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TMC.OQ - Q4 2022 TMC the metals company Inc Earnings Call

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CORPORATE PARTICIPANTS

Craig Shesky *TMC the metals company, Inc. - CFO*

Gerard Barron *TMC the metals company, Inc. - CEO & Chairman of the Board*

CONFERENCE CALL PARTICIPANTS

Dmitry Silversteyn *Water Tower Research LLC - Senior Analyst*

Malcolm MacDonald

PRESENTATION

Operator

Good afternoon, everyone and thank you for participating in The Metals Company Fourth Quarter and Full Year 2022 Corporate Update Conference Call.

Joining us today are The Metals Company Chairman and Chief Executive Officer, Gerard Barron and Chief Financial Officer, Craig Shesky. Following their remarks, we'll open the call for your questions.

Before we go further, I would like to turn the call over to CFO, Craig Shesky, as he reads the company's safe harbor statement within the meaning of the Private Securities Litigation Reform Act of 1995 that provides important cautions regarding forward-looking statements and information about the use of non-GAAP measures.

Craig, please go ahead.

Craig Shesky - *TMC the metals company, Inc. - CFO*

Thank you. Please note that during this call, certain statements made by the company will be forward-looking and based on management's beliefs and assumptions from information available at this time.

These statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control, including those set forth in our safe harbor provision for forward-looking statements that can be found at the end of our fourth quarter 2022 corporate update press release.

Such statements may also be found in our annual report on Form 10-K for the year ended December 31, 2021, and other reports subsequently filed with the SEC, including our upcoming 10-K for the year ended December 31, 2022, all that provide further detail about the risks related to our business.

Additionally, please note that the company's actual results may differ materially from those anticipated, and except as required by law, we undertake no obligation to update any forward-looking statements.

Our remarks today may also include non-GAAP financial measures, including with respect to free cash flows, and additional details regarding these non-GAAP financial measures, including reconciliations to the most directly comparable GAAP financial measures, can be found in the slide deck being used with this call. And the slide deck is now available on our website at investors.metals.co.

I will now turn it over to Gerard Barron, TMC's Chairman and Chief Executive Officer. Gerard, please go ahead.

Gerard Barron - TMC the metals company, Inc. - CEO & Chairman of the Board

Thank you, Craig, and good afternoon, and thank you all for joining us today for our fourth quarter 2022 corporate update call. You're welcome to follow along with our slide deck, or if you're joining us by phone, you can access it at any time at investors.metals.co.

The fourth quarter saw some incredible and historic milestones for TMC, NORI, and our strategic partner and shareholder, Allseas. The single biggest milestone, of course, was the first integrated collection and lift of polymetallic nodules in the CCZ since the 1970s, in which 4,500 tons of nodules were collected and over 3,000 tons were lifted to the surface.

But it wasn't just about collecting nodules. The test and the monitoring campaign running in parallel also collected over 200 terabytes of environmental data, and that data will help us better understand the absolute impacts of nodule collection, while life-cycle analysis can help us better understand relative impacts.

On that front, the full benchmark life-cycle analysis previewed on our last call, but now released in full after third-party review, shows that the NORI-D project model performed better in almost every impact category analyzed than all land based options chosen for comparison.

But we're not alone in the quest to provide the environmental and social guidepost for the responsible use of seafloor resources. And we were very pleased to announce in February that we joined a group of roughly 25 participants to develop an ESG handbook for marine minerals, the first of its kind in this area.

And then earlier this month, we announced that Bechtel, a global leader in engineering, procurement and construction, will collect and compile the technoeconomic studies being done by various consultants, which are required for NORI to lodge its application for an exploitation contract with the ISA.

And even in its early stages, we've already seen this partnership open many doors for us, given the instant credibility that comes with the Bechtel name.

Also this month, we announced a non-binding MOU with Pacific Metals Company, or PAMCO, in Japan, to evaluate the tolling of 1.3 million tons of wet polymetallic nodules per year at PAMCO's Hachinohe smelting facilities, starting in 2025.

This is another example of the capital-light approach to get into production as it takes advantage of an existing facility, with minimal required CapEx. We'll dive deeper into this a bit later on.

And finally, I'm pleased to announce some further developments on the financing front. Our partner and shareholder, Allseas, has made available to us a \$25 million unsecured credit facility, maturing in May 2024. The interest rate, if drawn today, would be just under 8%, and there is a 4% per annum fee on undrawn amounts.

We've been clear about our intentions to explore asset-level financing options and minimize dilution to shareholders. But as we continue those longer-term financing discussions, it's extremely helpful to have this additional tool for shorter-term liquidity.

We also announced a strategic partnership with Low Carbon Royalties, in which we contributed a 2% gross overriding royalty on NORI in exchange for \$5 million and a 35% equity stake in LCR, and importantly, a right to repurchase up to 75% of the royalty at a fixed IRR return.

In the coming years, LCR has the potential to be an important additional source of capital to bring NORI-D and other TMC projects into production, given their talented management team's track record of value creation and accretive deal making.

Finally, you may have seen the news in December that we put in place a \$30 million ATM program to potentially issue shares opportunistically in the open market with the help of our bankers at Stifel and Wedbush.

This tool provides us flexibility and optionality. But make no mistake, it is not our intention to use this as a primary financing tool. And when we report our Q1 results in May, you could expect that the drawn amount then will be the same as it is today: zero.

So on the agenda, we're going to take you through the following items on the call: an overview of the recent headlines in the market, a regulatory update, an update on the NORI-D project, a recap of our near-term milestones and our financial update.

So anyone scanning the press on the topic of deep sea nodules would have noticed a large pickup in coverage recently from the likes of the New York Times, Bloomberg, Reuters and a very worthwhile piece from Steven LeVine in The Electric just this week, which I'd recommend.

It's hard sometimes to cut through all of the noise, and the vocal and well-funded minority is likely to get louder as the ISA progress continues. But amidst this noise, there have been some strong signals and real action taken by credible companies and countries.

Belgium's contractor GSR, announced investment from leading offshore contractor Transocean, who will also provide GSR with the Samsung 10,000 drillship, Olympia for conversion into a nodule production vessel ahead of its system integration test currently scheduled for 2025.

And Norway recently announced a major discovery of critical minerals on the seabed of its continental shelf as it considers permitting offshore exploration within its EEZ.

In December 2022, Japan announced plans to possibly begin extracting rare earth elements from the mud on the Western Pacific's deep sea bottom as early as 2024, budgeting \$44 million for trial extraction equipment.

There were also some attention-grabbing headlines regarding China's action on deep sea nodules. In February, China's COMRA signed an extension of their CCZ contract, their exploration contract. And just this month, China's state-owned newspaper recognized TMC's leadership position in the industry and announced its intention to invest further into the development of technologies to recover polymetallic nodules.

But while the Chinese- and Russian-funded production dominates the nickel picture on land, that's not the case for sea floor nodules. Herein lies the opportunity for nations and companies worried about supply chain security for battery metals.

Collectively, our NORI and TOML projects rival today's largest producers, both in Russia and Indonesia. And NORI and TOML were ranked earlier this year by MINING.COM as the world's largest undeveloped nickel projects, larger than other projects in the pipeline in Canada and the U.S. and about an order of magnitude higher in grade.

And speaking of grade, this chart plots the nickel-equivalent grade on the Y-axis and nickel-equivalent resource size on the X-axis, comparing some of the more prevalent nickel projects, for which data is available. And focusing on the bubbles in gray, some nickel projects have high grade and some have a large resource, but very few have both.

TMC is an absolute outlier amongst peers with the largest nickel-equivalent resource and the highest nickel-equivalent grade. The scale of our resource can also be measured in terms of how big of a gap it can fill in the clean energy transition, with each little car on this page representing the metal required to electrify 1 million vehicles with a 75-kilowatt battery on an NMC811 chemistry.

Our NORI and TOML areas contain in situ qualities of nickel, copper, cobalt and manganese equivalent to the requirements of about 280 million vehicles or roughly the entire U.S. passenger fleet. And to deliver on energy transition goals, countries like the U.S. need to tap unconventional resources like nodules that can truly move the needle for nickel-rich battery chemistries.

Shifting gears, as some of you may have read, UN member states reached a landmark agreement this month, focused on the conservation and sustainable use of Marine Biodiversity of Areas Beyond National Jurisdiction or BBNJ, as we know it. The High Seas Treaty, as it is known, took roughly 2 decades of negotiation, and we applaud the commitment of member states to protect 30% of our ocean by the end of the decade.

But I would remind our listeners that the International Seabed Authority has already exceeded this target with 43% of the Clarion Clipperton Zone of the Pacific Ocean, home to 90% of all nodule exploration activity set aside for protection, far more than is under exploration.

There has been some confusion as to the implications of the new treaty for deep-sea mining. The short answer is that the treaty neither impacts the mandate of the ISA as regulator nor the rights and responsibilities of sponsoring states and contractors.

As we speak, the ISA session is in progress in Kingston, Jamaica, with the focus on the financial regime, regulations and standards and guidelines, working hard to stick to the roadmap that has been laid out on this page.

We're encouraged by much of what we're hearing from our team on the ground regarding the progress in this ongoing session, and we'll have a lot more to report after the session concludes on our next quarterly update call in May.

Earlier this month, we announced that Bechtel will collect and compile the technoeconomic studies, currently being compiled by various consultants, which are required for NORI to lodge its application for an exploitation contract with the ISA.

And with their extensive experience working on historic infrastructure and mining projects, it's incredibly exciting to have a partner of Bechtel's caliber onboard to help NORI deliver a first-of-its-kind exploitation contract application to the ISA and ultimately bring this important resource of energy transition metals online in a responsible way.

So, with the help of another of our industry-leading partners, Hatch, we developed a new zero-waste flow sheet that uses almost all of the nodules mass while producing zero tailings. And the products on the right side of the page are what you get after the refining process. And while we've developed the flow sheet as well, we may or may not take that extra step, given that some future customers may prefer to take the alloy or matte directly.

Our pilot processing trials wrapped up in Q4 2021, showing definitively that we can turn that flow sheet into a reality. And over the last year, we've been searching for the right partner to help us get from pilot stage to commercial stage production.

We previously announced that we were exploring the possibility of building a new nodule processing facility in India with the help of Epsilon Carbon. And we still might find a way to work together in the future, but another opportunity presented itself last year, a turnkey option to potentially process our nodules in an RKEF facility, which already exists.

Earlier this month, we announced that we had signed a non-binding MOU with PAMCO of Japan to evaluate the tolling of 1.3 million tons or more of polymetallic nodules per annum at the Japanese smelting facility, starting in 2025.

PAMCO will undertake the studies to estimate the cost of processing nodules using their existing facilities and to identify any additional equipment requirements, which are currently expected to be minimal. In fact, a 22-ton sample of the nodules collected in last year's test has already been offloaded at the facility for testing.

PAMCO has been smelting nickel laterite ore at their facility since 1965, and its plant seems well-suited to deploy our near-zero solid waste flow sheet, particularly because these nodules behave very similarly to nickel laterites in the smelting process. And working with PAMCO can help us achieve our stated capital-light strategy to get into initial commercial production, potentially reducing both our time to market and our upfront costs.

As a reminder, NORI-D is the first project we are developing. It represents about 22% of our total estimated resource. And so far, we've invested over a decade of work and over \$300 million dollars.

This slide lays out some of the key attributes of the NORI-D project, which gives a sense of how much progress has been made and why it's of increasing interest among strategic partners.

As I mentioned, we were pleased to report in the fourth quarter that Allseas and NORI achieved all the significant pilot collection system milestones while collecting approximately 4,500 tons of polymetallic nodules and over 3,000 tons were lifted up a 4.3 kilometer-long riser to the Hidden Gem vessel. The pilot system achieved a sustained production rate of 86.4 tons per hour and gave us valuable operational data to inform future system optimizations and upgrades. And the Project Zero system will be targeting an average production rate of over 200 tons per hour following some modification.

I'd like to play a short video where you can hear from the TMC and Allseas team onboard the vessel, just a few of the team members among the hundreds who made this historic achievement a reality. And for anyone on the audio call only, this will take about 3 minutes.

(presentation)

Gerard Barron - TMC the metals company, Inc. - CEO & Chairman of the Board

There was also an environmental impact monitoring campaign that monitored every part of the collector test you just saw as part of our \$100 million NORI-D ESIA program. We're working with some of the world's leading marine research institutions to amass one of the most comprehensive data sets ever compiled of the deep sea, some of which are highlighted on this page. During the collector test, scores of independent scientists and marine experts monitored the operations from a dedicated research vessel. The initial data generated during the 2 monitoring campaigns formed part of a broader data set gathered during the 17 offshore environmental baseline and resource definition campaigns conducted by TMC since 2012 as part of its environmental and social impact assessment for the NORI-D project. Our team is preparing to submit the first batch of this data to the ISA, and we expect that it is likely the most extensive deep sea data set of its kind on the planet.

As mentioned earlier, the ISA is well ahead of the curve when it comes to marine protected areas, as you can see in box one. In addition to these, various mitigation strategies are available to us. The process of upgrading the pilot collection system we had in the water last year to a full-scale commercial system is already underway. And the expert engineers at Allseas are leveraging the data and learnings from our offshore trials to optimize designs to further reduce our impacts, including plume and noise generation. We're pioneering a precautionary approach to development of this project and simultaneously undertaking a rigorous process of stakeholder engagement and public consultation.

The data gathered from our offshore campaigns has and will continue to advance society's understanding of the deep sea in the CCZ and the potential impacts of our operations in this region. And this data is also central to the development of safe operating parameters being developed in partnership with CSIRO and NIWA on the adaptive management system, or AMS, as we know it. The first iteration of the AMS performed beautifully during the integrated collector test. And the teams are busy iterating and improving the system, which will serve as the virtual eyes and ears of our operations.

Of course, what often gets missed in the media reporting on the environmental impacts is that there is simply a lot less life to begin with in this part of the ocean. We're talking about 1,500x less biomass per square meter when compared to the biodiverse rainforest under which most future nickel supply would otherwise come from in Indonesia. And as we've been saying for years, these nodules come with no social displacement, no deforestation, no digging, no blasting, no drilling, no child or forced labor, and importantly, no tailings. So rather than just talk about it, we took action and engaged a blue-chip metals research firm, Benchmark, to undertake a life cycle assessment of the environmental impacts of the NORI-D project, and how they compared to producing the same metals from conventional land ores using typical processing routes. This life cycle analysis, which has now undergone third-party review as well is linked to in our press release this week. It's 227 pages long, and there's also a shorter form version.

But let me summarize. The results are staggering. Across every single impact category measured, the nickel products derived from nodules outperformed every land-based source in this analysis, including carbon and waste impacts. We didn't even need to measure tailings impact because we will produce zero tailings. A similar life cycle analysis was also done on our future copper and cobalt supply. Again, nodules came out on top for both metal products other than 2 categories within cobalt in which we took second place.

Zooming in on one metric, the graph shows the global warming potential per kilogram of nickel in nickel sulfate, with the NORI-D project having the lowest footprint of all assessed alternatives, lowering emissions by between 70% to 80% on average, including with 70% lower global warming

potential. And of course, the beauty of assessing our project's impacts before it even begins, is that we can work diligently to improve its environmental profile well in advance of commencing commercial operations. This study is part of the growing course of information based on science and real-world field data, which support the case for nodules as a key enabler of the clean energy transition.

And I'd now like to turn it over to Craig to discuss project economics, valuation and our financial results.

Craig Shesky - TMC the metals company, Inc. - CFO

Thank you, Gerard. So, starting place as always for valuation is our NPV. And in March 2021, AMC Consultants issued an SEC Regulation SK 1300-compliant initial assessment of the project economics for the NORI-D area. The NORI initial assessment is available on the Investors section of our website and our NORI-D financial model can be found beginning on Page 310 of that PDF document. But for modeling purposes, we've also now added the Excel tables from this initial assessment as a separate document. Just look for the Excel icon if you scroll down. And that initial assessment, which was a point-in-time analysis, arrived at a net present value of \$6.8 billion for NORI-D at the beginning of 2021. But if you run that same model simply by updating it for current metal prices, the net present value of NORI-D would be approximately \$13 billion, again on just 22% of our total estimated resource.

Looking back on 2022, we haven't hit all of them, though we've completed most of our stated milestones, particularly those on the project development side. We do have more work to do to sign some definitive agreements on Project Zero, and we've talked about some of the new partnerships on that front. And we're happy with where the discussions are headed. We've also been very pleased to share the results of the benchmark LCA study with potential offtakers.

Now the next page lays out some of the critical milestones that we think can, and should, lead to step changes in our public valuation. These next critical milestones include, of course, continued progress from the ISA, working as we speak on the final exploitation regulations. NORI submitting an exploitation application for the NORI-D area, the ISA then granting an exploitation contract over the NORI-D area. And then finally, the beginning of commercial production shortly thereafter. So when you look at us in the public markets and wonder why it is we're still trading around 1%, 1.5% of net present value, we think progress on those milestones will get us trading to where we should relative to public comparables, 20%, 30%, 40% of net present value at this stage of production.

And now on to financial results. In the last quarter of 2022, TMC reported a net loss of \$109.6 million, \$0.41 per share compared to TMC's net loss of \$19.8 million or \$0.09 per share for the same period in 2021. The net loss for the last quarter of 2022 included exploration and evaluation expenses of \$104.3 million versus \$12.8 million in the fourth quarter of 2021. G&A expenses of \$7 million versus \$15.4 million in Q4 2021, partially offset by a gain of \$1.3 million due to a decrease in the value of our warrants.

There is a big difference, of course, between the fourth quarter of '22 and '21, and let's explain that. The increase in exploration expenses was mainly a result of a recording of \$69.9 million for the Allseas warrant, and that was recorded at the March 2021 DeepGreen share value date, which was \$7 per share, again at that point in March 2021. So that, along with \$8.7 million related to the 10.85 million shares issued to Allseas as completion payment, following the successful conclusion of the pilot collection system trial, those are really the big movers within that number. And we've laid out on the slides available on our website and on this webcast, exactly how you can analyze and normalize those numbers and potentially back out.

General and administrative expenses decreased in the last quarter of 2022 compared to the last quarter of 2021, reflecting a reduction in share-based compensation and a reduction in communication and advertising costs, partially offset by higher personnel, legal and other expenses associated with being a public company.

In the last quarter of 2022, the net cash used in operating activities amounted to \$19.8 million compared to \$27.8 million for the last quarter of 2021. Excluding nonrecurring items, free cash flow for the last quarter of 2022 was negative \$20 million compared to negative \$27.8 million in the last quarter of 2021. And again, keep in mind, these are quarters in which we had offshore campaigns, with many hundreds of people at sea. This is not necessarily a run rate or useful for projections going forward. And in fact, as we said previously, we are a team of less than 40 people and can run a very tight ship if need be.

And regarding our balance sheet as at December 31, 2022, we closed the quarter with a cash balance of \$46.8 million.

And with that, I'll turn it back over to Gerard for some closing remarks before our Q&A.

Gerard Barron - TMC the metals company, Inc. - CEO & Chairman of the Board

Thank you, Craig. After the achievements we reported in November, we have really focused on adding names to the ecosystem working hard on the first of this kind project. We've succeeded in adding more credibility to this project with the help of brand names like Benchmark, PAMCO, Bechtel, all of the participants in the ESG handbook for Marine Minerals and of course, the continued unwavering support of Allseas.

Our focus for the next quarter and the rest of 2023 is to continue building partnerships, some of which can help on the financing front and craft the best possible exploitation application contract. I know our team is up to the challenge. And speaking of our team, many of whom I know will be listening, I'd like to extend an enormous thank you for their dedication and enormous efforts to this important mission.

So, thank you for your interest and attention. And with that, we'd like to turn it back to the operator for any Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Dmitry Silversteyn from Water Tower Research.

Dmitry Silversteyn - Water Tower Research LLC - Senior Analyst

I have a couple. First of all, on this PAMCO agreement, how long do you expect PAMCO to actually trial the tons that you sent and come up with the economic flow sheet and whether or not it can be done and at what cost?

Gerard Barron - TMC the metals company, Inc. - CEO & Chairman of the Board

Yes, Dmitry. Look, PAMCO has been working for a little while, on some samples that we had previously sent them. And so we expect to be in a position later this year, hopefully, by the third quarter to move to a binding MoU, which will also cover off all of the economics that go with that. So, you can expect news in a reasonably short time frame there. But PAMCO has enormous expertise when it comes to processing nickel ores. And of course, the work that we did in our pilot program was a good platform. And so, we have a high degree of confidence that we'll have a good outcome there.

Dmitry Silversteyn - Water Tower Research LLC - Senior Analyst

Okay. That's good. Just a follow-up on that. You mentioned that they're looking at processing 1.3 million tons a year or more. What's the capacity you think of the plants that they're thinking and the equipment that they're thinking of using. In other words, can they process 2 million? Can they process 5 million? Sort of what's the limitation there with the current equipment?

Gerard Barron - TMC the metals company, Inc. - CEO & Chairman of the Board

Well, PAMCO has a beautiful facility. And some of my team and I were there recently, and in fact, some of the team have had many visits to the PAMCO facility. They run 3 lines and Stage 1 will be dedicating one line to this project. And -- but it is -- the plan would be to utilize the other lines as well, and there is certainly room for expansion beyond those 3 lines. And so that could see us getting close to 4 million tons capacity there.

Dmitry Silversteyn - *Water Tower Research LLC - Senior Analyst*

So 1.3 million is about the capacity of 1 line or thereabouts, and you have room to expand it if there is enough material that you could provide us to process.

Gerard Barron - *TMC the metals company, Inc. - CEO & Chairman of the Board*

That's right.

Dmitry Silversteyn - *Water Tower Research LLC - Senior Analyst*

Okay. Secondly, let me switch gears a little bit and talk financials. So you got \$5 million from low-carbon royalty. So that's going to bolster your cash position a little bit into 2023. And you have what looks like arranged a \$25 million, I guess, I can call it a 18-month float or so, you said by the end of '24. So that obviously gives you room to negotiate a more permanent and more robust financing structure. I'm guessing that, that's still your intention and that's something that you're working on completing this year?

Gerard Barron - *TMC the metals company, Inc. - CEO & Chairman of the Board*

Yes. As we mentioned, we have an ATM in place, and we had many approaches from people wanting to participate in an equity raise. But we are very protective of equity. And we were so delighted that Allseas has agreed to extend this credit facility because we do have a lot of people at the table, and we -- as we spend more money, it adds more certainty to the project. And it's a very conventional way for companies at our stage of development to finance their way into production by inviting other participants and that could be people -- larger mining companies or oil and gas companies or logistics companies or financial players into the asset itself. And of course, most of the money, like more than 80% of every dollar we spend is at the project level. And so -- we are working very hard on that. They're discussions that you don't want to rush, you want to let them play out naturally. And as we get closer, we find there are a lot more people sat at the table than there were even 3 months ago. And so, we want to bring that to an orderly conclusion in the best interest of TMC equity holders.

Dmitry Silversteyn - *Water Tower Research LLC - Senior Analyst*

And then just the last question on the Benchmark Mineral Intelligence report. I would assume it helps you with your efforts as you mentioned it certainly gives more gravitas to your claims of environmental impact. But I'm guessing that it also is perhaps contributing to greater level of interest from potential investors or even potential customers taking -- getting ready to take to look at the materials as a takeoff agreement?

Gerard Barron - *TMC the metals company, Inc. - CEO & Chairman of the Board*

Yes. Yes, absolutely. I mean we were -- we, of course, completed an LCA some years ago, but the observers were saying, yes, but there are a couple of teams, a few of our people were part of that and that wasn't independent enough. So we said, okay, let's go and hire someone who is entirely independent, who can then put it out to peer review and see what it comes back with. And surprise, surprise, it came back with a result very similar to the quality piece of work that was done previously. But having an independent verification around is really important because you can't just look at one aspect. You have to look through the lens of a multi-tiered LCA to look at a broad range of impacts, and this project just shines at all levels. And so, 227 pages of findings, I hope you get to read it because it's exciting and it just highlights some of the benefits that this resource offers compared to the known alternatives.

Operator

And our next question comes from the line of Malcolm McDonald from Bank of America.

Malcolm MacDonald

Most of my questions were just answered. But kind of high level. And first of all, congratulations on the PAMCO deal and a capital-light processing approach. But high level, why the change in tone from France?

Gerard Barron - *TMC the metals company, Inc. - CEO & Chairman of the Board*

Well -- hi, Malcolm. Look, it's interesting, isn't it? I mean, 18 months ago, President Macron put aside EUR 300 million to fast track the development of the license area in the CCZ. And I think his words were something to the effect of, 'I can hear the cries now, but we've got this big ocean resource. France needs to reindustrialize. We need to secure our supply lines and create jobs. And to that, we're going to need a lot of metals.' So why the turnaround? Look, I think you probably have to look at the political landscape, and how that's changed in France. And I think that's happening in a lot of countries where the green parties are having a heavy influence.

And of course, France is a shining light when it comes to its nuclear energy generation, the lowest carbon form of energy. And so, you can't help but think this might have been a trade-off. And -- but we hope through the -- through the very thorough science that we're funding, and other contractors are funding as well, not just us, that those green influences will actually swing our way because it's a -- we've seen in Europe this year with the heavy dependency on Russian gas, that there are trade-offs that need to be made. And you look at countries that were heavily dependent on Russian gas, having to fire up their coal-powered energy sources. I mean, it makes no sense. And so we hope through science-based evidence that we can build bridges and people can see the benefit of this resource.

And of course, the impacts of land-based nickel production, in particular, and mining in general, are there for us all to see. They're just not well understood. And that's one of our challenges, of course, being able to communicate that effectively. But it was also interesting to see France renew their own license application earlier this year. And of course, that comes with an obligation to move towards exploitation in this 5-year window. So, some confusing signals there.

Operator

I am not showing any further questions from the phone lines at this time. I'd like to hand the program back to Craig.

Craig Shesky - *TMC the metals company, Inc. - CFO*

Yes. We have some questions in the webcast queue, which we'll take through.

First of all, we have 1 from Ryan Boley. I hope you're doing well. The question is, do you expect to pay a dividend as other mining companies do once you're net positive cash flow?

Ryan, I like where your head's at. We, of course, have some milestones to hit before we get to that point. But I think I would look at our capital-light strategy as evidence that shareholder returns are always going to be front of mind for us, including everything else that we consider with respect to all of our stakeholders. But as we get down the road and get into production and get to free cash flow positivity, one thing that we're going to have to look at is the first project, NORI-D, that's still just 22% of our resource portfolio. There might be financing opportunities where we're able to progress some of the rest of that 78%. For example, TOML-F which is right next door to NORI-D, has effectively the same metal grade, effectively the same nodule abundance per square meter. And the only difference is it's about 72% of the size of NORI-D.

So there are a lot of other blocks that I don't think the public markets are giving us credit for yet. And depending on where our share price is at the time, we might think it's a better return to invest any of the cash flow we have back into the project. But we will always be doing those IRR and ROE calculations and making sure that we're doing what's best for our shareholders when it comes to our dividend and/or share repurchase policy.

We also have a question from Frank Jones at Norbury Partners. Question is if we think about the \$8.7 million payment to Allseas for the collector test as a rough estimate of costs associated with collection of 3,000 tons of nodules, how should we think about fixed and variable costs as we get closer to production?

What we've laid out, Frank, a couple of data points publicly. If you go back to the initial assessment that we referenced before and some of the slides are summarized and available on our website at our 2021 Analyst Day presentation. We laid out that at full-scale steady-state production on NORI-D, you'd be expecting roughly \$503 per ton of revenue versus roughly \$200 per ton of total cost. Now that was a point in time analysis. Metal prices are much higher, costs are higher, too.

And keep in mind that when we're starting initial small-scale production on Project Zero, the economics are not going to be as high as that, which would imply a 60% plus EBITDA margin. You're going to have to start a little bit smaller, but we are very confident when we look at what our definitive agreement might look like with Allseas. When we look at where things might end up with PAMCO, we're feeling very good about what that's going to mean for our EBITDA margin and free cash flow positivity on Project Zero.

One data point to look to in March 2022 in the non-binding term sheet signed with Allseas, it was guided to EUR 150 per ton of costs initially for Project Zero to nodule collection and then shipment to shore. Again, costs are moving around all the time, and it's based on market factors. But pretty much any scenario that we look to, we're going to have a nice healthy margin left over.

Might also take a question here from Michael Breier. We have \$47 million of cash on hand. Run rate cash expense of annually is \$26 million to \$74 million per year. So how do you finance the gap to 2025?

Thank you for the question, Michael. I think it's important to keep in mind that again, what you've seen over the last several quarters has been many hundreds of people at sea working tirelessly on a project, but now we're at the stage that the campaigns are mainly done. There are also -- of course, we did the collector test, which was many months at sea and also had a second vessel. So the going-forward cost for our company, public company expenses and personnel costs, et cetera, we really think that if needed, we could get down below \$5 million per quarter. So the gap that we need to fund is not many hundreds of millions of dollars. It's somewhere in the ballpark of \$100 million to \$150 million of additional cash required to get into production.

So, with that number out there, we think as we've shown with this -- some of these financing options over the last few months, we're going to be able to do what we can to take step by step to funding that number and make sure that we're doing it with as little dilution as possible. It may be in the form of one big transaction potentially with a partner, if you're talking about an earn-in or stake sale or other asset-level possibilities, but we have the tools at our disposal to get there in many different ways.

And one more question I see from Timothy Burn. Gerard, if you might want to take this. The 3,000 metric tons of nodules, how are they being handled now? Are they still in the ship? We did mention 22 tons of them ended up at the Hachinohe facility in Japan for some testing with PAMCO, but Gerard, maybe a comment or two on what we would intend to do with the rest?

Gerard Barron - TMC the metals company, Inc. - CEO & Chairman of the Board

Sure. The nodules, some of them are still in the ship and some have been sent to partners, and we're currently negotiating with Mexican authorities on storing them in a facility in Mexico. And so because we've completed a lot of the trials in 2021 and 2022 on the pilot processing, we felt we needed to bring back nodules. But the truth is, we can't sell them. They can only be used for testing. And yes, we're figuring out what to do with them, to be honest.

Craig Shesky - TMC the metals company, Inc. - CFO

So with that, I think we'll turn it back over to the operator and wrap up the Q&A.

Operator

Certainly. This does conclude the question-and-answer session. I'd like to hand the program back to management for any final remarks.

Craig Shesky - TMC the metals company, Inc. - CFO

Nothing on our end other than thanks everybody for your interest and attention, and we'll see you on our Q1 corporate update call coming up in May.

Operator

Thank you. Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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