Euro Manganese Inc.
Fourth Quarter and Year End 2022
Conference Call #1 Transcript

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Speakers:

Dr. Matthew James
President and Chief Executive Officer

Martina Blahova
Chief Financial Officer

Louise Burgess
Senior Director IR & Communications

Operator:
Okay. Good morning. Good afternoon. Hello, everyone, and thank you for joining us for Euro Manganese's Quarterly and Year-End Results Highlights Call today.

Before we begin today's session, I'd just like to go over some small housekeeping items.

With all of that said, I would now like to start the session by turning things over to Matthew James.

Matthew, the floor is yours.

Dr. Matthew James:
Thank you. Good morning, good afternoon, and good evening to everyone dialing in today. Thank you for joining us to review our fourth quarter and year-end highlights so close to the holidays. The slides for today's call can be downloaded from our website.

Before we begin, I must remind you that this presentation involves forward-looking statements. Please refer to our cautionary statement here as well as the risk factors set out in our annual information form. Our news release yesterday highlights our fourth quarter and year-end financial position. This should be read in conjunction with our management discussion and analysis and financial statements, both of which are available on our website, SEDAR and the ASX.

Joining me today on the call are Martina Blahova, our Chief Financial Officer, and Louise Burgess, our Senior Director, Investor Relations and Corporate Communications. I'll pass over to Martina in a moment to go through our financial highlights for the quarter and the Company's financial position, then I'll run through our performance in Q4 and for the year, looking at key catalysts for 2023, and wrap up with a question-and-answer session.

Over to you, Martina.

Martina Blahova:
Thank you, Matt.

I will briefly comment on our cash position and the intended use of these funds in the coming 12 months. Please note that all figures are in Canadian dollars.

We started the quarter with $28 million in cash, $2.3 million was spent on operating expenditures and completion of the feasibility study. The operating expenditures also covered advancement of the environmental and social impact assessment, corporate office costs, as well as the cost of the Czech office; $1.8 million was spent on the completion of improvements to the buildings which now host the demonstration plant and on the transport and setup of the demonstration plant equipment. The demonstration plant is now installed and commissioning has started.

We also spent $2.3 million on the third or fourth option payments for EP Chvaletice, a company which owns the land for the projects proposed commercial plant.

We closed the quarter with $21.6 million in the bank. Our cash position will allow us to complete the final environmental and social impact assessment, which will be filed with the Czech Ministry of Environment shortly.

The funds we currently have are also expected to cover our other permitting costs for the project as well as commissioning and operation of the demonstration plant for approximately one year. We also intend to use these funds to complete or advance certain land acquisitions for the commercial plant area to complete the EPCM tender process and to cover our corporate and Czech costs for the next 12 months.

I will now turn it over to Matt.

Dr. Matthew James:
Thanks, Martina.

I wanted to share our purpose, vision, and values created by the team earlier this year. We set out a clear north star for who we are as a company, what we're focused on, and the values we believe will underpin our success. Our global team is now 40 people, and everyone here at Manganese exhibits a strong passion and belief in our ability to succeed. It's about most importance to me to foster this

energy going forward as we deliver on our vision of being the leading environmentally responsible producer of high-purity manganese globally, guided by our corporate values.

Moving on to the highlights in the quarter. This is a quick overview, which I'll speak to each of these in more detail in the coming slides. The key takeaway is we continue to deliver important key milestones as well as growth initiatives and are well positioned to continue that momentum as we head into 2023.

We made great strides in advancing the Chvaletice project this quarter and over the year. Having taken delivery of the demonstration plant modules in early September, the team installed these into two fully refurbished buildings adjacent to the intended commercial plant site. We hosted multiple site visits where we were able to show the buildings and plant modules in place to customers, investors, and also our Board visit.

Commissioning of the demonstration plant is now well underway on a module-by-module basis. We have commissioned the front end—that is the slurry preparation, magnetic separation, and filtering modules—which produce concentrate and tailings. We're now commissioning the leaching and the first step of purification of that concentrate. A video of our demonstration plant flow process can be viewed by the link here or on our website.

On spec samples of both high-purity electrolytic manganese metal, or what we call HPEMM, and high-purity manganese sulfate monohydrate, or HPMSM, are expected in Quarter 1, 2023, with delivery to interested parties occurring thereafter. Six companies from across the EV supply chain have requested samples from the demonstration plant. Further, six companies that are currently testing pilot plant samples are also expected to request demonstration plant samples after that.

We filed the positive feasibility study at the end of September on SEDAR and on ASX. As a quick reminder, that outlined a robust post-tax net present value of US$1.3 billion using an 8% discount rate, an IRR of 22% with a four-year payback period.

Following the release of the feasibility study, we began preparing an engineering, procurement, and construction management tender package to solicit bids from firms interested in developing the commercial processing plant at Chvaletice in the Czech Republic. Bids have now been received from five Tier 1 EPCM firms, and I'm very happy with the number and the quality of the bids.

We're looking to appoint the firm who has experience in building similar types of chemical plants in Europe. Selection of the EPCM contractor will allow us to advance basic engineering design and commence procurement of long-lead process equipment.

On the permitting front, we are targeting to file our final environmental and social impact assessment by year-end with the Czech Ministry and Environment. That could enable final environmental permitting for the project in mid-2023.

A key area of focus for us this quarter was advancing offtake discussions. We commenced a structured offtake tender process for our high-purity manganese products in September and are now driving towards term sheets and offtake contracts. We have made a data room available and have hosted site visits for interested parties. Multiple indicative bids have now been received in addition to the five MoUs currently in place, and we continue to hold active discussions and negotiations with parties across the EV supply chain in Asia, Europe, and North America.

Also, part of our offtake discussions is exploring additional financial support for the project itself. There has been an increasing trend on backward integration across the battery supply chain with automotive OEMs investing in resource and processing projects to secure their raw materials needed for EV vehicles. For example, we have seen this with GM investing into Pacific Metals in Australia, Stellantis' investment in Vulcan Energy in Germany, and Ford to Liontown in the U.S.

That is a good segue into an overview of our project financing strategy. We appointed Stifel earlier this year to advise the Company on project finance debt. On current pricing forecasts, their model supports a 65% to 70% debt gearing, which based on initial feedback could be largely supported by European institutions. Both the European Bank of Reconstruction and Development, our currently our second largest shareholder, and the European investment bank have expressed interest in being significant debt providers for the project. That should benefit us as it will be lower cost debt compared to commercial banks, ESG funds, and export credit agencies, from which there has been also a positive interest.

That will leave the project with a project finance equity portion of approximately 30% to 35%, and we are in the middle of a process to appoint an equity adviser. The ideal equity strategy is to have a

strategic investment with an OEM and/or industry strategic at a project level, just as we've discussed above, and basing that on the project's net asset value, which will be a discount to the net present value of the project, as we discussed previously. This would then be followed by a private placement to interested parties that we're already in discussions with, and a public offering potentially at a re-rated stock price, making the project finance equity rates more achievable and less dilutive for current shareholders.

As part of our commitment to environmental excellence and transparency, we have completed two life cycle assessments this quarter. The first LCA measured the environmental impacts of our high-purity manganese products. Results showed a net positive benefit to soil and freshwater quality as a result of the tailings remediation.

The second lifestyle assessment, shown here, compared the carbon footprint of a high-purity manganese products with those produced on the current China-based incumbent industry. Results indicated our products have a carbon footprint approximately one third of the incumbent industry.

Analysis of the carbon footprint of each of the ternary battery metals shows that our high-purity manganese metal has the lowest carbon footprint. As automotive OEMs seek to meet their net-zero commitments, they are increasingly looking at their supply chain to ensure their raw materials are low carbon and ESG compliant. We are very well positioned on this front to supply the market with responsibly produced low-carbon manganese projects.

Shifting over to North America, which is a growth horizon for us, we announced a potential investment opportunity in Quebec, Canada, in November. In response to conversations with parties across the EV supply chain, we are exploring the development of a dissolution plant to produce high-purity manganese sulfate for the North American market, and this will give us first-mover advantage in North America.

North American demand of high-purity manganese is expected to reach approximately 200Ktpa by 2031, and there are no current processing facilities in North America.

As you can see from the map here, Quebec is strategically located and the North American plants currently under development. Quebec is shown in the green section, just above the U.S. These plants are seeking a localized supply to comply with the recent U.S. Inflation Reduction Act regulations.

Why Bécancour and Quebec? Well, within the Port of Bécancour, the Industrial Park, both GM POSCO and BASF have announced plants with a third plant associated with another OEM to be announced shortly. This will allow high-purity manganese sulfate to be delivered as a solution, which we term HPMSS, high-purity manganese sulfate solution, to these plants directly from our dissolution plant, saving the cost of crystallization, drying, and packaging, as well as working capital for both parties.

Site due diligence is underway on a proposed 15-acre parcel in the Port of Bécancour. The Company has now signed an option agreement allowing it to purchase the site subject to the outcome of due diligence and other conditions. The option agreement is valid for a 21-month period.

Concurrently, we announced a scoping study is underway to evaluate the development of high-purity electrolytic manganese metal dissolution plant to produce the HPMSS as well as HPMSM powder; so both the solution, but we will also have some crystallization capacity to service other plants outside of Bécancour. The study will leverage the extensive process development and engineering work already completed in the Chvaletice project.

The growth opportunities in the North American market are compelling, and we shall provide updates on our growth plans as they evolve.

A quick snapshot of our performance against 2022 catalysts. I'm not going to go through these in detail, but the key takeaway is we have delivered against the majority of our goals, and those outstanding are progressing well. All in all, I'm very pleased with the tenacity of the team in achieving significant milestones during the year.

What's next? Twenty Twenty-three is an important year for the Company with a focus on appointing an EPCM contractor to commence the frontend engineering design for the commercial plan. We'll be looking to get on spec samples from the demonstration plant in the first quarter, followed by sending samples out to customers thereafter. We are working diligently to revise the two remaining land access agreements.

We are also preparing the land planning permit to have it ready to submit once we receive approval of our environmental social impact assessment.

In the early new year, we'll be looking to appoint our project finance equity adviser and we're driving hard to conclude discussions for offtake contracts. I look forward to updating you on our North American growth plans in Q1, as well.

That concludes our presentation. I'm extremely proud of the ongoing commitment of our team and advancing our flagship Chvaletice project, and look forward to continue delivery of key catalysts in 2023 and beyond. Together, we're moving closer to our vision of being a leading and environmentally responsible producer of high-purity manganese.

Thank you. I'll now open it up to questions.

Operator:
Thank you, Matthew.

Louise Burgess:
David, we'll just give it one more minute. Okay, we're starting to get a couple here, I can see. Give me just one more minute, and we'll start to get through those. Okay, I will start here. The first question that's come in, I will read it out, and then pass it over to Matt and Martina.

Have some or all of the indicative bids received been underpriced terms that would meet minimum cost and debt service thresholds? Or are they still subject to negotiation?

Dr. Matthew James:
Thank you. I'll take that.

The indicative bids that we received—multiple indicative bids were in response to our formal tender process. Under that, indicative bids, volumes and pricing structures have been submitted. In terms of the actual pricing itself, that is still being negotiated. But obviously, our position is to have a oil price in those contracts that would meet that minimum cost and debt service thresholds. But they are still being discussed and under negotiation.

Louise Burgess:
Thank you, Matt. One other here.

Are you expecting to do a share consolidation in H1 2023?

Dr. Matthew James:
I don't (multiple speakers 22:21).

Martina Blahova:
I'll take that one. Yes, we have not discussed this, and we will announce if anything like that happens in due course, but that's not the plan.

Louise Burgess:
All right. A couple of questions in one here, so I think I'll try and separate them out for you.

With regards to offtakes, it appears the few Western World high-purity manganese prospects could be higher and the cost curve—on the cost curve than Chinese production. Thus, with commercial discussions, how would you qualify the dialogue on pricing? I don't know if there's any insight there, Matt, you'd be happy to provide.

Dr. Matthew James:
Sure. I mean, obviously, the value proposition of our project in Europe is very different to that from the Chinese production on a number of fronts. Our purity is one, product purity; meeting Western standards; ESG compliance and ESG global warming footprint, which is one third of the Chinese production; and obviously, local security of supply and transparency is very important to the OEMs; then finally, for the North American growth strategy, being compliant with the IRA with production in North America.

We are not competing with Chinese product, and therefore the pricing point, which we have tested for other product that's non-Chinese in the European market, is a very different pricing point than it is compared to what you will see on Asian metal or some of the other indexes which report ex-works China product.

Louise Burgess:
The second part of that same question is: high-purity manganese has been relatively ignored by the investment community and has received a fraction of the attention of other battery metals, lithium, nickel, etc. Yet supply and demand appears quite compelling and its usage in chemistries is increasing. What catalysts do you expect to emerge to bring it to the forefront of investors and the investment communities mind?

Dr. Matthew James:
Yes, it's a great question. Thank you.

I think when I joined the Company nearly a year ago, a year ago tomorrow, in fact. When I went to conferences—the first Benchmark conferences I went to, everyone was talking about lithium and nickel and cobalt, and no one was talking about manganese. I've recently been to two conferences in the U.S. The Benchmark conference in L.A. in mid-November and the AABC conference in San Diego in early December. Both of those, there's a marked change in visibility of high-purity manganese on both the customer base, the analysts probably different, Benchmark or (inaudible 26:01), etc. There's obviously investment community at both of those conferences.

The catalyst that you mentioned is one of them. The number of announcements around the increasing usage in high-manganese chemistries, which are required to drive down the cost of the cathode to make the battery more affordable, particularly in the low-end cars, entry-level cars, the battery can be one third of the cost of the car. So, driving down our cost of battery is really important.

I think we'll see a continued spotlight starting to shine on manganese. We are, in a number of ways, sort of one to two years behind where lithium was or nickel was a couple of years ago where there wasn't transparent pricing, the lithium price hadn't run up to where it is today. But as more and more news flow comes out about the use of manganese, I'm already having conversations with the investment community who are now focusing on manganese.

I recently spent two weeks in Australia touring Sydney, Melbourne, Perth, where the market is well advanced in its focus on transition metals, and it was very clear that manganese is now on the mind of

that investment community down there. I'm sure that will spread to Europe and North America very quickly.

Louise Burgess:
A couple of more questions that have just come in here. One here is: could we provide a little bit more colour on our partnership with Nano One? And is there any potential for increased partnership with them in the near future?

Dr. Matthew James:
Yes. Thank you for the question.

We are very pleased with the partnership with Nano One and the results that are being achieved to date. Nano One have qualified our metal in their process and produced a cathode material that meets commercial requirements. That was on a relatively small-scale sample. So, we are looking at what we call Phase 2 of our partnership with Nano One.

As they look to build out their capabilities, particularly around the Johnson Matthey cathode plant which they funded by the investment by Rio Tinto into Nano One, they will be looking to expand their production capacity testing to a larger scale in that facility, and we will be looking to supply metal from our demonstration plant, which is again that much larger scale to continue that partnership.

We know that they have a number of OEMs very interested in their process, and they've announced the partnership with BASF. So, this is a very interesting project to remove the need for disposal of sodium sulfate by the (inaudible 30:03) manufacturers.

Yes, we're continuing with that partnership, and we do receive Canadian Government funding for our R&D work towards that project, as well.

Louise Burgess:
Thank you, Matt.

This might be one for Martina here. What is the run rate for the current funds that Euro Manganese has? And does Euro Manganese have enough to fund its 2023 objectives?

Martina Blahova:
As I mentioned earlier, we do have enough funds to advance the project to complete the commissioning of the demonstration plant and to run it for one year. Our funds also cover some critical land acquisitions and the payments for land that are under option. We also have enough to support the corporate office and the local office, and to complete the EPCM tender process.

Any significant work on the frontend engineering and design, or long-lead (phonetic 31:26) items, that will need to be funded from additional financing, be it through the strategic investors Matt mentioned, or other methods. But for now, most of our 2023 plans are covered by the cash balance that we have.

Louise Burgess:
Thank you, Martina.

It looks like we've got kind of one final question here on pricing. Kind of a couple here in one. The question is: what is the premium for Euro Manganese product versus the China price on average? Are we seeing off takers willing to pay that premium in order to have a Western supply?

Dr. Matthew James:
Okay. Just to break this down. We are aware, through some of our consultants, of pricing of non-Chinese material in Europe today, which is being sold at a price point which is significantly higher than the Chinese ex-works price. The Chinese ex-works price is really not a comparison for European product. As I mentioned before, it has very different characteristics and value propositions.

Yes, the Western buyers are buying high-purity manganese today at significantly higher prices than you would see on the Chinese indexes. That price today is around $2,400 a ton. And when you look at CPM's forecast prices, which we've used in our feasibility study, in 2022-2023 their forecast is very similar to that level. That forecast increases due to the supply deficit that's forecast in the market. Those forecasts are available in our feasibility study announcement.

The Western price is significantly higher than the Chinese. We expect both prices to increase based on the supply deficit as forecast by the time we are in production in 2027.

Louise Burgess:
Thank you so much, Matt and Martina. I think that covers all of the questions and answers that have come in through the chat function.

I will pass it back over to you, David, in case there's any questions that have come in through the phone that I can't see.

Operator:
There are no further questions, Louise. Thank you.

Dr. Matthew James:
Okay. Maybe I can just say some final words.

I think this is a very exciting time for the battery raw material sector, particularly for manganese, as we discussed with the move to the high-manganese chemistries, really starting to get a pace, and particularly with the introduction of manganese into the LFP chemistries, as well. Euro Manganese is very well positioned to take advantage of the localization of supply to the EV market with a high-purity manganese for lithium-ion batteries.

I'll just finish off with happy holidays to all, and I look forward to talking to you and giving you an update in our next quarterly call in the new year. Thank you, everyone.