# First Quantum Minerals Ltd.
# Consolidated Financial Statements
# Third Quarter – September 30, 2004

(Unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

# First Quantum Minerals Ltd.

Consolidated Balance Sheets

**As at September 30, 2004 and December 31, 2003**

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

| | 2004<br>$ | 2003<br>$<br>(restated) |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 49,689 | 25,592 |
| Restricted cash (note 9 and 14) | 6,328 | - |
| Accounts receivable and prepaid expenses | 25,406 | 4,441 |
| Inventory (note 5) | 17,835 | 17,576 |
| | 99,258 | 47,609 |
| **Investments** (note 6) | 14,372 | 12,632 |
| **Exploration properties** | 3,697 | 2,242 |
| **Property, plant and equipment** (note 7) | 256,266 | 96,603 |
| **Other assets and deferred charges** (note 8) | 11,450 | 3,049 |
| | 385,043 | 162,135 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 27,594 | 17,737 |
| Current portion of long-term debt (note 9) | 19,830 | 16,326 |
| | 47,424 | 34,063 |
| **Long-term debt** (note 9) | 155,407 | 32,374 |
| **Future income tax liability** (note 10) | 13,546 | 4,589 |
| **Other liabilities** (note 11) | 21,561 | 7,296 |
| | 237,938 | 78,322 |
| Minority interests | 2,190 | 2,190 |
| | 240,128 | 80,512 |
| **Shareholders' Equity** | | |
| Equity accounts (note 12) | 158,209 | 113,102 |
| Deficit | (13,294) | (31,479) |
| | 144,915 | 81,623 |
| | 385,043 | 162,135 |

**Commitments and contingencies** (note 15)

**Approved by the Board of Directors**

Director

Director

The accompanying notes are an integral part of these consolidated financial statements.

# First Quantum Minerals Ltd.

Consolidated Statements of Earnings and Deficit

**For the three and nine months ended September 30, 2004 and 2003**

(unaudited)
(expressed in thousands of U.S. dollars, except where indicated)

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **September 30, 2004 $** | **September 30, 2003 $** | **September 30, 2004 $** | **September 30, 2003 $** |
| **Revenues** | | **(restated)** | | **(restated)** |
| Owned Operations | | | | |
| Copper | 28,624 | 14,658 | 74,104 | 31,900 |
| Acid | 2,576 | 3,004 | 8,673 | 8,640 |
| Other | (187) | 167 | 849 | 217 |
| | 31,013 | 17,829 | 83,626 | 40,757 |
| **Costs and expenses** | | | | |
| Cost of sales | 14,076 | 11,335 | 39,245 | 28,294 |
| Depletion and amortization | 2,639 | 2,242 | 8,017 | 4,817 |
| Exploration | 1,116 | 205 | 2,082 | 389 |
| Foreign exchange (gain) loss | (499) | (289) | 1,033 | 935 |
| General and administrative | 1,359 | 609 | 3,984 | 1,813 |
| Interest and financing fees on long-term debt | 846 | 308 | 2,359 | 1,328 |
| Gain on disposal of investment | - | (138) | - | (138) |
| | 19,537 | 14,272 | 56,720 | 37,438 |
| **Earnings before income taxes, non-controlling interest and equity earnings** | 11,476 | 3,557 | 26,906 | 3,319 |
| **Tax expense** (note 10) | 3,718 | 704 | 8,973 | 635 |
| **Non-controlling interest** | - | - | - | - |
| **Equity earnings** | 114 | 495 | 719 | 459 |
| **Net earnings for the period** | 7,872 | 3,348 | 18,652 | 3,143 |
| **Deficit - Beginning of period** (note 3) | (21,166) | (36,267) | (31,479) | (36,062) |
| **Prior period restatement (stock-based compensation)** (note 3) | - | - | (467) | - |
| **Deficit - End of period** | (13,294) | (32,919) | (13,294) | (32,919) |
| **Earnings per common share** | | | | |
| Basic | $0.13 | $0.06 | $0.31 | $0.06 |
| Diluted | $0.13 | $0.06 | $0.31 | $0.06 |
| Weighted average number of shares outstanding | 60,667,644 | 54,706,646 | 59,860,749 | 48,872,358 |

The accompanying notes are an integral part of these consolidated financial statements.

# First Quantum Minerals Ltd.

Consolidated Statements of Cash Flows

**For the three and nine months ended September 30, 2004 and 2003**

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **September 30, 2004 $** | **September 30, 2003 $** | **September 30, 2004 $** | **September 30, 2003 $** |
| **Cash flows from operating activities** | | **(restated)** | | **(restated)** |
| Net earnings for the period | 7,872 | 3,348 | 18,652 | 3,143 |
| Items not affecting cash | | | | |
| Depletion and amortization | 2,639 | 2,241 | 8,017 | 4,817 |
| Amortization of financing fees | 162 | 11 | 248 | 83 |
| Environmental and closure provisions | 90 | 273 | 607 | 545 |
| Equity earnings | (114) | (495) | (719) | (459) |
| Unrealized foreign exchange (gain) loss | (1,631) | (114) | 90 | 1,253 |
| Future income tax expense | 3,705 | 704 | 8,957 | 635 |
| Stock-based compensation expense | 216 | - | 683 | - |
| Gain on disposal of investment | - | (138) | - | (138) |
| | 12,939 | 5,830 | 36,535 | 9,879 |
| **Change in non-cash operating working capital** | | | | |
| (Increase) decrease in accounts receivable and prepaid expenses | (3,258) | 367 | (6,091) | (1,173) |
| (Increase) decrease in inventory | (1,275) | 1,191 | (438) | (280) |
| Increase (decrease) in accounts payable and accrued liabilities | 2,039 | 611 | (2,069) | 193 |
| | 10,445 | 7,999 | 27,937 | 8,619 |
| **Cash flows from financing activities** | | | | |
| Movement in restricted cash | (2,379) | - | (6,246) | - |
| Proceeds from long-term debt | 90,172 | 1,618 | 131,544 | 22,209 |
| Repayments of principal on long-term debt | (9,067) | (4,844) | (14,093) | (18,962) |
| Proceeds from issue of common shares and warrants | 402 | 20,912 | 43,959 | 21,573 |
| Payments for deferred finance fees | (2,569) | (253) | (4,778) | (253) |
| | 76,559 | 17,433 | 150,386 | 24,567 |
| **Cash flows from investing activities** | | | | |
| Net payments to acquire capital assets and investments | (66,484) | (11,928) | (146,918) | (21,655) |
| Payments for deferred exploration and stripping costs | (3,264) | (100) | (6,733) | (1,163) |
| Proceeds on disposal of investment | - | 629 | - | 629 |
| | (69,748) | (11,399) | (153,651) | (22,189) |
| **Effect of exchange rate changes on cash** | 999 | - | (574) | - |
| **Increase in cash and cash equivalents** | 17,256 | 14,033 | 24,672 | 10,997 |
| **Cash and cash equivalents - Beginning of period** | 31,434 | 5,144 | 25,592 | 8,180 |
| **Cash and cash equivalents - End of period** | 49,689 | 19,177 | 49,689 | 19,177 |

(unaudited)
(expressed in thousands of U.S. dollars, except where indicated)

## 1. Nature of Operations

First Quantum Minerals Ltd. (the Company or FQM) is engaged principally in the production of copper and acid and related activities including exploration, development and processing. These activities are conducted principally in Zambia and the Democratic Republic of Congo (DRC).

The Company's cash flow and profitability are affected by the market price of copper and acid, operating costs and exploration and development activity costs. The recoverability of the amounts shown in the consolidated balance sheets for deferred exploration and acquisition costs and property, plant and equipment is dependant upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, and the political and economic conditions in the African countries involved.

## 2. Basis of presentation

These interim consolidated financial statements do not contain all the information that is required of annual financial statements and they should be read in conjunction with the most recent annual financial statements of First Quantum Minerals ("FQM" or the "Company").

These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual financial statements of the Company except where indicated in note 3 of these interim consolidated financial statements.

## 3. Changes in accounting policy

**Asset Retirement Obligations**

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) set out in Section 3110 "Asset Retirement Obligations". Under the new standard the Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset.

Upon adoption of these new recommendations the Company increased its capital assets and environmental provisions by $1,468 and $2,898 respectively. It also decreased its future income tax liability, retained earnings and inventory balances by $408, $1,280 and $258 respectively. As required by the new recommendation this change has been made retroactively with restatement of prior periods.

The restatement of previous periods has meant that certain comparative figures for the year ended December 31, 2003 presented in these financials have been restated from what was previously published. Specifically retained earnings and future income tax liability decreased by $1,428 and $528 respectively.

## 3. Changes in accounting policy (continued)

**Stock-Based Compensation**

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA), set out in Section 3870 "Stock-based Compensation and other stock-based payments". Under the new standard on stock-based compensation the Company is required to expense the fair value of the options granted to the Income Statement at the date of issue. The previous policy only required disclosure of the fair value in the notes to the financial statements.

The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is amortized over their vesting periods. Cash consideration received from employees when they exercise the options is credited to share capital.

Upon adoption of this standard the Company elected to retroactively adjust retained earnings without restatement. On January 1, 2004 the company decreased retained earnings by $467 and increased contributed surplus and common shares by $391 and $76 respectively.

**Hedging Relationships**

On Jan 1, 2004, the Company adopted CICA Accounting Guideline 13, "Hedging Relationships" ("AcG 13"), as a result of this the Company reviewed its existing hedge accounting treatment of certain derivative financial instruments in accordance with AcG 13, which establishes new criteria for hedge accounting.

Under the new guideline, the Company is required to document its hedging transactions and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. Derivative financial instruments that do not qualify for hedge accounting under AcG 13 are required to be marked-to-market with changes in the fair value of the derivative instruments recognized as unrealized gains or losses in the statement of operations.

During its review, the Company identified certain cross-currency swaps and interest rate swaps, which had previously been designated as hedges of fluctuation in currency rate movements. Although some of its other derivative financial instruments would qualify for hedge accounting, most would not qualify under the stringent guidelines of AcG 13, even though, in management's opinion, some of these contracts continue to be effective in mitigating the Company's exposure to interest rate and foreign currency fluctuations.

Having reviewed the current guidelines relating to hedge accounting, management is of the opinion that in order to provide more transparency and consistency in the manner in which hedging transactions are reported, the Company will instead mark-to-market all of its derivative financial instruments.

Upon adoption of this guideline the Company deferred previously unrecognized exchange rate losses of $1,252 and non-hedge derivative losses of $127 and increased the Bwana EIB loan by $1,379 to adjust the carrying value of this loan to the spot rate effective as at December 31, 2003.

(expressed in thousands of U.S. dollars, except where indicated)

## 4. Change in accounting estimate

**Deferred Stripping Costs**

Effective April 1, 2004, the company extended its reserves at Lonshi. Based on current reserve estimates measured as at April 1, 2004 the company has approximately 225,000 tonnes of acid soluble copper in the ground at Lonshi. The increase in the reserves at Lonshi has also resulted in a revised mine plan. The new plan, life of mine strip ratio, after consideration of previous deferred stripping provision, is 11.3:1, an increase from the previous mine plan of 8.4:1

## 5. Inventory

| | **September 30, 2004 $** | **December 31, 2003 $** |
|---|---|---|
| Ore in stockpiles | 9,820 | 10,476 |
| Work-in-progress | 1,052 | 767 |
| Finished product | 378 | 202 |
| Total product inventory | 11,250 | 11,445 |
| Consumable stores | 7,699 | 7,245 |
| Total inventory | 18,949 | 18,690 |
| Less: Non-current portion | (1,114) | (1,114) |
| | 17,835 | 17,576 |

## 6. Investments

| | **September 30, 2004 $** | **December 31, 2003 $** |
|---|---|---|
| Carlisa Investment Corp. (a) | 9,522 | 9,522 |
| Anvil Mining NL (b) - Shares | 4,850 | 2,943 |
| - Convertible note | - | 167 |
| | 14,372 | 12,632 |

**a)** The Company has an 18.8% interest in Carlisa that holds a 90% interest in Mopani.

**b)** The Company has an 17.1% (December 31, 2003: 17.0%) interest in Anvil Mining Limited, which has an operating mine in the Democratic Republic of Congo (DRC), and a public company quoted on the Australian, Berlin, and most recently, the Toronto Stock exchanges. On January 19, 2004 the Company converted the remaining portion of its convertible note into common shares of Anvil. During the second quarter 2004, the Company acquired 330,000 common shares in Anvil, which are separately listed on the Toronto Stock Exchange. The remainder of its shareholding in Anvil remain listed on the Australian Stock Exchange.

(expressed in thousands of U.S. dollars, except where indicated)

## 7. Property, plant and equipment

| | | | September 30, 2004 |
|---|---|---|---|
| | **Cost** **$** | **Accumulated amortisation** **$** | **Net** **$** |
| Land and Buildings | 6,108 | 2,602 | 3,506 |
| Mineral Property | 36,904 | 16,296 | 20,608 |
| Plant and Equipment | 109,972 | 42,779 | 67,193 |
| Work-in-progress | 164,959 | - | 164,959 |
| | 317,943 | 61,677 | 256,266 |

| | | | December 31, 2003 |
|---|---|---|---|
| | **Cost** **$** | **Accumulated amortisation** **$** | **Net** **$** |
| Land and Buildings | 5,783 | 2,205 | 3,578 |
| Mineral Property | 35,441 | 16,896 | 18,545 |
| Plant and Equipment | 78,584 | 32,920 | 45,664 |
| Work-in-progress | 28,816 | - | 28,816 |
| | 148,624 | 52,021 | 96,603 |

## 8. Other assets and deferred charges

| | **September 30, 2004** **$** | **December 31, 2003** **$** |
|---|---|---|
| Deferred finance fees - net of amortization | 6,974 | 1,935 |
| Non-current ore stockpiles (note 5) | 1,114 | 1,114 |
| Deferred stripping asset | 1,503 | - |
| Unrealized fair value of derivative instruments (note 3 and 14) | 1,117 | - |
| Other deferred charges (note 3) | 742 | - |
| | 11,450 | 3,049 |

(expressed in thousands of U.S. dollars, except where indicated)

## 9. Long-term debt

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| | $ | $ |
| **Drawn debt facilities** | | |
| **Bwana and Comisa** | | |
| SCB facility (a) | 30,000 | 25,074 |
| Bwana EIB facility (b) | 11,594 | 13,265 |
| Banque Belgolaise facility (c) | 4,800 | 6,000 |
| | **46,394** | **44,339** |
| **Kansanshi** | | |
| Kansanshi EIB facility (d) | 42,235 | - |
| Standard Bank Group and WestLB (e) | 67,000 | - |
| ZCCM deferred payment (f) | 3,333 | 3,333 |
| | **112,568** | **3,333** |
| **FQM Zambia** | | |
| Banque Belgolaise and Export Development Bank of Canada (g) | **16,025** | **-** |
| **Other** | **250** | **1,028** |
| **Total long-term debt** | **175,237** | **48,700** |
| Less: Current portion | (19,830) | (16,326) |
| | **155,407** | **32,374** |
| **Available for drawdown** | | |
| **Kansanshi** | | |
| Banque Belgolaise facility (c) | 5,200 | |
| Standard Bank Group and WestLB (e) | 53,000 | |
| Banque Belgolaise and Export Development Bank of Canada (g) | 13,975 | |
| Glencore International AG (h) | 25,000 | |
| | **97,175** | |

### a. Standard Chartered Bank (SCB)

On November 19, 2003, Bwana entered into a long-term debt facility with SCB to re-finance an existing facility, and provide additional funding for capital expenditure projects and general working capital purposes. This SCB facility of $30,000 is repayable in 13 equal quarterly instalments commencing in October 2004 and bears interest at a rate of LIBOR plus 2.5%. A sinking fund has been established to meet the quarterly instalments and is recorded as restricted cash.

The company has pledged as security the assets and undertakings of Bwana and the 25 million shares of the Company's shareholding in Anvil.

### b. Bwana European Investment Bank (EIB) facility

In 2002, Bwana entered into a finance contract with EIB for 14,000,000 Euros for additional project financing on the expansion of Bwana. This facility bears interest at between 3% and 12.5% depending upon the price of copper and is repayable in six equal annual instalments commencing July 2003.

The company has pledged as security the assets and undertakings of Bwana pari passu with the pre-existing security provided to SCB.

## 9. Long-term debt (continued)

As this facility is in Euros, the company has entered into cross-currency principal and interest rate swaps with a counterparty to mitigate the foreign exchange and interest rate risk. At September 30, 2004, the principal and interest rate swaps had fair values of $305 (Dec 2003: $468) and ($122,) (Dec 2003: ($342)), respectively.

### c. Banque Belgolaise facility

On May 2, 2003, the company entered into a long-term debt facility for $6,000 with Banque Belgolaise to assist with financing the Comisa mining fleet. During the third quarter this facility was extended to $10 million to provide additional financing for Comisa's larger mining fleet. The facility bears interest at LIBOR plus 3% and is repayable in 10 quarterly instalments commencing in December 2004. A sinking fund has been established to meet these quarterly instalments and is recorded as restricted cash.

The company has pledged as security the mining fleet of Comisa.

### d. Kansanshi EIB facility

On December 11, 2003, Kansanshi entered into a subordinated facility agreement with EIB, for 34 million Euros ($42.2 million), to finance the design, construction, operation and maintenance of the Kansanshi project. This facility is available for drawdown prior to October 31, 2006 and repayable in nine equal annual payments commencing October 31, 2007. Interest will be 7.2% until April 30, 2005 and thereafter will be recalculated annually, within a range of 3.2% to 13.2%, based on the average LME cash copper price for the preceding calendar year.

As at September 30, 2004, the Company has drawn down all of this facility. During the quarter the Company entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on Kansanshi EIB facility. At September 30, 2004, the principal and interest rate swaps had fair values of $809.

### e. Standard Bank Group and WestLB

On December 12, 2003, Kansanshi entered into a secured $120,000 senior facility agreement arranged and underwritten by Standard Bank Group and WestLB to finance the design, construction, operation and maintenance of the Kansanshi project.

The facility comprises two tranches of $60,000, each available for drawdown until July 31, 2005. Tranche A is repayable in ten semi-annual instalments commencing on October 31, 2005; Tranche B is repayable in 21 quarterly payments commencing on January 31, 2006. Interest on Tranche A is calculated at a fixed rate of 6%. Interest on Tranche B is calculated at LIBOR plus 3% during construction and LIBOR plus 2.5% during the repayment period.

### f. ZCCM deferred payment

Consistent with the Kansanshi development agreement, the company agreed to pay $667 to Zambian Consolidated Copper Mines (ZCCM) on the first business day of April, July and October 2003 and January, April and July 2004 subject to the price of copper. As at September 30, 2004 no further payments have been made to ZCCM.

### g. Banque Belgolaise facility

In the second quarter of 2004, Kansanshi entered into a $30,000 facility with Belgolaise Bank and Export Development Canada. This facility is comprised of two tranches. Tranche A is for $25,000 and bears interest at LIBOR + 3% during the availability period and LIBOR + 2.5% thereafter. Tranche B is for $5,000 and 90% of this tranche bears interest at LIBOR + 1%, while the remainder bears interest the same as Tranche A.

This facility is available until the earlier of project completion date or March 31, 2005. The facility is repayable in twelve quarterly instalments commencing the earlier of 4 months after the project completion date or the July 31, 2005.

(unaudited)
(expressed in thousands of U.S. dollars, except where indicated)

## 9. Long-term debt (continued)

**Undrawn debt facilities**

### h. Glencore International AG

In the first quarter of 2004, Kansanshi entered into a $25,000 cost over run facility with Glencore International AG. The facility bears interest at LIBOR plus 3.5%. If utilised, the loan is repayable in ten semi-annual instalments commencing eighteen months after the project completion date.

## 10. Future income taxes

| | September 30, 2004 $ | December 31, 2003 $ |
|---|---|---|
| Opening Balances | 4,589 | 2,957 |
| Future Income tax expense | 8,957 | 1,632 |
| Closing Balance | 13,546 | 4,589 |

The company has non-capital loss carry-forwards that are available for offset against future earnings. To date, the loss carry-forwards have been utilized so that no cash payments have been made for income tax purposes. The tax expense in the statement of earnings and deficit has been accrued as a result of operating profits at Bwana.

## 11. Other liabilities

| | September 30, 2004 $ | December 31, 2003 $ |
|---|---|---|
| Environmental and closure provision (note 3) | 4,608 | 4,578 |
| Net deferred premium obligation (note 14) | 16,953 | - |
| Deferred stripping liability | - | 2,718 |
| | 21,561 | 7,296 |

During the third quarter of 2004, the Company revised its asset retirement obligation as a result of two new environmental studies. These new studies resulted in decreases to environmental provisions and fixed assets of $2,049 and $955 respectively, a net of tax depreciation recovery of $820 and an increase in the future income tax liability of $274. In addition, the Company recognized an initial environmental provision for Kansanshi of $1,471. This environmental provision will increase when Kansanshi is fully commissioned.

(unaudited)
(expressed in thousands of U.S. dollars, except where indicated)

## 12. Equity accounts

| | September 30, 2004 $ | December 31, 2003 $ |
|---|---|---|
| Represented by: | | |
| Common shares | 154,624 | 110,557 |
| Warrants | 777 | 777 |
| Contributed surplus | 2,808 | 1,768 |
| | 158,209 | 113,102 |
| | | |
| Number of shares issued and outstanding | 60,771,128 | 56,396,128 |
| Weighted Average Number of Shares | 59,860,749 | 50,668,307 |

## 13. Segmented information

The company's reportable operating segments are strategic business units that produce different but related products or services. Each business unit is managed separately because each requires different technology and marketing strategies.

### Bwana and Comisa Operations (BCO)

The Bwana plant and the Comisa mine are distinct legal entities and operations but from a management perspective are viewed as an integrated operation, with the Bwana plant processing the ore mined by Comisa. The Bwana plant in Zambia produces grade A copper cathodes from ore in tailings dumps and from Comisa's Lonshi open pit mine in the DRC. In addition, the Bwana plant manufactures sulphuric acid for use in processing the copper and for sale to third parties.

### Kansanshi Copper Project (KCP)

The Kansanshi project is located in the northwest province of Zambia, approximately 15 kilometres north of Solwezi. The project is in the construction phase which includes civil engineering and earthworks, with commissioning scheduled in late 2004 and commercial production commencing in 2005.

### Carlisa (CAR)

From April 1, 2000 to February 28, 2002, the company proportionately consolidated its investment in Carlisa. From March 1, 2002, the company now cost accounts for this investment (note 4) and therefore does not consolidate any of the results of the Carlisa controlled operations at Mopani.

Carlisa holds a 90% interest in Mopani, which comprises the Mufulira Division and Nkana Division both in Zambia.

### Corporate Development and Administration (CDA)

The corporate development and administration segment is responsible for the evaluation and acquisition of new mineral properties, regulatory reporting, and corporate administration. It also holds the Connemara gold mine in Zimbabwe which is currently on a care and maintenance basis.

(expressed in thousands of U.S. dollars, except where indicated)

For the nine months ended **September 30, 2004**, segmented information is presented as follows:

| | BCO | KCP | CAR | CDA | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| External Revenues | 82,777 | - | - | - | 82,777 |
| Interest and other income | 173 | - | - | 676 | 849 |
| **Total Revenue** | **82,950** | **-** | **-** | **676** | **83,626** |
| Cost of Sales | 39,245 | - | - | - | 39,245 |
| **Segment gross profit** | **43,705** | **-** | **-** | **676** | **44,381** |
| **Other Expenses** | | | | | |
| Depletion and amortization | 7,468 | - | - | 549 | 8,017 |
| Exploration | 1,317 | - | - | 765 | 2,082 |
| Foreign exchange loss (gain) | (353) | - | - | 1,386 | 1,033 |
| General and administrative | - | - | - | 3,984 | 3,984 |
| Interest and financing fees | 2,349 | - | - | 10 | 2,359 |
| **Total Other Expenses** | **10,781** | **-** | **-** | **6,694** | **17,475** |
| **Segment profit (loss) before the under noted items** | **32,924** | **-** | **-** | **(6,018)** | **26,906** |
| Non-controlling interest | - | - | - | - | - |
| Equity earnings | - | - | - | 719 | 719 |
| Tax Expense | 8,973 | - | - | - | 8,973 |
| **Segment profit (loss)** | **23,951** | **-** | **-** | **(5,300)** | **18,652** |
| Capital asset additions | 12,455 | 155,152 | - | 72 | 167,679 |
| Total assets | 154,010 | 214,270 | 9,522 | 197,244 | 575,046 |
| Inter-company balances included in total assets | (48,807) | - | - | (141,196) | (190,003) |
| Total consolidated assets | 105,203 | 214,270 | 9,522 | 56,048 | 385,043 |

Definitions:
BCO – Combined operations of Bwana and Comisa
KCP – Kansanshi Copper Project
CAR – Carlisa holds the interest in Mopani Copper Mines
CDA – Corporate Development and Administration which includes Connemara

(expressed in thousands of U.S. dollars, except where indicated)

For the nine months ended **September 30, 2003**, segmented information is presented as follows:

| | BCO | KCP | CAR | CDA | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| External Revenues | 40,540 | - | - | - | 40,540 |
| Interest and other income | 35 | - | - | 182 | 217 |
| **Total Revenue** | **40,575** | **-** | **-** | **182** | **40,757** |
| Cost of Sales | 28,061 | - | - | 233 | 28,294 |
| **Segment gross profit** | **12,514** | **-** | **-** | **(51)** | **12,463** |
| **Other Expenses** | | | | | |
| Depletion and amortization | 4,737 | - | - | 80 | 4,817 |
| Exploration | - | - | - | 389 | 389 |
| Foreign exchange loss (gain) | 1,373 | - | - | (438) | 935 |
| General and administrative | - | - | - | 1,813 | 1,813 |
| Interest and financing fees | 1,297 | - | - | 31 | 1,328 |
| Loss on disposal of investment | (138) | - | - | - | (138) |
| **Total Other Expenses** | **7,269** | **-** | **-** | **1,875** | **9,144** |
| **Segment profit (loss) before the under noted items** | **5,245** | **-** | **-** | **(1,926)** | **3,319** |
| Non-controlling interest | - | - | - | - | - |
| Equity earnings | - | - | - | 459 | 459 |
| Tax Expense (recovery) | 635 | - | - | - | 635 |
| **Segment profit (loss)** | **4,610** | **-** | **-** | **(1,467)** | **3,143** |
| Capital asset additions | 12,295 | 12,856 | - | 1,316 | 26,467 |
| Total assets | 81,539 | 27,405 | 9,522 | 94,821 | 213,287 |
| Inter-company balances included in total assets | (5,320) | - | - | (74,380) | (79,700) |
| Total consolidated assets | 76,219 | 27,405 | 9,522 | 20,441 | 133,587 |

Definitions:
BCO – Combined operations of Bwana and Comisa
KCP – Kansanshi Copper Project
CAR – Carlisa holds the interest in Mopani Copper Mines
CDA – Corporate Development and Administration which includes Connemara

(expressed in thousands of U.S. dollars, except where indicated)

For the three months ended **September 30, 2004,** segmented information is presented as follows:

| | **BCO** | **KCP** | **CAR** | **CDA** | **Total** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| External Revenues | 31,198 | - | - | - | 31,198 |
| Interest and other income | 161 | - | - | (346) | (185) |
| **Total Revenue** | **31,359** | **-** | **-** | **(346)** | **31,013** |
| Cost of Sales | 14,076 | - | - | - | 14,076 |
| **Segment gross profit** | **17,283** | **-** | **-** | **(346)** | **16,937** |
| **Other Expenses** | | | | | |
| Depletion and amortization | 2,164 | - | - | 475 | 2,639 |
| Exploration | 780 | - | - | 336 | 1,116 |
| Foreign exchange loss (gain) | 324 | - | - | (823) | (499) |
| General and administrative | - | - | - | 1,359 | 1,359 |
| Interest and financing fees | 841 | - | - | 5 | 846 |
| **Total Other Expenses** | **4,109** | **-** | **-** | **1,352** | **5,461** |
| **Segment profit (loss) before the under noted items** | **13,174** | **-** | **-** | **(1,698)** | **11,476** |
| Non-controlling interest | - | - | - | - | - |
| Equity earnings | - | - | - | 114 | 114 |
| Tax Expense | 3,718 | - | - | - | 3,718 |
| **Segment profit (loss)** | **9,456** | **-** | **-** | **(1,584)** | **7,872** |
| Capital asset additions | 509 | 77,116 | - | 166 | 77,791 |
| Total assets | 154,010 | 214,270 | 9,522 | 197,244 | 575,046 |
| Inter-company balances included in total assets | (48,807) | - | - | (141,196) | (190,003) |
| Total consolidated assets | 105,203 | 214,270 | 9,522 | 56,048 | 385,043 |

Definitions:
BCO – Combined operations of Bwana and Comisa
KCP – Kansanshi Copper Project
CAR – Carlisa holds the interest in Mopani Copper Mines
CDA – Corporate Development and Administration which includes Connemara

(expressed in thousands of U.S. dollars, except where indicated)

For the three months ended **September 30, 2003**, segmented information is presented as follows:

| | BCO | KCP | CAR | CDA | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| External Revenues | 17,662 | - | - | - | 17,662 |
| Interest and other income | 12 | - | - | 155 | 167 |
| **Total Revenue** | **17,674** | **-** | **-** | **155** | **17,829** |
| Cost of Sales | 11,193 | - | - | 142 | 11,335 |
| **Segment gross profit** | **6,481** | **-** | **-** | **13** | **6,494** |
| **Other Expenses** | | | | | |
| Depletion and amortization | 2,203 | - | - | 38 | 2,241 |
| Exploration | - | - | - | 205 | 205 |
| Foreign exchange loss (gain) | (118) | - | - | (171) | (289) |
| General and administrative | - | - | - | 609 | 609 |
| Interest and financing fees | 296 | - | - | 13 | 309 |
| Loss on disposal of investment | (138) | - | - | - | (138) |
| **Total Other Expenses** | **2,243** | **-** | **-** | **694** | **2,937** |
| **Segment profit (loss) before the under noted items** | **4,238** | **-** | **-** | **(681)** | **3,557** |
| Non-controlling interest | - | - | - | - | - |
| Equity earnings | - | - | - | 495 | 495 |
| Tax expense (recovery) | 704 | - | - | - | 704 |
| **Segment profit (loss)** | **3,534** | **-** | **-** | **(186)** | **3,348** |
| Capital asset additions | 2,929 | 7,091 | - | 6 | 10,026 |
| Total assets | 81,539 | 27,405 | 9,522 | 94,821 | 213,287 |
| Inter-company balances included in total assets | (5,320) | - | - | (74,380) | (79,700) |
| Total consolidated assets | 76,219 | 27,405 | 9,522 | 20,441 | 133,587 |

Definitions:
BCO – Combined operations of Bwana and Comisa
KCP – Kansanshi Copper Project
CAR – Carlisa holds the interest in Mopani Copper Mines
CDA – Corporate Development and Administration which includes Connemara

(expressed in thousands of U.S. dollars, except where indicated)

## 14. Hedging commitments

The Company uses derivative instruments to mitigate the effect of certain risks that are inherent in this business.

As at September 30, 2004, the Company had entered into a number of derivative instruments to minimize the risk exposure to copper and gold prices, foreign currency, and interest rate movements. These instruments consist of forward and option contracts, interest rate protection contracts, and foreign currency protection contracts.

For copper and gold forward and put option contracts, fair value was calculated using spot and forward prices and volatilities. For interest rate protection contracts, fair value was determined using market interest rates. For foreign currency protection contracts, fair value was determined using the exchange rate at year-end.

The put options offer downside protection while allowing the company to participate in any copper and gold price appreciation. Forward contracts are based on a fixed copper and gold price and cap the price that will be received for sales in the future. The fair values of these contracts are as noted below, and with the exception of copper forward contracts (note a), these have all been marked-to-market and recorded as other liabilities (note 11).

| | **Estimated Fair Value** | |
|---|---|---|
| | **September 30, 2004 $** | **December 31, 2003 $** |
| Copper forward contracts (a) | (3,052) | (3,336) |
| Copper put option contracts (b) | 10,284 | - |
| Gold put options and forward contracts (c) | (7,200) | - |
| ZAR FX option (d) | 125 | 143 |
| Cross currency principal and interest swaps (e) | 992 | 126 |

a) The Company has hedged 1,000 tonnes of its budgeted monthly copper production from October to December 2004 at $2,036 per tonne. These contracts are accounted for as sales contracts and therefore are not marked-to-market. As at September 30, 2004, the Company has restricted cash of $3,518 that was required as margin on the out-of-the-money copper forwards at Bwana.

b) The Company has entered into copper put option contracts on 210,240 tonnes of its expected copper production at Kansanshi beginning in year 2005 and ending in year 2007 at a price of $1,800 ($0.82 lb). Upon entering into these contracts, the Company assumed a premium obligation of $21,024, which becomes due and payable between January 2005 and December 2007. The net present value of this premium of $18,950 has been recorded as a deferred premium obligation on the balance sheet (note 14), with the current portion of this liability included within accrued liabilities. The fair value of the derivative instrument has been included as a cost associated with the construction of Kansanshi.

As at September 30, 2004, the increase in copper prices has meant that the fair value of these put option contracts has decreased by $8,666. This decrease in fair value has been capitalised as commercial production at Kansanshi has not yet commenced.

c) The Company has entered into put option contracts on 139,296 ounces at a forward price of $350 per ounce for part of its gold production at Kansanshi beginning in year 2005 and ending in year 2009. To cover the cost of these put option contracts that the Company has also entered into contingent gold forward contracts on 139,926 ounces of gold with a strike price of $400 for part of its gold production at Kansanshi beginning in year 2005 and ending in year 2009. As no premium is payable on this combined position, no obligation has been recognized.

As at September 30, 2004, the increase in gold prices has meant that the combined fair value of the put options and forwards contracts has decreased by $7,200. This decrease in fair value has been capitalised as commercial production at Kansanshi has not yet commenced.

d) The Company has entered into an option swap ZAR to USD.

e) The Company has entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on the Bwana and Kansanshi EIB facility.

## 15. Commitments and contingencies

**Kansanshi deferred consideration**

Under the terms of the purchase agreement, the company has agreed to make a final payment to Cyprus Amax in connection with the Kansanshi acquisition. This amount will be calculated as $25,000 less an amount equal to the average market value for the thirty days prior to the commencement of commercial production of the 1.4 million common shares that the company previously issued to Cyprus Amax.

**Guelb Moghrein Copper-Gold project**

Under the terms of the Guelb Moghrein development agreement announced on July 14, 2004, the Company has conditionally agreed to make the following payments; $2 million upon satisfaction of certain conditions (first payment date); $3 million, 12 months after first payment date; and $5 million, 24 months after first payment or commercial production.

**Commitments**

In conjunction with the development of Kansanshi and other projects, the company has committed to approximately $51 million in capital expenditures as at September 30, 2004.

**MANAGEMENT DISCUSSION AND ANALYSIS AND FINANCIAL REVIEW**

(November 12, 2004)

*Third Quarter and Nine Months ended September 30, 2004*
*(expressed in U.S. dollars)*

**Summary of Financial and Operational Results**

The following discussion, analysis and financial review is comprised of nine main sections:

1. At A Glance
2. 2004 Quarterly Discussion
3. Year to Date Discussion
4. Discussion of Financial Position and Liquidity
5. Other Matters
6. Third Quarter Comparison Discussion
7. Outlook
8. Critical Accounting Policies
9. Selected Annual Information and Summary of Quarterly Results

For further information on the Company reference should be made to the Company's Annual Information Form (AIF) and also to its public filings that are available on www.sedar.com.

**1. At A Glance**

Third Quarter ended September 30, 2004:

- Copper production of 11,330 tonnes (25 million pounds) with a cash cost (C1) of $0.45 per pound
- Acid production of 35,920 tonnes of which 16,884 tonnes were sold externally
- Net earnings of $8 million or $0.13 per share
- Cash flow from operations after operating working capital movements was $10 million or $0.17 per share

Copper production for the quarter was a record 11,330 tonnes at Bwana as the company realised the benefits of the two new Counter Current Decantation Tanks (CCDs), which have helped improve recoveries. In addition, the electrical current flow through the new tankhouse has been increased which has enabled more copper to be plated. C1 costs have fallen from Q2 by $0.03 cents due to an improved acid credit ($0.01) and nonrecurring accruals for site bonuses in Q2 ($0.02). At Kansanshi, pre-stripping has commenced with 934,000 tonnes of waste removed. It is anticipated that the processing of sulphide ore should commence in November.

Nine Months ended September 30, 2004:

- Copper production of 30,604 tonnes (67 million pounds) with a cash cost (C1) of $0.45 per pound
- Acid production of 104,529 tonnes of which 56,796 tonnes were sold externally
- Net earnings of $19 million or $0.31 per share
- Cash flow from operations after operating working capital movements was $28 million or $0.47 per share

Copper production for the first nine months of the year was a record 30,604 tonnes as Bwana realizing the benefits of the new ore-delivery system and other processing initiatives including two new CCDs which have improved recoveries. C1 costs have risen by $0.01 from 2003 principally due to a lower acid credit.

**2. 2004 Quarterly Discussion**

Consolidated Revenue

Q3 revenues were $31 million (Q2: 27m; Q1: 26m) which principally comprised copper revenues of $29 million (Q2: $23m; Q1: $22m) and acid revenues of $2 million (Q2: $3m; Q1: $4m). The improved copper revenues in Q3 can be attributed to an 18% over Q2 increase in copper sold, due to higher copper production at Bwana, coupled with a 5% increase in the realized copper price.

The realized copper price rose to $1.16 per pound (Q2: $1.11/lb; Q1: $1.03/lb). The average LME price for the third quarter was $1.27 per pound (Q2: $1.23/lb; Q1: $1.23/lb). The difference between the LME price and the realized price was due to realization charges and hedging activities. During the three months ended, September 30, 2004, the company delivered into 3,000 tonnes of copper forward sales contracts at an average realized price of $0.88 per pound.

| 2004 Quarterly Statistics<br>Table 1 | | | |
|---|---|---|---|
| | **Q3** | **Q2** | **Q1** |
| **Revenues:** ($ millions) | **3 months** | **3 months** | **3 months** |
| Copper | $29 | $23 | $22 |
| Acid | 2 | 3 | 4 |
| Other | - | 1 | - |
| **Total Revenues** | $31 | $27 | $26 |
| | | | |
| **Sales Statistics:** (tonnes) | | | |
| Copper | 11,233 | 9,553 | 9,693 |
| Acid | 16,884 | 19,149 | 20,763 |
| | | | |
| **Net Earnings** ($ millions) | $8 | $4 | $7 |
| | | | |
| **Production Statistics** (tonnes) | | | |
| Copper Production | 11,330 | 9,585 | 9,689 |
| Acid Production | 35,920 | 34,265 | 34,344 |
| Ore Treated | 209,000 | 237,000 | 278,000 |
| Ore Grade Treated | 5.23% | 4.56% | 4.64% |
| Ore Mined | 257,000 | 85,000 | 66,000 |
| Waste Mined | 5,147,000 | 2,854,000 | 1,036,000 |
| | | | |
| **Costs of Production** | | | |
| Cash Costs (C1) | $0.45 | $0.48 | $0.39 |
| Cash Costs (C3) | $0.68 | $0.67 | $0.53 |

Consolidated Cost of Sales and Production Statistics

Cost of sales were $14 million (Q2: $13m; Q1: $12m), the increase in cost of sales was due to an 18% over Q2 increase in the number of tonnes of copper sold, offset by an improvement in the costs per tonne from Q2.

Other expenses for the third quarter were $6 million (Q2: $7m; Q1: $5m). Included within Q2 other expenses were $1 million in foreign exchange losses that did not reoccur in Q3.

Included in other expenses for the third quarter was a $1 million recovery from a revision of the Company's asset retirement obligation liability. During the quarter the company updated its environmental impact studies. As a result of this update it was noted that in prior years the company had expensed in excess of the required asset retirement obligation and therefore reversed some of these costs this quarter which resulted in a recovery of $1 million.

Other expenses were predominantly comprised of depreciation of $3 million (Q2: $3m; Q1: $2m) and general and administration expenses of $1 million (Q2: $2m; Q1: $1m). The movement in depreciation expense is due to the 18% increase in production at Bwana which uses the units of production method of depreciation. Included in the general and administration expense for the Q3 was $0.2 million of stock option expense, which is now required to be charged to the income statement.

Mining

Lonshi:

During the Q3 2004, approximately 257,000 tonnes (Q2: 85,000t; Q1: 66,000t) of ore grading 4.7% (Q2: 5.2%; Q1: 4.3%) and approximately 4,213,000 tonnes (Q2: 2,854,000t; Q1: 1,036,000t) of waste were mined from Lonshi. The strip ratio for the quarter was approximately 16:1, which was greater than the revised life to date mine strip ratio of 12:1. As a result of the greater than mine life strip ratio, the company deferred approximately $1.0 million in mining costs for the third quarter. The focus at Lonshi this quarter was on push backs in the south and east of the mine, to effectively provide a greater floor from which ore can be mined in the fourth quarter. The significant increase in the mining operations during the third quarter from the start of the year has come about due to the larger mining fleet that is now operating at Lonshi.

Kansanshi:

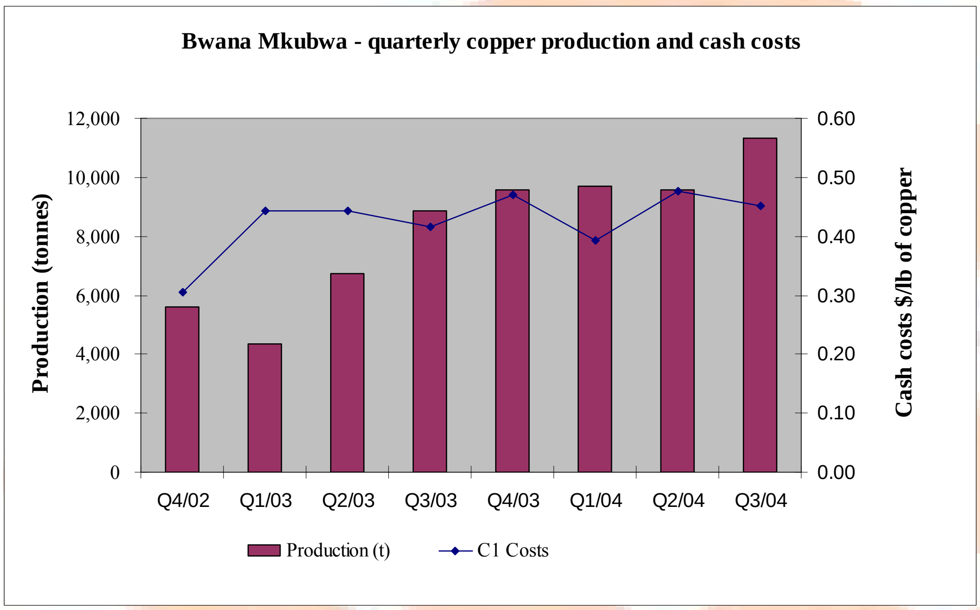
In September 2004, pre-stripping commenced at Kansanshi with approximately 934,000 tonnes of waste being mined. As at September 30, 2004, the costs associated with this pre-stripping had been deferred and amounted to $1 million. By the end of the quarter the mining fleet at Kansanshi included ten haul trucks, four excavators, four dozers, two graders, two loaders and two water bowsers. It is anticipated that another eighteen haul trucks and three excavators will be added to the mining fleet before the end of the year.

Processing

Bwana:

During the Q3 2004, copper production increased to 11,330 tonnes (Q2: 9,585t; Q1: 9,689t). The 18% increase over Q2 was due to the installation of two new CCDs which has helped improved recoveries. In addition, the electrical current flow through the new tankhouse at Bwana has been increased which has enabled more copper to be plated.

Cash costs (C1) were $0.45 per pound (Q2: $0.48 lb; Q1: $0.39 lb) and total costs (C3) were $0.68 per pound (Q2: $0.67 lb; Q1: $0.53 lb) of copper. The improvement in cash costs from the second quarter can be explained by an improved acid credit of $0.01 per pound and nonrecurring accruals for site bonuses of $0.02 per pound that related to the second quarter. The increase in costs from the first quarter to the second quarter was due to a lower acid credit $0.03 per pound, the aforementioned accruals of $0.02 per pound, and increased ore costs.




Acid production increased to 35,920 tonnes (Q2: 34,265t; Q1: 34,344t) of which 16,884 tonnes (Q2: 19,149t; Q1: 20,763t) of surplus acid production was sold. The increase in acid production in the third quarter reflects the maintenance shutdown of Bwana's larger acid plant in the second quarter.

Cash Flow

During the Q3 2004, the cash flow from operating activities was $10 million (Q2: $10m; Q1: $5m) or $0.17 per share (Q2: $0.16; Q1: $0.09). Although net income was up $3 million over the previous quarter, cash flow from operations was adversely impacted by movements in working capital of $2 million for the quarter.

The cash inflow from financing activities was $77 million (Q2: $19m; Q1: $59m). The inflow from financing activities principally came from the net proceeds from long-term debt of $81 million. Reference should be made to section 3 of this MD&A for specific details of these net proceeds

The cash outflow from investing activities was $69 million (Q2: $52m; Q1: $36m) and was principally due to the expenditure associated with the Kansanshi project.

## 3. Year to Date Discussion

**Earnings and Operations**

Consolidated Revenue

Revenues increased to $84 million (2003: $41m; 2002: $40m) which comprised copper revenues of $74 million (2003: $32m; 2002: $9m), acid revenues of $9 million (2003: $9m; 2002: $9m) and other revenue of $1 million (2003: $0m; 2002: $22m). Revenues were up 105% on the comparative period due to improved copper prices and a 53% increase in copper production at Bwana. Acid revenues have remained consistent with the comparative periods as slightly higher acid prices and acid production has offset higher internal consumption due to the increase in copper production at Bwana. The increase in other revenue can be attributed to interest income on cash balances.

| Nine Month Revenues Table 2 | | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| **Revenues** ($ millions) | | | |
| Copper | $74 | $32 | $9 |
| Acid | 9 | 9 | 9 |
| Other | 1 | 0 | 22 |
| **Total Revenue** | $84 | $41 | $40 |
| | | | |
| **Sales Statistics** (tonnes) | | | |
| Copper Sales | 30,479 | 20,258 | 6,283 |
| Acid Sales | 56,796 | 59,539 | 60,529 |
| | | | |
| **Realized Price** | | | |
| Copper ($ per pound) | $1.10 | $0.71 | $0.65 |

The realized copper price rose to $1.10 per pound (2003: $0.71lb; 2002: $0.65lb). The LME copper price remained strong for the first nine months of 2004 with LME copper inventories falling and demand remaining strong from China.

The average LME price for the first nine months of 2004 was $1.24 per pound (2003: $0.77lb; 2002: $0.71lb). The difference between the LME price and the realized price was due to realization charges and hedging activities. During the nine months ended, September 30, 2004, the company delivered into 9,000 tonnes of copper forward sales contracts at an average realized price of $0.87 per pound.

Consolidated Cost of Sales and Production Statistics

Cost of sales for the nine months ended September 30, 2004, were $39 million (2003: $28m: 2002: $36m). The 39% increase in cost of sales was primarily due to the 51% increase in copper cathode sold. The 2002 amount includes Carlisa cost of sales of $24.1 million as a result of having proportionately consolidated the Company's investment in Carlisa.

| Nine Month Cost of Sales and Production Statistics Table 3 | | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| **Costs** | | | |
| Cost of Sales ($ million) | $39 | $28 | $36 |
| C1 Costs ($ per pound) | $0.45 | $0.43 | $0.19 |
| C3 Costs ($ per pound) | $0.64 | $0.60 | $0.37 |
| | | | |
| **Production Statistics** (tonnes) | | | |
| Copper Production | 30,604 | 19,955 | 6,283 |
| Acid Production | 104,529 | 102,835 | 96,980 |
| Ore Treated | 724,000 | 525,000 | 1,034,000 |
| Ore Grade Treated | 4.78% | 4.58% | 0.9% |
| Ore mined | 407,000 | 273,000 | 633,000 |
| Ore Grade Mined | 4.8% | 4.8% | 4.6% |
| Waste mined | 9,036,000 | 3,603,000 | 3,183,000 |

Other expenses for the nine months ended September 30, 2004 were $18 million (2003: $9m 2002: $7m). Other expenses comprised depletion and amortisation of $8 million (2003: $5m; 2002: $4m), general and administration costs of $4 million (2003: $2m; 2002: $2m) and interest and financing expenses of $2 million (2003: $1m; 2002: $2m). The movement in depreciation expense is due to the increased production at Bwana which uses the units of production method of depreciation. General and administrative expenses have increased disproportionately due to the change in accounting treatment that now requires the expensing of stock options. In the first nine months of 2004, $1 million was charged to the income statement for the expensing of stock options.

Mining

Lonshi:

The on-going exploration program at Lonshi has increased the mine reserve to 225,000 tons of acid soluble copper as at April 1, 2004. In the light of this reserve increase, and the prevailing improvement in copper price, a new mine plan was generated. The new mine plan has a life-of-mine stripping ratio of 12:1 compared to the previous plan of 8:1.

For the nine months ended September 30, 2004, approximately 407,000 tonnes (2003: 273,000t; 2002: 633,000t) of ore grading 4.8% (2003: 4.8%; 2002: 5.6%) and approximately 8,102,000 tonnes (2003: 3,603,000t; 2002: 3,183,000t) of waste were mined in total. Due to the increased copper production at Bwana and the need to re-establish a strategic stockpile, the size of the mining fleet at Lonshi has increased significantly to cope with this increased demand. The strip ratio (ratio of waste to ore) for the first nine months was 22.2:1 (2003: 13.2:1; 2002: 5:1). As a result the Company has deferred costs of approximately $2.6 million since December 31, 2003 (2003: $2m) associated with its mining program. For a full understanding of the implications of this policy, reference should be made to the critical accounting policies in both the 2003 Annual Report and Management Discussion and Analysis.

Kansanshi:

In September 2004, pre-stripping commenced at Kansanshi with approximately 934,000 tonnes of waste being removed. As at September 30, 2004, the costs associated with this pre-stripping had been deferred and amounted to $1 million. By the end of the quarter the mining fleet at Kansanshi included ten haul trucks, four excavators, four dozers, two graders, two loaders and two water bowsers. It is anticipated that another eighteen haul trucks and three excavators will be added to the mining fleet before the end of the year.

Processing

Bwana:

For the nine months ended September 30, 2004, copper production increased to 30,604 tonnes (2003: 19,955t; 2002: 6,283t). The 53% increase in production has resulted from a steady state of production being reached as well as Bwana realizing the benefits of the new ore-delivery system and other processing initiatives including two new CCDs which have improved recoveries. In addition, the electrical current flow through the new tankhouse at Bwana has been increased which has enabled more copper to be plated. For the first nine months of 2003, Bwana was still coming to terms with processing Lonshi ore in the wet and was working towards maximizing the processing capacity from the expansion that occurred at the end of 2002. In addition, the new ore-delivery system was only completed in the Q4 2003. The Bwana plant is on track to exceed the budgeted target of 35,000 tonnes of copper cathode in 2004.

Cash costs (C1) for the nine months were $0.45 per pound (2003: $0.43/lb; 2002: $0.19/lb) and total costs (C3) were $0.64 per pound (2003: $0.60/lb; 2002: $0.37/lb). Cash costs (C1) have risen from 2003 to 2004 as a result of the increase in copper production, the acid credit per pound of copper produced has fallen to $0.06 per pound from $0.11 per pound in the first nine months of 2003. In addition, the cost of ore processed has increased approximately $0.04 per pound from 2003. The decrease in acid credit and increase in ore costs have been partially offset by improved processing costs at Bwana.

Acid production was 104,529 tonnes (2003: 102,835t; 2002: 96,980t), of which 56,796 tonnes (2003: 59,539t; 2002: 60,529t) of surplus acid production was sold to external customers. The increase in acid production for the nine months can be predominantly explained by the timing of planned maintenance programs. The increase in acid production has only been partially reflected in the surplus acid sales as more acid has been consumed internally due to higher copper production.

Consolidated Earnings

**Nine Month Net Earnings**
**Table 4**

| | **2004** | **2003** | **2002** |
|---|---|---|---|
| **Earnings** | | | |
| $ (millions) | $19 | $3 | $(3) |
| Basic earnings per share | $0.31 | $0.06 | $(0.06) |
| Diluted earnings per share | $0.31 | $0.06 | $(0.06) |

Net earnings for the nine months increased to $19 million (2003: $3m; 2002: $(3m)) or $0.32 per share (2003: $0.06; 2002: $(0.06)). Equity investment earnings for the nine month period were $1 million (2003: $(0m); 2002: $0m). The improvement in equity investment earnings came as a result of positive earnings from Anvil's Dikulushi mine in the Democratic Republic of Congo (DRC) on the back of improved production and stronger copper prices.

**Cash Flow**

Consolidated Cash Flow

**Nine Month Cash Flows**
**Table 5**

| | **2004** | **2003** | **2002** |
|---|---|---|---|
| **Cash Flows from:** ($ millions) | | | |
| Operating activities | $28 | $8 | $(5) |
| Financing activities | $150 | $25 | $9 |
| Investing activities | $(154) | $(22) | $(10) |

Nine Months ended September 30, 2004

The cash inflow from operating activities was $28 million (2003: $8m; 2002: $(5m)) or $0.47 per share (2003: $0.16; 2002: $(0.03)). The significant turnaround in cash flow from operations is attributable to the improvement in revenue resulting from increased production and improved copper prices. Cash flow from operating activities was impacted adversely by movements in operating working capital of $9 million for the nine month period. Included within this movement was a $6 million increase in accounts receivable and prepaids, which can be principally attributed to improved copper revenues, and a decrease in accounts payable and accrued liabilities of $2 million.

The cash inflow from financing activities was $150 million (2003: $25m; 2002: $9m). During the first nine months of 2004 approximately $176 million was raised through equity offerings and debt facilities. The following table provides detail of all the financings that were undertaken in 2004 and the actual use of proceeds compared with their stated use of proceeds at the time the financing was announced:

| Financing 2004<br>Table 6 | | | |
|---|---|---|---|
| | | Use of Proceeds | |
| **Lender / Source** | **Amount** | **Proposed** | **Actual** |
| ***Equity:*** | | | |
| 3.75 million Common Shares @ CDN16.00 (Feb 10, 2004) | $45 million (gross proceeds) | For exploration, and development and general corporate purposes. | As proposed |
| ***Debt:*** | | | |
| Standard Bank | $6 million | Financing of Kansanshi Powerline | As proposed |
| European Investment Bank (EIB)(Kansanshi) (Fully drawn as at Sept 29, 2004) | €34 million | Finance construction at Kansanshi | As proposed |
| Standard Bank Group and West LB facility ($66 million drawn as at Sept 30, 2004) | $120 million | Finance construction at Kansanshi | As proposed |
| Banque Belgolaise and Export Development Bank of Canada ($16 million drawn as at Sept 30, 2004) | $30 million | FQM Zambia Mining Fleet | As proposed |
| Glencore International AG | $25 million | Kansanshi Cost Overrun Facility | Undrawn |

On the February 10, 2004, the Company issued 3.75 million shares at $CDN16.00 for the net proceeds of approximately $43 million.

During the first nine months, the Company made draw downs from its available facilities. The draw downs during the first nine months amounted to $67 million on the Standard Bank Group and WestLB facility, €34 million Euro ($41 million) on the Kansanshi EIB facility, and $16 million on the FQM (Zambia) Banque Belgolaise facility. All the aforementioned loans have been drawn down to fund the development of the Kansanshi project. In addition, the Company has drawn down $9 million on the Bwana Standard Chartered facility for general working capital purposes, which has resulted in the facility now being fully drawn down to its $30 million limit.

The Company has also repaid $5 million on the Banque Belgolaise facility, $6 million on the Bwana Standard Chartered facility, and $3 million on the Bwana EIB facility during the nine month period and has made payments for deferred finance fees in the amount of $5 million.

During the third quarter, the Company extended its Banque Belgolaise facility for the Comisa Mining fleet to $10 million, to provide additional financing for the larger mining fleet at Comisa.

The cash outflow from investing activities was $154 million (2003: $22m; 2002: $10m). During the first nine months of 2004 the Company continued its capital investment in the Kansanshi project.

## 4. Discussion of Financial Position and Liquidity

| Financial Position<br>Table 7 | | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| **Assets** ($ millions) | **Sept 30** | **Dec 31** | **Dec 31** |
| Cash and cash equivalents | $50 | $26 | $8 |
| Total current assets | 99 | 48 | 23 |
| Total assets | 385 | 162 | 99 |
| **Liabilities** ($ millions) | | | |
| Total current liabilities | $47 | $34 | $18 |
| Net long-term debt | 155 | 32 | 20 |
| Total liabilities | 238 | 78 | 45 |
| **Shareholders' Equity** ($ millions) | 145 | 82 | 52 |
| **Working capital** ($ millions) | $52 | $14 | $5 |
| Weighted Average # Shares (000's) | 59,861 | 50,668 | 43,363 |
| Outstanding # of Shares (000's) | 60,771 | 56,396 | 43,507 |

Cash and cash equivalents

At September 30, 2004, the Company had cash and cash equivalents of $50 million (Dec 2003: $26m; Dec 2002: $8m). The increase in cash can be principally attributed to positive cash flow from operating activities ($28m).

Restricted Cash

As at September 30, 2004, the Company has $6 million in cash that is being held as security for margin calls for the out-of-the-money copper forwards at Bwana and in sinking funds for debt repayments. The copper forwards are being settled progressively each month allowing for these funds to be repaid to the Company.

Current assets

Total current assets were $99 million (Dec 2003: $48m; Dec 2002: $23m) the increase in current assets was due to increased cash and cash equivalents, restricted cash and accounts receivables and prepaid expenses associated with the Kansanshi development.

Other assets and deferred charges

Total other assets and deferred charges were $11 million (Dec 2003: $3m; Dec 2002: $0m) which is principally comprised of deferred financing fees $7 million (Dec 2003: $2m; Dec 2002: $0m ), deferred stripping asset of $2 million (Dec 2003: $(3m); Dec 2002: $0m) and non-current ore in stockpiles $1 million (Dec 2003: $1m; Dec 2002: $0m). The increase in deferred financing fees has principally arisen due to the debt financing associated with the Kansanshi project. The deferred stripping assets relates to mining costs associated with Lonshi and Kansanshi.

Total assets

Total assets were $385 million (Dec 2003: $162m; Dec 2002: $99m). The large increase is as a result of an increase in current assets and also capital assets. The capital assets have increased due principally to the continuing construction and investment at Kansanshi.

Current liabilities

Current liabilities were $47 million (Dec 2003: $34m; Dec 2002: $18m). The increase for the first nine months of 2004 can be attributed to an increase in accounts payable associated with Kansanshi and an increase in the current portion of long-term debt.

Net long-term debt

Net long term debt was $155 million (Dec 2003: $32m; Dec 2002: $20m). The increase in net long term is due to financing of the Kansanshi project. For a more detailed understanding of the increase in term loans reference should be made to the discussion on the year to date cash flow from financing activities included in section 4.

Other Liabilities

Other liabilities were $22 million (Dec 2003: $7m; Dec 2002: $1m), which include provisions for environmental and closures, $5 million (Dec 2003: $5m; Dec 2002: $1m), provisions for deferred stripping, $0 million (Dec 2003: $3m), and net deferred premium obligations of $17 million (Dec 2003: $0m). During the third quarter 2004, the company updated its environmental studies for its existing operations which resulted in a decrease to its provision for environmental and closures by $2 million. In addition, it also provided for environmental and site closures costs at Kansanshi of $1.5 million. The Kansanshi estimate of the costs to rehabilitation up September 30, 2004 and will be revised as Kansanshi is commissioned.

The deferred stripping provision has now reversed as the stripping ratio at Lonshi has now exceeded the mine life average and the company has deferred costs associated with mining. Reference should be made to other assets and deferred charges. The unrealized fair value on derivative instruments represents the unrealized marked-to-market gains and losses on the derivative instruments at September 30, 2004. Reference should be made to the Financial Instruments note contained in section 5.

Total liabilities

Total liabilities were $238 million (Dec 2003: $78m; Dec 2002: $45m) which include future income taxes of $14 million (2003: $5m; 2002: $4m). The provision for future income taxes continues to increase as the Company generates positive earnings at Bwana and utilizes accelerated capital allowances for tax purposes to minimize the amount of cash taxes payable.

Contractual Obligations

**Payments Due by Period**
**Table 8**

| ($ millions) | Total | Less than 1 year | 1 – 2 years | 2 – 3 years | 3 – 4 years | 4 – 5 years | There after |
|---|---|---|---|---|---|---|---|
| **Long Term Debt $** | $175 | $20 | $34 | $32 | $26 | $20 | $43 |
| **Commitments** | $51 | $43 | $3 | $5 | - | - | - |

Under the terms of the Kansanshi purchase agreement the Company is required to make a final payment to Cyprus Amax. This amount will be calculated as $25 million less an amount equal to the average market value, for the thirty days prior to the project achieving commercial production, of 1.4 million common shares of the Company. This amount has not been included in the table above.

Under the terms of the Guelb Moghrein development agreement announced on July 14, 2004, the Company has conditionally agreed to make the following payments; $2 million upon satisfaction of certain conditions (first payment date); $3 million, 12 months after first payment date; and $5 million, 24 months after first payment or commercial production.

Undrawn Debt Facilities

As at September 30, 2004 the Company had undrawn debt facilities of $97 million (Dec 2003: $169m) that has principally been designated for the capital requirements of the Kansanshi project. The Company will draw upon these facilities as required.

Working capital

As at September 30, 2004 the working capital of the Company was $52 million (Dec 2003: $14m; Dec 2002: $5m). The improvement in the working capital ratio comes primarily from the positive cash flow from operations and the equity financing that was completed in February.

Shareholders' Equity

As at September 30, 2004, the Company had shareholders' equity of $145 million (Dec 2003: $82m; 2002: $52m). During the first nine months the Company raised $43.2 million from the placement of 3.75 million shares for CDN$16.00, the proceeds of which were used to initially assist in the funding of Kansanshi. Strong operating cash flow has now meant that these funds are now available again to the company, for potential acquisitions, working capital and general corporate purposes.

As at September 30, 2004 the Company had 60,771,128 common shares outstanding (Dec 2003: 56,396,128; Dec 2002: 43,506,628). In addition to the outstanding common shares, the Company had 2,317,500 options and 250,000 warrants outstanding. The weighted average number of shares outstanding for the nine months was 59,860,749 (Dec 2003: 50,668,307; Dec 2002: 43,362,680).

## 5. Other Matters

**Quarterly Segmented Discussion**
**Table 9**

| ($ millions) | BCO | CDA | Total |
|---|---|---|---|
| Revenue | $83 | $1 | $84 |
| Cost of Sales | 39 | - | 39 |
| Gross Profit | 44 | 1 | 45 |
| Other expenses | 11 | 7 | 18 |
| Net Earnings | 24 | (5) | 19 |

Segmented Information

For the nine months ended September 30, 2004, the combined operation at Bwana and Comisa (BCO) had revenues of $83 million (2003: $40m; 2002: $18m). CDA refers to Corporate Development and Administration.

Kansanshi Copper Project ("Kansanshi")

As at September 30, 2004, the Kansanshi project is approximately 96% complete. Site construction is approximately 92% complete. $132 million of the direct capital cost of the process plant has been committed. All major equipment items and long lead items have been purchased. All site construction contracts have been awarded and site construction is in progress.

The construction and procurement process began in earnest in September 2003. As of September 2004, pre-stripping had commenced with 934,000 tonnes of waste being mined. Mining of ore will commence in the fourth quarter of 2004. It is currently anticipated that processing of sulphide and oxide stream of ore should commence in the fourth quarter. All costs and revenues associated with startup of Kansanshi will be deferred until commercial production is reached. It is currently anticipated that commercial production should be reached in early 2005.

For a complete understanding of the Kansanshi project reference should be made to the 2003 Annual Report and Management Discussion and Analysis.

Guelb Moghrein Copper-Gold Project

The Government of Mauritania has signed an agreement approving the involvement of First Quantum Minerals in the development of the Guelb Moghrein copper-gold deposit located near Akjoujt in Mauritania. This agreement is in the name of Muaritania Copper Mines SPRL, a newly formed company, which is beneficially owned 80% by First Quantum Minerals and 20% by Guelb Moghrein Mines d'Akjoujt SA.

First Quantum Minerals has conditionally undertaken to develop Guelb Moghrein with production expected by the fourth quarter of 2005. Production will be initially targeted at approximately 30,000 tonnes of copper and 50,000 ounces of gold per year in the form of a copper-gold concentrate which will be trucked to the port of Noucakchott and exported to international smelters.

The Guelb Moghrein deposit is located 250 kilometres northeast of the nation's capital, Nouakchott, near the town of Akjoujt, and is accessible by paved highway. It consists of an open pit mineable, copper/gold deposit containing a measured and indicated resource of 23.7 million tonnes grading 1.88% total copper and 1.41 grams of gold per tonne, as estimated by Kilborn-SNC Lavalin Europe Limited, for a previous owner.

This resource was estimated in accordance with the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves, July 1998, and hence is believed to have been done to the industry standards then pertaining. The resource, which First Quantum considers relevant, has not been verified by a Qualified Person for First Quantum as required by National Instrument 43-101. First Quantum is not treating the resource as a National Instrument 43-101 defined resource and therefore it should not be relied upon. First Quantum intends to establish a new resource under National Instrument 43-101 guidelines in due course.

Deferred Exploration

As at September 30, 2004, the Company had deferred exploration costs of $4 million (Dec 2003: $2m; Dec 2002:$1m), which consisted of deferred costs in relation to Lufua $2 million (Dec 2003: $1m), Lonshi $1 million (Dec 2003: $1m) and Zambian exploration projects and Mauritania of $1 million (Dec 2003:$0m). Lufua is a copper-cobalt prospect located in the DRC. The deferred exploration costs for Lonshi are costs associated with a further potential extension of the copper resource at the Lonshi mineral property in the DRC. Effective April 1, 2004, the Company transferred $1 million from deferred exploration to mineral property to reflect the increase in reserves and the new mine plan.

During the nine months ended September 2004, the Company expensed $2 million (2003: $0m; 2002: $0m) on other exploration targets that were predominantly located within the DRC and Zambia. Exploration activities in the first three months of each year are generally limited due to the wet season in Zambia and the DRC.

Investments -Carlisa

The Company holds an 18.8% interest in Carlisa Investment Corporation (Carlisa), which holds a 90% interest in Mopani Copper Mines Plc (Mopani). Mopani is a privately held company registered in Zambia. The carrying value of this investment as at September 30, 2004 is $10 million (Dec 2003: $10m; Dec 2002: $10m). There were no movements in this investment during the first nine months of 2004.

As the majority owner of Mopani is a private company, only limited public information is available for dissemination. Notwithstanding, in a recent Reuters article, it was noted that “copper production for 2004 was expected to increase 23% percent to 165,000 tonnes, 5,000 tonnes higher than the initial budget, from 134,000 tonnes last year.” In addition, the article noted that Mopani had “produced 120,877 tonnes of copper between January and September…” Later in the same article, Tim Henderson the CEO of Mopani noted that “the Mufulira smelter, which currently has a handling capacity of 420,000 tonnes of copper concentrate per year, would eventually be expanded to handle 850,000 tonnes of copper concentrate.”

Investments -Anvil

The Company holds a 17.1% (2003: 17.7%; 2002: 18.6%) interest in Anvil Mining Limited (Anvil), a public company quoted on the Australian (ASX), Berlin, and most recently, the Toronto Stock Exchange (TSX). The Company currently holds 36,996,171 shares (2003: 34,029,857; 2002: 31,148,857) listed on the ASX and acquired 330,000 shares listed on the TSX during the Third Quarter. The carrying value of this investment as at September 30, 2004 was $5 million (2003: $3m; 2002: $3m). The market value of this investment as at September 30, 2004 was approximately $17 million (2003: $11m; 2002: $2m).

On June 2, 2004, Anvil completed a Canadian initial public offering. The purpose of this offering was to enhance Anvil’s ability to access the larger North American capital markets and enhance opportunities for the development and growth of Anvil.

On August 31, 2004, Anvil announced its results for the twelve months ended June 30, 2004. The press release stated that net earnings for the year increased to $6 million (2003: loss $1 million) and earnings per share increased to $0.31 per share (2003: loss $0.04 per share).

Further information on Anvil can be found at www.anvil.com.au.

Financial Instruments

As at September 30, 2004, the Company had entered into a number of derivative instruments to minimize the risk exposure to copper and gold prices, foreign currency, and interest rate movements. These instruments consist of forward and option contracts, interest rate protection contracts, and foreign currency protection contracts.

For copper and gold forward and put option contracts, fair value was calculated using spot and forward prices and volatilities. For interest rate protection contracts, fair value was determined using market interest rates. For foreign currency protection contracts, fair value was determined using the exchange rate at quarter-end.

The put options offer downside protection while allowing the company to participate in any copper and gold price appreciation. Forward contracts are based on a fixed copper and gold price and cap the price that will be received for sales in the future.

*Copper Financial Instruments*

The Company has entered into forward contracts of 1,000 tonnes of its budgeted monthly copper production at Bwana from October to December 2004 at $2,036 ($0.92 lb) per tonne. At September 30, 2004, the fair value of these copper forwards was negative $3.1 million. These forward contracts are accounted for as sales contracts and therefore are not marked-to-market.

The Company has entered into copper put option contracts on 210,240 tonnes of its expected copper production at Kansanshi beginning in year 2005 and ending in year 2007 at a price of $1,800 ($0.82 lb). Upon entering into these contracts, the Company assumed a premium obligation of $21 million, which becomes due and payable between January 2005 and December 2007. The net present value of this premium of $19 million has been recorded as a deferred premium obligation on the balance sheet, with the current portion of this liability included within accrued liabilities. The fair value of the derivative instrument has been included as a cost associated with the construction of Kansanshi.

As at September 30, 2004, the increase in copper prices has meant that the fair value of these put option contracts has decreased by $8.7 million. This decrease in fair value has been capitalised as commercial production at Kansanshi has not yet commenced.

*Gold Financial Instruments*

The Company has entered into put option contracts on 139,296 ounces at a forward price of $350 per ounce for part of its gold production at Kansanshi beginning in year 2005 and ending in year 2009. To cover the cost of these put option contracts that the Company has also entered into contingent gold forward contracts on 139,926 ounces of gold with a strike price of $400 for part of its gold production at Kansanshi beginning in year 2005 and ending in year 2009. As no premium is payable on this combined position, no obligation has been recognized.

As at September 30, 2004, the increase in gold prices has meant that the combined fair value of the put options and forwards contracts has decreased by $7.2 million. This decrease in fair value has been capitalised as commercial production at Kansanshi has not yet commenced.

*Other Financial Instruments*

The Company has entered into cross-currency principal and interest rate swaps to hedge the Euro interest and principal payments on the Bwana and Kansanshi EIB facility. At September 30, 2004, the fair value of these instruments was $992,000 and has been accounted for in the balance sheet as unrealized fair value of derivative instruments.

The Company has entered into an option swap ZAR to USD. At September 30, 2004, the fair value of this instrument was $125,000 and has been accounted for in the balance sheet as unrealized fair value of derivative instruments.

## 6. Third Quarter Comparative Discussion

Third Quarter revenues were $31 million (2003: $18m; 2002: $6m) which included copper revenues of $29 million (2003: $15m; 2002: $3m) and acid revenues of $2 million (2003: $3m; 2002: $4m). Copper revenues increased 93% due to improvements in both the realized copper price and a 28% increase in copper production at Bwana. The increase in other revenue can be principally attributed to recoupment of corporate costs from Kansanshi and interest income on cash balances.

| Third Quarter Statistics Table 10 | | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| **Revenues:** ($ millions) | **3 months** | **3 months** | **3 months** |
| Copper | $29 | $15 | $3 |
| Acid | 2 | 3 | 4 |
| Other | - | - | (1) |
| **Total Revenues** | $31 | $18 | $6 |
| | | | |
| **Sales Statistics:** (tonnes) | | | |
| Copper | 11,233 | 9,553 | 9,963 |
| Acid | 16,884 | 19,149 | 20,763 |
| | | | |
| **Net Earnings** ($ millions) | $8 | $3 | $3 |
| | | | |
| **Production Statistics** (tonnes) | | | |
| Copper Production | 11,330 | 8,862 | 1,945 |
| Acid Production | 35,920 | 36,245 | 34,105 |
| Ore Mined | 257,000 | 260,000 | 178,000 |
| Waste Mined | 5,147,000 | 1,833,000 | 1,594,000 |
| | | | |
| **Costs of Production** | | | |
| Cash Costs (C1) | $0.45 | $0.42 | $0.20 |
| Cash Costs (C3) | $0.68 | $0.47 | $0.47 |

Cost of sales were $14 million (2003: $11m; 2002: $5m), the increase in cost of sales was predominately driven by the increase in the tonnes of copper sold.

Other expenses for the Third Quarter were $6 million (2003: $3m; 2002: $2m). Other expenses were predominantly comprised of depreciation of $3 million (2003: $2m; 2002: $1m) and general and administration expenses of $1 million (2003: $1m; 2002: $1m).

Included in other expenses for the third quarter was a $1 million recovery from a revision of the Company's asset retirement obligation liability. During the quarter the company updated its environmental impact studies. As a result of this update it was noted that in prior years the company had expensed in excess of the required asset retirement obligation and therefore reversed some of these costs this quarter which resulted in a recovery of $1 million.

The movement in depreciation expense is due to the increased production at Bwana which uses the units of production method of depreciation. Included in the general and administration expense for the Third Quarter was $0.2 million of stock option expense, which is now required to be charged to the income statement.

<u>Mining</u>

Lonshi:

During the Third Quarter 2004, approximately 257,000 tonnes (2003: 260,000t; 2002: 178,000t) of ore and approximately 5,147,000 tonnes (2003: 1,833,000t; 2002: 1,594,000t) of waste were mined from Lonshi. The larger mining fleet at Lonshi during 2004 has meant that more material has been mined than in previous third quarters.

Kansanshi:

In September 2004, pre-stripping commenced at Kansanshi with approximately 934,000 tonnes of waste being mined. As at September 30, 2004, the costs associated with these pre-stripping had been deferred and amounted to $1 million.

<u>Processing</u>

During the Third Quarter 2004, copper production increased to 11,330 tonnes (2003: 8,862t; 2002: 1,945t). The 28% increase over 2003 was due to a steady state of production being reached as Bwana realized the benefits of the new ore delivery system and other processing initiatives including increased electrical current through the tankhouse and two new CCDs .

Cash costs (C1) were $0.45 per pound (2003: $0.42 lb; 2002:$0.20 lb) and total costs (C3) were $0.68 per pound (2003: $0.47lb; 2002: $0.47 lb) of copper. The increase in cash costs from 2003 can be principally attributed to a lower acid credit as more acid is being consumed in the copper process.

Acid production increased to 35,920 tonnes (2003: 36,245t; 2002: 34,105t) of which 16,884 tonnes (2003: 19,149t; 2002: 20,763t) of surplus acid production was sold. The decrease in the surplus acid production was due to the increase in internal consumption as a result of the increased copper production.

<u>Cash Flow</u>

During the Third Quarter 2004, the cash flow from operating activities was $10 million (2003: $8m; 2002: $(1m)) or $0.17 per share (2003: $0.15; 2002: $(0.03)). The improvement in cash flow from operations is directly attributable to the improved net earnings for the quarter.

The cash inflow from financing activities was $77 million (2003: $18m; 2002: $11m). During the Third Quarter 2004, the Company continued to make draw downs associated with development of the Kansanshi project which were not made in the previous quarters.

The cash outflow from investing activities was $69 million (2003: $(12m); 2002: $7m) and was principally due to the construction associated with the Kansanshi project.

## 7. Outlook

Based on copper production of 30,604 tonnes for the first nine months of 2004, the Bwana Mkubwa SX/EW processing facility is now expected to produce approximately 40,000 tonnes of copper cathode in 2004. This represents a 14% increase over the original 2004 forecast of 35,000 tonnes of copper. During October, Bwana Mkubwa produced 3,828 tonnes of copper cathode.

At Kansanshi, construction is nearing practical completion. Waste stripping and ore stockpiling have commenced. The new 330Kv ZESCO power line has been energized and commissioning is underway. During the remainder of 2004 and the first quarter of 2005, activation of the mill, flotation, leach, filtration, solvent extraction, and electrowinning facilities will take place as well as build-up of in-circuit inventory. Commercial production is expected to begin in early 2005.

The original GRD Minproc Definitive Feasibility Study (DFS) for Kansanshi envisioned the treatment of 4 million tonnes of oxide ore and 2 million tonnes of sulphide ore upon commissioning. Improvements carried out to the sulphide milling circuit during construction will double name plate throughput to approximately 4 million tonnes per year of sulphide ore. This will result in copper concentrate production outperforming the DFS forecasts in the early years of operation. GRD Minproc of Australia is currently preparing an independent report taking into account the expanded sulphide capacity and the impact upon annual production rates and unit costs. Results of the report will be published upon receipt. In addition, studies continue to consider bringing forward an additional sulphide circuit expansion, originally scheduled in the DFS for years three and five, with the aim of further increasing copper output to approximately 130,000 tonnes finished copper per year.

At the newly discovered Lufua project in the DRC, in-fill drilling to move the resource into the reserve category is underway. Metallurgical testing and preliminary feasibility work are also in progress. Updated resource/reserve statements, as well as a Project Engineering Report, are expected to be published in the first quarter of 2005.

At Guelb Moghrein, in Mauritania, MDM Processing, an Australian engineering company, is nearing completion of a Project Engineering Report (PER). The results of the PER will be published in the fourth quarter of 2004. The PER will be used to solicit selected engineering groups for design and construction proposals. The contracts for the plant construction are expected to be awarded early in 2005. Guleb Moghrein is expected to be financed through a combination of cash on hand, project debt and end user/supplier finance. An exploration drill program of approximately 5,000 metres will begin in January 2005 on selected high priorities targets within the 8,000 square kilometer Guelb Moghrein exploration tenement.

A substantial exploration program is underway for the DRC Pedicle region where First Quantum controls approximately 11,000 square kilometers of prospective geology. Drilling will test several copper soil anomalies including Lufua East, Ndongo, Ndongo East and Lonshi South. Drilling has commenced in Zambia at the Mkushi prospect and will also take place in Joint Venture with BHP Billiton at Mwinilunga and Luamata.

In Chile, a generative exploration program utilizing satellite imagery has yielded several potential targets. Follow up field work on colour alteration anomalies is in progress.

## 8. Critical Accounting Policies

The following section outlines those changes in accounting policies that have been occurred since the filing of the Company's 2003 Audit Financial Statements and the accompanying Management Discussion and Analysis. For a full understanding of the critical accounting policies of the company reference should be made to the aforementioned financial statements.

Stock-Based Compensation

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA), set out in Section 3870 "Stock-based Compensation and other stock-based payments". Under the new standard on stock-based compensation the Company is required to expense the fair value of the options granted to the Income Statement at the date of issue. The previous policy only required disclosure of the fair value in the notes to the financial statements.

The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is amortized over their vesting periods. Cash consideration received from employees when they exercise the options is credited to share capital.

The adoption of this standard required retroactive adjustment to retained earnings without restatement. On Jan 1, 2004 the company decreased retained earnings by $467,000 and increased contributed surplus and common shares by $391,000 and $76,000 respectively.

Asset Retirement Obligations

Effective January 1, 2004, the Company adopted the recommendations of the CICA set out in Section 3110 "Asset Retirement Obligations". Under the new standard the company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset.

Upon adoption of these new recommendations the Company, increased its capital assets and environmental provisions by $1.5 million and $2.9 million respectively. It also decreased its future income tax liability, retained earnings and inventory balances by $0.4 million, $1.3 million and $0.3 million respectively.

Hedging Relationships

On January 1, 2004, the Company has adopted CICA Accounting Guideline 13, "Hedging Relationships" (AcG 13), the Company reviewed its existing hedge accounting treatment of certain derivative financial instruments in accordance with AcG 13 which establishes new criteria for hedge accounting.

Under the new guideline, the Company is required to document its hedging transactions and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. Derivative financial instruments that do not qualify for hedge accounting under AcG 13 are required to be marked-to-market with changes in the fair value of the derivative instruments recognized as unrealized gains or losses in the statement of operations.

During its review, the Company identified cross-currency swaps and interest rate swaps, which had previously been designated as hedges of fluctuation in currency rate movements. Although some of its other derivative financial instruments would qualify for hedge accounting, most would not qualify under the stringent guidelines of AcG 13, even though, in management's opinion, some of these contracts continue to be effective in mitigating the Company's exposure to interest rate and foreign currency fluctuations.

Having reviewed the current guidelines relating to hedge accounting, management is of the opinion that in order to provide more transparency and consistency in the manner in which hedging transactions are reported, the Company will instead mark-to market all of its derivative financial instruments.

The overall effect resulting from the application of AcG 13 was an increase to the Company's net profit after taxes for the quarter by $0.1 million. For further information on the adoption of AcG 13 reference should be made to note 2 of the Quarterly Financial Statements.

Estimates, Risks and Uncertainties

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company's operations and results are subjected to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding mining and processing, mine development, copper prices, gold prices, estimation of carrying values, government and environmental regulations, international operations, health, currency, inflation, key personnel, share market and capital requirements risks. For a full understanding of these risks and others, reference should be made to the Company's 'Annual Information Form'.

Forward Looking Statements

Certain information contained in the Management's Discussion and Analysis constitutes "forward - looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, including but not limited to those with respect to the prices of gold, copper, cobalt and sulphuric acid, estimated future production, estimated costs of future production, the Company's hedging policy and permitting time lines, involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the actual prices of copper, gold, cobalt and sulphuric acid, the factual results of current exploration, development and mining activities, changes in project parameters as plans continue to be evaluated, as well as those factors disclosed in the Company's documents filed from time to time with the Alberta, British Columbia, Ontario and Quebec Securities Commission and the United States Securities and Exchange Commission and the Alternative Investment Market operated by the London Stock Exchange.

## 9. Selected Annual Information and Summary of Quarterly Results

**Selected Annual Information**
**Table 11**

| | 2004 (9 months) | 2003[1] (12 months) | 2002[1] (13 months) | 2001[1] | 2000[1] |
|---|---|---|---|---|---|
| **Statement of Operations** ($ millions) | | | | | |
| Total Revenues | $84 | $61 | $51 | $138 | $91 |
| Net Earnings (Loss) | 19 | 5 | (4) | (21) | 7 |
| Net Earnings per Share | | | | | |
| Basic | $0.31 | $0.09 | $(0.09) | $(0.58) | $0.30 |
| Diluted | $0.31 | $0.09 | $(0.09) | $(0.58) | $0.27 |
| **Balance Sheet** ($ millions) | | | | | |
| Total Assets | $385 | $162 | $99 | $157 | $130 |
| Total long-term liabilities | 191 | 44 | 27 | 61 | 55 |
| **Shareholders' Equity** ($ millions) | $145 | $82 | $52 | $45 | $32 |
| **Cash Flow from:** | | | | | |
| Operating activities ($ millions) | $28 | $16 | $(4) | $7 | $9 |
| Operating per share | $0.47 | $0.31 | $(0.09) | $0.18 | $0.37 |

[1] *amounts have been restated to conform to new Canadian GAAP requirements*

The comparison between financial years is complicated by the change in fiscal year end that occurred in 2003. This change means that the 2002 year is a 13 month period.

Comparison between years is further complicated by the results of Carlisa being proportionately consolidated from April 1, 2000 to March 1, 2002. After diluting its investment in Carlisa, the Company now cost accounts for its investment. To fully understand the impact of Carlisa, reference should be made to the 2002 audited annual financial statements.

**Summary of Quarterly Results**

The following table sets out the financial performance, financial position and operation statistics for the Company for the last eight quarters. It should be noted that Q4 2002 is for 4 months due to the change in fiscal year end that occurred in 2002.

**Summary of Quarterly Results (unaudited)**
**Table 12**

| **Statement of Operations and Deficit** | **2004 Q3** | **2004 Q2** | **2004 Q1** | **2003 Q4** | **2003 Q3** | **2003 Q2** | **2003 Q1** | **2002 Q4** |
|---|---|---|---|---|---|---|---|---|
| Total Revenues ($ millions) | $31 | $27 | $26 | $20 | $18 | $13 | $10 | $12 |
| Cost of Sales ($ millions) | 14 | 13 | 12 | 13 | 11 | 9 | 8 | 11 |
| Net Earnings (Loss) ($ millions) | 8 | 4 | 7 | 2 | 3 | - | - | (1) |
| Basic Earnings per share | $0.13 | $0.07 | $0.11 | $0.02 | $0.06 | $(0.00) | $(0.00) | $(0.02) |
| Diluted Earnings per share | $0.13 | $0.07 | $0.11 | $0.02 | $0.06 | $(0.00) | $(0.00) | $(0.02) |
| **Production Statistics** | | | | | | | | |
| *Mining*: | | | | | | | | |
| Ore Mined | 257,000 | 85,000 | 66,000 | 439,000 | 260,000 | 12,000 | - | 487,000 |
| Copper Grade % | 4.7 | 5.2 | 4.3 | 5.5 | 4.8 | 4.3 | - | 5.3 |
| Waste Mined | 5,147,000 | 2,854,000 | 1,036,000 | 885,000 | 1,833,000 | 1,343,000 | 427,000 | 1,048,000 |
| *Processing:* | | | | | | | | |
| Ore Processed | 278,000 | 237,000 | 209,000 | 197,000 | 233,000 | 181,000 | 111,000 | 161,000 |
| Contained Copper (tonnes) | 12,908 | 10,813 | 10,904 | 10,790 | 11,188 | 7,794 | 5,053 | 7,033 |
| Recovery % | 88 | 89 | 89 | 89 | 79 | 86 | 86 | 80 |
| Copper Produced (tonnes) | 11,330 | 9,585 | 9,689 | 9,558 | 8,862 | 6,734 | 4,359 | 5,595 |
| Acid Produced (tonnes) | 35,920 | 34,265 | 34,344 | 33,035 | 36,245 | 29,286 | 34,385 | 43,283 |
| Surplus Acid (tonnes) | 16,884 | 19,149 | 20,763 | 15,689 | 20,275 | 15,832 | 23,432 | 27,669 |
| **Financial Position** ($ millions) | | | | | | | | |
| Working Capital | $52 | $28 | $40 | $14 | $10 | $1 | $1 | $5 |
| Total Assets | $385 | $276 | $242 | $162 | $132 | $111 | $97 | $99 |