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First Quantum Minerals Ltd. (FM.CA)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

Bonita To

Director-Investor Relations, First Quantum Minerals Ltd.

Thank you, Jeanine, and thank you, everyone, for joining us today to discuss our fourth 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 references 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 operations during the quarter; Ryan

MacWilliam, our Chief Financial Officer, will follow with a review of financial results, and then Tristan will wrap things up, after which we will open the lines for Q&A.

With that, I will now turn it over to Tristan. Thanks.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, Bonita, and thank you, everybody, for joining us in our conference call today. I'm pleased to be able on the call today to speak to you about our fourth quarter and year-end 2022 results and also provide you with an update on our discussions in Panamá and on our brownfield projects.

2022 can be characterized as a very volatile year that saw large fluctuations in commodity prices, input costs and interest rates, as the wider global economic mood shifted from recovery after the pandemic, the concerns of a major recession. Despite these challenges, net debt at First Quantum reduced by \$361 million during the year, bringing the net debt level down to \$5.7 billion and total debt to \$7.4 billion as of December 31, 2022, to which Ryan will talk to more later in the call. It was also pleasing to see operational improvements continue into the fourth quarter last year, which Rudi will review.

But before I hand over to Rudi for operational highlights, there are a few items that I would like to discuss. On Panamá, I want to provide a brief update on developments since our call last month. In short, the situation remains fluid; however, we continue to make progress. I remain confident that we will achieve a refreshed agreement, which will be to the benefit of the country and will support the long-term operations of the Cobre Panamá mine.

Engagement continues with the Government of Panamá and drafting towards an agreement is making steady headway regarding the long-term future of the operations. However, in the short term and until an agreement is finalized, I do expect the pressure being applied to First Quantum by the government will increase. The government has chosen to add pressure to the situation through a series of escalating regulatory hurdles for the operations. We think these steps are unnecessary and First Quantum and MPSA, our subsidiary in Panamá, both remain committed to coming to an agreement with the Government of Panamá on reasonable and fair terms.

As we have said, we are and have been prepared to meet and, in part, exceed the objectives that the government outlined last year related to revenues, environmental protections and labor standards. This includes a minimum payment of \$375 million per year in government income comprised of corporate taxes and a profit-based mineral royalty of 12% to 16% with downside protections that are aligned with the government's position. We continue to seek durability in the agreement, which includes reasonable protections against early termination. Absent these conditions, the agreement would be vulnerable to future renegotiations, which would be unfair to all stakeholders, including our investors, local partners and workers of Cobre Panamá, but also the reputation of the country.

Last week, we reported the concentrate shipments had been suspended from the Cobre Panamá mine due to a requirement by the Panamá Maritime Authority to have our scales recalibrated at the port. I want to emphasize that the scales were measuring accurately and are backed up by the final draft surveys of the vessels, and that the Maritime Authority had previously accepted the internationally accepted certifications that we had submitted. Nonetheless, MPSA complied with the Maritime Authority's new requirements. We had the scale recalibrated and submitted the certification, but a few days later, the Maritime Authority rejected that.

MPSA is challenging this decision and, at the same time, working to find another accredited certification company that the government will accept. If the government does not allow us to restart shipments shortly, we will likely run

out of storage capacity for our concentrate on site and be forced to stop operations at the mine. We have alerted the Maritime Authority, the relevant authorities and the government of this fact.

The action may be a negotiation tactics in our view, but it also threatens real-world consequences for everybody who has a stake in Cobre Panamá and the broader Panamanian economy. We very much hope the situation will not come to this. Stopping operations would be to the detriment to Panamá, the mine's employees, suppliers and the broader Panamanian economy. We are taking all necessary measures to avoid this outcome, given the progress that both parties have made to-date in discussions.

Moving on to the rest of the business. Alongside our fourth quarter results, we have also published our second TCFD-aligned Climate Change Report. This sets out our strategy for managing the risks faced by our business to climate change, but also the opportunities that are expected to rise in the global transition to renewable power. Metals that we mine will be vital for the world to meet climate goals. I would also like to take this opportunity to congratulate our teams in Zambia and in Panamá who received recognition during the quarter for their sustainability work.

In Panamá, our national school support program, which feeds over 5,000 children every day, was recognized by the Government of Panamá and the United Nations. And in Zambia, our colleagues received a number of awards at the Annual National Conference on occupational health, safety and the environment, including Best Performer in Local Content for Kansanshi mine and Best Performer in Environmental Management at Trident facility.

We're saddened by the recent earthquake in Turkey, and we offer our condolences to all those affected. While our Çayeli mine was not located near the epicenter of the earthquakes, some of our colleagues have family members in the affected areas, and our thoughts go out to them at this very difficult time. I would like to thank two of Çayeli's rescue teams who had travelled to the affected areas and have been actively assisting the authorities with the rescue and recovery efforts. These teams have now returned to Çayeli after a week on the ground in the affected areas. We are full of admiration and pride for the efforts which saved several lives from the rubble and also helped many families [ph] come to time – come to in a (00:07:50) time of great grief.

Like many in Turkey, they are exhausted physically and psychologically, and we will support them over the coming period. Lastly, it is with deep regret that we announce the death of one of our colleagues in an accident at the Sentinel operations earlier this month. I would like to extend my deepest sympathies to the family and friends of our colleague. Another colleague was seriously injured in the incident and medically evacuated, and we are providing the support to him and his family.

I would like to thank our site emergency response team who responded immediately and worked hard to assist our colleagues in the accident. Safety and health of our workforce is our top priority. This includes providing all necessary support for both our employees and their families during this difficult time. Investigations, both external and internal, are still underway, and we are committed to improve health and safety practices from this incident.

With that, I would like to hand it over to Rudi to review our operations.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

Thank you, Tristan, and good day to everybody joining us on the call. I am pleased to say that the production improvement we saw in the third quarter continued into the final quarter of the year with copper production of 206,000 tonnes. The quarter-over-quarter increase in production was driven by both Kansanshi and Sentinel with grade improvement experienced at both mines. Copper C1 cash cost averaged \$1.86 per pound in the fourth

quarter, up from \$1.82 in Q3. While cash costs benefit from higher production volumes, this was offset by lower by-product credits to which Ryan will provide more detail in this financial review.

During the quarter, Cobre Panamá produced 89,652 tonnes of copper. This was a modest decrease from the third quarter levels, mainly due to lower throughput with 21.9 million tonnes of ore processed during the period. It is worth noting, however, that December recorded a record monthly mill throughput of 8.3 million tonnes. In October, Unit 2 of the power station had scheduled maintenance work and, as such, Cobre Panamá had exposure to spot prices from the Panamá grid during this time. This, combined with higher labor costs, resulted in an increase in C1 cash cost at Cobre Panamá to \$1.63 per pound or a \$0.20 increase from Q3 levels. Cobre Panamá is forecast to produce 350,000 to 380,000 tonnes of copper in 2023. Production for 2023 includes production from the CP100 Expansion, which Tristan will speak to more about later.

Before moving on to the Zambian operations, I want to touch on the power situation in the country and the current rainy season. Water levels at the Kariba Dam reached a record low at the end of 2022. As such, in January, ZESCO requested the company's Zambian operations to reduce its power usage for a two-week period due to the lower levels of the Kariba Dam, as well as planned maintenance at the 300 megawatt Maamba power plant.

During this time, Kansanshi and Sentinel conducted planned maintenance that was previously scheduled for February and March and, as such, the impact on production is expected to be minimal for the quarter and for the year. Although the country continues to experience power restrictions, load-shedding across the country has been reduced from 12 hours per day to 4 hours per day with no power restrictions to the mines. Heavier than normal rains have been experienced in the current rainy season. In January alone, we experienced three times the normal rainfall at our Zambian operations, which should replenish the Kariba basin, however, there will be a seasonality impact on our first quarter results.

At Kansanshi, it was pleasing to see production improve in the fourth quarter after a difficult start to the year. Kansanshi produced nearly 35,000 tonnes of copper in Q4, up approximately 5,000 tonnes from the previous quarter on grade improvement. An enhanced water management strategy at the bottom of the mine pit led to a more consistent feed grade to the mixed and oxide circuits. Balancing of ore feed between strata and ore associated with narrow-veins also improved sulphide feed grades. Work is continuing on reconciliations and the learnings are incorporated in the near-term mine plans to further improve and optimize the mine sequences. Copper C1 cash cost of \$2.81 per pound was \$0.12 lower than Q3 in 2022, mainly due to higher production volumes from improved grades.

As we noted on our last conference call, copper production at Kansanshi in 2023 and 2024 will reflect similar levels as 2022, with lower oxide and sulphide grades while mining vein-hoisted areas. As such, Kansanshi production in 2023 is expected to range from 130,000 to 150,000 tonnes of copper. Sentinel also had a strong quarter, producing 73,000 tonnes of copper, an improvement of over 9,000 tonnes from Q3. With the benefit of fourth in-pit crusher, record quarterly throughput was achieved in the fourth quarter. Copper C1 cash cost of \$1.55 per pound was \$0.22 lower than the preceding quarter, reflecting improved production volumes.

For 2023, copper production at Sentinel is expected to range between 260,000 and 280,000 tonnes. As I noted earlier, we have experienced particularly heavy rains in January, which has impacted mine sequencing at Sentinel. As a result, first quarter copper production is expected to be the weakest quarter of 2023. As Tristan mentioned, there was a fatal accident at Sentinel on February 1. All mining operations were immediately suspended following the incident, while the plant continued to process stockpiled ore. There was a progressive reopening of areas in the pit with full operation by February 4. I also would like to express my deepest condolences to the family of my colleague and the team at Sentinel.

I will now hand over to Ryan for financial overview of the fourth quarter.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Thank you, Rudi. Since the beginning of Q4 2022, copper prices firmed by 16% and is currently sitting at just above \$4 per pound. A portion of this price support has been the result of a weaker US dollar, which is down almost 8% over the same period. The copper price has also found support in the fundamentals. On the supply side, disruptions in several countries, most notably Peru and lower production at several large mines have had a negative impact on supply. Demand expectations have also firmed, albeit modestly, with China setting aside its zero-COVID policy and increasingly reopening its economy. At the same time, there have been slightly better-than-expected economic data for developed nations, as more countries appear headed towards a soft landing, rather than a recession.

The resulting higher copper prices led to a 6% increase in revenues to \$1.8 billion in the fourth quarter, while copper sales of 199,000 tonnes were flat quarter-on-quarter. Input costs largely stabilized in the quarter, albeit at elevated levels following inflationary pressures in the first three quarters of the year. Market rates for fuel and freight rate reduced slightly from the end of the third quarter; however, explosive costs remained at similar levels. As a reminder, there will be a lag of a few months before these costs are felt as operations work through existing inventory.

As can be seen on the waterfall on slide 17, copper C1 cash costs of \$1.86 per pound were 2% higher than the previous quarter, despite higher production from improved feed grades. That increase was driven by the timing of maintenance activities and lower by-product credit, as gold sales volumes were down 8% quarter-over-quarter.

Slide 18 highlights that, as a result of the higher revenues, Q4 EBITDA increased to \$647 million. Net earnings increased to \$117 million, and adjusted earnings per share rose to \$0.22.

EBITDA waterfall on the next slide shows that the biggest contributors to the increase in EBITDA were higher copper and nickel prices, which were somewhat offset by lower gold and acid sales volumes, as well as the timing of maintenance activities.

Moving on to slide 20 on our balance sheet. During the fourth quarter, net debt increased by \$363 million due to the timing of working capital cash flows and \$195 million dividend paid to non-controlling interests. This represents the ZCCM-IH's share of a dividend paid from Kansanshi to its two shareholders. The dividend was paid on signing of the agreement announced from December 1 of last year, whereby ZCCM-IH's dividend rights in Kansanshi were converted to a 3.1% revenue royalty.

Liquidity remains strong at \$2.2 billion. This was supported by the completion of the new Zambian term loan facility of \$425 million in the quarter. The facility has a three-year tenor and was fully drawn down by year-end. This robust liquidity and the strong support of our banking group positions the company well to weather any disruptions that may arise in Panamá.

Alongside our fourth quarter and year-end results, company declared a final dividend of CAD 0.13 per share. This brought the total 2022 dividend to CAD 0.29 per share and represents 15% of available cash flows, which are paid out under our dividend policy. Debt reduction continues to be a priority. Since peak debt in the second quarter of 2020, the company has decreased net debt by \$2 billion. We continue to target an additional \$1 billion in debt reduction at the medium term. This is particularly relevant, given rising interest rates and the highest costs

associated with servicing debt. In line with this, yesterday, we announced a \$450 million partial redemption of our 2024 notes. That brings the finance section to an end.

And I'll now hand the call back to Tristan.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, Ryan. As you can see in the pictures on slide 23 of our presentation, the CP100 Expansion project at Cobre Panamá made great progress during the fourth quarter. CP100 is operational with the new process water circuits in use, and this has already had an impact on plant recoveries, particularly at higher throughput rates. Construction has been completed for the balance of the expansion scope [ph] with those (00:19:37) facilities now in their pre-commissioning testing stage. We achieved a major milestone last week with introduction of first ore through Ball Mill 6 and through the new screening plant. We are pleased with the progress of the expansion and Cobre Panamá remains on course to achieve a throughput rate of 100 million tonnes per annum by the end of this year 2023.

At the S3 Expansion at Kansanshi, detail design is progressing well and incorporates enhancements and efficiencies introduced by the latest generation of preferred equipment and the learnings of the Sentinel, Cobre Panamá operations. Long-lead items, including mining fleet and process plant equipment have been ordered with deliveries to commence in the second half of 2023. Overall project procurement is approximately 25% committed. With a three-year guidance provided in January, we were pleased to report that the CapEx for S3 remains unchanged at \$1.25 billion, with most of the spending to occur in 2023 and 2024.

At Enterprise, work on the process plant is complete and ready for introduction of first ore to be expected to occur in the first half of this year. We have completed introduction of first ore into the crushing circuit and the mills have been [ph] turning with (00:20:56) water. We expect the remaining works to be completed on time and on budget.

Before we open the lines for Q&A, I would like to go back to my opening remarks. 2022 was a challenging year on many fronts, and I would like to thank everybody at First Quantum for their hard work. In particular, I want to thank the team at Cobre Panamá who continue to work through this difficult and uncertain time. We continue to work hard to reach a sustainable and durable agreement with the government that ensures that the team at Cobre Panamá will not have to go through this again.

I would also like to thank our investors, many of whom have been with us in the company for a long time. I would like to thank our shareholders for their patience, as we work towards refreshed contract with the Government of Panamá and for the understanding and expressions of support that the agreement does need to be durable.

Thank you, operator. We would now be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now begin the question-and-answer session. [Operator Instructions] Our first question comes from Jackie Przybylowski with BMO Capital Markets. Please go ahead.

Jackie Przybylowski

Analyst, BMO Capital Markets Corp. (Canada)

Q

Thanks very much. Congratulations on a good quarter, guys. I am going to ask the obvious question first, I guess. Can you maybe give us a quick update on the status of the negotiations with the Panamanian government? I think it looks like there are some challenges still in terms of this back and forth on the port. But, at the same time, Reuters published an article the other day saying that negotiations are progressing well. So, it'd be helpful just to get a bit of a high-level update from you, if you don't mind.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Sure, Jackie. Thanks for the question. Yeah. Look, we've certainly been making a lot of progress, and since December 14, at that time, we probably had 13 or 14 items left outstanding, and we really are now down to sort of two or three remaining items, but those are fairly key. Those relate to the termination element of the contract and also to some detail on the economics. We are making good progress towards an agreement. As I said before, we have prepared to meet and, in part, exceed the objectives of the government outlined last year and that includes the \$375 million per year in government income and the gross profit-based mineral royalty 12% to 16%.

What's remaining now is really to get those final details out of the way, but we can only accept a resolution, an agreement that is reasonable and durable. And, as I said, Jackie, I think we will see pressure continue to mount until we get to that point, but in room and in the negotiations, certainly, the momentum has been there. And we are pleased with the government's engagement and the level of good faith that is happening in the room towards reaching a mutual outcome.

Jackie Przybylowski

Analyst, BMO Capital Markets Corp. (Canada)

Q

I realize it's hard for you to answer, but what do you see as the probability today that the mine would have to close temporarily, whether it's because of this scale calibration issue or some similar issue that might come up?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah. Jackie, thanks. Look, the key point there is, it really is the government's decision. Any situation where the mine would close or need to shut operations at this time, whether it was on the Maritime Authority or care and maintenance or the other actions, would be a decision for the government. We've focused on engaging with the government, in good discussions in the room, in constructive conversation towards getting to an outcome. It would be complicated to stop the operations. The likelihood of that, I think it's unnecessary. We don't need to be in that situation, given the progress that's been made and given, in the end, to get to an outcome that suits Panamá and suits the mine.

Any closure would have a real-world impact, not just on us, for the company, but the country, and also the reputation of the country, and we don't want to see employees or suppliers, for example, use this bargaining chips

in there, right. I met with the unions in country, while I was there last week and with suppliers in country while I was there last week and expressed that to them. So, really, it's about conversation in the room and getting to an outcome. We wouldn't want to see the mine pushed to closure.

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

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Hi. Good morning, Tristan. Sort of same line of questioning, I guess as Jackie. You mentioned earlier in your disclosure that you're challenging this Maritime Authority around the scale? Do you expect to get the results of that challenge before you run out of concentrate storage capacity on Feb 20?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Yeah. Orest, thanks. So, look, 20th of February is roughly the day when we expect that we would reach capacity. And, obviously, we thought we can play around with that, change the mine plan or change grade or change production. But really, that's beside the point, we're running the operation in a responsible manner according to the mine plan. And in terms of the optimum output for this year, to play around with that too much runs in the face of that, and runs in what we – a responsible way to run operations with our employees, with suppliers, and also to pay tax towards the government.

So, really, if we do get to that point and the government remains committed to keep this port closed, then we would update the market at that time. In the interim, we are doing that work that they've requested to bring in accredited certifiers of the waste scales. We had one attempt at that and we're certainly trying again to meet the requests. But, ultimately, the decision here does rest with government. It's uncertain because they could turn around and say, okay, that's fine, and we could ship quite quickly once we get that decision. But that would be their decision. And if we do get to that point, we would then update people at that time, Orest.

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Okay. And as a follow up, thank you, Tristan, do you have any ability to increase temporary storage of concentrate on site anywhere?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Yeah. There's various options around that, Orest. We can shuffle things around. For example, we can use some of the coal shed to store, but some of that gets quite cumbersome. Just in terms of rehandling material, it's not optimum. There are a few options of that nature. Obviously, this is a little bit uncertain. So, in terms of what's the exact date and the exact timing. Again, it's the government's decision. If they said, okay, you can ship, we could be shipping extremely quickly, within a matter of hours that would resolve that. And if this is indeed just pressure for the negotiations, then the response to that is, we have been making good progress. We would like to keep that in the room and continue to make good progress in the room, and we see that this kind of step is unnecessary in that.

Operator: The next question is from Emily Chieng with Goldman Sachs. Please go ahead.

Emily Chieng

Analyst, Goldman Sachs & Co. LLC

Q

Good morning, Tristan, Ryan, Rudi. Maybe just a follow up on the same theme here, before I pivot, is around the durability piece of the negotiation that you're discussing. Can you provide some color to what you're looking for there? Is it for a set number of years or is it for the total mine life, and if that's really the last sticking point?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Emily. Sure. So, when we referred to durability, it's really around the termination provisions in the contract. And, yeah, we really are down to the last two to three items there. We had a contract in Panamá, the 1997 agreement, and we believe the company fulfilled all the obligations of that contract. But, we're now in the situation where that's been called into question, and we need to refresh the contract. I don't want to see that happen again, and that's why durability is important. We wouldn't want a situation where this happens on a regular basis. That's bad for clarity, it's bad for the reputation of Panamá. And so, durability protects not only the mining company, but also the country in the longer term.

And – but the details of that are important. Termination triggers. There's some complexity of that because this agreement relates – covers not just the economic terms, but also the broader basis of the contract. So, we would like to get that resolved. We've been making good momentum in that towards an agreement, and we believe it's in the best interest of the parties to resolve that in the room, not only for the long-term future of the mine. And the current contract would run for 20 years, and then would be renewable for further 20 years. That's the intent in terms of timing. But it also would help protect Panamá's reputation as a destination for investment.

Emily Chieng

Analyst, Goldman Sachs & Co. LLC

Q

Understood. Thank you. Just one follow-up is around the rainfall season in Zambia right now. I know you mentioned that there doesn't seem to be too much impact anticipated for the quarter and the year. But, just as it relates to sort of the seasonality there, any sort of indication that we would be, in any shape or form, near sort of the flooding scenarios that we saw at both pits last year?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Emily. Rudi can comment there on the waterfall in Zambia.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

A

No problem. Thanks, Tristan. Hi, Emily. Certainly, January rainfall of almost three times what we saw the year before comes as a bit of a surprise. Both Sentinel and Kansanshi has made quite a lot of provision towards the end of last year with additional pumping capacity in anticipation [ph] to – in anticipation of a wet/rainy (00:32:07) season. Obviously, more water, but we're busy handling, and that's all reason why we don't change our guidance. Obviously, quarter one will have an impact due to the seasonality of the rainfall, but we don't foresee an impact on annual production figures. Kansanshi, certainly in much better position than it was last year with absolutely no water in pit, so that's going strong.

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

Greg Barnes

Analyst, TD Securities, Inc.

Q

Yes. Thank you. Tristan, with five or maybe a few more days of capacity left at Cobre in terms of storage, are you taking steps to ramp production down or any other steps to prepare for care and maintenance?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah. Thanks, Greg. Hi. So, that's something we've certainly been looking at closely and, at the moment, we've decided not to go down that route. We had a clear mine plan for the year that's based on the sort of optimum way to run the asset and to deviate from that because of the circumstances, it's just – it's on the periphery of what the issue here which, we believe, relates to the outcome of negotiation. So, that must be focused in the room. We've been making good progress there. The government's been engaged and we're thankful for the level of engagement in the good faith basis by which that's been occurring.

But to sort of change the way we would run things, the problem there is uncertainty. Would it be only the five days or would something else come along, or would we go on, would there be a different resolution from somewhere else. So that's the kind of questions that are thrown up by that. And so, really, the decision rests with government. If it's this issue on the Maritime Authority that they seek to continue to restrict shipments, then that's their decision, and that would certainly bring us to the point eventually we can – as I said before, we can play here and there a little bit.

But, eventually, it would bring us to that point where we don't have capacity and putting that off for days or for a week or whatever, how does that achieve an outcome when really the outcome should be in the room and should be on these negotiations? So, that's the thought process we're going through. We have been working very closely with the government on that. I think we've made good progress, as I said. And really, these two to three remaining items, we believe, can be sorted out. And closure or restriction of shipping is unnecessary as a means to get to that outcome which, in the end, needs to work for both parties.

Greg Barnes

Analyst, TD Securities, Inc.

Q

Thanks, Tristan. And question for Ryan. On the coal pricing for Cobre, with your collars rolling off this year, I don't remember what prices you have locked in or the range, but what are you thinking about next year? You're considering putting new collars in. Coal prices have come down. I'm not sure where they sit today, but how are you going to transition into 2023 on that coal pricing [ph] front? Oh, sorry, into 2024 (00:35:35).

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Thanks for the question, Greg. Yes, our collar runs off at the end of this year. We previously said that we reached the ceiling on that contract in the \$80 range for thermal coal, so certainly a contract that's worked out very favorably from our perspective. Our long-term cost guidance assumes \$150 [ph] post that brought in line with broader (00:35:55) consensus. For every \$50 higher than that it is, that's about a \$0.03 impact on our group C1 cost.

Certainly, we're considering options for next year. I think with prices continuing – while coal prices have fallen, they remain at fairly elevated levels. So, not looking at this stage to lock in a new contract, and we'll just monitor the coal price through the rest of this year. I think what's important to note, the additional 65 megawatt contract which we entered into renewable power for the expansion is at well below those levels and, certainly, we now

have two drivers to transition Cobre Panamá to more renewable sources. One is reduction of greenhouse gases, but also, as the coal price remains elevated, there's a strong economic driver for that as well.

Operator: The next question is from Lawson Winder with BofA Securities. Please go ahead.

Lawson Winder

Analyst, BofA Securities, Inc.

Hi, Tristan. Hi, Ryan. Hi, Rudi. Thanks for the update today. I just – I wanted to maybe ask one more thing on Cobre Panamá and the negotiations. So, I mean, it's interesting that they had given you 10 days to work on the care and maintenance plan. And obviously, we're far past that 10 days. And so, from a implementation point of view, do they have to grant you some extension in order to keep working on that care and maintenance plan? And maybe, this is kind of tough for you to answer but, I mean, could we maybe interpret the fact that they haven't pushed for that closure plans? I mean, maybe they're not really at the point that they're seriously considering shutting down the mine?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, Lawson. Yeah. Look, the status of the care and maintenance resolution, which was from the Ministry of Commerce and Industries, so that resolution, you're correct, had a 10-day deadline, but that deadline hasn't started yet. So, we had some procedural appeals in process. And then, we have an appeal to the minister. That appeal and those processes are still in play. And so, the 10-day deadline hasn't – the clock hasn't started on that yet.

But, certainly, we've been preparing the care and maintenance plan. It's obviously a complicated process to reduce the operations. And we don't believe it's – we think it's unnecessary. It's not an action that should be taken lightly. Has very significant impact for the business, but also, more broadly, in the economy and for our suppliers and employees, and so on. So, we would like to avoid that outcome. But the final decision there does obviously rest with government. And similarly to the situation with the Maritime Authority, they hold the Key there on deciding whether to go ahead with that.

Towards your question, whether it seems that they would make that decision or not? We are certainly working on the basis that that is their intent. But, in the meantime, we do think that the best place to resolve this is in the negotiation room. There's been very good progress by the parties over the last four weeks. And in the last two weeks, a lot of momentum has built up. And we were like down to the last couple of items. Ultimately, we can only accept something that's reasonable and durable. And so, whether it's care and maintenance or the other pressure that's coming to bear, it is important that the contract then stands for a long period of time, because we wouldn't want to see a repeat of this situation in the future.

Lawson Winder

Analyst, BofA Securities, Inc.

Yeah. Thank you for those comments. And then can I just ask about the operation. So, you made some comments in the release about just fluctuating grades at Cobre Panamá. Is there any sort of insight you could give us into grades in Q1 2023? So, we're at the halfway mark. I mean, does the quarter look like it will be below or above the average grade for the year? Thanks.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Yeah, Lawson. So, obviously, during the course of the year, things go up and down. Grades at Cobre Panamá, we work on the second and third decimal place, given the volumes that go through it, and it does make a difference, the second and third decimal place. So, obviously, across the entirety of the potential pit, we will see variations from the different areas that we take. For example, [indiscernible] (00:40:30) grade in that area. And then when we're working in the more general areas of the mine, it will be different.

And the sequencing of that is according to the mine plan, what's optimum in terms of the phasing? And, obviously, in terms of ore and waste extraction, but I wouldn't read too much. In terms of that, our guidance for this year for Cobre Panamá is 350,000 to 380,000 tonnes of copper production. We're looking forward to bringing in CP100 project as you saw the pictures there of Ball Mill 6 turning. As I said, we've introduced first ore there. That's exciting for the future of Cobre Panamá. Once we get through this negotiation phase with government, the screening plant will add significantly to that. And as I said, the process plant has already had the addition of the process water upgrades and those are already making a difference to recoveries, particularly at higher throughput rates. So, yeah, I think Q1, it's been running well. There hasn't been any ups and downs. But, overall, we look at the guidance across the year.

Operator: The next question is from Sandeep Peety with Morgan Stanley. Please go ahead.

Sandeep Peety

Analyst, Morgan Stanley Securities Ltd.

Thank you, operator. I have a couple of questions. So, firstly, what's the rough split up fixed versus variable cost, if Cobre Panamá is shut down temporarily? I know that's not an option, but just want to get some understanding.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Yeah. Thanks, Sandeep. Ryan, do you have the numbers there?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Yeah. The significant portion of the cost, so circa 80% is variable. And you saw that during COVID, where despite the fact that we ramped down to one-third of production, in that period, we were able to cut our costs dramatically through that period. So, really, around 80% is variable. And, certainly, if you move to a full shutdown, you can also then will cut into that 20% of fixed quite quickly.

Sandeep Peety

Analyst, Morgan Stanley Securities Ltd.

Thank you. And secondly, what's the size of concentrate storage capacity at Punta Rincón port?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, Sandeep. So the storage shed there holds about 100,000 tonnes at full capacity. As I said, we can work on the periphery of that, including some other areas, potentially the coal shed and so on. But, when we talk about our capacity on site, it's that 100,000 tonnes which is in the concentrate storage shed.

Operator: The next question is from Ed Brucker with Barclays. Please go ahead.

Edward Brucker

Analyst, Barclays Capital, Inc.

Q

Yeah. Thanks for taking the question. Just wanted to get a better sense for the \$1 billion in debt reduction. Does the \$450 million that you announced yesterday, is that inclusive of – or is that to be included within the \$1 billion reduction, so there's only \$550 million left to be had?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah. Hi. Thanks for the question. So, when we talk about debt reduction, we focus on net debt. So, the \$450 million yesterday will come out of existing liquidity, so it will be net debt neutral. So, at this point, we're still targeting around another \$1 billion of debt reduction.

Edward Brucker

Analyst, Barclays Capital, Inc.

Q

Got it. That's helpful. And then, you did say that the balance sheet is set up for potential issues expected with Cobre Panamá. Could you go into more detail there, and what does that account for kind of in a worst case scenario? And then, what does that look like from a balance sheet perspective in a worst case scenario?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Sure, Ed. So, we finished the year with \$2.2 billion in available liquidity. Around \$1.5 billion of that was cash and then \$700 million in undrawn credit facility, which really insulates us well from any disruptions. So, we've looked at scenarios where we go into care and maintenance, where we got into a full shut and, certainly, those can all extend well into this year, and still being comfortable from both a liquidity and a covenant perspective.

Edward Brucker

Analyst, Barclays Capital, Inc.

Q

Super helpful. Thanks for the questions.

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

Jackie Przybylowski

Analyst, BMO Capital Markets Corp. (Canada)

Q

Thanks so much for taking my follow-up. My question is just on – actually, it's a good segue from the last one on dividends and, I guess, on debt reduction as well. I mean, with the spending you have at Kansanshi coming up on the expansion, how is your balance sheet? Are you fully financed for that plus paying a dividend plus a debt reduction, or is there still going to have to be some sort of capital raise to [indiscernible] (00:45:24)?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Hi, Jackie. Thanks for the question. So the dividend policy we put in place is 15% of available cash flows. The reason we chose that policy was, so that naturally ramps down when we move into more capital-intensive phases. So, certainly, as we go through the S3 build, cash generation, CapEx will reduce and, therefore, the dividend will reduce. But while we go through that period, we also expect to see strong cash flows from Cobre Panamá, Sentinel and increasingly Enterprise that ramps up, which will then fund the brownfield expansion projects. And I

think the other thing that supports the balance sheet is certainly that, as Tristan has emphasized, we will not look at any greenfield and more capital-intensive projects through that period of the next two years.

Jackie Przybylowski

Analyst, BMO Capital Markets Corp. (Canada)

Q

Thanks, Ryan. And maybe if I can sneak in one other one. We never talked about Las Cruces. And I know you've got a great underground project there. You're expecting the water permits this month, it sounds like. Is that the last permit? And when you receive that, do you plan to sanction that fairly quickly, or what do you look for after the permits are all received at Las Cruces? Thanks.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Jackie. Yeah, look, we expect we can update the market on the water permit very soon, but we think it will be very positive. In terms of the decision around Las Cruces, as we said before, it is a fairly capital-intensive project. And given where copper prices were, certainly the second half of last year, looking at that project, given the other needs of the balance sheet at the moment was challenging.

We continue to look at that in terms of its potential in the future. It's very well situated in terms of the regulatory environment, in terms of the team there, which is excellent, and the technology which we would apply as a polymetallic refinery, we think is very strong. We would need to update reserves and resources at some stage and come back on that in order to – and as part of that, explain the capital cost of the project, which we expect is sort of in the order of \$500 million to \$600 million for the project. And all of that together, as we said, we will only embark on projects [ph] that are financially disciplined and (00:47:44) disciplined manner. And so, at the moment, that decision, we're pushing back towards the end of the year. And the water permit is an important part, and we expect to be able to update people on that very soon.

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

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

Hi. Thanks for taking the follow-up. You've indicated that you've initiated international arbitration proceedings against the Government of Panamá. In the event that you can't reach a negotiated settlement, can you walk us through what that timeline may look like? And I'm also wondering whether sort of these tactics around the port, which appear to be kind of bad faith negotiations here, have any impact on that timeline?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Orest. So, yeah, there's two arbitration proceedings that are underway. So, one is on the existing concession contract from 1997, and the other one is under Free Trade Agreement between Canada and Panamá and that's the international arbitration that you referred to. So, the concession contract arbitration is further along, and we are in the process of selecting arbitrators in the coming weeks. And so, we think that will be joined in a matter of weeks or so. And so, the timing there is fairly soon. The Free Trade Agreement arbitration does have a cooling off period, a 90-day cooling off period, and that pushes the timing of that to – the cooling off period in March.

So, yeah, I mean, towards your question, certainly, these actions by the government, probably not coincident with the cooling off period, but nonetheless, we would see that the arbitration would have a view on that in the future.

But, at the moment, our preferred outcome is and continues to be that we achieve a mutual agreement by negotiation. We wouldn't – but the arbitration does stand there, and we would let that process run its course in terms of those periods.

And should something come to bear, such as the port authority continuing to refuse to let a ship concentrate and also that, ultimately, any agreement that we sign, would then need to go through public consultation and, ultimately, through the National Assembly, and it's also important that the protection of the international arbitration covers that period before we end up ultimately with a ratified agreement that we can go forward in partnership with the government.

Orest Wowkodaw*Analyst, Scotia Capital, Inc.*

Q

Thanks, Tristan. And just a follow-up, if I may, for Ryan. Ryan, are you able to quantify sort of what the monthly holding costs would be for Cobre Panamá in the event of a forced shutdown? I know you spoke earlier about the variable cost portion, but just wondering around CapEx as well, like sort of can you give a rough dollar number of holding cost per month all-in?

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

A

Yes. Orest, it decreases rapidly. In your first month, you're going to have some lag around that 20%. The majority of that 20% is labor in terms of fixed costs. But, certainly, post a month or two, you're going to be able to cut both CapEx and cost as a whole to very close to zero.

Bonita To*Director-Investor Relations, First Quantum Minerals Ltd.*

A

Hi, operator. We're coming up to the hour, so we'll take these last two questions...

Operator: Thank you.

Bonita To*Director-Investor Relations, First Quantum Minerals Ltd.*

A

...and we'll end the call. Thank you.

Operator: Our next question is from Karl Blunden with Goldman Sachs. Please go ahead.

Karl Blunden*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Thanks very much for the time. It's interesting to see the partial redemption of the 2024's. As you think about liquidity management from here, should we think about further cash deployment towards debt reduction, necessarily needing to wait until post a cleaner resolution in Panamá?

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

A

Yeah. Hi. So, yes, we announced a redemption of \$450 million of the 2024's yesterday. We've generally redeemed our bonds before they become current and we have \$850 million of 2024's. But beyond that, certainly,

the focus of the company is on getting to resolution in Cobre Panamá, but we're certainly supported by the fact that we have strong liquidity as we go through that process.

Karl Blunden

Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. And then, certainly see the strong current liquidity position. When you think about the maturity schedule that you have, how comfortable are you at that? And when you think about the maturities further out 2025's and so on, is there a period where you think you'd look to – would be a beneficial period to look to extend that?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah. So, we've always been fairly opportunistic, and I think it's a function of both maturity schedule and when they're windows in the market. That has always been the case. But, certainly, in this world of higher interest rates, the windows have become narrower. So, at this stage, the focus has been on the 2024's and \$850 million. Beyond that will be on resolution in Panamá. And, certainly, beyond that, will then consider when they're windows in the market as we consider dealing with the 2025's and beyond.

Operator: And our final question is from Dalton Baretto with Canaccord. Please go ahead.

Dalton Baretto

Analyst, Canaccord Genuity Corp.

Q

Thanks, guys. I thought we would end the call on Panamá as well. Tristan, I wanted to ask about the administration's attorney flip-flopping and filing to void your concession there. In the event that that's accepted by the court, what are the implications in terms of production? Would you have to shut down immediately or how does that work?

Tristan Pascal

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah. Hi, Dalton. Thanks. So, yeah, the nullity proceedings we see is another stem to the pressure that the government has been applying. And so, the interesting thing there is it challenges the government's own process in the way in which they approved the renewal of the contract. The original concession contract was renewed in 2017 for further 20 years, and that was challenged in Supreme Court by third parties, Panamá's reasonably litigious jurisdiction similar to the US or otherwise.

And so, it's normal that things are challenged in the courts often, but the government's own process in the approval was challenged. And consistently throughout 2018 and 2019, the administration's attorney has issued formal opinions stating that the extension resolution was legal and valid and so on, and the process by which it had been through was in order. And then, we just noted the change in January, which was that the Attorney General had reversed that view. We're somewhat disappointed in that. We think it would set a bad precedent. It's important to say it's far broader than just our situation with the mine. A lot of the legal standing therein has a much broader context in Panamá, including the real estate market and so on.

And so, it potentially impacts much more broadly, but also would impact on Panamá's international reputation. So, as we said, we're keeping a watch on that. The Supreme Court has not ruled on the matter. And, usually, these things take a long time in the courts. But, if it did come through, our understanding is that it wouldn't have a similar impact in terms of putting pressure on the mine to go into the mode of closure. Yes.

Dalton Baretto

Analyst, Canaccord Genuity Corp.

Q

Okay, great. Maybe I could squeeze one last one, kind of on the same topic here. So, you mentioned the word durability several times. The government is focused on the same thing. I think the way they phrased it is clauses that would govern termination in the event of violation. And so, I want to ask, is the point of concession around what they're defining as violations, that you believe that they are loosely defined [indiscernible] (00:56:13) in the future?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Dalton. Yeah. Look, I think it's – yes, that's the direction it's in. Important that the termination clause in the contract, which is necessary, does provide clear pathway for both parties. So, in particular, we don't have situation arising again where termination could occur, given that we have had a contract that was standing for 1997, but then has been put aside. So, we do need to see that that doesn't happen again in the future in order to give stability, and that's why you refer to it as durability.

We wouldn't want to see a situation where we have contagion, or that this happens regularly in Panamá, that would certainly undermine not just investment in mining, but given that these concession contracts in the country cover a lot of international investment, whether it's for ports or concessions for hydroelectric or for renewable power, this is the construct by which much of the direct foreign investment goes into Panamá, and that's why it's important to the country's reputation in the future.

Operator: This concludes the question-and-answer session. I'd like to hand the call back over to Tristan for any closing remarks.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you very much, operator. I would like to thank everybody who joined the call today and wish everyone a good day. Thank you.

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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