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# First Quantum Minerals Ltd. (FM.CA)

Q2 2022 Earnings Call

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**John Gregory**

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## OTHER PARTICIPANTS

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**Emily Chieng**

Analyst, Goldman Sachs & Co. LLC

**Orest Wowkodaw**

Analyst, Scotia Capital, Inc.

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Analyst, BMO Capital Markets Corp. (Canada)

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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 Second 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 of Investor Relations. Please go ahead.

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**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. Before we begin, I will draw your attention to the fact that over the course of the call we will be making forward-looking statements. As such, I encourage you to read the cautionary note that accompanies 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.

Tristan Pascall, our CEO, is dialing in from Zambia, will provide an overview of operations and performance during the quarter, followed by Hannes Meyer, our Chief Financial Officer, who will review the financial results. Tristan will wrap things up, after which we will open the lines up for questions.

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

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## Tristan Pascall

Chief Executive Officer and Director, First Quantum Minerals Ltd.

Thank you, Bonita. And thank you, everybody, for joining us today on our conference call. The second quarter of 2022 was characterized by increased macro uncertainty and an emerging global economic slowdown. This was most notable in China, where the continued zero-COVID policy resulted in economic growth of only 0.4% through the quarter. The copper price as a result has declined substantially. It's currently down more than 30% from its highs in March.

While I'm pleased to say that our debt position decreased by further \$476 million during the quarter, and that our debt reduction target of \$2 billion was also achieved, I'm very cognizant of the headwinds that may face the company with a looming economic slowdown. The debt reduction efforts over the last several years have placed our balance sheet in a better position to weather this slowdown. The company is in a considerably stronger position when compared to slowdowns of the past. And in order to build further resilience through these uncertain times, we will continue to target a further \$1 billion reduction in debt in the medium-term, which Hannes will speak more to in his presentation.

We will also remain tightly focused on driving consistent operational performance, successful execution of our brownfield projects and by taking a cautious and disciplined approach with our capital investments. This may include deferring on sanctioned projects if we deem it necessary.

The brownfield nature of our current growth projects combined with our in-house experience will also service well we believe to navigate through these volatile times. After a slow start to the year, I'm pleased to say that we saw an improvements in production in the second quarter. We are making progress on catching up on the backlog of truck maintenance and mine developments that was present in the first quarter as a direct result of COVID-19 towards the end of last year. This catch-up, however, will still take a few more months to completely resolve. However, we have made headway.

In the second quarter, we produced 192,668 tonnes of copper. The second quarter increase in production was entirely attributable to Cobre Panama, which produced 90,800 tonnes of copper and achieved quarterly records in mining volumes, throughputs and also in copper production, which was very heartening and highlighting the excellent operating performance of the assets. Increased plant stability and continuous improvement projects allowed for this record performance and we remain comfortable with our annual guidance range of 330,000 to 360,000 tonnes of copper.

Second quarter copper C1 cash costs averaged \$1.54 per pound \$0.11 lower than the previous quarter, as higher production volumes offset the impact of inflationary pressure for key consumables. It is also important to note that our exposure to spot thermal coal prices remains limited until the end of 2023 due to the coal collars in place.

In Zambia, an extended rainy season into April and the lingering impacts of COVID-19 restrictions were largely subsiding did continue to impact both Sentinel and Kansanshi during the second quarter. Here at the Sentinel mine, copper production of 52,447 tonnes in Q2 was essentially flat compared to the previous quarter. Sentinel's mine production was behind the planned schedule due to the extended rainy season and challenging ground conditions early in the quarter, which delayed stripping in the Stage 2 North-wall and as a consequence, prevented some access to high grade ore.

The second quarter was also impacted by low truck availability and a backlog of truck maintenance. However, the second half of the year is stepping up to improve. Sentinel hit a record in daily mill throughput in July, and progress has been made on preparing the pit for an improved second half of the year through exposure of good volumes of high grade ore. We have maintained our annual guidance of Sentinel at 250,000 to 265,000 tonnes of copper, although production is expected to come in at the lower end of the range. C1 cash costs of \$1.88 per pound in the second quarter was \$0.27 higher than the preceding quarter, reflecting the higher input prices since the Ukraine crisis began.

At Kansanshi, copper production totaled 39,719 tonnes in the second quarter, over 2,000 tonnes lower than the first quarter. The extended rainy season did restrict mining deployments and required supplementing plant feed with low grade stockpiles. We are currently installing additional pumping capacity and water from the M12 oxide area is expected to be removed by the end of the third quarter of the year, which will provide access to the scheduled oxide and mixed ore beneath the water there.

Additionally, we mined through a higher portion of veined material in the quarter, some of which comprise narrower and less mineralized veins, resulting in higher dilution and lower overall grades to the mill. A new geological approach to these narrower and lower mineralized veins is expected to improve optimization of the mine plan in the near term. Kansanshi is tracking towards the lower end of the guidance range of 175,000 to 195,000 tonnes for the year. Like Sentinel, copper C1 cash costs at Kansanshi were impacted by price increases in key consumables. However, the lower quarter-over-quarter production resulted in a steep increase in cash costs of \$0.37 to \$1.83 per pound.

Speaking on costs, as noted in the last quarter call the broader inflationary environment has been exacerbated by the Ukraine conflict, resulting supply disruptions have led to an increase in most of our major input costs, and we have seen fuel, explosives, sulfur, freights, reagents and steel prices increased significantly, although they appeared to have stabilized to varying degrees, albeit at elevated levels.

Group-wide copper C1 cash costs averaged \$1.74 per pound in the second quarter. For the first half of the year C1 cash costs averaged \$1.67 per pound, which is above the annual guidance range of \$1.45 to \$1.60 per pound and costs in the second quarter averaged above levels assumed in current guidance. In recent weeks, we have seen some of these cost pressures ease, such as fuel and sulfur prices, whilst electricity and explosive costs are tracking below our forecasts.

Stronger production in the second half of 2022 should benefit on a per pound basis and as such we are maintaining our guidance from April. However, it should be noted that achieving costs within this range over the next six months will be dependent on the market rates of fuel and other key important supplies and the market price of gold and our other byproducts.

Moving on to discussions in our host countries, it was very pleasing to announce that during the quarter, a VAT repayment agreement was reached with the governments of Zambia. First Quantum and the government successfully resolved all points of contention that have been stumbling blocks to progress the S3 Expansion and the Enterprise nickel project. This included reaching agreements in respect to the outstanding value-added tax receivable sum and an approach for repayment based on offsets against future mining taxes and royalties.

With this agreement in place, the board approved the sanctioning of the S3 Expansion projects and the smelter expansion at Kansanshi and the Enterprise nickel project near Sentinel, which I will discuss in more detail later in my presentation.

In Panama, there has been civil unrest in the country over increased costs of living and unemployment, which has led to protests and temporary highway blockades around the country over the last few weeks. Production at the Cobre Panama mine remains unaffected. We have been able to navigate regular supplies through roadblocks as they lift, whilst perishables to site are unaffected. We also received supplies, including fuel, through our wholly-owned international port, which has not been interrupted.

With regards to our workforce, which has not taken part in the protest, we are monitoring labor relations closely and we have transportation plans in place to move our workers safely to and from site. We are also employing effective work-from-home arrangements for all support departments. We will continue to monitor the evolving situation closely. Whilst discussions regarding Law 9 are still ongoing, the finalization of the agreement has been delayed to an extent as the government replaced the responsible Minister of Commerce and more recently, has been naturally focused on resolving the civil disturbances.

First Quantum and the government of Panama remain committed to a swift conclusion of the Law 9 discussions on the basis of agreed principles, and on ensuring that the new contract and legislation are both durable and sustainable with downside copper price and production scenarios.

With the publication of our 2021 ESG Report this quarter, we continue to deliver on our commitments on the developments of the reporting, on our ESG performance to our stakeholders. This is our fifth annual report on ESG and highlights the performance of the company across a range of environmental, health and safety, social and governance areas of our business.

We also published our 2021 Tax Transparency Report during the quarter. This report underlines the importance that we place on transparency initiatives, which provide stakeholders with clear information on the contributions that First Quantum makes to our host governments. I would also like to highlight the positive impacts that we've had on our community initiatives, particularly the EDGE program, which was launched by our Trident colleagues in June. Parts of Africa have the highest rates of gender-based violence, and the goal of this program is to enhance each girl's access to education and training opportunities by helping them to stay in school. At the launch of this program, we donated thousands of essential feminine hygiene projects at Jiwundu and we will continue to do this and see that it's expanded to other schools in the surrounding communities.

Working with our local communities continues to be a core value at First Quantum, and I'm proud of the Trident team for this initiative.

And with that, I'll turn things over to Hannes.

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## Hannes Otto Meyer

Chief Financial Officer, First Quantum Minerals Ltd.

Thanks, Tristan, and good day to everyone. I would like to direct you to the slide titled financial overview, which is slide 11 on the website. The company reported significant increases in both net earnings attributable to shareholders and adjusted earnings, together with a notable reduction in net debt. Gross profit and EBITDA remained robust and were comparable with the same quarter in 2021. Net earnings attributable to shareholders of the company of \$419 million or \$0.61 basic earnings per share and adjusted earnings of \$337 million or \$0.49 adjusted earnings per share showed significant improvement over the comparable quarter in 2021 and benefited from higher net realized metal prices, following the reduced hedge profile, as well as a lower tax – effective tax rate, together with lower finance cost.

Gross profit and EBITDA of \$629 million and \$906 million respectively were in line with the comparable period attributable to higher net realized metal prices offsetting lower sales volumes and the inflationary impact on cost.

Copper C1 cash cost of \$1.74 per pound was \$0.45 per pound higher than the comparable quarter, impacted mainly by inflationary pressures seen over the past year, as well as lower production. Net debt has decreased by \$476 million this quarter, bringing the net debt level down to \$5.3 billion as at June 30, 2022, the reduction of \$2.3 billion since June 30, 2020. Cash flow from operating activities was \$904 million for the quarter, \$225 million higher than the same quarter in 2021 due to favorable movement in receivables, working capital at the end of the quarter. On July 26, the company declared an interim dividend of CAD 0.16 per share in respect of the financial year ending December 31, 2022.

Turning to the next slide, financial overview. As I mentioned previously, earnings have increased significantly over the same quarter in 2021, with a lower effective tax rate for the quarter in line with the guidance as well as lower finance cost. Gross profit and EBITDA remained at comparable levels over the same quarter in 2021, but the benefit of higher net realized prices following the cessation of the hedge program offset by higher cost environment as well as lower sales volumes.

Turning to the next slide and gross profit against the same quarter in 2021 are set out in more detail highlighting the positive impact of higher net realized prices. This also shows the impact of increased unit cost over the quarter. And I will talk about this in a bit more detail.

So turning to next slide on the copper unit cost. Copper C1 cash cost of \$1.67 per pound and all in sustaining costs of \$2.32 per pound for the first six months are currently slightly above the top end of our full year guidance. Total copper C1 cash cost for the quarter was \$0.45 per pound higher than Q2 2021 as prices continued to increase during the quarter for key consumables, including fuel, explosives, and steel prices, along with higher freight and electricity charges, as well as the impact of lower copper production levels. All in sustaining cost for the quarter was \$0.46 per pound higher than Q2 last year, reflecting the higher C1 cash cost.

Turning to the next slide on debt evolution, with the reduction on the net debt, the company's leverage ratio also reduced and stands at 1.3 times net debt to EBITDA at quarter end.

Turning to the next slide on the debt maturity profile, during the quarter, the company redeemed at par the remaining \$1 billion of senior unsecured notes due in 2023. \$500 million was redeemed on April 5, and a further \$500 million redeemed on June 7.

Thank you. With that, I will now hand back over to Tristan.

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## Tristan Pascall

Chief Executive Officer and Director, First Quantum Minerals Ltd.

Thank you, Hannes. Despite the macroeconomic headwinds and inflationary challenges, First Quantum's balance sheet is in a stronger position today and the group will endeavor to continue to improve in this regard. This will be through operational discipline and as Hannes commented, continued debt reduction.

I will now speak to our brownfield growth projects. Due to the low capital intensive of our brownfield projects, there continued to have compelling economics, despite the global inflationary environments and current pricing environments. The Cobre Panama, as you can see from the pictures in the presentation, good progress has been made over the quarter with regards to the CP100 expansion. The project is overall 70% complete. Procurement is

100% complete with supply ex-works almost fully complete and delivery to site will be over 90% complete during August.

In terms of the key individual project components, the additional decant water line is well progressed and is expected to be completed and commissioned this year with ball mill 6 and the screening facilities following in the first half of next year. Ball mill 6 is making good progress with the mill shelves having been installed already. For screening the vast majority of the modular steel and equipment has arrived on site and the modular nature of fabrication will minimize site construction time we believe. We remain on target for commissioning early next year to ramp up over the course of the year and exit 2023 at a throughput rate of 100 million tonnes per annum.

At the S3 Expansion, engineering contractors have been engaged and procurement of long-lead items commenced. The longer lead items, including the ball mill, mill motors and elements of the overland conveyor were ordered in June. While we saw some price movement, I'm pleased to say that pricing of these components are in line with our CapEx budgets. Similarly, orders for mining fleets have commenced and are also in line with our CapEx budgets. Our current planning assumes a two-year delivery time on these major components, 9 to 12 months on installation and first production in 2025.

Alongside the S3 project, we will embark on the expansion of the Kansanshi smelter to 1.6 million tonnes per annum of feed. This project was approved by the board in July and will provide capacity for the additional copper concentrate from S3 with the planned upgrades to HPL. This expansion is included in the company's three-year capital expenditure guidance provided earlier this year.

At the Enterprise project, mining contractors were mobilized upon the board approval and pre-stripping of the pit commenced in June. The project has the potential to add 30,000 tonnes per annum of nickel production and our current guidance assumes first production in 2023. I was pleased to host His Excellency, the President of Zambia and the diplomatic representatives of Canada, the UK and the USA at the groundbreaking ceremony held at Enterprise yesterday.

Before we go into Q&A, it is worth taking a moment to discuss the challenges that faced at mining industry today and the challenges of bringing on new copper supply. A global slowdown, combined with the number of new projects coming into production over the next 12 months, has made us cautious on the copper price in the near-term, despite continuing tightness in physical inventories. However, in the medium and longer term, we do consider that the outlook for the copper price remains positive, as there is a lack of new discoveries and shovel-ready projects in our view. This, combined with stringent permitting obstacles, inflationary pressures and the escalating cost of capital, we believe, will contribute to an even tighter copper market in the medium to longer term. The current macro weakness and the higher cost of capital will likely further defer approval of new projects that will be needed to supply into longer term growing demand.

Our near-term priority is, therefore, to drive operational performance and work hard to mitigate the cost impact of inflation. We will also take a cautious and disciplined approach to any new as yet uncommitted capital. A sanctioned decision on the Las Cruces Underground Project is not expected until next year and Taca Taca in 2024 at the earliest and any decision will take into consideration prevailing economic conditions.

Over the medium to longer term, the outlook remains bright and we remain well-positioned with our portfolio of long-lived assets and organic growth opportunities.

Thank you. Operator, we would now be happy to take questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the analyst question-and-answer session. [Operator Instructions] Analysts are requested to restrict themselves to two questions and are welcome to rejoin the queue if they have more. [Operator Instructions] The first question is from Greg Barnes from TD Securities. Please go ahead.

**Greg Barnes**  
Analyst, TD Securities, Inc.

Q

Yes. Thank you. Tristan, notwithstanding the situation in Panama right now, can you give us an idea if any more discussions or meetings are scheduled on the Law 9 situation with the government? And what the process is from here forward?

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

A

Sure, Greg. Yeah. So we have been having discussions with government all through this period and they are scheduled meetings ahead of us. But naturally, they are focused on the civil disturbance in the country at the moment. We have met with the new Minister of Commerce, and he is part of those discussions. And so we expect them to continue, but in the background and obviously our support is to the government in terms of the challenges that they have in the community.

The process from here, again, is that we're in the detailed drafting phase and really agreeing those along the lines of the agreed principles with a focus on ensuring that the new contract and legislation will be durable and sustainable, particularly during times when we see copper turn off and prices come down or production and that drafting of the contract and legislation will then be finalized and I assume made public and then be going into the National Assembly.

So the process remains the same and the stages remain the same. It's really just around the delays we've seen with the new Minister and then more recently, the challenges the government faces with some civil disturbances.

**Greg Barnes**  
Analyst, TD Securities, Inc.

Q

Okay. I just wanted to switch to the VAT rebate agreement with the Zambian government. Is it fair to say, Tristan, obviously based on copper price that this could evolve over like a 10- year timeframe and you get a rebate or a tax offset of \$70 million-ish a year? Is that the way we should be thinking about this?

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

A

Yeah. Greg, see, the setup is a historic VAT and future VAT can be offset against future taxes and royalties. There isn't a set repayment periods and it's in proportion to revenues. So at high copper prices, the VAT receivable will be repaid quicker and at lower copper prices it will take longer. But certainly the timeframe you mentioned, it's part of the assumptions and it's a mechanical formula. So it will come through and we are short of the repayments. But at these sort of prices, the timeframe that you mentioned seems appropriate.

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

**Emily Chieng**

Analyst, Goldman Sachs & Co. LLC

Q

Good morning, Tristan and Hannes. My first question is around CapEx, and it looks like that hasn't been changed for the year. And you've made some progress on the procurement process there for some long-lead time items. But what factors are there within that budget, could you see potentially drive upside risk? Is labor inflation a key issue for you?

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Thanks, Emily. Yeah. So as I said and consistent what we said in the quarterly, the procurements at Cobre Panama, CP100 Expansion is complete and we largely delivered. So it would really only be on remaining freight. But we're confident of our levels around freight. And we have seen freight come off from the really challenging time, which is probably a year ago now, and freight rates start to improve or just the first hint of improvement.

So it would really just be on installation where there's an overrun on labor. In terms of labor itself, we have – we follow a different model to many other projects and that we largely self-perform. And so, that skilled labor really comes from our own existing team. And so, for example, on new installations the team has done Sentinel installs, the Panama installs and in fact go on to the S3 installs in time.

So we don't have quite the same exposure to skilled contractors or the use of contractors that may be moving up and down at higher rates. And so we see less of that as a risk. At S3, we're in early stage, but so far in looking to place orders and the first orders that have been placed, we've been on track with budget and we do see, depending on how sticky these prices are and how long they last, that potentially we will see further improvements in freights and so on depending on fuel prices that we might be able to benefit from, given the timetables for delivery over the next two years or so.

Yeah, so I don't see any huge risk at Cobre Panama at all. And S3, although there's some exposure, potentially, we'll see some unwinding of these higher price levels depending on fuel price and so on.

**Emily Chieng**

Analyst, Goldman Sachs & Co. LLC

Q

Understood. That's really clear, Tristan. And maybe a quick follow-up and it's just around the economic environment that is driving some of these decisions, whether to proceed or not with these brownfield or greenfield projects. But what do you need to see change, is it a certain copper price level? Is it sort of balance sheet metrics? What changes the decision making process from here?

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Sure, Emily. We will be taking a cautious and disciplined approach to new projects. So CLC, Taca Taca, again, we like those projects. We like the way that they stack up. CLC is more capital intensive, but it's a low-cost producer in a good, stable environment. And Taca Taca, we need to manage and understand Argentina. But the project itself stacks up very well in terms of production of copper and the financials around CapEx and the timing of that outlay.

So really the decisions from here are around making sure that we maintain a disciplined reduction in debt. And obviously that will be determined by copper price to an extent in terms of the pace of that reduction. But until that reduction does come down, we will certainly be taking a more cautious approach and tempered by copper price,

certainly as an input to that, but cognizant to that, in the longer term, we do see supply shortfalls, projects that are challenging to get off the ground and so, unlikely to become that there'll be much more coming into the copper market over the sort of medium to longer term and that does provide a good basis for those projects once we get the debt levels to a good position.

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

**Orest Wowkodaw**

Analyst, Scotia Capital, Inc.

Q

Hi. Good morning. Just given the challenges that the Zambian operations have faced in the first half of the year, I'm just wondering, you seem pretty confident on seeing an improvement in H2, but how should we think about 2023 and 2024? Like, is there – should we be thinking about similar downside risks to those previous guidance numbers?

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Hi, Orest. Thanks. So, well, let me speak about both operations, Sentinel, where I am currently and Kansanshi. So Sentinel, we've been focused in the first half of the year on getting through a period with lower truck availabilities, but also some wetter areas, particularly near Dam 6. Where we are set up, now is that we've been pushing our volumes through the plant in order to make sure that we give exposure for the second half of the year and not getting trapped into sort of diving in on grade.

So for the second half of the year, what we see is we have broad areas of good grade that are exposed, in the North wall – there's about two benches of sequence material that needs to come off in the bottom of the pit, but we're in good shape there and near the Dam 6 area, we're now in hard rock and directly above some good volumes of high-grade material that are in close proximity to the new Crusher 4 station and so some good efficiencies that we're able to provide there.

So we have every confidence in our ability in the second half to deliver at Sentinel. And then looking forward to 2023 and 2024, the mine is set up well, now that it's through that period of getting through Dam 6 and on the North-wall providing that exposure. So Sentinel, Orest, we believe is well-shaped.

At Kansanshi, really the challenge has been around grade and dilution. The copper is there. We're very comfortable. We've been through a current iteration of the reserves and resource and that's demonstrated to us an increase in tonnes and an increase in grade. So S3 remains well-positioned. But really we've been – the challenge at Kansanshi is that we've been holding off on that very project and the proportion of oxide and mixed material has been reducing. So we're more and more reliant on the sulfides and the current areas that we're working on in sulfide have been characterized by narrow veins. That's about 20% of the sulfide orebody. But the reality is those narrow veins have – we have been seeing a high dilution. The broader sulfide orebody, which is the strata material, is far more disseminated, but that's not the focus of the current work areas.

So we have improved our understanding of that model through the course of 2022. A lot of hard work has gone into that and I believe that will allow us our near-term mine plans to better optimize production from those areas. And then looking forward into 2023 and 2024, we've done a lot of work on stripping to provide access to other areas that can provide good sources of feed. And then in addition, make sure that we get the water out from M12, which is a good source of oxide, around 2 million tonnes of reasonable grades in the very near future.

**Orest Wowkodaw**

Analyst, Scotia Capital, Inc.

Q

Okay. Thank you. And just as a follow-up, you mentioned earlier that if the copper price were to weaken or perhaps weaken further you have some flexibility in terms of reducing CapEx plans. And I think you said of projects that have not been sanctioned. So I guess in the next few years that specifically would be around Las Cruces. Can you give us an indication just roughly like if you decide to just wait on Las Cruces, how much CapEx would that potentially save you in 2023 or 2024?

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Yeah. So Orest we haven't put Las Cruces into the guidance, so there would be no change from the current guidance. What we do see is we will need to be doing some work there on de-watering and that's just in preparation for the underground mine. And that continuing work would also defer some of the shutdown and mine closure costs that come through. So, that's what we will be doing is pushing out mine closure in anticipation of a decision and that would have some outlay, but we haven't included any outlay for the underground project in our guidance.

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

**Jackie Przybylowski**

Analyst, BMO Capital Markets Corp. (Canada)

Q

Thanks very much. I just wanted to follow up, I guess, on the comments you made earlier and a bit on Emily's question. When you're talking about procurement and the long-lead time items that you're ordering, you said that they're in line with your budget already, which is excellent news, but maybe a little bit surprising given all of the cost pressures we've been hearing. So I was wondering, Tristan, if you wouldn't mind giving us a bit of color on the market or the process that you're seeing right now for long-lead items? And is it difficult for you guys to stay within budget or maybe it's related to the fact that there's fewer projects being built now? Well, how competitive is it right now for CapEx projects?

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Thanks Jackie, it's a good question. So look, we placed the order for the mill and we were sort of in – the budget was in the region of \$30 million, \$32 million something looking at the wraparound drives and so on. They've been around the numbers that we thought they would be in terms of the expectations, as we said, guidance sort of Q3 last year. And then on in-pit crushing equipment and so on, slightly over, but not that we dramatically different from where we were sitting in Q3 last year. I think that probably is around the delivery times as well. And we're flexible in that, we've – in terms of the delivery for S3. And then in terms of – John you might comment on mine fleet, but we have seen that some deliveries on mine fleet are definitely uncompetitive and going out a long way. But then in and amongst our capabilities and speaking to different OEMs we've been able to find, we believe, competitive terms for mining equipment, trucks and loading equipment. John, do you want to comment further there?

**John Gregory**

Group Consultant -Mining, First Quantum Minerals Ltd.

A

Yeah, sure, Tristan. Jackie, what we have found is that by going to the market, we found that there's considerable range both in terms of delivery and actual capital for the fleet. So we have spent a lot of time looking at the most

practical mix and extension of the current fleet that we have at Kansanshi and that is making use of existing partners wherever possible, so that we can utilize their infrastructure as well as our own. And we have been – at this near completion stage, we are very pleased that we've been able to keep well within the capital total that we had set ourselves, certainly last year or the year before. So we believe that the mining fleet will be delivered in a reasonable timeline and within capital budgets.

**Operator:** The next question is from Abhi Agarwal from Deutsche Bank. Please go ahead.

**Abhinandan Agarwal**

Analyst, Deutsche Bank AG (UK)

Q

Thank you. Morning, team and thanks a lot for the presentation. I have a couple of questions, please. So Tristan, first question is on Zambia. I didn't hear you mention the grade guidance for Sentinel. Are you still happy with the overall guidance for FY 2022 to be in line with slightly higher than FY 2021?

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Yeah, Abhi, we see – at the moment, we're trending towards the bottom end of that guidance, but we're happy with the guidance that we provided, which was 250,000 to 265,000 tonnes of copper from Sentinel this year, 2022.

**Abhinandan Agarwal**

Analyst, Deutsche Bank AG (UK)

Q

Got it. Okay. My second question is regarding the run rate of C1 cash costs, you saw in June and July, during the call you mentioned, you have seen a rollover in raw material prices led by sulfur and fuel. So could you tell us what the run rate of the C1 cash cost was in June? And what you've been seeing over the last couple of weeks to help us better understand how the costs have developed?

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Sure, Abhi. What I can say is it's volatile. So you mentioned sulfur price and we've seen it fall from, what were extreme highs and really in the last couple of weeks, come down at a significant runoff down towards \$100 a tonne, which is a long way from where we were even a few weeks ago, so, certainly volatile in terms of pricing.

Fuel, you mentioned, is high and continuing to drift a little bit higher, but we have seen it come down in recent weeks, just off the back of the energy security relaxation. But I think it's still an area of uncertainty, looking forward for the next six months or so. In terms of our other major cost drivers, so, as an example, we've seen fuel, which was perhaps 9% of our business – of our cost structure this time last year, has increased already to around 13% of the cost structure this year.

In terms of other movements, labor which was lagging I think in Q1 has picked up now and we are seeing that inflation on the labor side, which was expected, maintenance which goes alongside with that labor and spare parts provision at higher levels. But then things like steel ball mills were – definitely have stabilized and within our guidance numbers, electricity has actually come off a bit from where we were posting our guidance numbers. Explosives have been – ammonium nitrate is much lower than where it was when we were posting our guidance numbers. So I think the overall picture is one of volatility, a movement up in prices, but in more recent weeks, stabilization and even some reductions from the extreme high levels.

**Abhinandan Agarwal**

Analyst, Deutsche Bank AG (UK)

Q

Got it. Very clear. If I could squeeze in one more question, please. So regarding the ongoing Law 9 negotiation, so you did mention the focus has shifted to the – obviously to the social unrest. So I mean, I'm trying to understand, has the – could the scope of the conversation also change? Trying to understand the government walked back on the deal, which was agreed to in Jan and are trying to impose higher taxation?

**Operator:** Pardon me, sorry...

[indiscernible] (00:42:07)

**Operator:** ...go ahead.

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

I can take the question, that's fine, operator. You know Abhi the principles that are in front of us remain the same. And it's really getting ironing out the final items and getting into the drafting the detail, the elements of that, but the focus of discussions for the government are the clear natural priority of the civil disturbances at the moment, and certainly we support the government in terms of that resolution.

**Operator:** Next question is from Jackie Przybylowski. You can ask your second question. Sorry about that.

**Jackie Przybylowski**

Analyst, BMO Capital Markets Corp. (Canada)

Q

No problem. Thank you. So my second question was going to be on capital allocation. Congrats on bringing the debt down to your net debt target level. That's great to see. And I see you've got another targeted debt reduction level, but especially I guess if you are pushing out some of your longer term growth projects and let's say we assume that the copper price cooperates. Can you give us a little bit more color on where your capital allocation priorities would be? If you had the capital, would you accelerate the debt pay-down or would you raise the dividend up further from the \$0.16 that you declared last night? Or like can you just give us some thoughts about how you lay that out? Thanks.

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Sure. Jackie. Thank you. Yeah, the focus would be on debt reduction. I think, that would be the prudent course. And certainly that's been the focus per our commitments to make sure that we reduce that as quickly as we can. And as you mentioned, we have targeted a further \$1 million reduction in net debt in the medium-term. And if copper prices do come back up, we would focus on accelerating that.

In terms of the dividend, it is a cautious start to dividends at 15% of free cash flow and provide us the opportunity, so the dividend we announced at \$0.16, looks back to our performance during 2021 and provides the opportunity for shareholders to share in that performance and – but we would – that come the calculation is done after we've posted CapEx that needed for the business and for the guidance that we provided in terms of the brownfield projects. And, if copper prices did increase from this level and if we had to repay debt, then I'm sure the board would be looking at that as a means to adjust things, but also looking at the opportunities on greenfield projects in

the future. So really, the priority is debt and keeping – and making sure that we do provide sharing of performance with shareholders in the dividend stream.

**Jackie Przybylowski**

Analyst, BMO Capital Markets Corp. (Canada)

Thank you.

Q

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

**Ioannis Masvoulas**

Analyst, Morgan Stanley Securities Ltd.

Hello. Thanks for the presentation. A couple of questions left from my side. The first one on a more cautious view on the copper price in the near-term, are you considering or thinking about potential hedging activity or is that out of the question?

Q

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

Hi, Ioannis. Yeah. So I think the caution on copper price comes from just the additional production we see coming in from the new projects, such as Kamoanga, QB2, Quellaveco, and so on, but also then that uncertainty in terms of offtake in demand in the very near-term from China and so on. Although we have seen some easing on the logistics side and the lockdowns, the access for shipping and so on into China very recently, certainly inventories remain very tight. But, yeah, to your question, we do think that the copper price, yeah, has some volatility to it in the near-term, but over the longer term, we see improvements and a lack of supply continuing to mean that demand will outstrip that. So we remain very confident in it.

A

**Ioannis Masvoulas**

Analyst, Morgan Stanley Securities Ltd.

Yeah. So there's no urge to hedge at this point, I guess, based on your comments.

Q

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

Yeah. Yeah, Ioannis, we wouldn't be hedging at the moment. We're not a natural hedger and we see that in the longer term of copper price, it's marked by uncertainty in the near-term certainly, but in the longer term, we have every confidence in it.

A

**Hannes Otto Meyer**

Chief Financial Officer, First Quantum Minerals Ltd.

Tristan, I might just add to that. Ioannis, we don't generally hedge, so we hedge when we've got big capital exposure, big capital commitments and when we had certain requirements to meet covenants and cash flow from a balance sheet point of view. There is big projects in terms of Panama. It's now behind us, plus we've got the additional cash flow coming actually from Panama. So the company is in a much stronger position, even at lower prices. So there's not really that need now for us to go into that.

A

**Operator:** The next question is from Karl Blunden from Goldman Sachs. Please go ahead.

**Karl Blunden**

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thanks for the time. Just a couple on the balance sheet, nice to see the reiterated debt reduction targets, when you think about the ideal mix there of what that you'd want to reduce, is it a mix of bank and bonds or at this point in time, should we think about it as more focused on the bonds similar to your recent actions?

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Thanks, Karl. Hannes, do you want to take that one.

**Hannes Otto Meyer**

Chief Financial Officer, First Quantum Minerals Ltd.

A

Sure. Karl, in the presentation, we've outlined the debt maturity profile. And you will see that this year we've got \$228 million of term loan due in December. So we'll pay that and then \$455 million in 2023 and 2024 of term loan. So that will naturally be paid down, the bonds, of course, callable most of them except the 27th. So it will be a mix between the two term loans paid as and when due and then utilizing excess cash to pay down bonds as well.

**Karl Blunden**

Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. Maybe getting just a little further ahead when you think about reaching that debt reduction goal, \$1 billion less, is that – should we think about that as like the steady-state that you'd want even if you go after larger growth projects or at that point in time, could you think about adding more debt to the business if conditions are supportive in the capital markets?

**Hannes Otto Meyer**

Chief Financial Officer, First Quantum Minerals Ltd.

A

Karl, I'd like to keep our debt to our bond profile current, so the only bond not callable is the 27 bond. So at some stage, it's probably worthwhile to add another one, probably not at the current sort of yields. So at some stage we'll come back to the market just to keep that profile current, it's not that we need the liquidity at the moment. It's a good part of the funding mix. And so I think in the longer run, you probably could think about a sort of \$3 billion total bond portfolio. Currently we've got about I think it's \$4.7 billion outstanding. So you would see the bond portfolio still reducing further. But then in the longer run, I do see it as part of their long term capital structure.

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

**Edward Brucker**

Analyst, Barclays Capital, Inc.

Q

Yeah. Thanks for taking the question. So in relation to those questions same with the balance sheet, it sounds like you're looking to potentially hoard cash. I'd say, ahead of a difficult environment, but to potentially reduce the total debt level, do you think you'd be able to or maybe think about taking advantage in a difficult environment with bonds trading at a discount, potentially taking those bonds out in the open market?

**Hannes Otto Meyer**

Chief Financial Officer, First Quantum Minerals Ltd.

A

That's always an option available to us, but not one that I would like to comment on.

**Edward Brucker**

Analyst, Barclays Capital, Inc.

Q

Got it. Thanks. And then my second question just relations with the Panama communities, given the upheaval that's going on in the country. Can you dive in a bit more on what you're doing to help those communities and community relations there and then the confidence that there won't be disruptions that Cobre Panama?

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Sure, Ed. Yeah, there's been a lot go into working with the community alongside the mine itself. And as I said, we're somewhat removed from the main area of civil disturbance, which has been focused on really the capital cities Cologne and Panama City itself particularly inside the city. And so being somewhat removed, it's much more about moving our people backwards and forwards from there. And we have people that come from all over the country, from the West and so on, regional areas as well as the capital cities, and making sure that we can get those people through the site. And as I said, where necessary, particularly in support departments such as commercial or finance or a chance on – we've learnt a lot from the COVID period and working from home. And so it's been straightforward to implement that again.

And that's – so we haven't seen disruption in that regard. But then as – and towards your question, working with the communities outside the ongoing livelihood support programs that we had in place in – during the pandemic, given the curtailments and economic activity, continue to be valid. And so we focused on supporting those communities in terms of outreach directly into their livelihoods, emergency funding where necessary, but then making sure that, they have access to education, healthcare and so on. So we've been, for example, providing radio education to schoolchildren and so on, and those programs continue on.

But then, I think really the strength has been that the communities around us, because of the economic activity of the mine, have seen the benefits of that and remain strong supporters, notwithstanding the situation and in the larger centers such as Cologne and Panama City.

**Operator:** The next question is from Jatinder Goel from Exane BNP Paribas. Please ahead.

**Jatinder Goel**

Analyst, BNP Paribas Exane

Q

Thank you, operator. Good morning and good afternoon. A quick two questions first one on distribution to shareholders. You've got 15% of cash flow distribution policy with the minimum CAD 0.10. Is there any flexibility within that to go for buybacks as well, especially given how the share has traded more recently or would you not do buyback until you can commit to a much larger sum, which can be much more effective in terms of buyback? That's the first one. Second one on Las Cruces Underground. Given European power and gas prices and the visibility that you might have is early 2023, still realistic to make an investment decision there? Thank you.

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Yeah. Thanks, Jatin. So firstly, in terms of a buyback, we do understand and we see that, that's another option, another string in the bow in terms of shareholder returns. But as I've been saying, the focus is on and our prioritization is on repayment of debt, and we want to see that come down. We're targeting that \$1 billion mark

from – moving on from what we have achieved at the end of the second quarter, which was a \$2 billion reduction. And so that's the focus and the commitment.

I think once we get to lower debt levels, then we would, look at that in line with and depending on the copper price, but at the moment, it's been a cautious start to dividends, which is appropriate. And we believe that that capital return policy will remain in place, particularly as we look and weigh up opportunities around capital projects.

And you mentioned sales, the Underground in terms of the timing. Yeah, look we're not adjusting the timing at the moment. Certainly, given current market conditions, we will be cautious and disciplined around that decision and it may be appropriate to defer that depending on copper prices. But at this stage, we're not moving the timetable for that decision. We will weigh that up and the circumstances and the macroeconomic environment when we get to that point in time.

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**Bonita To**

Director-Investor Relations, First Quantum Minerals Ltd.

A

Operator, we're coming up to the hour, so this will be our last question or the last analyst we'll take questions from. Thank you.

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**Operator:** Thank you. The final question is from Dalton Baretto from Canaccord. Please go ahead.

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**Dalton Baretto**

Analyst, Canaccord Genuity Corp.

Q

Great. Thanks for squeezing me in guys. Tristan, just one question for me. You've talked a lot about consumable pricing and how that's impacting your costs, but I wanted ask about wages and labor costs, just given what's going on with the cost of living in some of your host countries. And I'm just wondering, A, are you under any pressure to hike wages? B, is any of that baked into your estimates? And C, how much will that impact your cost going forward? Thank you.

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**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

Thanks, Dalton. Yeah, so wages certainly were lagging. Our labor costs were lagging through Q1. And we are starting to see that catch up now. It's different at different sites. In Zambia we have certainly seen the – because of the movement of the exchange rate from the low of around 22, 23 up to its current levels, that has had an impact on the US dollar costs of our labor in Zambia. We did go through the CLA negotiation earlier this year at Sentinel. And it's now bought in line with Kansanshi year-end timing, so we will go through the CLA negotiation for both mines during 2023 and we'll start that discussion towards the end of the year.

I would expect that there'll be some inflation in that, given where input costs for families and for employees up, fuel prices, their food prices and fertilizer prices and so on, which really have the large component of the basket of goods in Zambia.

In Panama, we're not due for wage negotiations. We have two unions there and wage negotiations will be in 2023 and 2024. But I think that again we will see some inflation, it's US dollar denominated. So we don't see the exchange rate movement. But certainly, inflation in Panama has a little ramp the levels of the US. It's now a little bit higher. And so we will manage that through the course of those negotiations.

The other element there in terms of labor negotiations is really around overtime and certainly in Panama that's being higher, because of the restrictions on numbers on site, but it's starting to ease now and so I think we'll be able to offset some of that cost in terms of reducing overtime. But in terms of the overall impact in our business, this quarter labor was around 17% of the cost of the business and also major component of our contract cost which is perhaps around 11% of the overall cost structure of the business is an indication of where it stands.

I'll just add that in certain markets, it's very different, so in Turkey, inflation is currently around 75% to 80% in Turkey year-on-year. And so that's an area where we do – we've intervened directly in order to make sure that our employees' standard of living is maintained. And if we need to intervene there again, perhaps in the next six months, if things continue at those rates, then we'll certainly look to do so. We've seen that in Argentina as well, in terms of the projects and some of the people working there, inflation has been pretty dramatic. And if we need to intervene, we will do so.

---

**Dalton Baretto**

Analyst, Canaccord Genuity Corp.

Q

That's great. Thank you for that color. So just to clarify, though, in Zambia and in Panama, you don't intend to address wage rates until the negotiations are due?

---

**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

A

So we cover that each year in any event in terms – so the ongoing CLA, those are programed in and they're running at just below the level inflation at the moment in Zambia and in Panama and will be addressed in the course of next year.

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

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**Tristan Pascall**

Chief Executive Officer and Director, First Quantum Minerals Ltd.

Thank you, operator. I would like to thank everyone who joined the call today. The markets have certainly been very volatile recently, and I'd like to thank our shareholders for their continued support through these uncertain times. Please enjoy the rest of your day and the summer, and we look forward to speaking to you again at our next quarterly update. Thank you.

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

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