



The Metals Company

**First Quarter 2022 Corporate Update
Conference Call**

May 9, 2022

C O R P O R A T E P A R T I C I P A N T S

Craig Shesky, *Chief Financial Officer*, The Metals Company

Gerard Barron, *Chairman and Chief Executive Officer*, The Metals Company

C O N F E R E N C E C A L L P A R T I C I P A N T S

Jake Sekelsky, *Alliance Global Partners*

John Katsingris, *Wedbush*

P R E S E N T A T I O N

Operator:

Good afternoon everyone and thank you for participating in The Metals Company's first quarter 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 any 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:

Thank you.

Please note that during this call, certain statements may be made by the company that are 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 provisions for forward-looking statements that can be found at the end of our first quarter 2022 corporate update press release. Such statements can also be found in our Form 10-Q when it is available and other reports filed with the SEC.

All that provide further detail about the risks related to our business. Additionally, please note that 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 statement.

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 our slide deck being used with this call and that slide deck is available on our website right now, investors.metals.co.

I will now turn it over to Gerard Barron, The Metals Company's Chairman and Chief Executive Officer.

Gerard, please go ahead.

Gerard Barron:

Thank you, Craig.

Good afternoon, and thank you all for joining us today for our first quarter 2022 corporate update.

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. Today we'll take you through the highlights from Q1, including significant progress offshore and onshore, a discussion of recent market and industry developments, our financial and project development highlights, and the expected upcoming milestones for the company.

We'll start with a brief reminder of the TMC value proposition. TMC is developing the largest estimated potential source of battery metals on the planet. We believe our portfolio alone has sufficient estimated in situ quantities of nickel, copper, cobalt, and manganese to electrify 280 million EVs, about the size of the entire US passenger fleet. With all of the raw material inflation squeezing automakers, this is a fantastic time to be developing a resource that can actually move the needle for them. The resource is also secure.

Nodules sit in international waters and are regulated by the International Seabed Authority or the ISA. The ISA resumed in-person meetings in December last year after nearly a two-year hiatus due to COVID. The ISA also met again in March and have additional meetings scheduled in July and November of this year with a stated target of finalizing the exploitation regime by July 2023. We expect our production costs to be low as nodules contain high grades of four metals in a single resource, which could put us firmly in the bottom quartile of the C1 nickel cost curve.

Importantly, we also expect to significantly compress ESG impacts compared to land-based miners. No digging, no blasting, no drilling, no child labor, no social displacement, no deforestation, and no tailings. We anticipate much lower carbon

impacts compared to land-based miners and nearly zero solid waste. Finally, the recent rally in metal prices has led to a large increase in the expected NPV for NORI-D, the first project we are developing.

Using the initial assessment done by AMC and simply updating the current metal prices, the estimated NPV for NORI-D would be \$22 billion with all other inputs being equal. It's becoming increasingly obvious that automakers and other metal consumers are very worried about availability, sustainability, and price of battery metals. Last month, Tesla CEO, Elon Musk tweeted, "Tesla might actually have to go into mining and refining directly at scale unless costs improve." In a recent letter to shareholders, GM's CEO, Mary Barra, expressed confidence in their supplies of lithium, rare earths, and cobalt. The exception was that "GM is still working to secure adequate nickel supplies." Ford CEO, Jim Farley, was recently asked about what keeps him up at night. His response was, "Batteries, the raw materials that go into them, and localizing that raw material supply chain in the US." US automakers are clearly recognizing that the raw materials question, it's not just about how much, but also where is it located and who controls it? TMC not only has the largest nickel project in the world but the top two largest nickel projects in the world according to a mining.com ranking from March of this year. Importantly, we believe we are the only needle-moving future nickel source that isn't already controlled by Russia or China. The latter of which is winning the battery arms race through deliberate investments over several decades in locations such as Indonesia and the DRC.

While China speeds ahead in these jurisdictions, rife with environmental and social difficulties, the US continues to have nearly zero primary production of nickel, cobalt, and manganese. That doesn't look likely to change anytime soon, at least from land-based sources. Just last week, the Environmental Protection Agency recommended against reissuing a key water-related permit for a NorthMet nickel project in Minnesota due to the potential for pollutants like mercury ending up in nearby waterways.

The largest potential nickel mine in the US, Twin Metals in Minnesota, also saw its permit rejected last year. Headlines like these clearly underscore the massive strategic benefits that our resource could potentially offer to US companies, especially given the challenges faced by so many projects on land. Our resource is big but how big and how do we know?

Well, in early 2021, AMC Consultants issued an SEC compliant technical resource statement on the NORI and TOML areas. The yellow and dark blue blocks on this page confirming a total estimated resource of 1.6 billion wet tons of nodules. The methodology used to determine this resource with confidence could be found in the appendix to this presentation, as well as the NORI initial assessment on our website and our SEC filings.

In short, we can sample it and we can actually take survey pictures of it, just one of the many advantages of having a two-dimensional resource sitting on top of the seafloor in an area with zero plant life. Zooming in on the right lower yellow box on this map, that's NORI-D, our first project. NORI-D alone is estimated to contain 356 million tons of wet

nodules representing 22% of TMC's total estimated resource, and we expect that at steady state production, NORI-D could produce up to 125,000 tons of nickels annually equivalent to roughly 10% of current global production of Class 1 nickel. We also expect to be a material source of cobalt, copper, and a metal which we think is underappreciated in manganese, but more on that later.

I'm very proud of our team and our partners for the progress made on the project development during this quarter. We intend to use our cash balance of 69 million as of March 31st to continue this progress in the coming quarters. On the right side of this page, you'll see a non-exhaustive summary of what's occurred at TMC in recent months. I'm pleased to take you through these achievements in further detail. As we discussed on our Q4 call, we wanted to remind you of the strategic developments announced in March that can potentially allow us to get into production in a capital-light manner.

Project Zero is our first small scale commercial production project expected to collect and process 1.3 million wet tons of nodules annually from the NORI-D Area. In March, we signed a non-binding term sheet with Allseas and a non-binding MoU with Epsilon Carbon, which together, if both are taken to definitive agreements, would reduce the share of pre-production costs initially borne by TMC to approximately \$55 million, down significantly from the previous estimate of \$193 million.

Starting with offshore, the term sheet with Allseas lays out the potential framework and the commercial terms for upgrading the pilot collection system into a Project Zero system and operating it in the NORI-D Area.

Further details on these economics can be found in our press releases and the transcript from our Q4 corporate update call. Already this year, Allseas has made an incredible amount of progress on the system including harbor web tests, dynamic positioning trials, and deepwater tests. This keeps us on track to test the system in the CCZ later on this summer, when nodules in our contract area will be gently lifted off the seafloor and sent to the Hidden Gem on the surface through the airlift riser system. Rather than having me simply talk about the major offshore milestones achieved this quarter, I'd like to play a short video which allows you to see the progress yourself.

[video playing]

Gerard Barron:

Last week, the successful completion of initial deep water trials of the polymetallic nodule collector vehicle in the Atlantic Ocean. The team at Allseas lowered the collector vehicle to the seafloor at depth of 2,470 meters, marking the first time the vehicle has been subjected to ultra-deepwater temperatures and pressures. Engineers then subjected the vehicle to extensive testing of its various pumps and critical mobility functions and drove the vehicle over 1 kilometer across the seafloor.

The pilot nodule collection system is so far performing beautifully throughout these trials and getting the collector vehicle in the deep water in the Atlantic, has given the team the

opportunity to really pressure test all the critical components. We're eager to share more offshore progress in the coming quarters. Onshore, we announced the signing of a non-binding MoU with Epsilon Carbon in March detailing their intention to finance, engineer, permit, build, and operate the world's first commercial polymetallic nodule processing facility in India.

Building upon our pilot work finalized in Q4 last year which successfully turned nodules into nickel, copper, cobalt matte, and manganese silicate products. India is a great place for our first processing facility for many reasons including support for nodules from their government at their highest level. Last year, Prime Minister Modi, earmarked \$0.5 billion for India's Deep Ocean mission including funds for deep sea nodule collection systems. It's also worth noting that Ford stated in February that they are, "Exploring the possibility of using a plant in India as an export base for EV manufacturing."

Even beyond the potential of EV production in India, the country already represents a major hub for steel making. Epsilon Carbon has an exclusive raw material purchase agreement with JSW Steel, India's largest steel manufacturer. This April, we announced some very important news on the attractiveness of our manganese silicate product for the steel makers in India and beyond. We retained SINTEF, one of Europe's largest independent researching institutions, to analyze our manganese silicate used to produce silicomanganese for steel making.

TMC's high grade manganese silicate product appears to have significant advantages over conventional land-based manganese ores on costs and CO2 footprint with the potential for 7% to 17% higher value in use depending on the carbon tax regimes. Manganese might not get as many headlines as nickel and cobalt, but given that manganese could account for almost 30% of our future revenues, we are very pleased by these findings from SINTEF in advance of potential offtake discussions in the near future.

As you probably read, critical mineral supplies and by extension, polymetallic nodules, are a growing area of focus for political and military leaders. You'll see on this page, a collection of excerpts from recent letters in the political and military spheres regarding seafloor resources.

The most recent letter was an absolute haymaker landed by Senator Marco Rubio against Volkswagen, a company that first virtue signaled their hesitancy on deep sea mining, but then last month signed a large offtake agreement with the Chinese-funded cobalt and rainforest nickel supply. In the letter, Senator Rubio asked if VW believes that human trafficking, child labor, and rainforest destruction are necessary risks and whether they value deep-sea sediment over human rights.

Senator Lisa Murkowski recent letter to the Department of Energy was a bit less forceful in tone, but every bit as clear in its conclusions, telling the DOE that any credible analysis of critical battery metal supply chains must include seafloor resources and asking the DOE undertake a strategic assessment of polymetallic nodules. This echoes the sentiments of 17 retired generals, admirals, and officers across four branches of the

military who wrote to the Pentagon in February asking that they consider responsible development of polymetallic nodules as a potential game-changer for US critical mineral supplies.

To reduce dependence on metals controlled by authoritarian governments and to actually get enough of these metals to make a dent in fossil fuel use. We think that nodules in the Clarion-Clipperton Zone are the only real choice and the video we'll now play highlights the potential strategic benefits to the US afforded by this remarkable resource.

[video playing]

Speaker 1:

American automakers are leading the transition to electric cars. While we may be ahead in technology innovation, we have a fundamental problem. We do not own the supply chain. China does. At the heart of an electric car is its battery made from metals sourced from around the world in a supply chain stretching 50,000 miles. After decades of deliberate industrial policy, China now controls the battery materials supply chain.

China funds and operates mining projects around the world. Processes and refines these metals at home, and is now in a strong position to dictate the terms. Currently, China holds the lifeline to our electric future. Our transition to clean energy will take several decades and require large quantities of critical metals. In many cases, we don't have the domestic deposits to produce these metals at home. What can the United States do?

Accept our dependence on China and learn to live with potential supply chain disruptions? No, we can't build an industry with this vulnerability. Work with our allies to develop an alternative more secure supply chain? Yes, but it won't be enough. China owns nearly every contract for the future supply of key metals like nickel. Could we look beyond conventionally mined metals? Recovering metal from scrap and electronic waste is crucial and may solve our problem in the long term but it won't be enough in the next 30 years, which is why it may be time to look beyond land-based mines.

1,500 miles off the coast of California is the world's largest known deposit of battery metals: nickel, copper, cobalt, and manganese-all packed into a single rock. These polymetallic nodules can be collected and brought to American soil and processed by American companies. It's a path to make real progress in solving our supply chain problem by making the battery materials at the heart of electric cars at home. An opportunity to rebuild an entire industry from the ground up, reshore manufacturing in the US, and create new jobs. The United States has a choice. We can try to play catch up with China in the conventional metal supply chain or we can innovate and secure our own future.

[music]

Gerard Barron:

The metals for the clean energy transition need to come from somewhere and we believe the science-based assessments of life cycle ESG impacts favor nodules over land-based mining, especially given some of the geopolitical environmental problems of the alternatives. Fareed Zakaria summarized this well on his CNN talk show in late April while showing images of one of TMC's environmental campaigns on the Maersk Launcher to quote, he said, "If people want to protect the planet from climate change and authoritarian governments, people will need to get onboard with new projects. Even the ocean floor cannot be off limits."

In terms of nickel, the only other material option to supply growth is equatorial nickel laterites. Typically coming from underneath the world's carbon-storing rainforests. At TMC, our ESG principles continue to drive us and we're pleased to have new third-party partners who will help us tell the story of our impacts compared to those of land-based miners. The next page summarizes some of our existing peer-reviewed lifecycle analyses, which quantifies the significant impact compression that nodules offer versus land-based metals.

Carbon emissions are significantly reduced compared to nickel pig iron and carbon sinks at risk are reduced compared to both nickel, sulfides, and nickel laterites. Water use is reduced significantly, and solid processing waste is reduced to nearly zero and no tailings are produced. We've been shouting from the rooftops about these studies for a long time and we were thrilled to announce in April that we've engaged Benchmark Minerals Intelligence to provide an independent assessment of how the lifecycle environmental impacts of our NORI-D project compared to producing the same metals from a range of conventional land or methodologies.

For nickel, nearly all net supply growth on land is expected to come from Indonesia. According to CRU, the vast majority of that supply already has guaranteed offtake to China. In fact, some analysts predict that supply growth ex Indonesia could be negative globally through the end of this decade and if that's the case, and Indonesia is the only other game in town besides nodules for nickel supply growth, we think people need to be very aware of what nickel mining in Indonesia actually looks like. The answer? Well, it isn't pretty. Deforestation, high carbon impacts, biodiversity loss, massive amounts of waste, toxic tailings that are sometimes dumped directly into the ocean and rivers.

Certainly, there are some good actors in the country who are trying to improve things but we feel those are just marginal improvements coming off a very dirty starting point. I'd ask you to compare images like this to the GSR collector test video from last year, which is on our website in the appendix to our Q1 corporate update presentation, along with a photo taken of the seafloor after the test was completed.

Some opponents of deep-sea mining say that we should wait a few decades calling for more science from one side of their mouth while looking to slow down the companies actually funding that science from the other side of their mouth. These are often the same people who advocate shutting down on nuclear power plants and taking zero

accountability for the fact that they might be dooming the planet due to prolonged dependence on fossil fuels.

At best, these opponents may be unaware of the significant impacts of existing land-based mining or perhaps unaware of the exponential growth needed in metal supply to combat the effects of climate change. At worst, they are complicit in the future destruction of these biodiverse carbon storing rainforests, hypocritically turning a blind eye to increased metal extraction beneath these land habitats in furtherance of their own interests. Sometimes even well-meaning advocates cite the precautionary principle to conclude that the world should wait a while before tapping this potential resource, however, a true reading of the precautionary principle would actually favor the responsible collection of nodules as soon as practical.

Part one of the precautionary principle from the 1992 Rio Convention is the one that many people focus on. It says, "In order to protect the environment, the precautionary approach shall be widely applied." We agree, as does the International Seabed Authority, and this is why over 43% of the CCZ is set aside as area that will never be touched even above the 30% target laid out in that Rio Convention. It's why this industry is only now getting started after over 50 years of intense research, including a major study from NOAA from 1975 to 1980.

It's also why we will deploy a digital trend to give unprecedented transparency of our operations to the global community. Something that you'll rarely find from a land-based operation, but part two of the precautionary principle is equally important. I quote "Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation." Well, we don't have to go far to find two major threats of irreversible damage and environmental degradation. Firstly, there is the obvious threat to the world's rainforest carbon sinks posed by land-based mining on which the world would be even more dependent without an alternative like nodules. But there is also the threat of continued climate change exacerbated by a lack of battery metal supply.

In fact, Princeton came out with a groundbreaking report last week in the *Journal of Science* confirming what we and our team of ocean scientists have been saying for years. The biggest threat to the world's ocean is climate change. If climate change continues unabated, marine life worldwide would suffer a massive die-off. The likes of which hasn't been seen in hundreds of millions of years. It is our company's mission to do everything we can to spur along the development of this incredibly important resource, accelerating the green transition and bringing us closer to the day when a circular economy can be made possible.

Opponents of deep-sea mining often paint a picture of big, scary machines digging up and churning the seafloor, which is totally inaccurate when it comes to polymetallic nodules. I'd again encourage you to watch the GSR collector test video in the appendix of this presentation, as well as a slide differentiating nodules from other more invasive forms of deep-sea mining.

Opponents also like to make it seem that if one contractor goes ahead, that the genie will be let out of the bottle and a large swath of the seafloor are going to be affected, but nothing can be further from the truth. This slide shows the size of the CCZ relative to the global seafloor. It also shows TMC's exploration contract area in yellow, which are each larger than any other known nickel project in development. I've just tiny drops in the bucket compared to protected areas of the CCZ and much smaller compared to the total global seafloor.

Even when we begin operations, we'll only be touching a tiny proportion per year of our contract area. This slide lays out that area of a small sliver of blue in comparison to the global seafloor. It is also dwarfed by the annual seafloor footprint of offshore wind and even smaller compared to annual trawling impacts that you can see here in blue. Given the size of this important potential source of battery metal supply, along with the relatively limited footprint of potential operations and the transparency offered by our digital twins, it's worth questioning why some would prefer to stop this before it starts even on such a relatively small scale.

Thankfully, this industry has a regulator that has been working hard for nearly three decades to come up with a robust set of rules and regulations even before commercial operations begin. A feat that's nearly unprecedented for any extractive industry in history. We also believe we have significant clarity on the permitting timeline. Last year, the Republic of Nauru notified the ISA of NORI's intention to lodge an application for an exploitation contract in July 2023. This two-year notice obliges the ISA to consider and provisionally approve NORI's application based on the state of the exploitation regulations at the time, whether final or draft.

Following this two-year notice, the ISA laid out a roadmap for its plan in 2022 and 2023, which includes an increased cadence of meetings. After nearly a two-year hiatus due to COVID, the ISA resumed in-person meetings this past December. They held another session in March and expect two more this year. We expect that NORI will be applying for an exploitation contract in the second half of 2023.

This timeline keeps us on track to begin commercial production in the NORI-D Area in Q4 2024. We've already completed several of our stated 2022 milestones and we intend to continue this cadence of progress. One of the biggest upcoming milestones will be the pilot collector trial beginning this summer in NORI-D. This trial will include a second vessel as part of our collector test monitoring campaign, which will observe and analyze the impacts of pilot collection.

We're also excited to continue developing the digital twin with Kongsberg, which will give eyes and ears to the regulator and our stakeholders. We will soon release our impact report, a landmark document which lays out our company's ESG story and long-term goals. With that, I'll turn it over to Craig to speak on TMC's project economics and the first-quarter result.

Craig Shesky:

Thank you very much, Gerard.

As of the end of March, we had a cash balance of \$69 million which we will use to continue progressing the work on our critical milestones, including the pilot collection system test in the CCZ beginning this summer and further advancement of our Environmental Impact Statement, both of which are prerequisites for our application to the ISA for our exploitation contract and we make that application in the second half of 2023.

We believe that the cash on hand, \$69 million, could fund us for at least the next 12 months from today. Now, like most companies and individuals, we certainly are noticing some cost inflation including fuel prices and vessel rates. Of course, we are always constantly evaluating our internal cost estimates, but when you're exposed to the basket of metals that we are, inflation can actually be a significant tailwind.

The supply limitations of these metal markets are becoming increasingly worrisome to, as Gerard noted, politicians, military leaders, automakers, and the general public. For nickel, the short squeeze, and the 10-day trading shutdown at the London Metals Exchange in March showed just how precarious the situation is. Since February, nickel liquidity on the LME has been cut in half, which we think could provide further incentive for nickel customers to think long and hard about locking up long-term production.

How do these higher metal prices affect our project economics? In short, it's a massively positive impact. In March 2021, AMC Consultants issued an SEC regulation, SK 1300 compliant initial assessment on the project economics for the NORI-D Area. This initial assessment is available in the investor section of our website and the NORI Area D financial model can be found beginning on page 310 of that document. The NORI-D Area represents just 22% of our total estimated resource portfolio and the initial assessment widens the net present value of \$6.8 billion for NORI-D at the beginning of last year.

That's assuming a very conservative assumption of \$7 billion of project development CapEx. Keep in mind that our announcements with Allseas and Epsilon Carbon provide a playbook for how that CapEx amount can and we expect will be reduced significantly going forward. Running the same model simply updated for current metal prices, the net present value of NORI-D would be approximately \$22 billion today, and again, that's just 22% of our total estimated resource. Focusing on the first quarter of 2022, TMC reported a net loss for the first quarter of \$21.1 million, or 9¢ per share, compared to a net loss of \$55.7 million, or 29¢ per share for the first quarter of 2021.

Net operating loss, which excludes the loss on fair value changes of warrant liabilities of \$5.2 million was \$15.9 million for the first quarter of 2022, mainly driven by noncash share-based comp of \$5.7 million and \$1.3 million expense for the pilot mining test system. Exploration expenses during the first quarter of 2022 were \$7.3 million, compared to \$38.1 million for the first quarter of 2021. The first quarter of 2022 reflects

a decrease in offshore campaign spending following the completion of NORI Area D environmental baseline campaigns in the fourth quarter of 2021, as well as a decrease in share-based compensation. While Q1 2021 included a fair value increase in common shares issued to Maersk. General and administrative expenses or G&A were \$8.6 million for the first quarter of 2022, compared to \$17.4 million for the first quarter of 2021, reflecting a reduction in share-based compensation. Both exploration expenses and G&A expenses in the first quarter of 2021 were impacted by significant awards of stock options in March of 2021. Excluding non-recurring items, free cash flow for the first quarter of 2022 was negative \$15.7 million, compared to a negative \$7.4 million in the first quarter of 2021.

I'd like to provide some context on the nature of the cash outflows in Q1 2022, as well as the previous quarter of Q4 2021. I'd strongly caution against extrapolating those amounts to determine our cash reach since they were driven mainly by items which would not be occurring every quarter. For example, in the fourth quarter of 2021, over half of the cash outflow of \$28 million was driven by two things. First, the first \$10 million cash milestone payment to Allseas as expected given how much progress they made on that offshore system and number two, \$5.3 million in campaign costs for the environmental program.

In the first quarter of 2022, nearly half of the \$15.7 million cash outflow can be attributed to environmental campaign costs. At this point, I will turn the call back over to Gerard for some closing remarks, and then we will turn it over to the operator for some questions. Gerard, please go ahead.

Gerard Barron:

Thanks, Craig.

First of all, I'd just like to thank our team and our partner, Allseas, for hitting some very important milestones already this year. In the world of metals, our expected production date of Q4 2024 is just around the corner. We fully intend to keep this progress going to achieve that target. In closing, I'll paraphrase what I said during our last quarter update call because it's even more apparent now. At a time when the inherent risks of battery metal supply chains are becoming increasingly obvious to the media, automakers, politicians, military leaders, and investors, we have taken major steps towards de-risking the world's largest estimated undeveloped source of battery metals. We believe our current market cap represents less than 1% of the fundamental value of our estimated resource. While I'm convinced that TMC shares are extremely undervalued, our stock today represents a very inexpensive way to gain exposure to the world's number one and number two largest nickel projects on the planet. Thank you for your interest and attention today and with that, we'd like to turn it back to the operator for some Q&A.

Operator:

Thank you, presenters.

Participants, we will now begin the question-and-answer session. To ask a question over phone, you may press the star key followed by the number one from your telephone keypads. To withdraw your request, you may press the pound key. Again, that's star one to ask a question or the pound key to withdraw your request. Speakers, our first question is from the line of Jake Sekelsky of AGP. Your line is now open.

Jake Sekelsky:

Hi, guys. Thanks for taking my questions. Just starting the deep-sea trials in April, I'm just curious, were there any surprises with the equipment? It sounds like everything functioned properly, but I'm just wondering if you come across any surprises or any areas for improvement as you move towards commercialization?

Gerard Barron:

I'm happy to say, no. There were minor operational things, a part needed replacing or a bolt needed tightening, but the pressure testing and putting this machine together and planning it as Allseas have been doing since 2019 to then drop it in the water and for it to work so seamlessly 2,500 meters below sea level was really exciting from our perspective.

I think if you were to ask Allseas that question, they'd say, "Ah, it was always going to work that way." I'm sure there were some very happy engineer faces on that boat as well. Yes, so far so good. I guess that plays into our strategy. Our strategy was to bring industry expertise in to support us because at the peak, Allseas had up to 400 people working on that project. They threw a lot of skills, and hands at making sure that it all worked.

Jake Sekelsky:

Got it. Okay, that makes sense. Then just looking at capital spending, Craig, you touched on this a bit. With the trials underway, I'm just curious if you're able to give us any color on capital spend over the next couple of quarters, as we head into the second half of the year?

Craig Shesky:

Well, so we've laid out that, again, this is dependent upon getting to final agreements with Allseas and Epsilon Carbon, but we would expect, at some point to have a capital spending of \$55 million. That's pre-production CapEx for the Project Zero commercial system, as well as some engineering costs. We are, obviously, as everybody else is, looking at inflation closely, and making sure that we're managing costs as we best possibly can.

As I mentioned, we do have the benefit of actually getting a tailwind from inflation in terms of project economics. Given that the basket of metals, even after a pretty difficult last few days for metals trading is still up very significantly. Nickel is up 45% already this year. We're managing that closely, and always assessing and discussing with our team and the board. We can say that the cash on hand is going to be sufficient to fund our operations and our capital expenditure needs for at least the next 12 months from today.

Gerard Barron:

I'll just add to that, when we reached our agreement with Allseas, we did agree a fixed price contract as well, which I think has worked out pretty favorably because firstly, Allseas only like to do things to a very exacting standard. They spent considerably more than was budgeted to deliver that pilot collector system. It's worked out pretty well and it's certainly helped us in managing our capital outflow.

Jake Sekelsky:

Then just lastly on the PFS for the Project Zero plant. Is the plant being designed in a modular fashion? I guess it's being designed as an off the shelf type plant where you can take the results from the PFS and apply it to potential additional plants down the road.

Gerard Barron:

Yes, absolutely. We chose this flow sheet. We worked with a variety of companies including Hatch on it. We chose a flow sheet that works in many locations around the world today. Primarily, it's used for the treatment of nickel laterite. What we found through all of the pilot trials was that nickel laterites and polymetallic nodules behave very analogously when they're in the kiln and the electric-arc furnace. That was encouraging and there are many dozens of those operating globally.

If you think about our flow sheet, it comes with a pyrometallurgical front end which is where we dry the nodules and then we throw them into an electric-arc furnace. Then we produce an alloy material and a big pile of manganese silicate which you heard us talk about on the call. Then we take that alloy and convert that into a matte material. That matte material currently contains about 40% nickel and 30% copper and several percent cobalt.

The plan, it was to then refine that into battery materials like sulfates and copper cathode. That's a separate flowsheet. We could opt to do the pyrometallurgical step in one location and the hydromet in another or we could just sell that intermediate product because today in the market, we would get paid between 90% and 95% of the payables for that matte. It affords us a whole lot more flexibility to the way that we have designed it.

Jake Sekelsky:

Got it. It sounds like you're not necessarily reinventing the wheel with the plant design at all.

Gerard Barron:

No, we're not. [crosstalk]

Craig Shesky:

It's the same thing offshore and we're trying to thread the needle. We absolutely in no way want to diminish just how important these tests are and how impressive it is what the team at Allseas has been able to do. I think it's a good example both onshore in terms of that flow sheet and offshore, it's really building on a lot of technology that has been demonstrated just not quite at commercial scale. We are able to take the learnings that a lot of people have done before us and build upon them in a more efficient manner, but still pretty amazing achievements especially from our partner, Allseas, this quarter.

Jake Sekelsky:

Absolutely and that's helpful. That's all on my end. Thanks again, guys.

Gerard Barron:

Thanks, Jake.

Craig Shesky:

Thanks.

Operator:

Speakers, next question is from the line of John Katsingris of Wedbush Securities. Your line is now open.

John Katsingris:

I'm on for Dan Ives.

Gerard Barron:

Hi John.

John Katsingris:

I had a quick question. Taking a look from more of a bird's eye view looking at what's going on in the world's supply chain problems and more so macro headwinds, do you see any potential headwinds looking forward into 2022 or 2023? Thank you.

Gerard Barron:

Look, I see tailwinds. I think that the headwinds are probably supply chain risk that we've been facing those supply chain risks for the last two years as has other manufacturing or companies who are building this stuff. If you look at how we've managed that, last year we spent 170 days at sea. We completed five environmental campaigns that meant moving 50 to 65 people on a boat off a boat, all without a single day lost to COVID.

We had multiple vendors on every campaign. During that same year, with Allseas, we're building a offshore pilot collector system and as you heard today it's in the water being tested and so between ourselves and our partners, we have a lot of expertise and success. We've chosen our partners very, very well. Along with our own discipline, I think when you compare our progress, it's been exemplary. Now, what I do see is the tailwinds and as you heard in today's presentation, just make it obvious to people that we need to be prepared to go to new frontiers.

This problem is not going away. If I go to the environmental issue, climate change and global warming are the biggest threat to our oceans. Then you add on top of that the security of supply of these metals that without the battery materials, you can't build the batteries. I think all of these things work in favor of our projects. I feel fortunate on this project that I think the challenges we can overcome with the help of very, very solid partnerships. Of course, cost of capital is always something that will be something we have to earn. We have to work hard with the investor community to make sure that we can reduce that. We're confident by delivering the milestones on this project that we'll achieve it.

John Katsingris:

Thank you.

Gerard Barron:

Thank you, John. Say hi to Dan.

John Katsingris:

Will do.

Operator:

Again participants, it's star one to ask a question or the pound key to withdraw your request.

Craig Shesky:

While we're waiting for that queue to populate, Jesse. There's a question in the chat regarding our relationship with Glencore. Just an overall update on that relationship, Gerard, if you have any comments and I guess the question was given their GM transaction has that changed anything via the relationship with TMC?

Gerard Barron:

Sure. Look, I'd say that we have a good relationship with Glencore. They are a shareholder in the company. They have a offtake for some of the nickel and copper on one of our license areas and they're always at the other end of the phone when we need some advice or some help on something. No changes on our side.

Craig Shesky:

One other question from the chat, from Steven Clark regarding the ISA process, we talked about it quite a bit, but any change in our confidence for the process over the NORI area and the timeline to potentially get that exploitation contract.

Gerard Barron:

We remain confident that the ISA is on track to have the exploitation code adopted by the time the council finishes sitting in July 2023. As you heard in our presentation, we do have a fallback solution. Thanks to Nauru launching that two-year notice. At this point in time, I think we're pleased with the amount of progress and the hard work that is happening by everyone at the secretary. Also, the member states who are all chipping in to do what needs to be done.

Craig Shesky:

Operator, I think we're about to wrap anyway, so unless there are any more questions in your queue, we will just turn it back over to Gerard to conclude the call.

Operator:

Speakers, no further questions at this time.

Gerard Barron:

Okay. Well, look, thank you, everyone, for taking the time to join us on the conference call. We look forward to sharing even more progress in our second quarter update and wish you all a good day. Thank you.

Operator:

This concludes today's conference call. Thank you all for joining. You may now disconnect.