

PALOS

CONTENTS

Weekly Commentary

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First Quantum: Panama Update	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

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First Quantum: Panama Update

First Quantum Minerals (FM:TSX) is a Canada-based miner engaged in the production of copper, gold, nickel, and silver. The company's primary operations include the massive Cobre Panama mine in Panama, the Kansashi (copper-gold) and Sentinel (copper) mines in Zambia, Ravensthorpe (nickel) in Australia and Cobre Las Cruces (copper) in Spain. The FM portfolio includes development projects in Peru, Argentina, Turkey, Mauritania, and Zambia.

Cobre Panama (CP) began commercial production in 2019 and has developed into FM's most productive mine. Located 120km west of Panama City, proven and probable reserves of approximately 3 billion tons makes CP one of the largest copper mines on the planet. The project, which is an open-pit operation located in the heart of a rain forest, includes a 300-megawatt power generation plant, four mobile crushers, a state-of-the-art fleet of electric shovels and haul trucks, and a processing plant that reclaims water used at the tailings facility.

The company's 2022 Environmental, Social, and Governance (ESG) report highlight FM's corporate commitment to sustainable mining, action on climate change and working with local communities to ensure that sustainable benefits are shared with the government and residents. The CP mine is situated in an ecologically sensitive area and, as a result, concerns related to the ecological impact from mining operations are appreciated. To address such concerns the CP mine implemented a **Biodiversity Action Plan (BAP)** that's designed to follow international best practices and Panamanian national regulations. Amongst the initiatives Included in BAP are a permanent reforestation plan, the creation of over 200,000 hectares of protected areas (National Parks), and specialized conservation plans focused on species conservation, employee training, and funding for replacement of natural habitat loss related to mining (*source: 2022 ESG Report*).

On October 20, The Panamanian National Assembly approved an updated mining concession contract for the CP mine. Law 406, which was approved in a 44-5 vote in favour, marked the "final step" in restructuring the mining agreement between FM and the Panamanian government. The agreement included payments of \$395 million to cover taxes and royalties up to year-end 2022, as well as future annual payments of at least \$375 million. At the time, the new deal was welcomed as a mutually beneficial long-term agreement between the people of Panama and FM. While the news was welcomed by investors, analysts and Panamanian officials, angst among unions, environmentalists, and students opposing the agreement led to demonstrations that began on October 24.

The protests caused vandalism and looting-related damage estimated between \$60 million to \$90 million according to a story published in Panama's La Estrella. Some called for a national referendum on the mine and a repeal of the

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contract contending that it violates national sovereignty and pollutes waterways. The protests persisted with schools and universities shutting down, highways blockaded, and transportation services at a standstill. Feeling the pressure, Panamanian President Laurentino Cortizo proposed a referendum be held in December to let the people decide.

An ongoing illegal blockade at the CB port has culminated in operations being wound down as diminishing supplies hamper the continuation of mining operations. The government subsequently passed the baton to the Supreme court who is expected to rule imminently on the constitutionality of the agreement. As the court deliberates the future of the \$10 billion mine, FM proactively issued an arbitration notice to the Panamanian government late Sunday night (Nov. 26). The company has stated that while First Quantum “remains committed to overcoming the current operational challenges” through “constructive and transparent dialogue”, the company also believes it has a “robust legal position” and aims to find solutions aligned with the law and in the best interests of both stakeholders and the Panamanian people.

The CP mine accounts for approximately 5% of Panama’s GDP and roughly 1% of global copper production. Further, Panamanian government bonds have sold off recently as bond agencies consider a downgrade of the country’s debt. A failure to resolve the issues at hand would significantly impact Panama both financially and reputationally. CP accounts for roughly half of FM’s EBITDA, a significant proportion of the company’s net asset value. The stakes are high. Panama’s mining chamber has set “minimum compensation” at \$50 million should an arbitration decision go against Panama, according to an article in Reuters.

FM shares closed Friday’s trading session at \$13.31 on the TSX, 56% below the October 20 price and 65% below the July 31 high. While the correction in FM shares has been significant, there’s comes a point when the devaluation transcends to a compelling investment thesis for the long term. Although debt covenants could become a concern in 2025, we view FM as a world-class mining company that has unfortunately become the target of issues in Panama that go well beyond mining. An upcoming election in 2024, a shortfall in government revenues from reduced traffic in the Panama Canal, broad dissatisfaction with government, and allegations of corruption have placed the Cobre Panama mine in the eye of a hurricane. While the stakes are high, we believe “cooler heads” will eventually prevail and that a compromise or renegotiation that’s in the best interests of all stakeholders will be reached.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.89	2.81%
Palos Equity Income Fund - RRSP	PAL101	\$6.54	1.55%
Palos WP Growth Fund - RRSP	PAL213	\$9.61	-22.80%
Palos-Mitchell Alpha Fund ³	PAL300	\$9.93	26.09%
S&P TSX Composite (Total Return with dividends reinvested)			6.78%
S&P 500 (Total Return with dividends reinvested)			20.50%
S&P TSX Venture (Total Return with dividends reinvested)			-6.45%
Chart 2: Market Data ¹			Value
US Government 10-Year			4.47%
Canadian Government 10-Year			3.72%
Crude Oil Spot			US \$75.54
Gold Spot			US \$2,003.00
US Gov't10-Year/Moody BAA Corp. Spread			173 bps
USD/CAD Exchange Rate Spot			US \$0.7334

¹ Period ending November 24th, 2023. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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