Contents

Numis
Securities Ltd

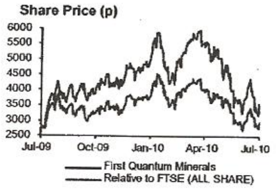
7 July 2010

BUY

Current Share Price	3,741p
Target Price	5,600p
Market Capitalisation	£3.0bn
Shares In Issue	80m
RIC/BLBG	FQM.L/FQM LN
Avg. Daily Volume (3M)	13,794
Net Cash (Debt) (12/10F)	$861.6m
EBIT ROIC (12/10F)	30%
Broker	Yes

Current share price(s) timed at 4:30PM on 07/07/10

Share Price (p)



Performance %	1M	3M	12M
Absolute	9	-31	33
Relative	9	-22	10

Source: Datastream

Analysts

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First Quantum Minerals

Estimate Changes

Looking beyond the DRC

Following a review of our model, we re-instate coverage with a BUY recommendation and target price of £56. In our view FQM offers a potent combination of a solid production base and strong growth, even excluding the under-dispute DRC assets. We believe that shares are currently near the bottom of their trading range and our conservative valuation suggests considerable upside from here.

- First Quantum is an established low-cost copper/gold producer with a world class flagship asset at Kansanshi, Zambia. The Guelb Moghrein mine in Mauritania adds to the production base at low operating costs. Frontier and Lonshi in the DRC have continued to produce, despite a court ruling voiding FQM's title over the operations. We have excluded these projects from our base case valuation.
- **Strong growth** FQM has an excellent track record of delivering growth from new and existing projects. Despite a difficult Q1, we expect this to continue as on-mine expansion and efficiency programs continue and the Kevitsa and Ravensthorpe nickel development projects deliver strong production growth over the next 3-4 years.
- **...and upside from exploration,** which is shaping up on a number of fronts, both on 'brownfields' expansion and 'greenfields' projects. We see the potential for good news flow on this front in the coming months.
- **...plus DRC option value.** The arbitration process in Paris is ongoing in respect of the Kolwezi project. We see a possible resolution in FQM's favour (either through project re-instatement or the award of damages) as offering 'blue sky' to our base case.
- **Re-rating potential?** We have valued FQM on a blend of 1.0x NAV and 7.0x 2011/12 average earnings. Strong leverage is highlighted by our sensitivity analysis which shows a 21% uplift in valuation for a 10% increase in metal prices. We believe that recent DRC-related downgrades, coupled with a weak copper price, has driven FQM down to a forward P/E of around 4.0x consensus earnings, which is the bottom of its historical range. We believe that FQM deserves a re-rating which will be driven by ongoing delivery of growth over the coming months/years.
- **Financials.** Healthy operating cash flows will, we believe, continue to help self-fund capex commitments and maintain the acquisition "war chest".

Year to Dec	Sales ($m)	EBITDA ($m)	PBT ($m)	EPS ($)	P/E (x)	Free Cash Flow ($m)	Net Cash /(Debt) ($m)
2009A	1,903	944.5	747.8	6.140	9.3	193.8	727.6
2010F	2,267	1,315.6	1,111	8.320	6.8	676.4	861.6
2011F	2,489	1,423.4	1,259	9.850	5.8	392.8	1,159.4
2012F	3,279	1,927.0	1,730	12.940	4.4	926.2	1,976.2

Source: First Quantum Minerals (historical) and Numis Securities Research Department (forecast)

Valuation: good value, even without DRC

Our target price of £56.00 is based on a blend of 1.0x Net Asset Value and 7x 2011/12 average earnings. Our base case excludes any value for all of First Quantum's DRC assets, i.e. the Kolwezi project and the still-operating Frontier and Lonshi mines. It therefore represents, in our view, the core politically 'safe' – in the relative sense of the phrase – asset value of the company.

Our sum-of-the-parts DCF model values FQM at US$8.1m, using a 10% discount rate for both the operating mines in Zambia and Mauritania and for the development projects (where we believe the higher technical risk is offset by lower political risk in Finland and Australia). Well over 50% of the NAV is contained within the flagship Kansanshi mine and the nickel projects, Kevitsa and Ravensthorpe, contribute over a quarter of the value.

Our forward-looking valuation, excluding upside from the DRC projects and exploration, shows a 5% uplift over the next two years as production from the nickel projects. In reality, we expect ongoing strong growth from exploration success and future M&A opportunities. We discuss this upside in the following sections.

Table 1. Forward looking Net Asset Value

Net Asset Value		Disc rate (%)	NAV(%)	Net Asset Value at end Mar-11	Mar-12	Mar-13
Kansanshi (80%)		10	54	4,632	4,381	3,926
Guelb Moghrein (100%)		10	12	1,020	865	646
Kevitsa (100%)		10	15	1,321	1,654	2,022
Ravensthorpe (100%)		10	11	951	1,210	1,181
Corporate G&A		10	(2)	(211)	(499)	(480)
Hedging			0	0	0	0
Total NPV	**(US$m)**			**7,712**	**7,611**	**7,295**
Investments			5	446	446	446
Cash & equivalents			6	548	943	1,159
Debt			(2)	(166)	(81)	0
Net Asset Value	**(US$m)**			**8,541**	**8,919**	**8,900**
Shares (fully diluted)	M			90.4	90.4	90.4
NAV per share	US$/sh			94.44	98.62	98.41
USD per GBP	GBPUSD			1.55	1.55	1.55
NAV per share	**£/sh**			**60.93**	**63.63**	**63.49**

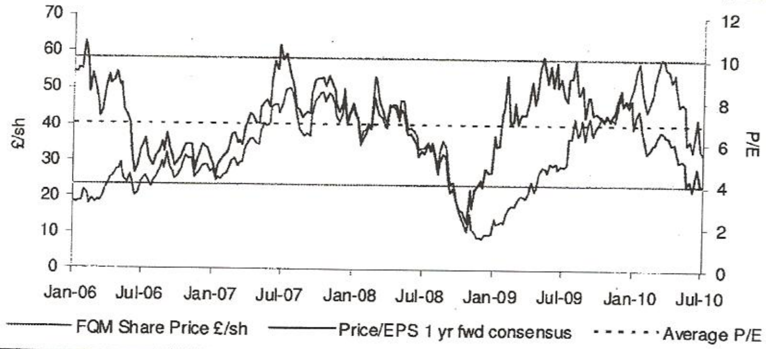
Source: Numis Securities Research Department

Current P/E near the bottom of its historical range

Figure 1 shows that FQM has historically traded around a 1-year forward P/E average of 7.0x (based on consensus earnings). The recent down-turn in the broad mining sector and metal prices has, we believe, driven FQM shares back into the 'strong buy' territory. This is reflected by a current forward P/E of 4.0x consensus (5.1x our 2011/12 average earnings estimate) – a level it has not seen since the depths of the '08 collapse.

The threat of ongoing short-term weakness in the metals market could drive earnings estimates further downward. However, with our long-term view bullish view on the copper market and significant upside to our core valuation (discussed later), we would view any further share price weakness a 'gift' for the longer-term investor.

Figure 1. Historical price/earnings (1 year forward consensus)



Source: Bloomberg

Production/earnings likely to pick after a disappointing Q1

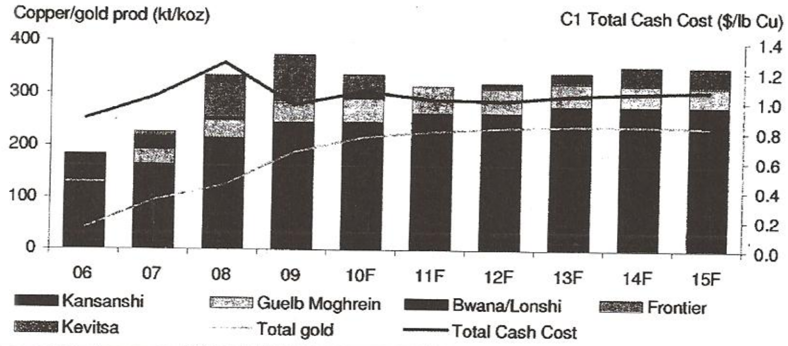
IN our view, and by their own high standards, FQM had a disappointing set of Q1 results. The main reasons for the shortfall, and the expected remedies are as follows:

1. **Kansanshi** suffered lower productivity, following a power blackout and lower mining equipment availability. Heavy seasonal rains were part of the issue with the latter, although FQM are implementing a mine fleet expansion and improvements in maintenance systems to ancrease volumes in the remainder of the year. A new mixed ore circuit and additional crushing (Q2) and flotation (Q4) capacity is aimed at increasing recoveries and throughput further. Q2 will also see ongoing improvements in the gold recovery circuit, which will hopefully also help smooth the somewhat erratic Q-on-Q production.
2. **Frontier** production was also impacted by heavy rains, which necessitated the restriction of mining activities to waste stripping and pit maintenance. As a result cash costs increased significantly. We expect this waste stripping will continue to impact costs in 2010, although other efficiency measures should counter-balance this. We have not included Frontier in our earnings estimates beyond the current quarter due to the risk of expropriation by the DRC government.
3. **Guelb Moghrein** processed lower copper and gold grades at lower recovery as the mine plan has started working towards a lower cut-off grade. This was balanced by an increase in mill throughput as a result of the sulphide plant expansion implemented towards the end of 2009. Further plant improvements (a new HPGR circuit, additional flotation capacity and the commissioning of a gold concentrator) are expected by the company to improve throughput to 3.8Mt p.a. and recovery in the coming quarters. A new HFO power station will also help reduce costs.
4. **Deferred metal sales**. Volumes sold in Q1 were 4% lower than production as a result of the establishment of a new metal marketing division. We expect these volumes to balance out in the Q2 results and, furthermore, the new division will help reduce the impact of provisional pricing adjustments.

Strong growth in the medium term

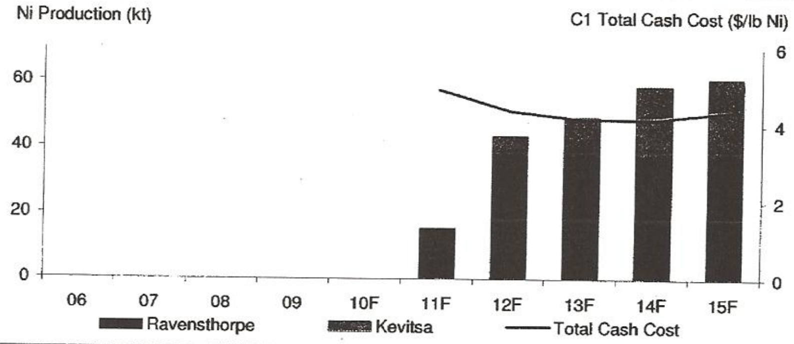
Our longer term production estimates are summarised in the figure below. Since we exclude Frontier and Bwana/Lonshi from Q3 onwards our total 2010 forecast of 342,000 tonnes copper is below the company estimate of 385,000 tonnes. Our forecast gold production is in line with guidance of 220,000 ounces.

Figure 2. Copper production history and forecast



Source: First Quantum Minerals, Numis Securities Research Department

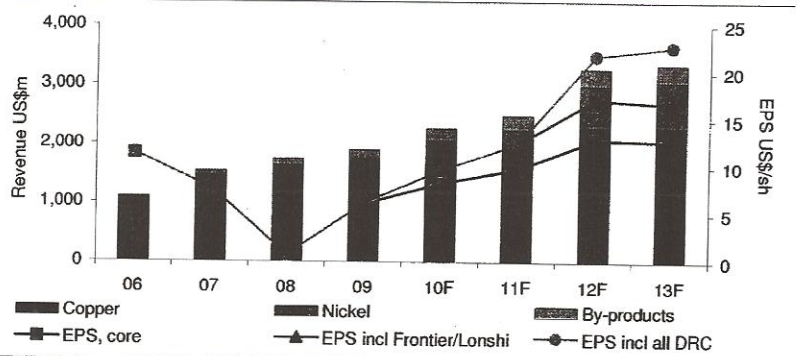
Figure 3. Nickel production forecast



Source: First Quantum Minerals, Numis Securities Research Department

On the back of this production growth, cost control and forecast ongoing strength in commodity prices (our assumptions are shown in the model summary towards the end of this report), we expect solid revenue and earnings growth to remain a theme in the medium term.

Figure 4. Revenue & EPS history and forecast



Source: First Quantum Mineral and Numis Securities Research Department

Upside; plenty of no-cost option value in exploration projects

FQM have a history of delivering outstanding growth through both value-accretive M&A and exploration success. We expect the company to remain active on the deal-making front, although we note there is plenty to occupy management in the short- and medium-term with the ongoing DRC arbitration process and commitments to development projects.

With FQM shares materially undervalued on the basis of its core assets, we view the rest of the company's portfolio as having very significant option value at zero premium. We have not included any of this value in our base case.

Brownfields

1. **Kansanshi.** Following interruption during the heavy rains in Q1, drilling is now underway at the SE Dome prospect, 2km away from the main pit and a look-alike to the NW orebody – which had an original Measured and Indicated Resource of just under 150Mt at around 1.3% copper. FQM hopes to complete a preliminary resource estimate before the end of 2010. In our view, this prospect has significant potential to add further to the 13-year mine life and/or support further production expansion.
2. **Kevitsa**. An extensive drilling program has targeted near-surface resource expansion and infill, with the Q1 report suggesting the discovery of a new area of "strong" mineralisation. An updated resource and pit optimisation study is planned for completion in Q3.
3. **Guelb Moghrein**. A number of high priority drill targets have been identified and drilling at the El Joul prospect is underway.
4. **Lonshi & Frontier**. With the company's legal problems, we expect that progress on the near-mine drilling and the Lonshi underground study will have slowed in the current quarter. However, these highly prospective areas represent significant blue sky should the DRC issues be resolved (discussed below).

Greenfields

5. **Kalumbila, NW Zambia (100km from Kansanshi).** Following the completion of the Kiwara acquisition, FQM initiated a 50,000m drilling campaign to upgrade and expand the main Kalumbila copper resource. With an existing Inferred resource of 1,450Mt at 0.76% (~11Mt copper) and geological similarity to the Frontier mine, we see strong medium-term potential for FQM's next significant operation in the Copperbelt.
6. **Kalumbila – regional.** The 2,850km^2 land holding at Kalumbila also contains significant targets peripheral to the main resource. The company is undertaking reconnaissance exploration at the Kawako (nickel) and Kawanga (uranium) prospects.

DRC...it ain't over 'till its over

The Kolwezi project has been under the 'blue sky' category for some time and, following the recent court ruling against FQM over the operating Frontier and Lonshi mines, we have now reduced these assets to a similar status. It is our understanding that, to date, no action has been taken by the authorities on the ground and the Frontier and Lonshi operations continue. However, given the deterioration of relationships with the authorities and the precedent set by the Kolwezi dispute, a forced cessation would appear to be a matter of time.

Table 2. DRC asset values

	Disc rate (%)	NPV	$/sh	£/sh
Frontier (95%)	12	1,568	17.33	11.18
Bwana/Lonshi (100%)	10	16	0.17	0.11
Lonshi underground (100%)	12	392	4.33	2.79
Kolwezi (65%)	14	2,498	27.63	17.82
Total NPV		**4,473**	**49.46**	**31.91**

Source: Numis Securities Research Department

Frontier/Lonshi

On 14th May, the DRC Supreme Court revoked FQM's licences over the Frontier and Lonshi mines in favour of the state mining company SODIMICO, who claim ownership of the titles – despite the fact that FQM discovered the deposits after they were awarded the original permits. Neither FQM or its subsidiary companies were notified of the hearing and the company gave a strongly-worded response, suggesting that an "orchestrated attack" on the company was underway.

Kolwezi

This "attack" started in September 2009 when the Kolwezi project was suspended following a court order by the General Prosecutor of Katanga – a culmination of a two-and-a-half year review of the country's mining contracts. After exhausting diplomatic attempts to plead its case, FQM and it's project partners (the IFC and IDC) exercised their rights to International Arbitration in Paris – a process which is currently ongoing.

As arbitration got underway, a further (surreal?) salvo was fired by the DRC court in Kinshasa when, in February, it ruled that FQM pay US$12bn damages to state mining company Gecamines and the state mining registry in respect of the Kolwezi licence.

What's going on behind the scenes?

There has been much discussion over what is driving the attrition, not least since it would appear to make logical sense for the government to let FQM carry on their work and pay their sizeable tax revenues. Earlier this year the company paid $57m in taxes to the government which, according to the FT, is nearly equal to the country's health budget.

Some clue was provided by recent press reports of a contract appearing to hand the Kolwezi project to a BVI-registered company, Highwinds International. The man behind this company, Dan Gertler, is reported to have high-level connections in the DRC, including the ear of President Kabila.

Canadian government tries to help

In the meantime, First Quantum, has received the support of the Canadian government who delayed, but ultimately failed to stop, approval by the World Bank and IMF for US$12.3bn in debt relief to the DRC. The argument went that rewarding the government for fraud and the expropriation of tax revenues in favour of secretive personal contracts was not in the interests of either foreign investment nor the citizens of the DRC.

The argument appears to have lost out to 'higher interests', which some in the press suggest translates as the West attempting to retain influence with the DRC government in the face of rapidly escalating 'no-strings' investment by Chinese interests.

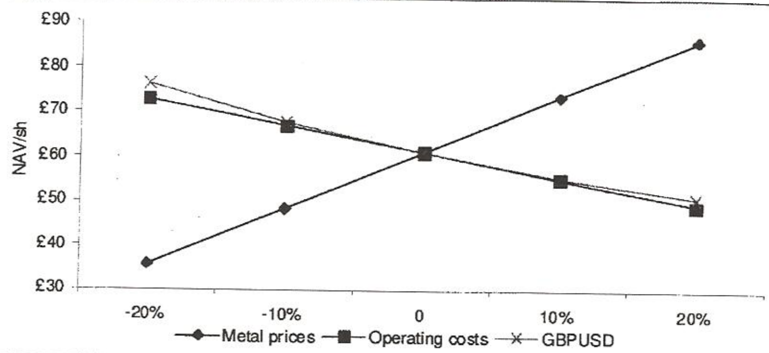
Outlook: arbitration set to get ugly?

First Quantum have, unfortunately for its shareholders, provided a textbook case study in the perils of applying high corporate governance standards to a region where the rule of law is clearly not independent from political interests. We believe that the company has been the victim of a classic shakedown, simply because it refused to play the "brown envelope game".

As a consequence, in our view it has always seemed that FQM have excellent grounds to dispute both the Kolwezi and the Frontier/Lonshi court rulings. The worst case outcome of the arbitration procedures is clearly that FQM lose all of their assets in the DRC – a scenario which, as we have discussed, is effectively priced-in by the market. The best case re-instatement of all projects would effectively add £32/share to our NAV, as shown in Table 2, an approximate 50% uplift to our base case. Perhaps the middle ground would be an award of damages to FQM (to be clawed back from the debt relief)? In this respect we note that the Q1 total carrying value of the projects is around $1.25bn (Kolwezi $794m; Frontier $385m and Bwana/Lonshi $86m).

Sensitivity

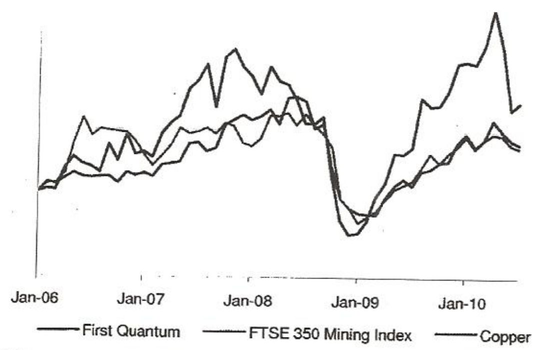
Figure 5. Key sensitivities on Net Asset Value



Source: Numis Securities Research Department

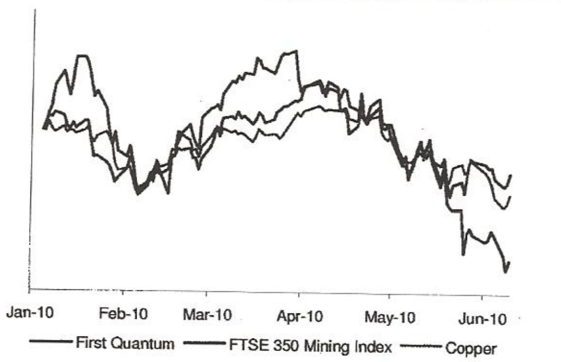
Our sensitivity analysis confirms that FQM is highly sensitive to metal prices, with a 10% increase resulting in a 21% uplift to our NAV. Leverage to operating costs is relatively low, with a 10% increase resulting in a 10% drop in NAV. The GBPUSD exchange rate shows similar sensitivity.

Figure 6. FQM shares outperformed over long-term...



Source: Bloomberg

...until recent DRC earnings downgrades



Source: Bloomberg

In our view, FQM's high sensitivity to the copper price explains the particularly volatile down-swing in the share price in '08 which brought shares back to a longer-term par with both the metal and the peer group. The subsequent equally violent recovery during '09 saw FQM again command a premium, which has come off in recent months as DRC-related earnings downgrades have filtered through.

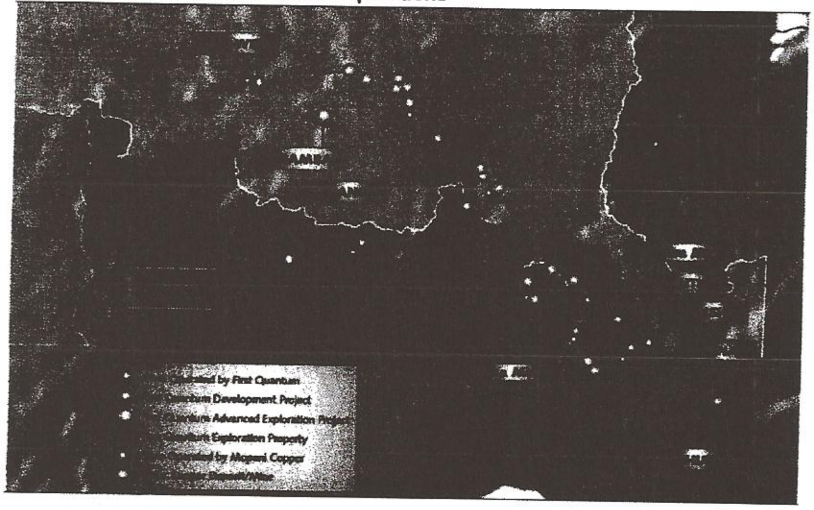
Key Operations and Projects

Table 3. Summary of First Quantum's main assets

		Location	Stage	Metal	Processing	Prod (2010F)	Cash Costs (2010F)	Mine Life	First prodn	Comment
Kansanshi	80%	Zambia	Operating	copper, gold	SX/EW (cathode) flotation (con)	245kt	$1.15/lb Cu	13 yrs	2005	exploration upside likely to add further significant mine life.
Guelb Moghrein	80%	Mauritania	Operating	copper, gold	flotation (con) & gold dore	45kt	$0.49/lb Cu	8 yrs	2006	early-stage exploration for satellite deposits underway.
Frontier	95%	DRC	Operating	copper	flotation (con)	42kt*	$1.30/lb Cu	19 yrs	2007	*production forecast assumes nothing from Q3 due to risk of loss.
Bwana-Lonshi	100%	Zambia	Operating	copper	SX/EW (cathode)	9kt	$1.26/lb Cu	1 yr	Jan '10 (re-start)	Frontier stockpile depletes 2010. Lonshi stockpile excluded due to risk of loss.
Ravensthorpe	100%	Australia	Development	nickel	HPAL (Ni-Co con)		~$5.00/lb Ni	30 yrs+	Q2 2011	Initial production ~38ktpa Ni (capex est. $150m).
Kevitsa	100%	Finland	Development	nickel, Cu, PGM	flotation (Ni con, Cu con)		~$2.50-$3.30/lb Ni	13 yrs+	mid-2012	Initial ~10kt Ni (capex est. $400m) with expansion to >20kt (capex est. $50m).
Kolwezi	65%	DRC	Development (suspended)	copper, cobalt	SX/EW (cathode)		($0.50)/lb Cu	22 yrs	?	Prodn. est. 70ktpa. Plant 75% complete - delayed due to revocation of mining permit.
Lonshi u/g	100%	DRC	Feasibility	copper	flotation (con)					Trial underground. 30-35ktpa Cu potential. Work slowed due to risk of loss?
Kalumbila	100%	Zambia	Exploration	copper						Inferred resource of 1.45billion tonnes @ 0.76% Cu. Drilling ongoing.

Source: First Quantum Minerals, Numis Securities Research Department

Figure 7. FQM's Southern African operations



Source: FQM

Kansanshi, Zambia (80%): the flagship

The Kansanshi mine – FQM's flagship operation, and reckoned to be the world's 8th largest copper mine – is located in the NW province of Zambia. The minority 20% stake is held by ZCCM, the Zambian state mining company.

Continuous, and ongoing, expansion programs since initial production in 2005 has taken output from ~75,000t to a current annualised 250,000t copper and 120,000oz gold. The most recent upgrades have taken overall throughput to 24Mt of ore per annum.

Priorities for 2010 include: (a) increasing sulphide ore treatment and flotation capacity by ~10%; (b) installing additional concentrators to increase gold production, and (c) improving gold recoveries.

Following a recent reserve upgrade (shown below), the current life of mine is approximately 13 years, but we believe there is potential to extend this with conversion from the Inferred resource and also additional exploration. The sulphide orebody is open at depth and there is potential for an additional orebody to the SE (discussed earlier in 'upside').

Mining & processing

Mining is undertaken in two separate open pits by conventional truck and shovel open pit mining methods. The ore is split into three streams which feed separate circuits at the plant: oxide, sulphide and mixed ore (the transitional material).

Oxide ore is treated using conventional SX/EW to directly produce copper cathode. Sulphide ore is treated by flotation to produce a copper-rich concentrate. Mixed ore is treated using a combination of processes to produce both cathode and concentrate. Some concentrate is treated at the on-site High Pressure Acid Leach circuit (HPAL) with the majority shipped off-site for smelting locally or overseas. Gold is recovered in the gravity circuit, from cyanide leach of post-HPAL solids to produce doré, or reports to concentrate.

Guelb Moghrein, Mauritania (100%): copper + gold = sweet spot

Commercial production at the Guelb copper/gold mine began in October 2006. Currently the life of mine is 9 years, although we expect this to be extended through exploration. Copper and gold are our two favourite metals for the medium and long-term and this project has both at good grades, with significant further exploration upside in the region.

During Q1 increases in plant throughput meant that a lower cut-off grade could be mined and processed. This had the effect of increasing copper and gold output at the expense of a reduction in head grade and recovery. Further plant improvements (a new HPGR circuit, additional flotation capacity and the commissioning of a gold concentrator) are expected to increase throughput to 3.8Mt p.a. and improve recovery in the coming quarters. A new HFO power station will also help reduce costs.

Mining & processing

Mining is undertaken from a single open pit with a standard truck and shovel fleet. Processing of the sulphide copper ore is by conventional flotation to produce a concentrate for export. Gold reports to concentrate with some being recovered in a gold circuit to produce doré on site. In 2008 the company implemented an expansion to the processing plant and upgraded the gold flotation circuit and CIL facility. Throughput is expected to increase from 3.2Mta ore in 2008 to 3.8Mta ore on 2009 as the expansion is fully commissioned.

Frontier, DRC (95%) – not valued in our base case

The Frontier mine is located just inside the DRC, only 2km from the border with Zambia and 35km from the major Copperbelt town of Ndola. It is serviced with a dedicated border post from Zambia allowing direct concentrate export to Mufulira smelter (35km) and the Zambian road network for access to off-shore smelters. The minority 5% stake in Frontier is held by the government of the DRC.

Frontier is an exploration discovery made by FQM and, as such, was not subject to the ongoing DRC mining title review. However, subsequent to the closure of the review, the state mining company SODIMICO initiated a claim in the DRC courts over rights to the both the Frontier and Lonshi licences. A hearing was held on 14th May, of which FQM was not notified, and the DRC Supreme Court ruled against FQM and "rehabilitated" SODIMICO's mining rights and titles over the licences. Although no action has been taken by the authorities to date, we have excluded Frontier from our base case valuation.

Q1 production was impacted by heavy rains, which restricted mining activities to waste stripping and pit maintenance. Risk of forced closure aside, we expect this to continue in 2010, although other efficiency measures should counter-balance. These include (a) establishing more efficient work areas in the pit, and (b) reducing mining costs with new AC powered trolley assist haul trucks.

Frontier currently has an estimated life-of-mine of 19 years based on current processing rates.

Mining & processing

Mining is undertaken using conventional methods from a single open pit at a rate of 8Mt p.a. of sulphide copper ore. Processing is via a standard copper flotation route to produce copper concentrate. The concentrate is either treated through the Kansanshi HPAL facility, toll treated locally at Zambian smelters or exported.

Kevitsa, Finland (100%); a big nickel project...getting bigger?

Kevitsa is a nickel (plus copper, gold, PGM and cobalt by-products) development project located in northern Finland, with first production on target for mid-2012. Detailed engineering design commenced this year and the majority of the long-lead items have been tendered. Construction activity at the site commenced during Q2.

The climate is sub-arctic climate with average temperature of -0.8°C, although there is no permafrost and year-round operation is possible. Access is 140km by road from Rovaniemi, the capital of Finnish Lapland (population 60,000). Power is available 8km away from a 21MW hydroelectric power station, which in turn is connected to the Finnish national grid.

FQM has received all the necessary mining permits to commence production at an initial rate of 20Mtpa (ore and waste combined), equating to a nickel output of around 10kt per annum. However, we expect that the production would at least double once the relevant permits are granted – for which the application is in process. We have assumed capex of US$400m initially, with an estimated $50m requirement for expansion.

C1 cash costs are expected to be US$2.50/lb nickel, net of all by-product credits and we expect capital pay back in 3-4 years. The life-of mine on current reserves, and assuming the expansion goes ahead, is 13 years.

FQM expects financing to be a combination of equity and loans, including from Nordic institutions, although we have assumed it is financed entirely from the company's cash reserves.

Mining & processing

Mining will be by conventional open pit methods with annual ore production of approximately 5Mta and planned stripping ratio of 4:1. The additional exploration drilling currently being undertaken is expected to expand the resource and also bring some of the in-pit inferred material to measured/indicated status, thereby reducing the strip ratio.

Processing will be by conventional crushing and grinding followed by a two stage flotation process producing two separate concentrates: (a) a nickel-PGE-concentrate grading 12% nickel, and (b) a copper-gold concentrate grading approx 28% copper.

Ravensthorpe, W. Aus (100%): turn-around offers deep value.

The Ravensthorpe nickel-cobalt development project is located in Western Australia. Having identified what they believe to be the major issues, FQM plans to spend US$150m in capex on remedial work and refurbishment remains on track to commission Ravensthorpe by mid-2011.

The original processing plant has a nameplate capacity of 50ktpa nickel output, although BHP Billiton struggled with commissioning and were unable to run the plant consistently. Operations were suspended in January '09 as the nickel price dropped below $9,000/tonne.

FQM's relatively low acquisition and capex costs allow the company room to take a more cautious view on production targets. Current guidance is for annual production of ~39kt nickel for the first five years followed by 28kt over the expected life of mine of 32 years. On this basis, we expect payback of acquisition costs and initial capex (total just under $500m) in 3-4 years.

Mining & processing

Mining at Ravensthorpe is by conventional open pit methods, mining three orebodies with two ore types - limonite and saprolite. The BHPB mining fleet was mothballed on site and is, according to FQM, in good condition. Prior to the close of the operation BHPB stripped waste and developed ore stockpiles.

At the 'front-end' of the plant, FQM believes that the crushers were inadequate and undersized and, as a result, the ore chutes in the stacking system were constantly being blocked with clay-rich material. Dewatering of the ore also proved a problem. FQM are addressing these issues during the refurbishment.

The 'back-end' leaching circuit is a 3rd generation High Pressure Acid Leaching (HPAL) facility combining pressure acid leaching and atmospheric leaching, producing a mixed nickel/cobalt hydroxide product (Mixed Hydroxide Product - MHP). The limonite leach circuit currently consists of two autoclaves, of a similar type to Kansanshi, run in series. FQM intend to modify this circuit to run them in parallel, thus allowing them to be run independently when repairs or maintenance is required. The saprolite circuit, using hot atmospheric leach, experienced a number of tank failures, which were rectified by BHPB.

We believe that FQM's operational experience handling similar material at Bwana Mkubwa and Kansanshi, and operating autoclaves at Kansanshi, stand it in good stead to successfully resume operations at Ravensthorpe.

Mineral Resources Rent Tax will not affect Ravensthorpe

The recent compromise by the Australian government has meant that nickel projects such as Ravensthorpe will not come under the proposed changes to the Australian resources tax system. We have assumed that the flat corporate rate of 30% will apply.

Kolwezi, DRC (65%) – not valued in our base case

The Kolwezi copper-cobalt tailings retreatment project is located in the DRC approximately 320km NW of Lubumbashi, the capital of Katanga province. Kolwezi town has significant infrastructure including water, power, railway and an airstrip – although in varying states of operation and repair.

FQM acquired a 65% interest in the Kolwezi Project in May 2006 with the purchase of Adastra Minerals. Other shareholders include

- 12.5% - Gecamines (DRC state-owned mining company)
- 10% - IDC (South African state-owned national development finance institution)
- 7.5% - IFC (member of the World Bank Group providing investment services)
- 5% - Government of the DRC 5%.

The IDC and IFC are contributing equity partners on the project. Development commenced in early 2008 and construction, at around 75% completion, was suspended in September '09 following the revocation of the licence by the General Prosecutor of Katanga. We discussed the political situation over the DRC licences earlier.

Mining & processing

Tailing re-processing will produce copper cathode by conventional SX/EW. Cobalt will be recovered initially as a cobalt hydroxide for sale. Initial production is expected to be 35kt copper and 7kt cobalt hydroxide per annum, with expansion to 70kt copper for an estimated additional capex of US$40m.

Life of mine is in excess of 20 years at the expanded rate. Cash operating costs will be negative, net of cobalt credits, due in part to inexpensive mining techniques (no need for blasting or large truck/shovel fleets) and low plant operating costs (the ore is already crushed and ground saving considerable milling costs).

Lonshi underground, DRC (100%) – not valued in our base case

Lonshi is located in the DRC's Katanga province, within 3km of the Zambian border and 35km from Bwana Mkubwa - to which it is linked by a dedicated haul road constructed by FQM.

Although the Lonshi oxide ore is depleted there exists a considerable sulphide resource to a depth of at least 350m below the open pit. In September 2008 the company commenced development of a decline from the open pit in order to investigate and trial the potential for an underground mining operation, producing upwards of 30ktpa of copper in concentrate using an on-site concentrator.

The Lonshi project is subject to the same ruling in favour of SODIMICO as Frontier. Accordingly, we have also excluded this project from our base case valuation.

Kalumbila, Zambia (95%): the next Frontier, in the right country?

In January 2010 FQM completed the acquisition of Kiwara Plc for US$260m in cash and equity. The main asset is a 95% interest in the Kalumbila prospecting licences covering 2,850km^2 in the periphery of the Kabompo Dome in Zambia – 50km form Equinox's Lumwana mine and less than 100km from FQM's Kansanshi Mine.

FQM have initiated a 50,000m drilling campaign to upgrade and expand the Inferred copper resource, which we believe has significant potential as a large tonnage Frontier 'look-alike'.

Table 4. Kalumbila resource

	Tonnage (m)	Copper (%)	Nickel (%)	Cobalt (%)
Resource @ 0.3% Cu cut-off – September 2009				
Inferred	1,450	0.76	0.04	0.03

Source: Kiwara Plc

The land holding also contains significant targets peripheral to the main resource. The company is undertaking reconnaissance exploration at the Kawako (nickel) and Kawanga (uranium) prospects.

Financials: set to reach critical mass.

FQM has a strong cash position, with around $382m net cash at the end of Q1. This was down sharply from $728m at the December year-end '09 following capex expenditure and the completion of the acquisitions of Kiwara, Ravensthorpe and a further 20% interest in the Mauritanian assets. According to our model, strong operating cash flows in the remainder of the year are set to more than offset the remaining capex commitments (~$275m) and put the net cash position back to around $860m.

As strong growth continues over the coming years, this net cash position is set to increase, on our base case (i.e. excluding DRC projects), to just under $2bn by the end of 2012.

We estimate current capex commitments will peak in 2011 at $388m. As the DRC projects are essentially funded (Kolwezi is 75% complete), there would be little change to this capex requirement in the event that the legal cases are dropped. As discussed earlier, a possible outcome of the arbitration process is that FQM receive substantial damages for the loss of investment and note again that the carrying book value of the projects is around $1.25bn.

The strong operational growth is reflected by our projected EPS growth of 36% this year, 18% in 2011 and 31% in 2012 (the kick upwards driven by the nickel projects).

The strong cash flow raises the question of whether to expect further M&A, or the initiation of a dividend policy. We believe that cash flow will be strong enough for the company to do both and have assumed in our model that dividends will be paid from 2011 at 25% of net profits rising to 50% from 2015. This would provide a yield of 4.5% rising to 7.5%.

Figure 8. First Quantum model summary

First Quantum Minerals	Ticker	FQM.L	Market Capitalisation	£3,018m	Financial Year End December
BUY	Current Share Price	£37.41	Enterprise Value (EV)	£2,771m	Reporting Currency US$
£56.00	Implied Return	50%	Net Cash (Debt) last reported	US$382m	Shares in Issue 81m

Valuation

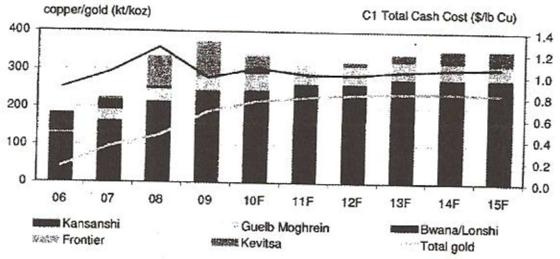
Net Asset Value	Disc Rate	NAV (%)	$m	$/sh	£/sh
Kansanshi (80%)	10%	54%	4,632	51.22	33.04
Guelb Moghrein (100%)	10%	12%	1,020	11.28	7.28
Bwana/Lonshi (100%)	10%	0%	0	0.00	0.00
Frontier (95%)	12%	0%	0	0.00	0.00
Kolwezi (65%)	14%	0%	0	0.00	0.00
Kevitsa (100%)	10%	15%	1,321	14.60	9.42
Ravensthorpe (100%)	10%	11%	951	10.51	6.78
Sub-total			**7,924**	**87.62**	**56.53**
Corporate G&A / Other	10%	(2%)	(211)	(2.34)	(1.51)
Investments (book value)		5%	446	4.94	3.18
Cash & Equivalents		6%	548	6.06	3.91
Debt		(2%)	(166)	(1.84)	(1.19)
Total Net Asset Value			**8,541**	**94.44**	**£60.93**
Current NAV multiple (implied)					0.61x
Earnings Value				**$/sh**	**£/sh**
EPS (2011 / 2012 average)				11.40	7.35
Current P/E multiple (implied)					5.1x
Blended Valuation		Target Multiple	Weight		
NAV valuation		1.00x	50%		£60.93
Earnings valuation		7.0x	50%		£51.46
VALUATION					**£56.20**

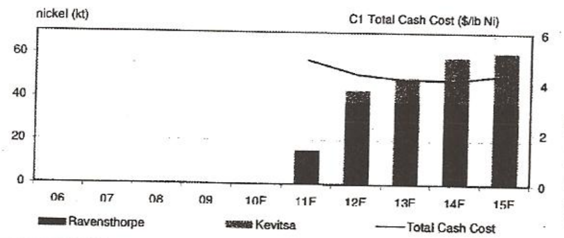
Sensitivity Analysis	Valuation	NAV/sh	11 EPS	11 CFPS
Base case metal price forecast	£56.20	£60.93	$9.85	$8.79
Base case +10%	£67.64	£73.52	$11.62	$9.78
Base case -10%	£44.76	£48.34	$8.08	$7.80
Flat copper price (at spot US$2.30/lb)	£35.98	£50.07	$4.17	$4.31

Growth catalysts	HD 10	HJ 11	HD 11	2012
Kansanshi SE Dome 1st resource				
Kevitsa resource & reserve update				
Kolwezi arbitration				
Kalumbila economic assessment				
Ravensthorpe commercial production				
Kevitsa commercial production				

Reserves (attributable)	Tonnes	Grade	Metal	EV / lb
Copper reserves (P&P): Cu-equiv	408 Mt	1.24%	5,060kt	
Nickel reserves (P&P): Ni-equiv	343 Mt	0.65%	2,210kt	
Combined reserves: Cu-equivalent	751 Mt	1.70%	12,747kt	$0.15 /lb

Production & cost (equity)	2009	2010F	2011F	2012F	2013F
Copper production (kt)	313	286	262	268	286
C1 Total Cash Cost ($/lb Cu)	0.97	1.07	1.01	1.00	1.04
Nickel production (kt)	0	0	15	43	49
C1 Total Cash Cost ($/lb Ni)	0.00	0.00	4.92	4.38	4.17
EV per lb Cu-equiv prodn ($/lb Cu)	6.22	6.82	7.43	7.26	6.82





Key Metrics	2008	2009	2010F	2011F	2012F
EPS ($/sh)	0.67	6.14	8.32	9.85	12.94
EPS Growth	(91%)	811%	36%	18%	31%
P / E	86.1x	9.4x	7.0x	5.9x	4.5x
CFPS ($/sh)	11.23	7.45	11.18	8.79	11.53
P / CFPS	5.2x	7.8x	5.2x	6.6x	5.0x
FCFPS ($/sh)	1.77	2.57	8.39	4.87	11.48
P / FCFPS	32.8x	22.6x	6.9x	11.9x	5.1x
EV / EBITDA	5.3x	4.3x	3.2x	2.9x	1.8x
Operating margin	42%	41%	51%	52%	53%
Dividend Per Share ($/sh)	0.00	0.00	0.00	2.46	3.24
Dividend Yield	0.0%	0.0%	0.0%	4.2%	5.6%
Return on Assets (ROA)	5%	12%	15%	15%	17%
Return on Equity (ROE)	8%	19%	22%	21%	22%
Return on Capital Employed (ROCE)	31%	20%	25%	24%	27%
Interest Cover	n.m	241.8x	36.7x	45.8x	66.1x
Net Debt/Equity (Gearing)	22.5%	6.7%	2.2%	0	0
Shares Outstanding (m)	68	76	81	81	81

Income Statement	2008	2009	2010F	2011F	2012F
Revenue	1,740	1,903	2,267	2,489	3,279
Cost of sales	(763)	(745)	(875)	(1,005)	(1,290)
G&A	(31)	(25)	(29)	(29)	(30)
Other	(208)	(349)	(195)	(168)	(207)
EBITDA	**851**	**945**	**1316**	**1423**	**1927**
DD&A	113	162	148	136	174
EBIT	**738**	**783**	**1167**	**1287**	**1753**
Non-Recurring Items/Other	(315)	25	(19)	0	0
Net finance income (expense)	(347)	(35)	(56)	(28)	(23)
PBT	**391**	**748**	**1111**	**1259**	**1730**
Tax	(247)	(200)	(310)	(331)	(540)
Net Profit (Loss)	**144**	**548**	**801**	**928**	**1190**
Minority Interest	98	84	130	134	146

Cashflow	2008	2009	2010F	2011F	2012F
Net profit (loss)	144	548	801	928	1190
Working capital change	416	(335)	32	(176)	(162)
DD&A	113	162	148	136	174
Non-recurring/other	93	189	(80)	(46)	(74)
Cash Flow From Operations	**765**	**563**	**902**	**842**	**1128**
Capital expenditure	(768)	(304)	(335)	(388)	(80)
Acquis./investments/adjustments	3	(62)	(471)	0	0
Cash Flow From Investing	**(765)**	**(367)**	**(806)**	**(388)**	**(80)**
Borrowings	25	(194)	(110)	(81)	0
Capital stock	24	330	142	0	0
Dividends paid & other	(73)	411	(103)	(157)	(232)
Cash Flow From Financing	**(24)**	**547**	**(72)**	**(238)**	**(232)**
Net Change in Cash	**(24)**	**743**	**24**	**217**	**817**
Free Cash Flow to Equity	121	194	676	393	926

Balance Sheet	2008	2009	2010F	2011F	2012F
Cash & equivalents	176	919	943	1159	1976
Other current assets	555	925	830	1145	1334
PP&E & mining interests	1996	2158	3067	3318	3224
Investments	164	460	446	446	446
Other non-current assets	113	102	81	82	84
Total Assets	**3005**	**4565**	**5367**	**6152**	**7064**
Short-term debt	140	85	40	0	0
Other current liabilities	507	648	611	704	657
Long-term debt	246	107	41	0	0
Other non-current liabilities	538	933	1011	972	973
Total Liabilities	**1291**	**1688**	**1663**	**1676**	**1630**
Shareholder equity	1401	2486	3245	3907	4753
Minority interest	313	391	458	568	681
Total Liab. & Equity	**3005**	**4565**	**5367**	**6152**	**7064**
Working Capital	31	366	334	510	672
Net Cash (Debt)	(210)	728	862	1159	1976

Assumptions (Real)	2009	2010F	2011F	2012F	LT
Copper Price (US$/lb)	2.34	3.20	3.25	3.50	2.30
Gold Price (US$/oz)	973	1,150	1,200	1,200	1,000
Nickel Price (US$/lb)	6.66	8.50	9.00	9.50	8.00
Cobalt Price (US$/lb)	17.38	17.95	17.00	17.00	12.00
GBPUSD exchange rate	1.57	1.55	1.55	1.55	1.55

Source: First Quantum Minerals, Numis Securities Research Department

Risks

- **Commodity prices:** The future price realisable for the company's product will have a significant effect on the future profitability of the company. Some companies will use hedging to mitigate some of this risk, although most prefer to retain full upside exposure to the underlying commodity. Some companies have diversified production from a number of metals, which helps to mitigate the risk of a price decline in any one commodity. A downturn in commodity prices may lead to lower investment in the industry, which may impact a company's earnings and/or growth potential.
- **Costs:** Cost inflation above our assumptions could have a greater than anticipated impact on group earnings. The cost of raw materials, power, labour are often dependent of factors outside the company's control. Mining costs are highly dependent on factors such as rock strength and characteristics, as well as the mining method.
- **Production & construction:** All mines have risk of disruption to production due to unforeseen issues regarding health and safety, geology and engineering. Risks to production forecasts can come from delays in the commissioning process for a new project. There are risks to production from the application of new technology that may not perform within the design criteria.
- **Political & logistics:** Mining companies operate globally and often in areas of high political risk. Changes to the government and/or legislation may impact production and/or earnings in future years. The supply of materials, plant, equipment and personnel may be affected by local issues beyond the company's control. Some countries may be more challenging in this respect than others.
- **Personnel:** The success of an operation and/or company often depends on key management and/or highly skilled operations staff, who may be in short supply and/or leave the employ of the company. This may impact operations and/or future growth prospects. Management expertise may also become stretched if the company attempts to grow too rapidly.
- **Geological:** Reserve and resource estimates are subject to statistical uncertainty and as such carry a risk that earnings could be significantly affected by unexpected changes in throughput, grade and cost.
- **Financing:** Mining is often highly capital intensive. There is often a risk, especially with a development company, that the necessary debt and/or equity funding may not be available, or may be detrimental to the project economics.
- **Permitting:** Significant delays to the permitting processes could have a material impact on development projects.
- **Environmental:** Mining carries a risk of damage to the environment and consequent risk of litigation.
- **Currency & inflation:** Variations in the local exchange rate versus the currency in which revenues are paid (usually US Dollars) can impact earnings significantly. This has been a particular problem with South African based operations in recent years.

7 July 2010

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Hold	0% to +/-9.99%
Reduce	-10% to -19.99%
Sell	> -20%

Upon the initial establishment of a recommendation and target price for a company, an additional 10 % deviation in the price from the default bands set out above is permitted before the recommendation has to be changed in subsequently published research documents.

Distribution of Ratings

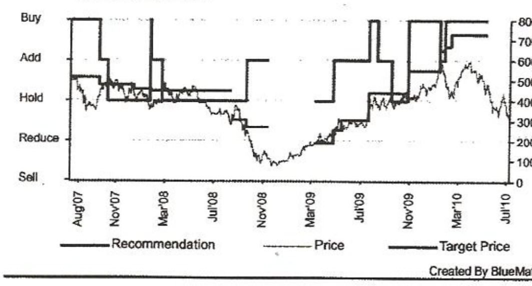
	US Requirement 01/04/09 - 31/03/10		UK Requirement 01/01/10 - 31/03/10	
	All Securities	Corporate Clients	All Securities	Corporate Clients
Buy	45.6%	57.1%	51.5%	4.4%
Add	20.5%	28.6%	22.7%	2.3%
Hold	27.4%	14.3%	21.2%	1.3%
Reduce	4.2%	0.0%	2.8%	0.0%
Sell	2.3%	0.0%	1.8%	0.0%
	100%	100%	100%	
	The above table shows the split of recommendations based on the last recommendation for each research stock during the last four calendar quarters.		*The above table shows the split of recommendations based on all recommendations during the last calendar quarter.*	

For the split of recommendations by sector for the period from 1 Jan 2009 to 31 Dec 2009, please contact the Research Department of Numis Securities Limited.

The following graphs display the three year recommendation, target price and share price history for the subject corporation(s) of this research report. In those instances where the subject corporation(s) have been traded on the London Stock Exchange or Alternative Investment Market for less than three years, the graph will show the history since the date the subject corporation(s) were admitted to trading. Prices in the graph(s) below are in pence unless otherwise stated.

Three Year - Recommendation, Target Price, Share History

First Quantum Minerals



Source: Numis Securities Research Department

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