

26-Oct-2022

First Quantum Minerals Ltd. (FM.CA)

Q3 2022 Earnings Call

CORPORATE PARTICIPANTS

Bonita To

Director, Investor Relations, First Quantum Minerals Ltd.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

John Gregory

Director, Mining, First Quantum Minerals Ltd.

OTHER PARTICIPANTS

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Emily Chieng

Analyst, Goldman Sachs & Co. LLC

Greg Barnes

Analyst, TD Securities, Inc.

Ralph M. Profiti

Analyst, Eight Capital

Gordon Lawson

Analyst, Paradigm Capital, Inc.

Edward Brucker

Analyst, Barclays Capital, Inc.

Sandeep Peety

Analyst, Morgan Stanley Securities Ltd.

Bryce Adams

Analyst, CIBC Capital Markets

Lawson Winder

Analyst, Bank of America Securities

Dalton Baretto

Analyst, Canaccord Genuity Corp.

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. This is the conference operator. Welcome to the First Quantum Minerals Limited Third 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, operator. And thank you, everyone, for joining us on our call today. 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. Tristan will then wrap things up, after which we will open the lines up to take questions.

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

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, Bonita, and thank you everybody for joining us on our conference call today.

Concerns of a macro slowdown have accelerated since our last conference call and while there continues to be a healthy physical demand for our copper and we have not seen erosion on this front, the copper price has declined from an average of \$4.31 per pound in the second quarter to hover around \$3.40 per pound today. This pricing environment, combined with broad cost inflation has led to margin compression across the industry and for First Quantum.

Despite this challenging environment, we saw real operational improvements during the quarter, which Rudi will speak to later on the call. Our commitment to paying down debt over the last two years has placed our balance sheet in a better position to weather the challenges ahead of us and the company is in a considerably stronger position when compared to slowdowns of the past, which Ryan will review.

I remain confident that with the quality of our operations and experience of our team, we are well positioned to navigate through the current period of challenging macroeconomic conditions. We continue to be focused on driving productivity and cost improvements at our operations and exercising financial disciplines to preserve the balance sheet. We will manage capital expenditures prudently which may include deferring as yet unsanctioned items.

I will now address the guidance changes that we announced yesterday evening. With our third quarter results, we lowered our 2022 production guidance to between 755,000 and 785,000 tonnes of copper, a 6% decline from the midpoint of our previous guidance. The main reason for the lowered production guidance is Kansanshi, which I will address.

But before going into more detail about Kansanshi, I don't want the strong operational performance at Cobre Panama and Sentinel to be overlooked with today's guidance changes. Both operations are set up very well for next year. Cobre Panama once again achieved record quarterly production as the mill achieved throughput rates of 95 million tonnes per annum on an annualized basis, and Sentinel achieved its target run rate of 62 million tonnes per annum on an annualized basis ahead of schedule. Rudi will discuss both of these accomplishments in more detail when he speaks.

At Kansanshi, we lowered this year's copper production guidance to between 140,000 to 150,000 tonnes of copper, which is a 22% decrease from the previous guidance. The lowered guidance reflects the challenges year-to-date of the operation. This year we experienced an accumulation of water in the main pit after an extended rainy season, but this was resolved by end of September when the pit was fully dewatered. As a result, however, oxide ore mining in Q3 was restricted and resulted in supplementing ore feed with low grade and tarnished stockpile materials. This was a setback for this year at Kansanshi but we have built greater redundancy into the dewatering infrastructure in order to provide greater insurance for the upcoming rainy season.

We are preparing Kansanshi to transition to more sulphide ores as the oxide ores continue to deplete. The sulphide ores, which are the future of the operation, are lower grade and hence the mine will need to transition to higher volume operations in order to offset the grade decline. We have known about this for some time. Although we commenced construction of S3 some years ago, we subsequently stopped the project as it is important to be disciplined and only proceed with a supportive investment climate in Zambia. On this, we have seen significant progress in the last 12 months. The budget speech by the Minister of Finance and National Planning two weeks ago was a further step forward in this regard and reinforced our decision this year to proceed with the S3 Expansion.

As you may also recall, during the second quarter, we also conducted detailed updates of the geological model at Kansanshi that confirmed the 20% of the sulphide ores comprise vein-hosted areas. Given the nature of the veinous and lower-grade profile of the sulphide orebody, production volumes at Kansanshi are expected to continue at lower levels until the completion of the S3 Expansion project in 2025.

With the expansion, Kansanshi is expected to return to a 200,000-tonne-plus copper producing mine, with several of the initial yields above 250,000 tonnes of production per year, and deliver the increased volumes into a better macro environment.

I remain confident with First Quantum's in-house capabilities on the successful execution of the S3 Expansion, which will be similar in nature to the three trains that are currently operating at Cobre Panama and the two trains currently operating at Sentinel.

Among the guidance changes was also an increase in our C1 cash cost guidance range to \$1.70 to \$1.80 per pound of copper produced. The cause of the increase is twofold, which reflects the lower production from the Zambian operations and secondly, broad cost inflation, which continued to increase further during the third quarter and remain at elevated levels, as Rudi and Ryan will discuss in more detail.

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 improvements we saw in the second quarter continued into the third quarter with copper production of almost a 195,000 tonnes. The quarter-over-quarter increase in production was largely driven by Sentinel, which saw a step-up in grades along with continued strong performance at Cobre Panama. Challenges at Kansanshi continued into the third quarter, which I will go into more detail in a moment.

Copper C1 cash costs averaged \$1.82 per pound in the third quarter, up from \$1.74 per pound in Q2, as the impact of inflationary pressures was felt across all three months in the quarter, as we worked through higher cost inventory. This cost inflation was partially mitigated by improvement in production volumes.

During the quarter, we were pleased to have hosted an analyst and investor tour of Cobre Panama, and showcase the excellent operating performance of the asset. After a strong second quarter, the operation continued its strong operational performance into the third quarter, achieving a record mill throughput of 22.4 million tonnes of ore with an average head grade of 0.46% copper. This resulted in another record achievement of just below 92,000 tonnes of copper in the third quarter. Q1 cash cost of \$1.43 per pound was down \$0.11 per pound from the previous quarter, principally driven by higher production volumes despite cost inflation. The operation continues to benefit from improvements in blasting and mill availability. And consequently, we have narrowed 2022 guidance at Cobre Panama to between 340,000 to 350,000 tonnes of copper. The operation is well on track to exit the year at a rate of 90 million tonnes per annum as for much of September post the routine SAG mill reline, mill throughput was at or above a run rate of 95 million tonnes per annum.

As I mentioned earlier, the quarterly improvement in group-wide production was largely attributable to Sentinel, which produced approximately 64,100 tonnes of copper. This was a 22% increase in production from the second quarter and means that the operation has achieved its mill throughput run rate target of 62 million tonnes per annum in quarter three and well ahead of schedule.

During the quarter we also saw a step-up in ore grades as higher grade ore was exposed in the Stage 1 and Stage 2 pits at Sentinel. C1 cash costs of \$1.77 per pound was 6% lower than quarter two, as higher production more than offset the impact of elevated cost pressures. Grade is expected to continue to improve in the fourth quarter as higher grade ore is exposed. The operation is well set up for 2023. However, due to the slower turnaround of benches earlier in the year, we have lowered the 2022 copper production guidance for Sentinel to between 240,000 and 250,000 tonnes of copper.

Continued challenges at Kansanshi partially mitigated the production improvements at Sentinel. During the third quarter, Kansanshi produced 29,900 tonnes of copper, which was down 25% from the second quarter due to lower grades across all three of the ore types. As Tristan mentioned, whilst the Main pit was dewatered by the beginning of September, movement within the pit was constrained for much of the quarter, which restricted access to M12 cutback in the bottom of the pit. Dewatering of the Main pit was completed towards the end of the third quarter and planned mining activities resumed. However, for the majority of the quarter it was necessary to supplement feed from stockpiles of lower grade oxide/leach ore and tarnished sulphide ore.

We continued to have feed from narrow-veined regions during the third quarter as well. C1 cash costs of \$2.93 per pound was considerably higher than the previous quarter due to lower production and continued high costs for key consumables.

As a result of the challenges to-date, 2022 production guidance at Kansanshi has been lowered to between a 140,000 and 150,000 tonnes of copper. Full optimization of mining from the sulphide ores is anticipated when the mining methods move from current flitch mining techniques to full face shovel mining technique as the new mining fleet for the S3 Expansion is brought online over the course of next year and into 2024. Until the completion of the S3 project, however, production volumes are expected to continue at these levels as a result of higher proportion of sulphide ore that will be mined.

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

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Thank you, Rudi.

As Tristan and Rudi highlighted, the company's operational performance improved during the third quarter. The macro environment, however, has been challenging.

As noted on slide 13, third quarter revenues are \$1.7 billion, a 9% reduction from the second quarter. Production volumes increased slightly from Q2 and for the first time in 2022, sales exceeded production. This was as a result of some improvement in shipping and supply chain logistics globally. However, improved sales were not enough to offset weakness in the copper price, which fell 18% quarter-over-quarter. This fall was driven by worsened macro sentiment with recessionary concerns front of mind and interest rates rising globally.

Unusually for a period of pricing weakness, the macro remains constructive. As you can see from the chart at the bottom of the slide, global copper stocks have continued to fall and now at the lowest level seen more than five years. Generally in periods of copper price weakness, prices of key inputs also fall which provides a partial offset from a margin perspective. This quarter, however, this has not been the case. While metal prices have fallen, oil, gas and coal prices have all remain elevated. The same chart demonstrates this contrast with a steeply falling oil-to-copper price ratio over the last 12 months. The oil price directly impacts our diesel prices and is often highly correlated to reagent, freight and energy costs. As a result, our C1 costs have continued to rise to \$1.82 per pound this quarter. This combination of falling revenues and increasing costs has led to EBITDA margin compression declining from 54% earlier this year to 34% in the third quarter.

We did see some early positive green shoots on cost inflation as some input costs started to fall later in the end of this quarter. Oil fell from \$123 per barrel in June to \$90 per barrel in September. Marine freight rates and major global container routes also fell by approximately 15%, although there has been a minor recovery in bulk rates in recent weeks. Sulphur prices which represent approximately 20% of Ravensthorpe's costs have fallen by 80%. While these costs are now starting to slowly move in the right direction, the full effect of this reduction will not be felt until 2023 as operations work through current warehouse inventories.

Slide 15 highlights that as a result of lower margins, Q3 EBITDA fell to \$583 million. Net income fell to a \$113 million and earnings per share fell to \$0.14.

The EBITDA waterfall on slide 16 highlights that by far the biggest driver of the reduction in the EBITDA was lower metals prices.

Slide 17 outlines the changes made in Zambia's fiscal regime as part of the annual budget presentation on September 30. The mineral royalty calculation was changed to be on an incremental basis, and an amendment was made to the mineral royalty bands. This announcement reduces the company's effective royalty rate from next year by a range of 1.5% to 3.25%, depending on the copper price. These changes, in conjunction with the removal of the non-deductibility of mineral royalty taxes at the start of this year brings the Zambian fiscal regime more in line with that of other mining jurisdictions, improving Zambia's competitiveness.

Moving on to slide 18, on the balance sheet. Debt reduction remains a priority, although margin compression will slow the rate of reduction. Since peak debt in Q2 2020, the company has decreased net debt by \$2.3 billion. This includes the \$1 billion redemption of the 2023 notes earlier this year. Importantly, the company's credit ratings with S&P and Fitch were upgraded earlier this year to B+. The company has \$2.4 billion in available liquidity, and we remain comfortably in compliance of the covenants on our debt, which looks at our trailing 12-month EBITDA. Our policy is to remain below 2 times net to EBITDA on a through-the-cycle basis, and we were at 1.4 times at the end of the quarter.

And lastly, I'd like to speak to the company's capital allocation priorities. These are outlined on slide 19. The current macro uncertainty confirms that our focus on debt reduction over the last several years was the right approach. The priority will continue to be deleveraging and preserving our balance sheet. Depending on the magnitude and duration of the slowdown, this includes looking at efficiencies and cost improvements across all our operations and deferring unsanctioned projects as necessary.

That brings to an end of the finance section. I'll now hand the call back to Tristan for closing remarks.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, Ryan.

I'm pleased to announce that during the quarter we received approval from the Panamanian energy regulator, ETESA, for 20-year agreement with AES Panama to source 64 megawatts of renewable power for the CP100 Expansion. This power, which will be from a combination of wind, solar and hydroelectric sources, marks the first important step on our pathway to decarbonize power in Panama, and which is central to our 2025 and 2030 greenhouse gas emission reduction targets. The cost of this power is consistent with our current all-in cost of power generation, inclusive of our collar pricing structure on coal purchases. This milestone in Panama follows the early-stage wind and solar development project in Zambia that we announced earlier this year.

As Rudi mentioned, we were very pleased to have hosted a tour of Cobre Panama in September and to show the progress with regard to the CP100 Expansion. All key components of the project are now on site. The decant water portion of the expansion has begun commissioning and initial results are in line with our expectations. We remain on target for completion of remaining construction works and commissioning in the first quarter of 2023.

With regards to Law 9 discussions, First Quantum and the Government of Panama continued to progress, including the establishment of a bilateral contractual drafting committee. The current drafting discussions are focused on ensuring that we attain robustness, stability and durability in the long term. Once an agreement is concluded and the full contract is documented, it is expected that the newly drafted legislation would be put to the Panamanian National Assembly. First Quantum remains committed to a swift conclusion of the Law 9 discussions.

At the Kansanshi S3 Expansion project, long-lead items have been procured, including the primary crusher, mills and mining fleet. Engineering contractors have commenced with detailed designs where needed. The S3 Expansion mining fleet has been procured with deliveries commencing in the second half of next year, which will enable the mine to transition ahead of the plant commissioning in 2025.

At Enterprise, we commenced pre-strip work in May of this year. Plant refurbishment, completion and commissioning activities are on schedule and aligned to the pre-stripping duration. The project is on schedule for first ore in the first half of 2023.

At Las Cruces, we are continuing with detailed technical work. However, approval of the Las Cruces Underground Project is not expected before the end of 2023 and will take into consideration prevailing economic conditions.

Before we go into Q&A, it is worth taking a moment to discuss the copper market and its outlook. Sentiment towards the copper price has been dominated by recession concerns and in our view has decoupled somewhat from longer term structural fundamentals. We have seen no erosion in demand for our copper product. And as Ryan mentioned, global inventories remain at historically low levels. In the medium and longer term, the outlook for copper remains very positive in our view. Bringing on new copper supply will be challenging and the current macro weakness has only exacerbated this. The current macro weakness, inflationary environment and higher cost of capital has seen several projects put on hold and will likely see more deferrals so long as these conditions persist. This combined with a lack of new project and stringent permitting hurdles is likely to only make an already tight copper market even tighter. Over the medium to longer term, the outlook remains bright and First Quantum is well positioned with our portfolio of long-lived assets and organic growth opportunities.

In the meantime, we will adapt accordingly to the realities we face today. Our near-term priority will be to stay focused on driving productivity and cost improvements at our operations, successfully deliver on our brownfield projects and exercising financial discipline to preserve the balance sheet.

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] The first question comes from Orest Wowkodaw with Scotiabank. Please go ahead.

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

Hi. Good morning. Tristan and team, I'm just wondering if we can get some more color on sort of what's going on at Kansanshi and how that might impact the outlook for 2023, 2024. Your disclosure does mention that you expect Kansanshi to operate at lower rates beyond 2022 until the S3 Expansion's online. But I'm just wondering if you can give us a little bit of color on magnitude of potential decline from previously issued guidance. It does look like – like for 2022 – that your updated guidance would imply something like a 27% reduction from the initial guidance you put out in January. I'm assuming the impacts for 2023, 2024 will not be that significant from the existing guidance. Any color you can give us?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Orest. Yeah. So, the challenge we've been facing, which is the reduction in proportion on the oxide material and the shift of the asset into a greater proportion of sulphide is consistent with what we've known at Kansanshi for some time that the mine is getting deeper and that's why we need to bring S3 into there, and that's why we had started building S3 all those years ago, unfortunately stopped and now recommenced. And that's important to the future of Kansanshi as a world-class asset, which it remains.

But, in the interim, the grade profile will decline. We're geographically constrained this year. And that, I think, has impacted and weighed on this year more than it will weigh on next year. But when we say that it will continue at low levels, I think you should be anchored around the 2022 sort of levels. We do expect that we'll be able to provide much more clarity for next year in our guidance.

But clearly, the challenges on the sulphide are there and we need to work that through in terms of the ore model and in particular optimization of working areas. We're working very hard on that in terms of continuing to strip and provide flexibility into next year, and that will all be taken into account in terms of how we come back in January and make a clear picture on guidance for 2023 and 2024.

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

Thanks, Tristan. But – sorry, just to make sure I understand. Are you saying that the 2022 guidance of 140,000 to 150,000 tonnes is kind of a good baseline for 2023, 2024?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah. Orest, I – look, I think at the – at the limit that would be we do expect some improvement from there because we – this year we had the constraint on accessing oxide material from M12, and we are improving flexibility and so on. But certainly the challenges that we've seen and the measure of grades, particularly in the these veinous areas, we're not going to get away from that in the next couple of years.

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

Emily Chieng

Analyst, Goldman Sachs & Co. LLC

Good morning, Tristan, Ryan, Rudi. Thank you for taking my questions. My first is just around some of the comments you made on the CapEx, inflationary pressures you're seeing there. Could you highlight perhaps if that was sustaining or project CapEx and perhaps if there is any sort of buckets that you could point us to as to what's driving that upward pressure?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Sure. So on the CapEx side, that is the capital expenditures. At Cobre Panama everything's delivered on site and we don't expect to see much CapEx inflation there. At S3 we have more exposure and as we think around a third of the CapEx that we have allocated for plant and equipment, which is around \$300 million, \$320 million, we'll have some exposure. But in the meantime, we have placed those long-lead orders for a similar amount or just over \$300 million. And in that, we were very pleased to come in line with our expectation. So we haven't seen that in terms of those long leads, but we would retain some exposure if inflation pressures do continue.

What we are seeing at the moment is that those are coming off their peak. So, freight is very important when you're building a project like S3. Obviously oil price, but then also cement and steel and so on. And, we consider the risk to those at the moment are more on the downside than continued upside on, for example, steel price. So at the moment, I think the exposure is probably reducing there if we look out to sort of 2024 when the major portion of the CapEx work is there.

In terms of sustaining CapEx, look, the main area for that is really on input prices on fuel input prices because that – for example, big portion of sustaining CapEx at Cobre Panama is in the tailings dam. And so we are seeing that pressure on the upside at the moment, although, it's probably in most areas reached a peak and we have seen some areas decline, albeit they still remain at elevated levels. And we'll have to see, Emily, how sticky those are through into next year in terms of all-in sustaining costs which includes those sustaining CapEx items.

Emily Chieng

Analyst, Goldman Sachs & Co. LLC

Understood. Thanks, Tristan. And just a quick follow-up on the Zambian royalty update. So, thanks for providing the new ranges there for the copper side. But I wanted to check if there was any update to the gold royalties as well with that change.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, Emily. Yes, to our knowledge, no, there's no change on the gold royalties.

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

Greg Barnes

Analyst, TD Securities, Inc.

Yes, thank you. Tristan, Rudi, the veinous ore at Kansanshi and it is now 20% of the sulphide reserve base from what I understand. Will that have an impact on S3 production levels?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Hi, Greg. Thanks. Yeah, so it's certainly part of all the understanding of the geology at Kansanshi and been well known for some time. So 20% in the sulphide veins and those veins as they go to depth are narrower. When you – and the remaining 80% is on the stratiform mineralization as you go and given the mining methodology that we have at the moment, which is very selective, it's trying to target reasonable grades above 0.5%, above 0.6% in order to push into the mill. But as we go into a much more higher volume mining methodology, we can take each block as an average block. And so it's far less a concern to us in the future once we're at that high-volume mining methodology using large face shovel equipment and so on. So, the underlying answer is no, it doesn't affect the sort of long-term standing of S3, but it does impact the selective mining methodology that we have in the interim.

Greg Barnes

Analyst, TD Securities, Inc.

Q

So effectively, with the larger mining rate, you blend out the lower grade material by higher volumes of better grade material is what you're saying when you get to S3.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah, that's right, Greg. So, John Gregory, I don't know if you want to comment, but we will come back on the 43-101 next year. And, the update there at some stage during the year will cover an update in terms of the CapEx, which includes the \$1.25 billion expenditure. But then, greater clarity on what we see in the model. John, do you want to comment there?

John Gregory

Director, Mining, First Quantum Minerals Ltd.

A

Thanks, Tristan. Greg, we've run various trials over the last few months where we do take veinous areas and we mine the whole face as one block and we can actually track the grade to represent what will happen in the S3 environment. And we do end up with a blended grade. And that gives us a lot of confidence that those feed areas will be more than suitable to satisfy S3.

And the other point is that we know where these areas are. We've spent a lot of time updating and upgrading the mineral resource. So the zones of – the veinous zones and the stratified areas are very clear to us and we need to make sure that we balance the proportion of feed. And basically it won't be exactly 20%/80%, but it'll be more in the order of a balance between feed from the two different zones of mineralization. And that's one of the challenges we are facing at the moment. That balance is slightly out of kilter. But going forward, we're very confident in terms of the resource and subsequently reserves. And yes, we are looking at updating the technical report which will give the production profile for the two years before S3 and in S3 and beyond that.

Operator: The next question comes from Ralph Profiti with Eight Capital. Please go ahead.

Ralph M. Profiti

Analyst, Eight Capital

Q

Thanks, operator. Good morning, Tristan. Maybe a question for Ryan. If we compare Panama versus Zambia when you talk about these inflationary pressures, which jurisdiction would you say sort of more being influenced. Are they both the same or is there more of a bifurcation in some of these pressures?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Thanks, Ralph. I'd say broadly the drivers are the same with a couple of differentiators. So Panama is dollarized, whereas Zambia obviously we're exposed to the kwacha. So what we've seen through this year is the kwacha has strengthened from about ZMW 23 to the \$1 at the start of the year to ZMW 15 to the \$1 in Q3. And that has had a bigger impact on our labor cost in Zambia than in Panama. But in other areas they are fairly similar. I mean, you've seen power prices remained consistent across both operations because in Zambia we're largely off a fixed-price agreement and in Panama we've got a contract in place on – the collar contract on coal. And then, in terms of diesel, reagents, other consumables, we've seen fairly consistent upward pressure across the two operations. The contrast for us really has been where we've been operating in more heated mining market, so Ravensthorpe has stood up this year where market like that in WA you do see even more inflation than what we're seeing in countries like Zambia and Panama.

Ralph M. Profit

Analyst, Eight Capital

Q

And, Tristan, are you able to sort of quantify – the previous question as sort of you maybe – you transcend from flitch over to full face shovel mining? Is there a number that you can peg on sort of a dollar per unit, what that means in terms of productivity improvements and how that measures up on those unit cost improvements that we could see?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah, Ralph. Look, I wouldn't give you a number right now, but I think what you would need to do is just compare the mining costs per BCM at Kansanshi compared to what it is at Sentinel. And effectively what we're moving to is very much more a Sentinel mining methodology and larger faces, larger mining equipment and would follow the sort of mining costs that we see at Sentinel.

Operator: The next question comes from Gordon Lawson with Paradigm Capital. Please go ahead.

Gordon Lawson

Analyst, Paradigm Capital, Inc.

Q

Hey. Good morning, everyone. Switching over to Enterprise, are you able to provide any updates with respect to CapEx or timing of first production?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Sure, Gordon. Enterprise is going well. So in terms of the development in the pit, which was to get on top of orebody, that's progressing very well. And hence we see our first ore early in the first half of next year. In that regard, the process plant is in good shape in terms of commissioning and – the final – the conveyor belts and so on going into it. We haven't seen any change to the schedule and very limited change to costs. The only inflationary pressure we really have there is diesel price. Diesel for importation into Zambia has come down in terms of the indicators but it will take a few months to wash that through in terms of the lag on the supply chain. But otherwise, yeah, very much on schedule and on the time line.

Gordon Lawson

Analyst, Paradigm Capital, Inc.

Q

Okay. Fantastic. Are you able to provide numbers with respect to the percentage of the fleet on site or the CapEx expected this year, next year to get this thing up and running?

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

A

Rudi, do you have an idea of how much of the fleet is on site? It's a contracted mining methodology there, most of the fleet there, isn't it Rudi?

Rudi Badenhorst*Chief Operating Officer, First Quantum Minerals Ltd.*

A

Yeah. That's correct, Gordon and Tristan. It's contract mining, most of the fleet is there already, it's one or two excavators that are being brought online as we speak. So there's no real impact there. And CapEx is in line with what we said previously is – this year it's probably in the region of about \$80 million. And then we don't see much of a – signs of an increase in CapEx there.

Operator: The next question comes from Edward Brucker with Barclays. Please go ahead.

Edward Brucker*Analyst, Barclays Capital, Inc.*

Q

Thanks for taking my question this morning. So just two on the balance sheet, I'm looking at the cash stack, and I've asked it before, but the 2024 and 2025 maturities are callable. So I want to get your thoughts on if you'd follow a similar playbook to what you did for the 2023s where you wait for the bonds to become close to current to call them or does your view change at all with the difficult market environment, both from a macro perspective and difficulties in the funding market?

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

A

Yeah. Hi, Ed. The approach will be consistent. We will continue to be opportunistic in terms of how we think about redemption of those bonds. And as you saw, the 2024s became callable at par in September and become current in March of next year. But from a cost perspective, those bonds at 6.5% actually in our trading – are reasonable relative to where we see have seen broader debt funding costs go. But the broad approach will be to continue to be opportunistic in that regard.

Edward Brucker*Analyst, Barclays Capital, Inc.*

Q

Thanks. And then my second question, just your thoughts or I guess comfort with the current mix of fixed versus floating. If you'd continue to have a portion of the debt stack floating and then if you could give us the floating rate on the term loan right now, and is it hedged?

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

A

Sure. So we're currently at two-thirds fixed and one-third floating. And that's obviously served us well over the last 12 months while rates have risen. And I think we should broadly expect to see that continue to be consistent. Obviously, over time we'll continue to redeem bonds and you may see the rates – the ratio of fixed increase slightly. But the broad approach will be the same. And then, Ed, we haven't disclosed the margin above LIBOR

that we pay on the facility, but obviously as a whole, that cost has gone up as rates have moved up through the course of this year.

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

Sandeep Peety

Analyst, Morgan Stanley Securities Ltd.

Good morning. Thank you. First question is on cash interest. You have based your guidance for this year to \$465 million. Well, what do you expect this figure to be in 2023 on spot interest rates?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Sure. So, we'll provide that guidance in January. But you should expect obviously with one-third of our debt being at floating rates, those rates have increased and that will impact our interest costs through next year. But we provide that guidance in January of each year.

Sandeep Peety

Analyst, Morgan Stanley Securities Ltd.

All right. And my second question is, since the new VAT and duties in Zambia have been implemented, what is the impact on cash cost in 4Q 2022 and 2023?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Sure. It's fairly minimal in 2022 because the VAT component and the excise duties only comes in from January 1. Broadly, we expect be around \$0.45 per pound on a C1 basis, but we expect that to be more than offset by the fact that royalties are now being calculated off incremental basis. But hopefully that gives you a feel across the group on what the impacts are.

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

Bryce Adams

Analyst, CIBC Capital Markets

Thank you, Tristan, Ryan, Rudi. I think Kansanshi is covered off. But I also want to ask on CapEx and maybe build on Emily's question. The disclosure highlighted FM is experiencing ongoing inflationary pressures relating to capital expenditures. But then the overall 2022 CapEx was maintained. So my questions are, given that upward pressure that was highlighted, what does that mean for 2023 and 2024 CapEx? Can you talk to the magnitude of those inflationary pressures? And why was 2022 guidance remained firm given those upwards pressures? Is it timing of CapEx? Is that an offset? And if it is timing, maybe some of the 2022 spend slips into 2023?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Sure, Bryce. Yeah. So it is timing, but Ryan can just give you a bit more flavor there.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

So, Bryce, we've seen kind of 10% to 20% inflation on CapEx items as we talked about through the year. But because we hope to approve S3 at the start of this year, that ended up being approved in May, some of those items, the spend at S3, some of the sustaining CapEx will slip into 2023. So the extra color we provide on guidance there is really meant to be clear that while we haven't changed CapEx guidance for this year, we have seen inflation across the market and therefore you can expect to see inflation in our CapEx numbers for 2023 and 2024 broadly in line with market movements. We haven't seen anything specific to our CapEx profile that would suggest higher than average increase.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

A

Ryan, maybe what we should suggest as well is that since the initial CapEx numbers were made available, we've seen the change in legislation in Zambia as well as far as capital imports are concerned, so where we would have had slightly higher numbers in there, that's offset with a reduction of 10% in capital import.

Bryce Adams

Analyst, CIBC Capital Markets

Q

Okay. That's a good point. So thinking about 2023 and 2024, maybe 2023 is likely to be more impacted than 2024 given the slippage from 2022 into 2023, is that fair?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

I think you're going to have to wait till we come out in January with our 2023 and 2024 guidance. We have seen broad inflation across all items, which is a negative. The positive, as Tristan said, is really for the Cobre Panama expansion, most of the capital items are already on site. As Rudi noted, Enterprise we'll be largely done with that project coming into next year. So the number's really to watch around S3. But in the case of S3, we do have the orders in and prices agreed for some of the large items such as the mill, such as the input crushers, which is helpful. But Bryce, we'll come back in January with really the three-year CapEx guidance as we normally do.

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

Lawson Winder

Analyst, Bank of America Securities

Q

Hi. Good morning, guys, and thank you for the update. Okay, so – I don't know if I just keep this to two questions. Number one, I would like to drill down on your copper demand commentary. So, you're seeing really, really strong demand in the concentrate market, but are you seeing that consistent across geography? That'd be the first part of that question. And then secondly, is it sort of more country specific. For example, is China strong and Europe is weak or is it just sort of strong across the board? And then as a follow-up to that, do you have any insight into the downstream industries that are driving that?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Hi, Lawson. Thanks. So firstly on inventories, yeah, when we mean – we see tightness, our finished goods inventory are the lowest they've been through the year. So we – that's been noticeable that you've seen that in the sales that were higher through the quarter than production. And that's across the board, Lawson. It's – we don't

see any – all our customers whether it's China or rest of Asia or into Europe or the Americas that demand is consistent and it's measurable in terms of our finished goods inventory.

In terms of – I guess the one area might be nickel is that on that side it has been an up-and-down this year that's been a very volatile market. And there was some – in the middle of the year in China, some hesitation there. And that's working its way through. China has got stronger, I think, now more recently and other geographies are coming back a little bit. So, nickel is a little bit more nuanced and certainly there's more MHP coming in Indonesia and so on that I think is providing that pressure on the nickel side. But on copper that's not the case at all and it's across different product groups as well so our blister, anodes, concentrate.

And then Lawson just remind me the second part of your question?

Lawson Winder

Analyst, Bank of America Securities

Q

Insight into kind of the downstream industries that are driving that at all?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah, sure. Look, in terms of our offtakers for copper, what we see is we don't see massive building of inventory or anything with our offtakers. As far as we know, that's consistent with our peers. Yeah, I mean more broadly than that, we can't really offer too much insight beyond what you will be reading.

Operator: The next question comes from Dalton Baretto with Canaccord Genuity. Please go ahead.

Dalton Baretto

Analyst, Canaccord Genuity Corp.

Q

Yeah. Thank you. Good morning, guys. A couple of questions for me on the cost side of things. So, first of all, just the Cobre Panama looking at into next year, as your collars of the thermal coal price roll off, can you give us a sense of what the impact will be to your unit cost if you assume spot thermal prices?

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yes, sure. And we do have some numbers there. Ryan, have you got those numbers handy? Thanks.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

A

Yeah, sure. And what we – generally as we thought about 2024 guidance, that was around \$100 a tonne coal when we put out that guidance since the beginning of this year. If you, say, see coal prices come down as an example to \$150 a tonne by 2024, you'd probably see an increase on group-wide costs of about \$0.03 to \$0.04, and then, say, remain elevated above that, you'll see that ratio continue as it stays up. I think the important point which Tristan talked to was that we now have 65 megawatts of renewable power. And what that does is two things. One, it reduces our emissions but also now at these coal prices we're seeing the additional renewable power that we're putting into Cobre Panama also being very cost competitive.

Dalton Baretto

Analyst, Canaccord Genuity Corp.

Q

Okay. Thanks, Ryan. And then, another kind of question on a similar vein, your disclosure talks about structural cost of living increases for employees. I'm just wondering what kind of impact that will have on your costs going forward? Thanks.

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yes. Sure. Look, those were specific cost of living adjustments that we made in some of the high inflation markets that we're in, in particular Turkey and Argentina. Really, it was to make up for serious devaluation in those currencies and so it doesn't impact our overall cost structure.

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

Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

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

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.