Euro Manganese Inc.
Third Quarter 2022 Investor Conference Call Transcript

Date: **August 15, 2022**

Time: **3:30 PM PT**

Speakers: **Dr. Matthew James**
President and Chief Executive Officer

Martina Blahova
Chief Financial Officer

Louise Burgess
Senior Director, Investor Relations and Communications

Operator:
Welcome to the Euro Manganese Inc. Third Quarter 2022 Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

I would now like to turn the conference over to Dr. Matthew James, President and CEO of Euro Manganese. Please go ahead, sir.

Dr. Matthew James:
Thank you. Welcome, everyone, to our third quarter conference call. I'm joined here by my CFO, Martina Blahova, and also our Senior Director of Communications and Investor Relations, Louise Burgess.

Without further ado, I'd like to get on with our conference call. During the conference call, we're going to touch on an overview of our value proposition, the quarterly highlights, including our financial position, the feasibility study results that we've announced this quarter, where we stand on project finance, and also our Life Cycle Assessment results, and look forward to our next steps, and particularly the 2022 catalysts for the rest of this year.

So, it's been a very good quarter for the Company. We really are poised to be a leader in high-purity manganese. We have a very strategic position, located in the heart of EU, which is the world's fastest growing EV battery market. Obviously, a low carbon economy and shifting to that is paramount to our value proposition in terms of producing materials for the EV battery market in Europe.

We still are well funded. We're well backed by EU institutions. As you'll see from our Life Cycle Assessment, I feel that we are achieving our aim to have best-in-class environmental and social performance from our project, and we're building our team with even more skill sets as we move into the very important engineering, procurement, construction management phase, and I do say this is the first step in building a multi-asset manganese platform, and in our MD&A release on Friday, we touched on the fact that we are starting to explore what opportunities may lie in North America for the Company.

Just again honing in on those key highlights, I will talk more about the feasibility study, but it has robust base case economics which have validated the project, and as shown in our pricing sensitivity analysis, there's real upside potential. We'll also be touching on our Life Cycle Assessment and its results, and that validates the environmental credentials of the project, as well.

Just covering off the other highlights of the quarter, which we're not going to go into a lot more detail, is during the quarter we appointed Stifel Nicolaus Europe as the project finance advisor to help us in terms of structuring and securing the project finance for the project.

Our demonstration plant, which left China in late April, early May, has now arrived in Europe. One part of the shipment has been unloaded at Hamburg and the other consignment of the shipment is scheduled to be unloaded later this month. There has been some industrial action at Hamburg port which has slowed down the unloading of the demonstration plant and it should take about 10 days to get to site, so we are expecting arrival of all the modules at site in late August, early September. Site buildings have been completely refurbished, ready for the acceptance of that demonstration plant, two main buildings, and I believe there's a link from our announcement which shows the change in those buildings from before and after shots.

We joined the Global Battery Alliance, and we are the first high-purity manganese company to join the Global Battery Alliance, so we have a seat at the table in terms of discussing the Global Battery Passport and other lobbying that the Global Battery Alliance do on behalf of its members.

Now that the feasibility study has finished, we're starting the preparation of our engineering, procurement and construction management tender documentation. We intend to go out to tender around September this year and be ready to appoint an EPCM contractor early in the new year.

I'm going to hand over to Martina to talk us through the financial highlights and position of the Company.

Martina Blahova:
Thank you, Matt.

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

We started the quarter with $32.1 million in cash. We spent $3.1 million on advancing the feasibility study, which was completed in late July, and the final report is being prepared and will be released in early September. The operating expenditures also cover the advancement of the Environmental Impact Assessment and corporate office costs. $1.5 million was spent at site, as Matt mentioned, improving the two buildings that will host the demonstration plant, and the work is now close to complete. Another $1.5 million was spent on land acquisition, by making the first installment on the land package which is adjacent to the tailings area. It will provide additional room and flexibility for the Chvaletice residue storage facility. We closed the quarter with $28 million in cash, and that balance will help us fund the completion of the EIA, to cover other permitting costs for the project, as well as to install, commission and operate the demonstration plant for one year. We will also use these funds to complete or advance certain critical land acquisitions for the commercial plant area and the tailings area, and to complete the EPCM tender process. These funds will also cover our corporate costs for the next 12 months.

I will now turn it back to Matt.

Dr. Matthew James:
Thank you, Martina.

Just one point of clarification. In certain critical land acquisitions, they are already under option, so we're just exercising those options to complete those land acquisitions for the Chvaletice plant site.

Turning to the plant that we're going to build, this is a still picture from the feasibility study 3D model. You can see the tailings in the green area to the left, and a building, where we'll take the tailings, slurry it and pipe it over the fence, across the road and railway line, to the main plant site. The large grey area there are the rail sidings that we are going to build, and you can see we have tanks for bringing in reagents, and then the main processing plant buildings.

The feasibility study has a number of impacts. The first is we can now convert our resources to reserves, and with 98% classified in the Proven category, it shows that the reserves are well distributed, evenly distributed through the resource.

This is the production profile which those resources will enable. You can see the head grade of the resources. It's fairly consistent, between 7.3% and 8% manganese, and we're mining about a million tonnes of ore per year. We have the commissioning planned in 2026, so 2027 is a ramp-up year, and then full production in 2028 through to 2051. You can see 100,000 tonnes of high-purity manganese sulphate monohydrate, and then the balancing item is the high-purity electrolytic manganese metal. For every one tonne of metal creates three tonnes of sulphate, that's the ratio. So, overall, we're producing about 50,000 tonnes of contained metal. About one-third stays as metal and two-thirds, i.e. 33,000 tonnes, is converted to the high-purity manganese monohydrate, giving you that 100,000 tonnes per annum of the actual sulphate product.

The capital cost to build the plant is just over $750 million. I would like to point out that includes a robust plus $100 million contingency, which includes an actual contingency figure, as well as $25 million of growth capital on the direct costs.

I think it's also worth pointing out that the European supply chain environment is still recovering from the COVID disruption, leading to high steel prices, high concrete prices, and other pricing yet to find a natural lower equilibrium. This has also been exacerbated, in part, by the Ukraine situation, as well, Ukraine did supply steel into Europe,. However, by the time that we are in purchasing or in procurement mode for that steel and concrete there's an opportunity for those to normalize back down post COVID. There are signs in the Czech Republic of this starting to happen. Our feasibility study was really priced at the high point. We used the current steel prices and concrete prices, and other prices, when we costed the feasibility study.

Similarly, for our equipment costs, when we went out for RFQs for all of our equipment, those reflect the list prices from the manufacturers that we collected, and there's an opportunity during our engineering and procurement process to package up a lot of this equipment into a small number of packages and get competitive bidding on those packages and beat those list prices.

So, there are a number of areas there that provide additional potential cushion, as well as the contingency on that capital cost number.

Then, also, it's worth noting that all the main infrastructure to site is already there. We don't have to build power lines, long roads or rail lines, or anything like that, and so we have very low infrastructure

costs, an area that is particularly prone to cost overruns, we're not exposed to. We have a small power connection from the power plant next door to us and building the railyard of our site infrastructure, that's about a quarter. The remaining of what we call site infrastructure is the civil works, the actual buildings that you saw in that previous slide, the water distribution network, and a small amount, less than $5 million, on mine infrastructure. Again, with those tailings there, all we have to do is dig that material up and put it into a slurry. It's already very finely ground. Being tailings from the previous flotation plant, all the blasting, crushing, grinding, that's already been done for us and we don't have any of that infrastructure to build on that site.

Obviously, to bring a project on cost and on time, you need a quality EPCM contractor with experience of plant construction in Europe, and that will be one of our selection criteria for the EPCM contractors that we are going out to.

From an operational cost perspective, the remaining cost is obviously in the process itself, the magnetic separation and then the purification and processing for the electrolytic metal and the high-purity manganese sulphate. G&A is a small component. We do have contingency in there, as well, and also a figure for the royalty, freight and insurance and other selling costs, giving us about $215 per tonne of plant feed.

As you can see, reagents account for about 30% of our cost, and energy, and that includes electricity, hot water, gas for steam generation, and diesel, account for about 38% of our operational costs. We are in discussions regarding long-term contracts with renewable power purchase—sorry, with renewable power companies on power purchase agreements, those are at MOU stages at the moment, but we've got long-term power prices from those MOU discussions which we have used in the feasibility study for our power pricing. Obviously, higher at the moment, but the long term price, it does mean that we're seeing prices not at the peak that we're seeing them in Europe today, but a long-term tenure on those pricing, bringing that pricing to a more normal level.

Obviously, in the Czech Republic, we have competitive labour costs, and there are opportunities, again, for reduction of our operational costs. Obviously, the contingency is in there. Again, with the normalization in the supply chain, we could expect reagents to decrease. We've used, for example, $230 a tonne for our sulphuric acid in our operational cost. Three years ago, that cost was $80 to $90. So, with supply chain normalization, we could see one of our highest cost reagents come down. I've

talked about the power cost and the potential for that to normalize and bring down even that long-term price. Then, not for this stage, but potentially for a later stage, there may be an opportunity to build our own sulphuric acid plant and benefit from the cost savings that would create.

So, where does this lead us? We have a base case of $1.34 billion net present value post tax, with a 22% ungeared post-tax IRR. I'm very happy with these robust numbers. The strong revenue and cash flow gives us just over a four-year payback on a 25-year life of mine. Our base case economics used a risk-adjusted pricing forecast. The unadjusted pricing forecast from CPM Group, who are really the market leaders in the high-purity manganese space, that represents our upside case. So, the only difference is the pricing profile with the base case and the upside case, that is the only way they differ, and so you can see the NPV goes to $1.8 billion net present value post-tax, with a slight increase on the IRR ungeared, and an increase in the revenue, and, therefore, increase in the margin.

Since we've put these out, I have been asked, "So, how are you going fund $750 million?" As I mentioned before, we've appointed Stifel as our project finance advisor and we're exploring multiple pools of debt capital.

The EBRD is one of—that's the European Bank of Reconstruction and Development—is one of our largest shareholders. We have had preliminary discussions with EBRD, and they have certainly stated quite strongly that they're interested in participating in the next round of debt funding. The EBRD do both equity funding and they allocate their funds back to projects, and having the EBRD as a cornerstone debt provider would be a great start for our banking.

The EIB, the European Investment Bank, has a policy to support EU policies and a mandate to support the energy transition in Europe and the localization of EV, electrical vehicle, supply chains. They don't view us as a mining project, they view us as a recycling and remediation project with excellent ESG credentials, so we meet their criteria, and, again, they have expressed interest in participating in our debt funding package.

Stifel have reached out to the traditional commercial project finance banks and have had inbound expressions of interest from that pre-marketing announcement on project finance. A lot of these commercial banks, project finance commercial banks, are looking to extend their exposure to ESG-focused projects, and, again, that is a strong card that we can play with those commercial banks.

Likewise, the ESG funds that are out there, the Blackrocks of the world, and others, we will be exploring the potential for debt financing from those funds through Stifel, as well.

Part of our EPCM tender process will be to ask firms to show how they would maximize the potential for export credit agency support, and that is support for the procurement of equipment through export credit agencies.

Then, the final pool is the customers, the OEMs, and we've seen a number of examples in the market already of these customers and OEMs to provide support, whether it be soft loans, prepayments or equity support. There are a number of examples in the market today, where purchasers of critical battery metals are going beyond a standard offtake contract and adding various forms of funding for the projects that they are looking to offtake material from. So, we intend to take the best terms from our customers, including that additional financial support for the project.

I just want to spend a bit of time on the ESG credentials, because as you can see from the previous slide, from a financing perspective, it's really important. It's not only from the finance perspective it's important, it's also extremely important on the customer side, as well.

We're uniquely positioned to provide secure, traceable, responsibly produced high-purity products within the European Union. We are the only sizeable source of manganese in the EU. The Czech Republic is a stable and business-friendly jurisdiction, and the historic tailings which we are remediating through our project have significant support from the local communities and the governments.

I touched on earlier that we intend to use renewable electricity sources, and that leads to a low carbon footprint for the project. We don't use any fresh water, we only use industrial waste water recycled from the power plant next door to us. When we put our tailings back, we'll be using best practice tailings management, which is filtered, dry-stacked tailings. Our LCA, Life Cycle Assessment, shows that we have a net positive impact on the environment as we remediate this site, as well as creating, obviously, local jobs for the community. We've already started hiring from the local community, and we'll continue to do so. The corporate taxes and royalties over the life of the project will give us a significant source of revenue from the Czech government, with over $1.5 billion from the project.

I won't spend long on this, but this is our Life Cycle Assessment numbers, and the table you can see here shows our CO2 footprint, with renewable electricity sources on the left, which is our target scenario 2.4 kilograms per kilogram of high-purity manganese sulphate, and that's Scope 1, 2 and 3. It's important to note that we are reporting through to Scope 3. If we were to use a Czech electrical grid mix, which is not our intention, we intend to use renewable energy, we'll go up to 4.8. The Czech electrical grid mix is about 50% nuclear, 40% with the remainder a mixture of other renewable energy.

If you were to look at the Life Cycle Assessment feedback for the soil and water, we actually have negative numbers next to the various measures. It shows there's a net positive impact on soil and water quality for the project, and I think we have probably—only a tailings recycling remediation, such as ours, can get that benefit, when you're talking about extractive industries. We're completing our benchmarking exercise to compare our carbon footprint to other high-purity manganese-producing operations. I am confident that we will have half the benchmark CO2 footprint, simply because of the fact that we'll be on renewable energy.

When we look forward from here, permitting is obviously a key area for us. We will submit our Environmental Social Impact Assessment in the back half of 2022. After that, we'll be able to submit our land planning and construction permit in 2023. On the project side, this year we'll be focusing on project financing, putting a package in place, our EPCM process, with a tender and bid process, with a contractor starting front-end engineering, and then once the final investment decision is made, commence with our detailed engineering, which will allow us then to move construction before 2025, and commissioning in 2026. Beside all of that, to underpin the project finance, we have tput put in place offtake contracts, as well. Going forward, we will look to additional customer off-take contracts. These off-take contracts will be a key catalyst for the project.

Louise Burgess:
Matt, I'm so sorry to interrupt you. It's Louise. I'm just wondering if maybe you come off the earphones, because we're losing every couple words here and there. I'm so sorry to interrupt your flow.

Dr. Matthew James:
Okay. Is that better?

Louise Burgess:
Yes, I can hear you.

Dr. Matthew James:
Okay, good. So, the key catalysts, we've completed the feasibility study and we'll be filing that on SEDAR and ASX early September, and then completion of a—sorry, commencement of the EPCM tender process, and we've spoken about that.

The demonstration plant is a key catalyst for us. The installation and commissioning of that and being able to ship first samples from the demonstration plant to customers is another key catalyst, which we'll complete by the end of this year.

Then, on access and permitting, an important part, also, we have three of five land access agreements in place, two of those are with the local municipalities, and we have two remaining, which are progressing. Land rezoning for mining use is also important. One of the municipalities has converted their portion of the land for mining use, and the other municipality voted unanimously to do that and are now just going through the process, expected to be completed by the end of the year.

Then, obviously, the other catalysts are the financing and the offtake contracts. Key to the project finance is putting in place sufficient offtake contracts, and we anticipate those initial contracts by the end of Q4, or certainly binding term sheets by that time. Once they're binding, then we can announce to the market all of the discussions that have been ongoing for the last couple of years.

ESG, we've published the Life Cycle Assessment, a key document for both the financiers and the customers, and we'll be following that up with a benchmarking assessment, and then also the publication of a Sustainability Report.

Just one slide here on the market outlook, because we're seeing an interesting development in the use of manganese. As the cathodes for batteries increase in cost due to raw material costs, we're seeing more and more discussions and commercial rollout of high-purity manganese-rich chemistries. There were many really interesting announcements just last week. CATL, who included manganese in their LFP chemistries, so they're now saying LMFP, and they're going to be supplying Tesla for late 2022, early 2023, with its LMFP chemistry. The manganese content is anticipated to be between 40% and

60%. We're also seeing other NMC chemistries going to high manganese, with BASF announcing scaling up of their 70% containing NMC chemistry. Then other high manganese chemistries with NMx, nickel manganese where X is a dopant in their chemistry with SVOLT, and LNMO, a lithium nickel manganese zero coblat, with Morrow Topsoe announcing they're scaling up their operation.

Only last Friday, a major announcement in the U.S., where their House of Representatives passed their proposed Inflation Reduction Act, it only now needs to be signed by President Biden, which will have a major impact on raw materials supply and EV market in the U.S. The act requires, by 2024, that 40% of battery raw materials are sourced from the U.S. or country with a U.S. Free Trade Agreement to be eligible for tax incentives, and that rises 10% each year until 2027, when that requirement is 80% of battery raw materials. Critical battery materials that are listed in the act include manganese and other battery materials.

We keep on seeing the growth of the overall EV market continue quarter-on-quarter, and we've now over 1.4 gigawatt hours of planned battery capacity by 2030 in Europe, and it will account for about 25% of the global high-purity manganese demand. Now, manganese, the high-purity manganese that needs to be produced, needs to increase tenfold globally from where it is in the world today, and it's not the resource which is the bottleneck. It's the high-purity manganese refining capacity that's the bottleneck.

So, just to finish, what is our value proposition? I think we have a number of privileged assets. Our location, our ore type being carbonate, the fact we have 100% traceability of our product, and our low-carbon footprint, being the only EU source of high-purity manganese, and a privileged asset that no one can tackle, no one has that.

Then, our core competencies. We have now developed the processing and capacity for high-purity manganese, the technical capacity for that. With China dominating this industry, we now have a process which is robust, which we can replicate in additional geographies, and that is now a core competency of the Company.

And then, potential for growth. We are western-focused in Europe, and I've talked about at the very start we are starting to look at the North American market and looking at what is our potential for growth there. We have a first-mover advantage in Europe, and if we can move quickly, I believe, in the

manganese space, we can also have a first-mover advantage in other geographies. We know we'll get a premium product, we have a premium product, and for that we'll get a premium price, which is—and this is even more of a case now with the North American Act and EU's demand for supply security and premium price for our product. We have developed over the years some very key strategic relationships with customers, with some partners, investors, host governments, and especially our local communities.

We thank you very much. That concludes the presentation part of this quarterly call and we can move on to any questions you may have.

Operator:
Certainly. We'll now begin the question and answer session.

Our first question is from Tim Hoff with Canaccord Genuity. Please go ahead.

Tim Hoff:
Thanks, guys, for the call today. I just wanted to go through project financing. I think you've got that in there sort of starting Q3. Is financing largely going to be contingent around your uptake agreements? Then, I guess, how do you consider financing of projects like this? Can you run us through what the Europeans are talking about in terms of, I guess, some of the support that they might be offering?

Dr. Matthew James:
Sure. Yes, I mean, project financing, the process had started with the appointment of Stifel. I think I went through sources of debt that they have been targeting, and I think that it's high confidence from the team that we'll be able to debt financing for these projects. Clearly, offtake contracts are an important part of that, and getting sufficient—whether that's sort of 70% or 80% of our offtake under contracts by the time the banks are completing their due diligence, which will be in the first half of next year, is our target, and then we're right on track to achieving that, I believe. I know we haven't announced any key offtake contracts, but we're going through a lot of discussions with the major players across both the cathode industry, the battery industry, and the OEMs, themselves, and I'd say at the start of the year we anticipate September Q4 to be announcing our first offtake contracts, and I'm confident that we're still on schedule for that. Yes, offtake contracts certainly play a key role in the underpinning of the project finance.

In terms of what support the Europeans are offering, we have a tax break from the Czech government, which we need to extend. In terms of European Union support, at the moment they're focused on earlier stage projects. They put a lot of money into developing the middle of the supply chain for the battery companies and supporting the OEMs with their EV, and they've recognized that they've kind of left behind the supply, raw material supply, and also haven't focused that much on the recycling, but the next finance package that you're going to see coming out of Europe are going to be focused on those to ends of the supply chain.

But, from my discussions with the Vice President of Europe Maros Sefcovic, I believe that they're going to be focused on earlier stage projects than ours, those which are yet to publish a feasibility study. To generate opportunities to develop more mines in Europe, they're putting the money at the early stage exploration and project development, and then they're going to put money into the recycling side, as well. We're kind of too advanced almost for those sets of funds. So, at the moment, obviously, with the major support of the EBRD and the EIB, we're going to access European debt finance, but I don't think it's going to be free money, not really in the form of grants. They are not commercial enterprises, they don't require the same level of commercial return as a project finance bank, for example.

Tim Hoff:
Thank you, and perhaps just one more quick one, if I can. I think we're seeing some pretty stark photos coming out of Europe around the drought. I guess mining projects, when they come up against farmers for water, will often sort of be in that conflict area. Can you give us an idea on what it's like at site at the moment, is water supply an issue here, and if it's not, why so?

Dr. Matthew James:
Well, it's not for us. I mentioned we're actually sourcing waste water from the power plant next door. The power plant do draw their water from the local river, the Labe River, but they being a power supplier, are not going to be cut off from that water supply, and I haven't heard—I can't say precisely what the river levels are, but I haven't heard any issues in terms of water.

Tim Hoff:
Excellent, thank you. I'll pass it on.

Operator:

While we wait for other callers to join the queue, I'd like to hand the call over to Louise Burgess with Euro Manganese, who will moderate the webcast Q&A. Louise?

Louise Burgess:

Thank you, Operator. A couple questions here from James Barr with Canaccord. The first is, "When do you expect commissioning of the pilot plant and when do you expect samples to be sent to customers?"

Dr. Matthew James:

Okay. So, there's a bit of terminology here. So, the pilot plant was run in China. We did run a second run of the pilot plant, which has been completed, and those samples are on their way to the Czech Republic, where we will do our own Certificate of Analysis, and then send some samples from that pilot plant to customers. Those have been requested. These are kilograms of samples.

If you mean the demonstration plant, we expect commissioning of the demonstration plant in Q4 this year, and depending on how that commissioning goes, samples will be sent to customers at the end of Q4 or early Q1 2023, but fairly shortly after that plant is installed. It has been cold commissioned prior to shipment to us, and inspected by SGS during that process, so we know that everything's connected up correctly, and we'll be reconnecting that in our building and then commissioning it, starting from the first part of the process, working our way through. When that is producing in tune and producing on-spec samples, we'll then be able to send those on to the customers.

Louise Burgess:

The second question here, also from James, is, "With offtake, are customers discussing fixed price contracts, as well as moving with the market, and are their price expectations the same as ours?"

Dr. Matthew James:

There is a mixture of pricing mechanisms being discussed. We recognize that from an equity shareholder perspective that we want to give ourselves exposure to what we believe will be an increasing manganese price with the timing of the market and the large deficit is forecast. We're going to balance that, though, with what the banks want, which is certainty on price, or at least a certain floor level on price, whether that's a cost plus methodology. We'll be balancing that mix when we are talking with the customers and at the same time analyzing that impact on the bankability of the debt. So, I'd

say it will be a mixture and balancing those two sort of opposing forces, if you like. Just one more point on this. We won't be signing 100% of our product, so there will always be some left purely to market pricing, as well.

Louise Burgess:
Thank you, Matt. Those are the questions from the webcast, so I'll pass it back over to the Operator, should there be any further questions from the conference call line.

Operator:
There appear to be no further questions at this time, so I'd like to hand the call over to Dr. Matthew James for closing remarks.

Dr. Matthew James:
Thank you, everyone, for your time and attending our third quarterly call. I am pleased that we are doing these calls to reach out to our investor base and those interested in the project, and look forward to our next one in approximately three months' time.

Operator:
This concludes today's conference call, you may disconnect your lines. Thank you for participating and have a pleasant day.