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First Quantum Minerals Ltd. (FM.CA)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. This is the conference operator. Welcome to the First Quantum Minerals Ltd. First Quarter 2024 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 today to discuss our first quarter results. During the call, we will be making forward-looking statements. And as such, I encourage you to read the cautionary notes that accompany this presentation, our MD&A and the related news release. As a reminder, the presentation is available on our website and that all dollar references are in US dollars unless otherwise noted.

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

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

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

Thank you, Bonita, and thank you, everybody, for joining us for our first quarter update today. Shortly following our fourth quarter results, we announced our comprehensive refinancing package that involved an amendment and extension of our corporate loan facilities, a \$1.6 billion second-lien bond offering and a \$1.15 billion equity bought deal offering. These transactions combined with our \$500 million copper prepay agreement with our longstanding customer, Jiangxi Copper, have strengthened the company's balance sheet significantly, to which Ryan will speak more on later and provide the company with the necessary time and space to deliver the Kansanshi S3 Expansion whilst we work towards a resolution for Cobre Panamá.

With the closing of these transactions in the first quarter, the focus is for both Kansanshi and Sentinel and Enterprise to deliver operationally. During the quarter, Zambia declared a state of national emergency due to drought conditions that have brought about challenges in food security and electricity generation across the country. We have seen that the country is adopting a proactive and organized response to these national challenges. We also note that the end of the first quarter, Zambia successfully completed its debt restructuring with both official and private sector creditors, which is a solid step forward for the country.

Due to the drought conditions, the state electricity utility ZESCO announced a comprehensive electricity management plan that includes power reductions to the mining sector. Based on our bilateral discussions with ZESCO, it is expected that their capacity to deliver power to our Zambian operations will be curtailed by approximately 20% equivalent to around 60 to 80 megawatts under current forecast from May 1 to the end of this year. In anticipation of these challenges, the company's primary objective is to prioritize production, particularly at today's copper prices.

With that in mind, in working with ZESCO and by proactively engaging with alternative power providers, I'm pleased to share that we are in the process of finalizing binding agreements for power from Mozambique and Namibia that will cover the reductions requested from ZESCO. Related to this, on April 11, First Quantum received the force majeure notice from ZESCO to formalize the request for power reductions, thereby allowing First Quantum to independently contract power from these alternative sources.

As such, we anticipate that we will be able to substitute the power curtailed by ZESCO with imports and avoid any major interruptions to our Zambian operations based on current forecasts. The imported power will come at a higher cost to which Ryan will provide more details later, but will allow us to maintain our production as planned without a large impact on our overall cost base.

Over to Cobre Panamá, where the mine remains in a state of preservation and safe management, which Rudi will review some of the work that this entails with respect to the plants and equipment. The mine remains clear of blockades allowing the delivery of necessary supplies for the P&SM program. As I noted on our last conference call at the request of MICI, the Ministry of Commerce, we submitted a preliminary draft to formalize the P&SM plan and its associated costs estimated at around \$15 million to \$20 million per month.

In March, MICI requested some clarifications and additional information. And in response, Cobre Panamá has submitted an updated and expanded P&SM plan. We also submitted a request to the National Authority of Public Services to extend the auto generator license to restart the power plant, which is critical to the ongoing implementation of the P&SM plan. Early this month, government delegations including representation from various ministries undertook site inspection and verification visits as part of the processes to evaluate the P&SM plan.

In regards to the environmental standing of the mine, we recently received the finding of MiAmbiente, the Ministry of Environment's compliance audit for the period from June to October 2023 undertaken by the government's independent auditors CODESA. Their report finds that Cobre Panamá was 100% compliant on its environmental commitments and legislative obligations.

On health and safety, there were five instances of non-compliance relating to three commitments of the total 371 commitments under the ESIA, which at the time were being actively addressed. The summary report will be published shortly on the Cobre Panamá transparency website. As well, approximately 121,000 dry metric tonnes of copper concentrate remains on site. The company was advised on January 29 by the Attorney General of Panama that minerals extracted through mining concessions granted in accordance with the mining code belong to the concessionaire. The shipment of the concentrate is included as part of the P&SM plan.

In protecting our investment in Panama, we continue to move forward with our two arbitration proceedings, that being the Canada Panama Free Trade Agreement, and the second one as to the arbitration clause of the Refreshed Concession Contract. However, as we have consistently stated, arbitration is not our preferred outcome and we remain committed to Panama and being part of a long-term solution that delivers the best outcome from the country and the people of Panama.

The next few months will be a period of change for the country with elections to be held on May 5 and a new President to officially take office in early July. In the meantime, we will continue to engage constructively with the current administration to ensure the environmental stability and asset integrity of Cobre Panamá. We also continue to seek to listen and learn from the people of Panama.

With that, I will conclude the opening remarks and pass the call to Rudi to review our operational results.

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

Thank you, Tristan, and thank you, everybody, for joining our call today. As Tristan mentioned, the Cobre Panamá mine remains in a phase of Preservation and Safe Management. And with the absence of production from Panama, total copper production for the first quarter was approximately 101,000 tonnes, a decrease of 37% from the fourth quarter. As a result of the lower production volumes, group-wide copper C1 cash costs were \$0.20 higher than the preceding quarter, averaging \$2.02 a pound.

Looking at the business excluding Cobre Panamá, however, copper production was 3,021 tonnes higher quarter-over-quarter, resulting from improving production at Sentinel, while copper C1 cash costs were \$0.06 lower, to which Ryan will speak to in his financial overview. At Cobre Panamá, Preservation and Safe Management work during the quarter involved a 14-day preservation and maintenance cycle at the process plant, with equipment being run and monitored for periods to help maintain the integrity of the plant. With a major ultra-class mobile equipment, the maintenance cycle involved daily inspections and weekly startup in order to keep the fleet in good working condition.

For its Kansanshi, copper production totaled 31,000 tonnes in the first quarter. Production was down slightly in the quarter due to low asset stock availability to treat the higher-grade oxide material as a result of an unplanned smelter shutdown. Despite lower production volumes, copper C1 cash costs were down quarter-on-quarter to \$2.34 per pound as quarter four costs were impacted by a onetime catch-up charge on new electricity rates from a new 10-year power supply agreement with ZESCO that we entered into at the end of 2023.

We have maintained Kansanshi's production guidance for this year at 130,000 tonnes to 150,000 tonnes of copper with copper grades expected to improve over the course of the year as mining progresses at higher elevation areas with higher-grade material emanating from the M15 and M17 cutbacks. Sentinel had a strong quarter producing just over 62,000 tonnes of copper, which was a 4% improvement from the fourth quarter. This was driven mainly by grade as mining activity was able to progress as planned to high-grade areas in Stage 1 and the saddle zone between Stage 1 and Stage 2 pits.

Throughput, however, was lower than the fourth quarter due to a planned shutdown that was deferred from the preceding year. Copper C1 cash cost of \$1.85 per pound is unchanged from the preceding quarter, as the benefit of higher volumes was offset by higher electricity rates from the new power supply agreement with ZESCO and higher freight costs associated with concentrate that was shipped to third party smelters during the smelter shutdown at Kansanshi.

Copper production guidance for Sentinel has been maintained at 220,000 to 250,000 tonnes. Copper grades were higher in the first quarter and are expected to normalize for the remainder of the year, while throughput is expected to improve over the course of the year as development of the Stage 3 Western Cut-back and the relocation of In-pit Crusher 3 continues to progress well and will enable improved mining productivities and increased availability of softer material.

At Enterprise, mining operations continue to ramp up, with the operation producing 4,000 tonnes of nickel in the first quarter. During the quarter, there was a noticeable improvement in recoveries with the expansion of the flotation cleaner circuit. Work continues towards commercial production and full ramp-up later in this year, with additional equipment mobilized to increase mining volumes and the final ramp-up of the process plant to full capacity. Production guidance in 2024 for Enterprise continues to be 10,000 to 20,000 tonnes of contained nickel.

Continuing with nickel production, Ravensthorpe produced approximately 3,700 tonnes of contained nickel during the quarter. In February of this year, the operation implemented a new strategy with a focus on improving margins by suspending mining at Shoemaker-Levy and bypassing the high-pressure acid leach units. While margins did improve in the first quarter, operating costs nonetheless remain high. This, combined with maintenance challenges, weak nickel prices and low payabilities, continue to result in significant margin pressure at the operation.

Thank you. And I will now hand the call over to Ryan to review the financials.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Thank you, Rudi. Starting with the market, copper prices broke out in March from recent ranges and traded to the highest level since April 2023. Copper is now at around \$4.40 per pound, albeit much of this increase only incurred after the quarter-end. So, this is not reflected in these financials. This price increase has been partly driven by the collapse in copper treatment charges, which is to some extent the result of the situation at Cobre Panamá and the resulting potential smelter production cuts in China. This copper price increase since the cessation of operations at Cobre Panamá will contribute to making the green energy transition more expensive, and as a result, extend the time that it will take the world to decarbonize.

Moving on to our financials, where it was a noisy quarter despite the solid operational performance that Rudi described. This was due to it being the first full quarter without Cobre Panamá production. Revenue and EBITDA both declined quarter-over-quarter, as Cobre Panamá remained in the phase of P&SM. Excluding Cobre Panamá,

revenue and EBITDA increased by 11% and 70% respectively, mainly on the back of improved operational performance and higher metal prices.

Impacting EBITDA were P&SM costs at Cobre Panamá of \$63 million due to a larger workforce than budgeted at the start of the quarter. Workforce reductions have now been completed, and as such, going forward, we expect these costs to normalize to the \$15 million to \$20 million per month range. Our Q1 net loss attributable to shareholders improved to \$159 million this quarter, as Q4 last year was impacted by both the impairments at Ravensthorpe and the tax expense at Cobre Panamá.

Moving on to costs, excluding Cobre Panamá, copper C1 cash costs reduced 3% to \$2.01 per pound. This was attributable to improved production, lower fuel costs and the absence of a one – once-off catch-up charge on new electricity rates in Zambia last quarter. This was partially offset by the impact of acid purchases and higher freight costs, as Rudi mentioned.

As Tristan described, as a result of the power shortages in Zambia, our operations will procure approximately 20% of their power from outside the country. The contracts in this respect are currently being finalized with key terms agreed. The imported power will predominantly be a mix of hydro, solar and natural gas from Mozambique and Namibia. While the imported power will be more expensive than the rates that we have with ZESCO, the impact to the overall cost structure will be modest, given power represents about 7% of our costs.

We expect an incremental cost of approximately \$25 million for the remainder of the year, which is equivalent to a \$0.03 impact on our C1 cash costs. In other areas, inflationary pressures have stabilized and prices are tracking favorably to the assumptions we're using for our cost guidance. As an example, our guidance is based on an oil price of \$90 per barrel, while spot prices have averaged in the low-80s year-to-date. Additionally, the gold prices average well above \$2,000 per ounce, while our cost guidance assumes a gold price of \$1,900. Taking all of this into account, we remain comfortable with our C1 cash cost guidance range for the year of \$1.80 to \$2.05 per pound.

On to our balance sheet. During the quarter, we took a proactive approach to address our liquidity position and near-term bond maturities through a number of capital markets actions and a \$500 million copper prepayment. These actions included amending and extending our corporate loan facility, a \$1.15 billion equity issuance, and a \$1.6 billion second lien secured bond. We appreciated the support that we received from our shareholders, our bondholders and our banks as part of this transaction. Both the bond and the equity offering were oversubscribed and 100% consent from our banking group.

Changes in our corporate facility include revising our leverage covenant, deferring our debt amortization until June next year, and pushing out the facility maturity to April 2027. Proceeds from the equity and debt offerings allowed us to redeem our 2025 and 2026 bonds in full and repay a sizable portion of our revolving credit facility. This materially derisks our liquidity position through 2025 to support the delivery of the S3 project in Zambia and resolution in Panama.

Net debt decreased by \$1.14 billion during the quarter to \$5.3 billion as a result of these financings, partially offset by the impact of working capital movements in Zambia and payments to suppliers at Cobre Panamá related to orders placed before the halt in operations last year. Liquidity improved to \$1.8 billion at the end of the quarter, comprised of approximately \$700 million in cash and \$1.05 billion of undrawn revolver.

As per accounting standards, the prepayments have been recognized as a liability under deferred revenue. Revenue will be recognized in line with deliveries and the prepaid amounts will reduce over the second and third

years in accordance with deliveries. From an accounting perspective, the prepay is not recognized as debt and is included within reported net debt – and is not included within reported net debt. However, the prepayments will be treated as debt by our lenders in covenant calculations.

We continue to manage our balance sheet with discipline by focusing on initiatives underway such as further working capital optimization and reductions in operating capital expenditures through driving improved efficiencies. The previously announced measures for optionality and flexibility continue such as the sales process for the Las Cruces mine in Spain, as well as potential minority investment in the company's Zambian business.

And that brings the finance section to an end. I'll now hand the call back to Tristan.

A. Tristan Pascal

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, Ryan. We continue to make good progress on the Kansanshi S3 Expansion project, which remains on track for construction completion in mid-2025. Our focus is on project cost control, whilst ensuring the quality of construction execution. We continued to receive deliveries during the quarter, and these deliveries of major long lead items will continue through the remainder of the year.

During the quarter, the primary crusher excavation was completed and we received first deliveries of SAG Mill components. This is the sixth mill of the same size that the project team has installed, and we are pleased so far with progress against the schedule. Similarly, the Kansanshi smelter expansion to 1.6 million tonnes per annum feed capacity remains on track for first production in 2025.

Before I hand over the call to take questions, I would like to circle back to the comprehensive financing transactions that I opened today's call with. There was a lot of complexity in putting together this package with respect to the interdependency of each transaction and the short timeframe to put together and execute the transactions. There were a lot of teams within First Quantum that worked tirelessly on this, and I want to thank them all for their hard work.

I would also like to thank our shareholders, banking partners and bondholders for their confidence and strong support of the company. That being said, however, I want to reassure our investors that the hard work does not stop there. We will continue our work to prudently manage the balance sheet. At the mines, we remain laser-focused on operational delivery and identifying further operational efficiencies. And finally, at the Kansanshi S3 Expansion, as I noted earlier, the focus is on cost control, quality and timely execution. This project will be key to restoring First Quantum to strong cash flow generation.

Thank you for your attention, and I will now pass the call to the operator to open the line for 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 Greg Barnes with TD Securities. Please go ahead.

Greg Barnes

Analyst, TD Securities, Inc.

Q

Good morning, everyone. Just a couple of questions, Tristan. First off, the application to restart the power plant, is that just solely to support the care and maintenance plan or is there broader implications behind that? And the second question is just around the delays in actually selling that concentrate that's stored in the port at Cobre Panamá?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Sure, Greg. And Greg, thanks. Before I answer your question, I heard that you are retiring, and I believe you are our longest covering analyst. So, Greg, I want to thank you for your many years of support. We will miss your coverage, and wish you a happy retirement.

But to your questions, look, firstly on the power plant, what we put forward was a rejuvenation of the auto-generator license, which is for the full 300 megawatts. We won't need all of that power for the P&SM plan. But we note that power prices for retail customers in Panama remain very high, and we think that that power into the market will do a lot to bring down the cost for ordinary Panamanian citizens in terms of their energy costs. However, that – really that decision will be up to the regulator as to whether we just – they look at one unit or both units running.

Secondly, in regards to the concentrate, the 121,000 tonnes sitting at the port, yeah, in terms of timetable for when that will get out, I think – we note the Minister of Commerce's recent comments that they are looking closely at the P&SM plan, and he made the comment that he would like to see that approved before the election. Obviously, it's in the context of election politics and the strong debates around that. So, balance of probability, it probably spills over after the election. We'll just have to wait and see as to what the timing is there.

Greg Barnes

Analyst, TD Securities, Inc.

Q

Great. Thanks for that, Tristan. And I think it's been 23 years and it's been a hell of a ride. And honestly, never a dull moment. So, yeah, thanks a lot.

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

Orest Wowkodaw

Analyst, Scotiabank

Q

Hi. Good morning. My question is around Cobre Panamá as well. With the election in Panama now, I guess, within two weeks, is it your expectation that there will be a window to reengage with the new administration when they come to power in July in terms of negotiating some kind of restart agreement?

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

A

Thanks, Orest. Yeah. So, certainly, our job at the moment in Panama is to be listening to understand the voices that speak on the mine and the future of mining in Panama. With regard to the election, we certainly – we want to see a strong democratic process. We will work with whichever party is successful and whoever the successful presidential candidate is. And the context around that will be to meet the challenges around the mine, but the challenges for the country as well. And certainly, we would be seeking to approach those conversations with humility, listening, understanding what's going on and to work forward on the path forward that resolves the situation to the benefit of the people of Panama and working with whoever is successful in the election.

Orest Wowkodaw*Analyst, Scotiabank*

Q

Okay. As a follow-up, the \$15 million to \$20 million of sort of care and maintenance costs per month right now with Cobre Panamá shutdown, if there isn't an imminent restart of the mine, how long is the company prepared to fund that from its corporate balance sheet?

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

A

Yeah. Thanks, Orest. So, that – the \$15 million to \$20 million per month is based on the current level of 1,400 people on site, and as Ryan alluded to, we brought that down during the quarter to that level. We will evaluate that continuously and monitor it continuously, and it will be based on our ability to meet the environmental compliance standards there. But certainly, without clear pathways on the P&SM plan and so on, we will need to manage those costs each month through the course of the year.

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

Jackie Przybylowski*Analyst, BMO Capital Markets Corp. (Canada)*

Q

Hi. Thanks very much. I guess my first question I'll ask, can you talk a little bit about Zambia and the power situation there and maybe what activities are being done by ZESCO to improve that power situation? And I know you guys had some mention in your MD&A. So, maybe can you talk a little bit about how you're supporting those activities? Thanks.

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

A

Yeah. Sure, Jackie. I'd respond and Rudi can kick in with some detail. Yeah. So, we – firstly to say we see the Zambian government is managing the challenges on power and food security arising from the drought in a proactive manner, which is very positive given the level of challenge. Similarly, we've been very proactive in reaching out to other alternatives. And in terms of the arrangements with ZESCO, we can do that under the force majeure. Rudi can comment on the level of power and the origination. But our intent is that we will be able to subsidize the reduction of power forecast by ZESCO with alternate suppliers. And so, we don't see any impact to production at this stage based on current forecast. Rudi?

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

A

Thanks, Tristan. Hi, Jackie. As Tristan said, the – and as part of the MD&A, the request was for a 20% reduction across both sites, which includes Enterprise, and that equates to 60 to 80 megawatts from the 1st of May. So, we were quite proactive with ZESCO when the emergency situation was called by the President and engaged with power providers across the Southern African Power Pool and have managed to come to an agreement with two providers with power mainly being brought in via the utility provider in Mozambique, EDM, and also through NamPower. This will be effective on the 1st of May. Indications are that, because of the proactive nature that the government has taken, it in all likelihood will only run up until the end of this year as we move into another wet season. Everybody is talking about drought, but we are being proactive and engaging other entities outside that Southern African Power Pool for potential supply going forward.

Jackie Przybylowski

Analyst, BMO Capital Markets Corp. (Canada)

Q

So, I guess what I was – I was hoping that if you could mention a little bit more about like the longer term power supply and like how Zambia may sort of prevent this situation from happening again. I think in the MD&A, you'd mentioned that you guys are looking at contributing to solar and wind and some other projects. So, just wondering like how you might see the grid evolve over time just to prevent this from happening in the future.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Rudi?

Rudi Badenhorst

Chief Operating Officer, First Quantum Minerals Ltd.

A

Yeah. So, the – yeah, as you know, we're in the process of finalizing the installation of solar and wind with the TotalEnergies. We're also actively discussing additional hydro generation with other players in the Zambian power market, including ZESCO. And ZESCO themselves are actively engaged with EDM to secure an additional 200 megawatt of power from the 1st of January next year, and that is quite far down the road as far as their discussions are concerned. And the opening up of private participants in the electricity market in Zambia certainly generated a lot of interest, and there's quite a lot of companies keen on developing additional hydro and solar operations in Zambia.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah. Jackie, I would just add, the last time we saw the effects of El Niño in Zambia through the 2014 period was really for a period no more than around 12 months. We've seen the rainfall in the Northwest has largely been unaffected, and certainly, the impact on Southern and Central Province has been marked. But for example, in this last month, we've had around – more than 100, 150 millimeters of rain at the sites. And so, potentially we will see inundation coming from Angola and so on into Kariba. But that's not what we're planning for. We're planning for the worst prospective there. And then, as Rudi says, if it does prolong, working with ZESCO and others, we believe we will have enough power in place for the S3 Expansion next year, although the indications are, in El Niño, it's really just a one-year impact.

Operator: The next question comes from Chris LaFemina with Jefferies. Please go ahead.

Christopher LaFemina

Analyst, Jefferies LLC

Q

Thanks, operator. Hey, guys. Thanks for taking my question. Congrats on all the initiatives to strengthen the balance sheet. I just wanted to understand the progression of net debt and your covenants going forward. So, if you look at the first quarter EBITDA run rate, which was obviously a period of a much lower copper price than we're in right now, you'd be below the required EBITDA to not breach the covenants. I mean, the strength in spot prices since then, that clearly helps, and I assume you'd be generating positive free cash flow.

But I'm wondering what else you can do in the event that copper price or commodities in general weaken again, what you can do to strengthen the balance sheet between say now and year-end in addition to considering asset sales that could protect you against breaching those covenants. And kind of one specific question is really around the working capital build. For example, I think you had a \$280 million working capital build in the first quarter. Will we see that reverse over the course of the year? And what sort of flexibility do you have around CapEx to reduce your spending, again, in the event of commodity prices weakening and you have to take a little bit more aggressive measures to strengthen the balance sheet further? Thanks.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you. Ryan, do you want to take that one?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Sure. Hi, Chris.

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

First is I wouldn't take Q1 as a proxy for the rest of the year EBITDA, and that's for a few reasons. As you know, the run-up in copper prices has predominantly only happened in Q2. Secondly, there were a number of one-offs in Q1. This included the fact that some of the lagging costs from the shutdown of Cobre Panamá only flowed through this quarter, together with the fact that, as we noted earlier in the discussion, that we only brought down the numbers of employees at Cobre Panamá through the course of the quarter.

So, we're now going to move to more run-rate level at Cobre Panamá, together with the fact that you should see some strengthening on the cost side throughout the Zambian business through the balance of the year. But certainly, beyond that, if we do see a weaker copper price environment or we do see other headwinds come up, we'll be very closely monitoring capital spend, as you note. And we also continued other balance sheet strengthening initiatives, namely the Las Cruces sale process and being open to a minority investment in Zambia that we discussed earlier in the call.

Christopher LaFemina

Analyst, Jefferies LLC

And then, what about the working capital build in the first quarter? Is that seasonal? Should we see it reverse as the year progresses?

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

A

Yeah. So, there are two drivers there. One was some of the payments for kind of lagging payments that came associated with the shutdown of Cobre Panamá. That flowed through – those payments flowed through in Q1. So, I'd say that wouldn't necessarily reduce. But certainly, on the Zambian side, we did drive our working capital down to lower levels in Q4. That came back a bit in Q1, and you may see some of that reverse out through the balance of this year. So, certainly, you wouldn't expect – the change in working capital that we had in Q1 was unusual for us. It obviously impacted net debt somewhat, and that wouldn't continue to pay out through the balance of the year.

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, everyone. So firstly on S3, Tristan or Ryan, it looks like cost controls have been kept in check and you're doing a good job there. I'm just wondering if you have a number or just risk of inflationary pressures at S3, how much of the CapEx is committed and locked in at this point?

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

A

Yeah. Hi, Ralph. So at the end of March, we were – at the end of Q1, we were through around \$600 million committed. And of that, \$385 million incurred. So that gives you an idea. In terms of the run rate to finish, most of that turns now to the construction activities that is in country in Zambia, the logistics chain of getting equipment to Zambia. And at the moment, cost of that transport, we don't see any alarm bells there. And then, in country, the construction erection and so on, and all that's really around labor and equipment. And so at this stage, we feel comfortable on that as well.

So all the long leads being procured, the final engineering closing out on instrumentation and control side of things. We don't really see any alarm bells. We haven't been really impacted by the situation in the Red Sea and the Suez Canal, one month here or one month there on small components, but overall don't affect schedule or cost.

Ralph M. Profiti*Analyst, Eight Capital*

Q

Okay. That's excellent to hear. Secondly, what is the scalability of outsourcing power in Zambia over and above 80 megawatts if needed? Is this a feature that's going, is being put in place in these contracts? And is it likely that anything incremental, if needed, would be done at the contracted rates?

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

A

Yeah, Ralph. Yes, the answer is yes. We have some flexibility there to ratchet if the situation deteriorates. At this stage, we think ZESCO has been very proactive about addressing the situation and the forecast look pretty reasonable to us, but we have that flexibility.

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

Gordon Lawson*Analyst, Paradigm Capital, Inc.*

Q

Hey, good morning. It's a simple accounting question for you here on the Enterprise project. So we briefly saw some cash cost guidance provided in the \$4 to \$6 range with your 2022 production results, but now that we're treating the asset as part of Sentinel and Trident, how should we think of these costs in terms of operating and byproduct credits once it's commercial?

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

A

Sure. So what we're going to do is we're going to report on copper and nickel separately. So those enterprise nickel revenues won't go against the Sentinel copper revenues. So we expect we've disclosed the Sentinel copper C1 costs and similarly we'll report Enterprise C1 costs when that comes into commercial production, which we expect Q2, Q3 and that'll start around \$6 per pound C1 and ramp down from there as Enterprise continues to ramp up production.

Gordon Lawson*Analyst, Paradigm Capital, Inc.*

Q

Okay. I figured as much as I could check. And still on Enterprise, you've got the first column for the Jameson cell providing better recoveries. I'm just curious if the second column is expected to include more flexibility in terms of ore characteristics?

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

A

Yeah, Rudi do you want to comment on that at Enterprise?

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

A

We also included the additional talc float cells which is working pretty well. We are seeing some really incredible recoveries at Enterprise at this moment in time, way above the 70%, 75% mark with very good concentrate grades and clean concentrate, which our customers are very appreciative of.

Operator: The next question comes from Ioannis Masvoulas with Morgan Stanley. Please go ahead.

Ioannis Masvoulas*Analyst, Morgan Stanley Securities Ltd.*

Q

Yes, hello. Thank you very much for the presentation. A question on Panama. In a scenario that you're allowed to restart Cobre Panamá operations in the second half of this year, how long would it take to fully ramp up as you will need to rehire people, repower equipment, et cetera?

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

A

Yeah. Thanks, Ioannis. Appreciate the question. I don't know that we're at a phase now where we're talking about restart or what that could look like. I mean, on a theoretical basis, I think it's, the closer that it does happen, the easier it is and that's really around people and suppliers and so on. But I think there's a lot to come in terms of discussion leading up to the election and then working with whoever comes

through in the election about solving the challenges for the country, solving the challenges around the mine, and working that through listening to the people of Panama to resolve the situation.

Ioannis Masvoulas

Analyst, Morgan Stanley Securities Ltd.

Q

Okay. Very clear. Thank you for that. And just a follow-up, in terms of the concentrate that you have stored, how long can you keep that material in the warehouse until there is a degradation in quality that might impair your ability to monetize the amount you are expecting?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Thanks, Ioannis. Yeah. Look, our main concerns there are environmental on the quality of the concentrate, so it's largely chalcopyrite, so that is Cu, S and Fe. And it's the S. So we see some heating because of the sulfur in there. And then you get gas coming off SO₂ and so on. And that's not good for the environment and it might heat up to sort of 60 or 70 degrees centigrade. And so that's the degradation we worry about. The Cu component of that doesn't degrade.

So, in terms of the pyrometallurgical process that follows in the treatment of the chalcopyrite in the smelter, you still get all of those Cu units through. So we don't see issues on the production of copper afterwards, it's more on the environmental side, and that's why it's critical that that material does move.

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

Dalton Baretto

Analyst, Canaccord Genuity Corp.

Q

Thank you. Good morning, everybody. Tristan, in regards of Panama, I think you've used the term listening to the people three or four times in today's call. And I'm just wondering, based on this listening, what have you guys learned so far and what's your current assessment of the gap towards acceptance of the mine restarting? Thank you.

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah, Dalton, I think Panama is understanding the impact that the mine has had on the broader economy and understanding the role that Panama can play as a responsible producer of copper in a global market that requires these metals for the energy transition and to continue to uplift developing countries. The standards that have been applied to Cobre Panamá are amongst the highest in the world, and we see that in terms of, as we're speaking about the CODESA report that came back, that is the government independent auditor inspecting the site in the run-up to win the closure. The cessation of operations came through from June to October and found 100% compliance.

So, mines of this size and status are needed to supply those critical materials. On our side, I think very definitely listening to people about the issues of sovereignty, the issues around Panamanianization, and really approaching those conversations with humility so that we can learn as much as we can from them.

Dalton Baretto

Analyst, Canaccord Genuity Corp.

Q

Do you think your message is actually getting to the average person on the street there?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Yeah, Dalton, it's a time now where the country is focused on the political process around the election, and there's a lot of conversation around these issues, a lot of conversation around the change in politics and the change coming up with the new President must happen. That's a requirement of the Constitution that the President will change whichever party goes forward. And in that context, these conversations in the country are important.

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

Lawson Winder

Analyst, BofA Securities, Inc.

Good morning. Thank you very much, operator. Hello, Tristan and Ryan. Thanks for the update today. One question on Panama. To what extent, if at all, have you pursued a direct challenge to the Supreme Court ruling at the local Panama level, in addition to the two arbitrations? And just your thoughts on whether that would be a reasonable path to pursue, particularly post the election?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thanks, Lawson. Yeah, look, we acknowledge the decision of the Supreme Court. The Supreme Court, there is no route to appeal if that is the basis by which Supreme Court decisions are made. And so in terms of the legal arguments, again, it's not our preferred route, but the route there is arbitration around that to understand it more fully, but there is no route to appeal to the Supreme Court decision in Panama.

Lawson Winder

Analyst, BofA Securities, Inc.

Okay, yeah, thanks for clearing that up. And then just my follow up would be on the Zambian, potential Zambian minority asset sale. It is still being considered, but your language suggests that the bar might be quite high in terms of what would be acceptable from First Quantum's point of view. Does it really just come down to value for First Quantum or are there other considerations such as maybe structure or the ability to combine with other assets that might also be important here?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Ryan, do you want to take that one?

Ryan MacWilliam

Chief Financial Officer, First Quantum Minerals Ltd.

Sure. Lawson, we've been pretty consistent over the last three to four years that as a company, we'll look for opportunities to partner. The reason we sold a stake in Ravensthorpe to POSCO, it's the reason we've partnered with Rio Tinto and La Granja, and similarly at Zambia, if there's an opportunity to partner, that makes sense for us, for our shareholders and for Zambia, we'll evaluate it. The recent financing transaction we put in place through Q1 means we don't have to enter into a transaction in Zambia. So really, we're about, holistically, is there a new partnership from a value, from a long-term workability and relationship perspective that works for all parties, including the country. And that'll be something we keep thinking about through the course of this year.

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

Bryce Adams

Analyst, CIBC World Markets, Inc.

Q

Thank you, operator. And thanks First Quantum for the presentation. My question is a follow-on to some of the earlier ones. So, Tristan, with regards to the upcoming Panama elections, are there any parties that you think would be more favorable for a Cobre Panamá resolution?

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

A

Yeah. Thanks, Bryce. Look, we – at First Quantum, we support strong democratic processes, and Bryce, we work from the basis that we would seek to work with any of the parties that got through, whoever the final successful candidate would be.

Bryce Adams

Analyst, CIBC World Markets, Inc.

Q

All right. I'll leave it at that. Thanks.

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

A. Tristan Pascall

Chief Executive Officer & Director, First Quantum Minerals Ltd.

Thank you, everyone, for your attention on today's call. And we look forward to speaking to you again soon at our second quarter 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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