mean global warehouse inventories declined significantly towards the end of the quarter, with a 62% drop in SHFE-deliverable inventories quarter-over-quarter.

Turning to our financial performance, revenue increased by 8% to $1.5 billion, driven by higher copper prices and increased sales. As Rudi noted, we opportunistically sold our surplus sulphuric acid, contributing around $12 million in revenue. EBITDA increased by 23% to $400 million as stronger revenue more than offset the impact of higher fuel and contractor costs.

It is also worth noting that EBITDA was impacted by hedge losses and P&SM costs at Cobre Panamá. Both headwinds fall away for the second half of the year, with the hedge program now complete and Cobre Panamá stockpile processing underway with first shipments expected in August.

Excluding Cobre Panamá, our copper C1 cost was $0.03 lower quarter-over-quarter, benefiting from improved Zambian production, which was partially offset by higher fuel costs and reduced gold byproduct credits. Including Cobre Panamá, C1 cash costs were $0.03 higher, with the $0.06 impact relating to elevated production costs from stockpile processing.

As expected, the increase in fuel prices was a headwind on costs, along with the weakening gold price. Diesel prices through the quarter averaged $1.59 per liter, in contrast to the $0.91 per liter paid in Q1. With a two- to three-month lag in fuel deliveries, elevated fuel prices are expected to continue flowing through our cost base in the third quarter.

While Q2 saw pockets of improved diesel availability and some easing from peak prices, recent developments in Russia and the Middle East have reintroduced volatility in global fuel markets. As a result of this unpredictability, we have left our C1 cash cost guidance unchanged. However, as disclosed last quarter, should current fuel, kwacha, and gold prices persist, there is a roughly $0.25 upside risk to our cost guidance.

Our capital guidance, which already includes Cobre Panamá's stockpile processing, also remains unchanged. We've incurred around $60 million for the Cobre Panamá processing program to-date. This is within the $350 million of required spend previously guided to. In the rest of the business, capital spending broadly aligns with expectations at the start of the year.

Our hedge program for both copper and gold is now complete. We incurred hedge losses of $159 million for copper and $5 million for gold during the quarter. This program was put in place to provide greater cash flow certainty through the S3 project delivery period. With the strategic hedge book now fully settled, we have no further hedges in place, giving us full exposure to spot copper and gold prices going forward.

As Tristan noted, a stronger production is expected in the second half of the year; with that stronger production, we are well set up for free cash flow generation at current copper prices.

On the balance sheet, we were pleased to close out the Cobre Las Cruces and Çayeli transactions during the quarter. These sales reflect our disciplined approach to portfolio management and focus on our core strategic priorities. They delivered a gain on disposal of $271 million, with the net proceeds deployed towards short-term debt. Net debt increased by $123 million to $5.4 billion. This reflected planned Capex, tax and interest outflows, partly offset by EBITDA generation and favorable working capital movements.

We closed the quarter with a strong liquidity of about $2 billion, including $771 million in cash and $1.25 billion of undrawn revolver capacity. Overall, it was a solid financial quarter with strong execution, driving resilient margins. We're maintaining a disciplined approach to capital management, keeping balance sheet strength, liquidity, and a continued focus on deleveraging at the centre of how we make decisions. Combined with our full spot copper price exposure, this positions us well to navigate market volatility while continuing to advance our strategic priorities.

With that, I'll hand the call back to Tristan.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, Ryan. On to our development projects: During the quarter, we were very pleased to publish a Technical Report for our La Granja Project in Peru. The report provided an updated mineral resource containing an estimated 23 million tonnes of copper, 600 million ounces of silver, and 6.7 million ounces of gold, which positions the project as the second largest greenfield copper resource globally. The report also includes a geological and metallurgical work that indicates that a significant portion of the asset mineralization is structurally controlled and associated with higher-grade copper zones.

Based on work completed to date, we believe arsenic can be effectively managed by segregation, blending, and through commercial offtake arrangements. And that, as a result, the mine can be developed as a large-scale open pit operation with a conventional flotation flow sheet.

It is still early days for La Granja. However, the Technical Report underscores the project's potential to become a Tier 1 multi-generational mining operation. Our focus is now on advancing the permitting process, and our key priorities include the progression of baseline environmental and social studies, continued stakeholder engagement, and preparation for the Detailed Environmental Impact Assessment.

At Taca Taca, we continue to progress work to de-risk the project. This includes the mining ESIA, which is expected later this year following completion of the public consultation process. In parallel, ongoing water supply assessments are evaluating incremental supply opportunities that could provide greater flexibility. We are also finalizing our application under Argentina's Investment Incentive Regime and intend to submit it once the ESIA approval and required water use concessions have been secured.

As I noted earlier, it has been a busy first half of the year with our operations and development projects. However, our priorities remain very clear. First and foremost, the priority to progress towards the durable resolution of Cobre Panamá. Secondly, maintaining safe, lean, and productive performance across our operations. And thirdly, strengthening the balance sheet to ensure the company is well-positioned to support future growth in a disciplined manner.

With that, operator, I am happy to open the line for questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] We'll take our first question from Orest Wowkodaw at Scotiabank.

Orest Wowkodaw
Analyst, Scotiabank

Q

Hi. Good morning. Hoping you could provide us an update on Cobre Panamá. And I'm wondering specifically if there's any expectation on when you would expect the government to move in terms of the next steps of their audit review in terms of conclusion moving forward?

And then secondly, I'm also curious if you can comment on the media report recently that spoke about Panama setting up a state mining company that was looking for interest in the mine? Thank you.

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

A

Hi, Orest. Thanks for the question. Sure. In terms of timing of the audit's process and the recommendations coming out of the ministerial commission, our engagement with the Government of Panama has been focused on the preservation and site management plans and, more recently, on the stockpile processing programs. The ministerial commission that was announced on the 14th of July has established a regular schedule of meetings. They've made public statements on their goal to produce results as soon as possible. And the recommendations around that need to be holistic, need to look through the Technical Report and the substantial amount of effort involved in the thousands of pages there, but also social, economic, environmental, and legal implications of the audit report and around the mine.

Orest, we remain ready to engage as the process advances, but it will be the government that determines the next steps and timeline. We don't have a clear timeline as yet as regarding the decision-making process, but we know that they're very focused on this topic. And now, with all the facts in hand from the audit, we think they are moving into a decision-making phase.

But for us, and while we await next steps from government, our focus is on executing the stockpile processing program safely and responsibly, preserving the environment at the site, working with the communities around it, and ensuring the integrity of the assets at Cobre Panamá.

In terms of your second question around – yeah, we saw the article from Reuters. As you know, Orest, we don't comment on media speculation. As I've said, the Government of Panama had completed that audit, and they formed the ministerial commission to review those results and make recommendations on the future of the mine. President Mulino has been clear that decisions regarding the mine will be communicated by the government once that review is complete and not before. And until then, yeah, I would suggest any updates from unconfirmed sources are just speculation and should be treated as such.

Operator: We'll take our next question from Richard Garchitorena at Barclays.

Richard Garchitorena
Analyst, Barclays Capital, Inc.

Q

Great. Thanks for taking my question. Just a follow-up on Cobre Panamá. I guess in terms of the final audit, was there anything specific that surprised you, anything that you weren't expecting that may have caused you to sort of change the plan going forward in terms of the prep work that you're doing ahead of decision from the government?

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

A

Yeah. Hi, Richard. Yeah, thanks. Look, the audit overall was a very thorough process. We were very satisfied with the level of engagement from SCS, the independent auditor, but also with government as we went through a lot of interviews, a lot of site visits. It was extremely comprehensive. I think, overall, the mark, the 87.7 out of 100 score, I think reflects a high level of compliance. There were 361 areas of full compliance and then 7 areas of partial compliance. I think there are two areas of misallocation, but there's seven areas of partial compliance.

But the areas that were drawn out, in particular rehabilitation, biodiversity, we were aware of. So for example, on rehabilitation – reforestation, I'm sorry, we were aware that during the period of closure, the suspension of the mine, but we hadn't been able to do that work, so it's no surprise that some of those reforestation areas have slid backwards. We were at some 54.7% completion of the target, which was over the life of the mine, but we had lost ground because during this closure, we hadn't been spending money on those areas without the lack of clarity.

Similarly, on biodiversity, we can see some conservation, species protection. We're very aware, and we think this provides the opportunity to strengthen what is a very high level of compliance already. But what we did see in those non-compliance is that there wasn't any broader breakdown in environmental management. There were no acute environmental issues that were of major concern. Instead, we identify areas of further work where we need to document further, and we're reviewing and identifying those areas. And certainly, we're keen to address those and ensure that we continue to improve the standards of Cobre Panamá.

Richard Garchitorena
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. And on the costs, the $60 million incurred in the second quarter intact for the full-year guidance. The cash cost expectation of $4.50, that's still on track or is there anything that you're seeing, maybe scope that you can do better than that?

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

A

Yeah. Thanks, Richard. Ryan, do you want to take that question on costs so far at Panama?

Ryan MacWilliam
Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah, sure. So, Richard, in short, the circa $4.40 C1 costs we have expected at Cobre Panamá, we still expect to be in line with that through the balance of the year. So I'd say we're on track for guidance. We're on track for costs in Panama following the successful ramp-up of the stockpile processing in Q2.

Operator: We'll move to our next question from Lawson Winder at Bank of America.

Lawson Winder
Analyst, Bank of America Securities

Q

Sure. Thank you very much, operator. And hello, Tristan, Rudi, and Ryan. Thank you for today's update. Just on Cobre Panamá again, just thinking around timing, what is your latest thinking on how long it will require to ramp-up Cobre Panamá to run rate once the fiscal framework is in place and all approvals secured? And then you noted the workforce at 3,000 people but – that's really impressive. How do you expect that ramp-up to trend for the balance of the year? I'm just trying to think of like what place you might be in at year-end in terms of total employment and that ability to ramp up the mine. Thank you.

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

A

Thanks, Lawson. Well – and thanks for the question. First thing to note is we're not in that mode yet of a full staff, and we're working through the government process. As I've said, we wait for the government around that timetable. If and when that comes through in terms of our timeline to full production, the stockpile processing activity now covers most of the areas, really mining – the mining activity, in particular drill and blast or waste stripping or full fleet mobilization that we're not involved at this stage.

The fleet has been well-maintained during this period of closure. But ultimately, the full restart will depend on our ability to restart mining, both in Botija and in the Colina area to catch up with those processing rates. That's really the challenge.

So that would come back to people, which you point out there, onboarding and training the workforce, getting operators and maintenance personnel back. We've been very pleased with how the Panamanians have responded and come back into the workforce. Some 1,000 people already, most of those or everybody on a truck right now that's involved in the stockpile processing. The truck operator was previously hired at Cobre Panamá, and we're very excited to have those people back and give them again meaningful employment in the context of a large unemployment number in Panama, some 10% of the country is searching for employment.

So if the working age population at Panama is 2 million, that's 200,000 people that are out there looking for work. And I think that gives us an opportunity to bring people back. We need room to give at some 6,000 people in the event we do move to a full production ramp up. But the constraint will be how quickly we can bring people on board and train them. I think it will be that at the highest level skills that will be the hardest. We'll certainly be able to get to 80% or 90% of our throughputs within the six to nine months that we've spoken about, and we think that guidance remains relevant as good as we have for the time being. But the last 10% to 20% of optimization will take time and rely on those high level of skills. But Lawson, that's how we see it. It will still take six to nine months, we think.

Operator: We'll move to our next question from Matthew Murphy at BMO Capital Markets.

Matthew Murphy
Analyst, BMO Capital Markets Corp. (Canada)
Q

Hi. More questions on Cobre Panamá. So – and congratulations on the restart. But this ministerial commission, okay, so first, it's a regular schedule meeting that's happening between the ministers. Do you have any insight into when those meetings happen, how frequently? And then is it your understanding you could be engaged at any time or – like presumably regardless of what they say, they'll have to engage with you. But do you know – is your expectation that that process has to finish, there has to be some recommendations made to the President, and then you'd be consulted? And then if you have any insight into what's on the government's agenda right now, do you think the mine is like, first and foremost, or are there other events going on in Panama?

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

Yeah. Thanks, Matthew. So look, in regard to the ministerial commission, certainly, the commission has established a schedule of regular meetings, and I don't think they met all of those or published the indication when they first announced, around the 14th of July, two to three times a week. There's a lot to go through. I think at that time when Minister Moltó, the Minister of Commerce, spoke around what was involved, and he made it very clear how much effort would be involved going through in a diligent way through the entire comprehensive audit. And we respect that process.

We don't necessarily think that there can't be engagements in parallel. That would be an opportunity. However, we will take our guidance from governments around this timetable. And certainly, there's an indication from the Minister of Commerce around their commitment to go through this in a serious manner and report back to the President their recommendations for what the future of the mine will be.

Operator: We'll take our next question from Anita Soni at CIBC World Markets.

Anita Soni
Analyst, CIBC World Markets, Inc.
Q

Thank you. Good morning and thanks for taking my question, Tristan. So my question is just around restart costs. So I think we established or you guys have indicated it was around $350 million, including working capital, to get that processing plant restarted. The second leg, as you restart the mining operations, could you give us an idea of what the capital would look like for that portion of it?

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

A

Sure. Anita, thanks for the question. And again, we're not at that stage yet, and we will follow government process of engagements and the steps forward from here. But if and when that happens, we said previously before that we think the total involved would be some $350 million to $500 million, of which this $250 million for the initial stockpile processing would be inclusive. And we have no reason to change those numbers at the moment. We think that's reasonable. Ryan, you gave some guidance around the cost of those operations, maybe you could just fill in on the cost side of things, the operating cost side.

Ryan MacWilliam
Chief Financial Officer, First Quantum Minerals Ltd.

A

Yes, sure. So as you said, Tristan, $250 million in terms of that ramp-up is appropriate. We've spent around $60 million of that as of June 30. The rest of that will come through in the balance of the year. And then to go from there, if we get to the point that, as Tristan said, we're moving to full operations, that's an incremental $200 million split across additional operating costs, working capital, and Capex. But in that respect, we're obviously waiting for the government's guidance on next steps before we get into that. But broadly in line with expectations in terms of Cobre Panamá stockpile processing across both the ramp-up and start-up costs and the operating costs we're seeing coming out of that.

Anita Soni
Analyst, CIBC World Markets, Inc.

Q

Okay. Thank you. I think that's it for my questions. Most of the other ones have been asked.

Operator: We'll go next to in Ian Rossouw at Barclays.

Ian Rossouw
Analyst, Barclays Capital Securities Ltd.

Q

Thank you. Just coming back to Cobre Panamá and the stockpile processing. Just sort of curious what determines the decision in terms of the throughput rate. Obviously, you say it's 38 million tonnes with the, I guess, one – that's basically the one line for a year. But if you wanted to increase the throughput rates, would you be able to do that and perhaps treat two lines? Just wanted to get your sort of thoughts around that.

And, Ryan, just on that sort of spending within you mentioned in Q2, the $60 million, I see you stripped out some of that, about $40 million out of EBITDA. Will you do that again in Q3 or is that – was that just a one-off?

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

A

Thanks, Ian. So yeah, in terms of what could be done with the stockpile ramp-up, we were pleased to have the first production come through from Train 3, and I guess it's a testament to the amount of efforts by the team there on the preservation activities over the last 2.5 years and the investment made by the company to ensure asset integrity that we've been able to see those started well.

There's been a lot of acute focus on safety, really a focused on making sure we do things reliably rather than with velocity or with excess speed, really that we build a solid platform. And Train 3 started up very well. We had liners there that we want to exhaust, and we've now used those liners. So we've now taken Train 3 down, and we're moving across – we've already moved to cross onto Train 2.

And your question was whether we could bring on so Train 1 as we've done to the reline on Train 3, and that's a possibility. It's really limited by people and bringing people back. At this stage, the 3,000 that we have onsite feels appropriate. We're only open, for example, to give out six months contracts at the moment because of the nature of the limited activities that we're about to do. And so at the higher skill level, that will be a challenge until – and if and when we get a green light, we will be able to provide people greater clarity around their employment.

And so, we could potentially add another train. But at this stage, we're focused around moving now on Train 2. And at that level, we've considered we have enough stockpiles around 12 months of operation. In terms of the costs, Ryan, could you take that that question?

Ryan MacWilliam A

Chief Financial Officer, First Quantum Minerals Ltd.

Sure. So, Ian, the $250 million in restart for the stockpile processing is broken up in three components. The first is $50 million of working capital outflows, so that doesn't report EBITDA. The second is $100 million of Capex, so that also doesn't go into EBITDA. And then to the crux of your question, the third is $100 million of operating costs associated with the commissioning, that's what we've adjusted EBITDA for. We've taken that out of adjusted EBITDA. You saw $40 million adjustment in Q2, and we expect to take the balance, the $60 million adjustment, as we spend that in the second half of the year out of EBITDA. So in short, none of that $250 million is flowing through to EBITDA.

Operator: We'll move to our next question from Myles Allsop at UBS.

Myles Allsop Q

Analyst, UBS AG (London Branch)

Great. Thank you. Just a few quick questions. Maybe first on Taca Taca, should we be concerned that the ESIA and the water permits are taking longer to come through? I mean, is this – could it take another 12 months and we missed that RIGI deadline and we're in trouble? I mean, what's happening in there? That's the first question.

A. Tristan Pascall A

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Yeah, sure. Myles, thanks. So Taca Taca, yes, there have been some slight delays. We applied for the ESIA and water permit with the provincial authorities in Salta. There have been some role changes there. And so, as new people have come in, I think it's natural that they take a while to get behind the desk. But as we've seen things, we, in terms questions and backwards and forwards, we think we sort of through that question round. And our understanding is the process will move forward in due order, which we have confirmation that the application is under review, and we haven't received any further information reports from some time. So that seems to us that it's now in a serious stage of review. Obviously, with those role changes, things have taken a bit longer, but we're not concerned about that given the feedback that we're getting from Salta.

Myles Allsop Q

Analyst, UBS AG (London Branch)

Okay. That's reassuring. And maybe secondly, a question for Ryan on the unit cost inflation. You say that you got $0.25 kind of risk from currency and fuel, and additional risk if current conditions persist. So if we say midpoint of guidance is what, $228 million, what – at spots kind of diesel and currency, how much should we kind of think unit costs will be? Is it $0.30, $0.40 higher than the midpoint of the current guidance range?

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

A

Ryan, do you want to get that?

Ryan MacWilliam
Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah. Thanks, Myles. Yes. So in short, that $0.25 is if you take our current guidance and you inflate the rest of the year costs for spot fuel, spot kwacha, and spot gold. So we get a slight tailwind on the gold side, but headwinds on both fuel and the kwacha. So I take the midpoint of our cost guidance and add the $0.25 in if we assume we see a higher cost environment that we're seeing today continue in a pretty static manner for the balance of the year.

Operator: We'll go next to Cody Hayden at Deutsche Bank.

Cody Hayden
Analyst, Deutsche Bank AG

Q

Hello and thank you for taking my question. Just on Taca Taca, I think you've previously spoken about the potential to bring in a strategic partner. I was wondering if your thinking has evolved on this or if there are any updates you can share regarding partnership discussions or funding considerations at this stage? Thank you.

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

A

Thanks, Cody. Thanks for the question. Ryan, do you want to talk about potential partners and partnerships at Taca Taca?

Ryan MacWilliam
Chief Financial Officer, First Quantum Minerals Ltd.

A

Sure. Our real focus on Taca Taca at the moment is on de-risking the project. Those activities are the ones that Tristan has talked about around the ESIA work, around preparing the RIGI application. From a funding perspective, I think we're fortunate that we have a range of options. We've previously talked about the fact that we can look at putting a project finance in place. We've signed a working agreement with the IFC in preparation for that potential work stream. We've talked about the fact that we could bring a partner in. We've talked about the fact that there are significant gold byproduct credits associated with Taca Taca that would be amenable to streaming. And we will consider all of those options in due course. But it is early stage in terms of looking at funding options, so our real focus at the moment is on de-risking the project in advance of those considerations.

Cody Hayden
Analyst, Deutsche Bank AG

Q

Got it. And secondly, if I may, just back to Cobre Panamá. Following the environmental audit, have you observed any meaningful shift in public sentiment towards the mine through your community engagement? Just kind of wondering how that's maybe progressed with recent updates. Thank you.

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

A

Sure, Cody. So on the public perception sides, yeah, we actually got in a new poll just in the last 24 hours or so, so that was a group called Doxa. They're one of the authorized polling companies in Panama alongside Gallup. And so it's not quite the same methodology as Gallup, but what we've seen compared to the last Gallup survey in May, which was a 55% approval rating, that Doxa were reporting a 63% favorable opinion of Cobre Panamá.

Alongside that, some of the questions that were asked, 55% of Panamanians supported President Mulino negotiating a new agreement with Cobre Panamá, 68% of people believe mining creates jobs, 63% believe it contributes to economic growth, and 67% believe it generates significant revenues for the country.

That's in the context, Cody, where we have been continuing our outreach efforts and social media affairs and live events. I think to-date, I think – this year, we've had some – and last year, some 420,000 direct engagements with people since suspension. And really, that's been about educating people around the benefits of the mine, to discuss the sovereignty of Panama over its national resources, to talk about contribution to the economy and what that means in a local context on the ground with people, and our commitment to mining responsibly with a high standard.

Operator: Our next question comes from Craig Hutchison at TD Cowen.

Craig Hutchison
Analyst, TD Cowen

Q

Hi, guys. Thanks for taking my question. I just want to ask on the African assets. Sales have lagged production here for a couple of quarters in a row. Can you just maybe talk to some of the logistical issues there and whether you think we could see that reverse itself in the third quarter? Thanks.

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

A

Thanks, Craig. Ryan, do you just want to talk about production versus sales?

Ryan MacWilliam
Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah, sure. So, Craig, where we saw the big difference was in Q1, and that was really just a function of ending the year-end last year with very low finished goods inventories. And I'd say, to some extent, what you've seen is abnormalized through mostly Q1 but also coming into Q2. So the export channel is working well through a variety of transport corridors and ports that we're using. And as I say, that delta is principally driven by the low starting inventories at the end of last year, and we expect fairly stable sales versus production for the balance of this year.

Craig Hutchison
Analyst, TD Cowen

Q

Okay. Great. And just on the sulphuric acid, you flagged potential surplus in Q3 here. Is that something that could be material and potentially lower cost, or is it fairly small volumes?

Ryan MacWilliam
Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah, Craig. So what we saw is an $18 million benefit from selling that sulphuric acid in Q2. We're seeing that continue. In Q2, that had around a $0.05 benefit to our C1 costs because the acid reports as a byproduct. We see potential for similar sorts of sales through the second half of this year. So potentially another $0.05 benefit. But obviously that's very contingent on what happens in the Middle East and do we see sulphuric acid come back to the market? But I would say Q3, we both expect higher diesel prices to hit our costs and that will be a tailwind. And then we do expect some sulphuric acid sales in Q3 to somewhat offset that, those diesel costs.

Operator: And we'll move next to Marcio Farid at Goldman Sachs.

Marcio Farid
Analyst, Goldman Sachs do Brasil CTVM SA

Q

Thank you. Just a quick one on my side. I know you talked about the cost to process the stockpile at Cobre Panamá is at 4.5 dollars per pound in terms of C1. And we've talked about the Capex and operating cost for the ramp up as well. Just wondering if it's maybe too early, but how should we think about – once Cobre Panamá is eventually at steady state and nameplate capacity, how should we think about the C1 and operating cost for that operation, you know, considering maybe three, three-and-a-half years of cost inflation that we have observed globally. That would be great. Thank you.

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

A

Thanks, Marcio. Ryan, are you able to take that question on cost?

Ryan MacWilliam
Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah. Sure, Marcio. Yeah. I think it is too early to put out specific guidance. As Tristan noted, we're laser focused on the stockpile processing, doing that in a stable, environmentally responsible and safe manner. So if the government takes next steps at that stage, we'll consider both more detail around the ramp-up cost to full operations and also the operating costs associated with those operations. When we would expect the operating philosophy and approach would be similar to what it previously was in terms of cost performance.

So if you take those operating costs that we saw three years ago and inflate that by what you've seen across large copper mines in the industry, I think that would be a sensible way of considering what would that look like on a full restart. So, you're getting closer to the probably the forward $1 to $1.50 C1. And now we're probably going to be somewhere between $1.50 and $1.80 C1.

Marcio Farid
Analyst, Goldman Sachs do Brasil CTVM SA

Q

Okay. That's great. Thanks. A quick follow up, probably, the gold and copper hedges are coming to an end this quarter. Fully exposed to spot now. Is there a plan to eventually review the hedging policy and add some hedges again, or your plan is just to stick with spot exposure for now? Thanks, Ryan.

Ryan MacWilliam
Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah. Sure, Marcio.

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

A

So, Ryan...

Ryan MacWilliam
Chief Financial Officer, First Quantum Minerals Ltd.

A

Philosophically, we think about hedging as an insurance tool. So we've put in hedges when we've had periods of high capital spend combined with leverage on the balance sheet. And we did see that last year with Panama offline and S3 project underway. With S3 now being completed, the strong copper price has meant that we've let those hedges roll off. Now, I think our plan would be to stay unhedged, but we always have that as a tool in the toolbox. If we see capital spending coming or we think the balance sheet needs extra protection, we will revisit that. But as I said, as we sit here today, because of the strong outlook for the second half of this year at strong copper prices. And into next year, there's no near- or medium-term plan to go back into hedging.

Operator: And we'll take our final question today from Myles Allsop at UBS.

Myles Allsop
Analyst, UBS AG (London Branch)

Q

Great, thanks. That's a quick follow up question on Cobre Panamá. I mean, obviously, if the government gets too aggressive with the proposal when it comes, how quickly can you revert back to arbitration and how confident are you that you can kind of defend shareholder value here?

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

A

Thanks, Myles. Sure. Look, our arbitration remains in suspension, but all the company's rights are protected there, Myles, and we can re-initiate that, the panel was established. But what we've seen is, that we've seen constructive progress in Panama. There's been good progress to date and we can point to really concrete progress milestones around the Preservation and Safe Management Plan approval last year and then moving into concentrate sales, restart of the power plant, and then more recently, processing of the stockpiles both for to ensure integrity of the assets and also environmental stewardship. But that is a step forward in terms of re-employment hiring back a thousand people.

So we see that as good faith. Arbitration is not the preferred outcome and we will look to deal with the matter in a constructive mode. And in terms of aggression, we think that it needs to be balanced between economic realities and reputation, but also consciousness of providing benefit to Panamanians and full transparency around that process. So that's our focus. As I said, arbitration is not the preferred outcome, but all our rights are protected there.

Myles Allsop
Analyst, UBS AG (London Branch)

Q

All right. Thank you. Good luck.

Operator: And that concludes our Q&A session. I will now turn the conference back over to Tristan Pascall for closing remarks.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, operator, and thank you, everybody, for your time today.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.