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## Odyssey Marine Exploration Inc. (OMEX)

### Oceanica Looks Dead In The Water: Environmental Opposition

July 23, 2014

This report is a follow up to our first 66-page report published October 31, 2013 which can be found at [www.omextruth.com](http://www.omextruth.com).

### Summary

- Six+ weeks and counting: EIA still not even filed despite OMEX management saying “Completed” at Annual Meeting, NI43-101 report also still not filed.
- Pro-mining environmentalists and fishing organizations in Baja, Mexico are highly opposed to Oceanica despite EIA not even filed yet. Oceanica appears to overlap numerous commercial fishing concessions.
- OMEX now in last ditch effort to raise capital by selling unregistered securities in Oceanica to pay for corporate cash burn before Oceanica could officially be shut down.
- Last month of work at SS Central America only brought up <150 double eagles, credit line likely already tapped out: OMEX appears to be out of cash early August.
- Large Strategic players already evaluated and passed on offshore phosphate mining in Mexico, not a new idea! Could recreate the Oceanica asset at nominal cost: will not buy Oceanica.

While we unfortunately don't have the resources or scale like Bill Ackman to spend \$50mm on Herbalife (NYSE:[HLF](#)) on the ground primary research, we can afford to go to the source across the border in Mexico for Odyssey Marine Exploration (NASDAQ:[OMEX](#))

The fact that the EIA has not even been filed yet speaks for itself, OMEX has still not disclosed any details of the extreme challenges and opposition they face locally in Mexico for their unprecedented Oceanica offshore phosphate mining project.

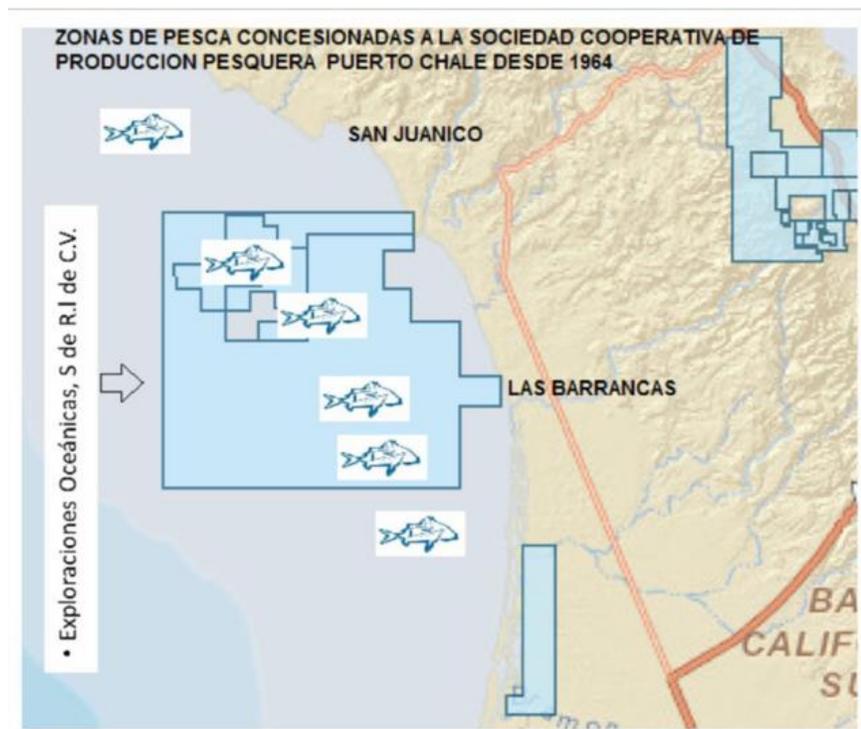
We covered more about the Oceanica project in our previous articles [July 8th](#) highlighting how the Oceanica project does not pass a basic common sense check and in much more depth [Dec 30](#) highlighting how the project is not novel and has been tried and failed before. The large strategic players have been pitched on this idea before and passed. If they wanted to they could obtain the same permit that Oceanica spent a nominal fee to obtain and there is no chance they will purchase Oceanica for a premium.

Oceanica even appears to just one of [half a dozen similar concessions](#) ([English translation](#)) granted in the last two years for nominal fees. All Oceanica has done is take surface core samples of an area that has been known for decades has large phosphate deposits, proving nothing new of substance.

## Oceanica overlaps Commercial Fishing Concessions - key to Baja Economy

There are over a dozen environmental groups now zeroing in on Oceanica, highly unusual to occur even before an EIA to be filed, which typically serves as a forum for open discussion (there must be an open town hall style meeting to discuss the EIA within 90 days of its filling) The most troubling that we have seen is that the key driver of the economy in Baja, fishing, is [protesting Oceanica](#). This Fishing Cooperative has substantial influence and this has not been disclosed by OMEX to shareholders.

### Current Protest (translated to English)



Oceanica's area overlaps commercial fishing concessions, the backbone of Baja's economy

## WE ARE WORRIED!

This is an experimental operation that has never been attempted before; because the environmental impact on the seabed and our fishing areas cannot be predicted. The effects of the sounds produced while prospecting, and effects on the behavior of marine physiology and biodiversity, as well as any displacement of fisheries resources.



## The Puerto Chale Fishing Cooperative Opposes

Prospecting and offshore mining activities in the Gulf of Ulloa, until a study showing that they will not have a negative impact on the marine environment is produced. **We require a full economic assessment and an Environmental Impact Assessment (EIA).** We are concerned about the long lasting and harmful effects that phosphate mining in this country will have on the fishing grounds. These are the source of our livelihood. We demand that changes to marine life and the guarantees provided by the mining companies can be tested. And the mining is carried out in a rational and sustainable way with respect to the environment.





The fishing cooperative in Baja needs the environment to be treated well for their livelihood

#### PRECEDENTS IN GLOBAL OFFSHORE MINING

**Chatham** | Rock Phosphate™



**The planned mining project in the waters of the Gulf of Ulloa is similar to the Chatham Rock Phosphate project for Chatan Rise in New Zealand, and involves the dredging of millions of tons of seabed to extract phosphates, and the subsequent dumping of sediments back into the sea.**

**Fishermen celebrate a temporary ban on phosphate mining**

#### **NAMIBIA**

**Friday, October 04, 2013, 23:40 (GMT + 9)**

**The Namibian Government has decided to suspend plans to develop phosphate mining in the country for 18 months, until a study is produced that shows there will be no adverse effects to the marine environment.**

#### **Offshore Phosphate Mining has Never Been Done and Has Highly Negative Precedents**

In the years that Odyssey has been investing shareholder capital into this unviable project, the environment for seabed mining has deteriorated rapidly. This has created an interesting precedent for Odyssey and Oceanica. Recently a seabed dredging project very similar to Oceanica was [swiftly shot down in New Zealand](#) due primarily to "unclear" benefits to locals as well as serious environmental risk. In regards to the failed Namibian phosphate project, insiders of UCL resources now face criminal charges and [fraud allegations](#).

OMEX management has not been transparent with how difficult it is to get through the numerous stages of approval for a typical mining project, let alone one like offshore phosphate mining which has never been done commercially anywhere in the world before.

[Mexico Mining Guide \(Translated into English\)](#) to understand how complex it is and how many regulatory agencies are involved

### **Background Info from a Pro-Mining Consultant in the area (translated from Spanish):**

*A social movement against mining appeared in Baja California Sur six years ago. One feature of this movement is its multi-sector composition, being led by community organizations, rural development NGOs, environmental groups, sectors of the Catholic Church, and the Media, among others. Such diversity accounts for the development of "social environmentalism", i.e. the convergence of the "distribution criticism", led by social justice movements (political actors) and the "ecological criticism", led by 17 previously known environmental groups.*

*The mining industry in Baja California Sur seems to exist in a state of permanent confrontation with social organizations, resulting in a climate of, generally vulgar tension and great disrespect for the human dignity of those of us who look upon mining favorably. Hence, we have the birth of a strong rejection of the industry by many organizations and sectors of Baja California Sur society, and the lack of continuous and timely information about the mining projects.*

*The mining industry in the state of BCS., finds itself, in practical terms, in a holding pattern. There are only a few exploration licenses that are still valid, but these are now close to their expiry dates. There are only two operating mines, one in San Juan de La Costa (ROFOMEX) and the other, La Yesera on the Island of San Marcos, and two companies operating open air gold mines in the town of La Paz (The Investure Group with the Los Cardones project, and Argonaut Gold with the Pitalla project), whose permissions are pending while waiting for authorization of their EIAs. They have acceptance and support from the communities surrounding the projects and from the Federal and Municipal Governments - the State Government is another matter.*

*Offshore mining is a veritable "minefield", and they are the victims of collateral damage resulting from all the bad PR campaigns run by mining companies who came to the region several years ago. This bad public opinion has continued to grow in the zone and grows from a broad and complex range of situations, involving not only the exploitation of resources, but also the distribution of benefits, the polluting of the environment, differing ideas about what development and creating a desirable future mean, the rights of the population to decide their own fate, and property issues, among other things. The Labour Party has entered the struggle against mining.*

### **Local Mexico Media Reveals Extent of Oceanica's Failure to Progress**

Why should shareholders have to read about this in the Mexican newspapers? Why isn't the Company being more forthcoming with progress of the Project and instead simply saying "it's completed" and playing shareholders for fools?



### **Exploraciones Oceanicas' mining project in Comondu is unviable: Cemda**

([source](#) & [english translation](#))

**La Paz, Baja California Sur (NYSE:BCS)** .- The mining project that the company Exploraciones Oceanicas aims to start in Comondu is inviable both environmentally and legally, says the Mexican Center of Environmental Law (Cemda), who also calls for "greater leadership" from state government, which so far, has been devoted to denying the affair.

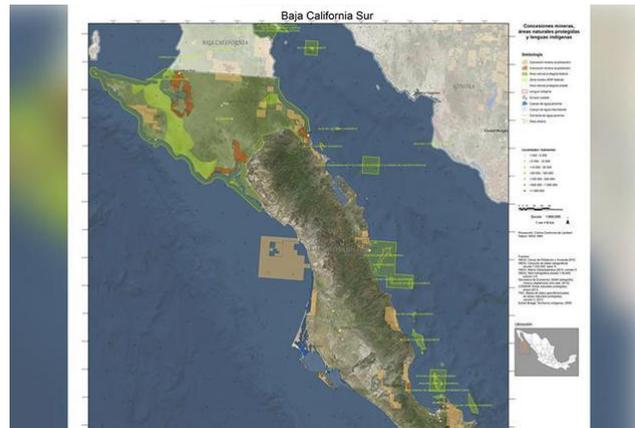
Agustín Bravo Gaxiola, the Cemda coordinator for the northwest area, remembers that the environmental association has asked the Ministry of Fisheries and Aquaculture (SEPECSA) in BCS to inform them of the steps that have been taken on the issue whenever the site where the Odyssey Marine Exploration subsidiary intends to initiate exploration and exploitation of the seabed for phosphate mining is in the Gulf of Ulloa. This is a potential fishing zone and has the greatest concentration of loggerhead turtles in the entire Pacific Ocean. A species, he recalls, that is threatened by incidental fishing. However, the agency continues to ignore the project, "or at least does not have any information they want to reveal or share."

"We find it a very serious situation. We believe that the Fisheries Ministry should be the main advocate for this area, with the services it provides to fishing communities, both for the Gulf of Ulloa and Bahia Magdalena [...] The Gulf of Ulloa is a key area for fishing and for fisheries in Baja California Sur. It is one of the most important areas for fisheries productivity in the country".

In the same vein, Bravo Gaxiola recalled that large scale phosphate mining already exists, meaning it is also unnecessary, he said, to double the level of production when it is currently more than enough for the state.

"Baja California Sur already has a very high level of phosphate mining, through Phosphoric Rock, and we think that this is a niche that is already covered so there is no need to do it somewhere else."

Finally, he said that Cemda will closely monitor the activities of Exploraciones Oceánicas, beginning in the Ministry of Environment and Natural Resources (SEMARNAT), to resist any gains made by the mining company, "the word is that they are not slow to request authorization regarding environmental impact".



### **The illegal practices of underwater mining in Comodu condemned** ([source](#) & [english translation](#))

In a letter addressed to Guillermo Haro, head of the Federal Attorney for Environmental Protection (Profepa), council members alleged that the Ministry of Economy gave its permission to the company to establish an underwater phosphate mine during the dates 28th June 2102 to 27th June 2062.

The complainants stated that the mining project involved "the use of dredging vessels that remove up to three meters of seabed over an area of 268,328 hectares for the exploitation of phosphorous, and the remains are later dumped back in the ocean without any mitigating actions"

In addition, the fishermen in Puerto Chale reported that they saw an Exploraciones Oceánicas boat operating 80 miles off the coast during the period December 2012 to March 2013, and that the company later informed them that they would be working in the area.

However, they said that between February and March, Magdalena Bay fishermen had found dead dolphins and sea lions and had informed Profepa, but studies were never undertaken to determine the cause of death.

In the letter sent to Profepa, council members state that "the dredging of phosphate has not been authorized internationally because the environmental and economic consequences are catastrophic, and it has never been done anywhere else in the world". It affects marine ecosystems, as well as the tourism, fisheries and social sectors."Phosphate is associated with heavy metals such as cadmium, lead, chromium, nickel and manganese, along with the radioactive material uranium, which may cause cancer," he warned.

For all of the above, they asked the head of Profepa for "your intervention to stop all mining activities" from being performed by Exploraciones Oceánicas, and requested that an EIA be carried out.

**OMEX Cash Perilously Low: Likely Bankruptcy punted to August 16th with additional debt load**

We posted two possible cash models on [July 10](#) pending the court unsealing the inventory levels which would allow one to calculate how much should be available on the Fifth Third credit line. It appears based on the [July 17 unsealing](#) of the inventory that the \$7mm net loan availability should be accurate in our second model.

Based on this additional debt availability, OMEX should be able to dig themselves a bit deeper into debt to fund current operations before running out of cash around the second week of August.

Given that the Odyssey Explorer only recovered <150 double eagles over its last month of work and won't likely be able to return until mid August, we think it is unlikely any additional near term monetization is possible from the SS Central America, leaving Oceanica as the only possible vehicle to fund corporate cash burn of ~\$3mm/month at OMEX.

Estimating OMEX Cash and Liabilities			<i>If borrowing increased to \$7mm on Fifth Third line --&gt; CONFIRMED July 17)</i>		
Date	Unrestricted Cash	Liabilities (net of restricted cash)	Cash w/extra \$2.7m loan	Liabilities w/ extra \$2.7m loan	Notes
31-Mar-14	\$ 5,767,721	\$ 11,513,076	\$ 5,767,721	\$ 11,513,076	Filing from 10Q
30-Apr-14	\$ 2,767,721	\$ 11,513,076	\$ 2,767,721	\$ 11,513,076	Assuming \$3mm/month burn
15-May-14	\$ 7,067,721	\$ 17,313,076	\$ 7,067,721	\$ 17,313,076	Announced cash balance after loan
31-May-14	\$ 4,067,721	\$ 15,813,076	\$ 4,067,721	\$ 15,813,076	Likely stretched payables may 15th
30-Jun-14	\$ 1,067,721	\$ 15,813,076	\$ 1,067,721	\$ 15,813,076	to boost stated cash \$
1-Jul-14	\$ 567,721	\$ 15,813,076	\$ 567,721	\$ 15,813,076	\$500k debt amortization due
16-Jul-14	\$ (932,279)	\$ 15,813,076	\$ 1,767,721	\$ 18,513,076	Likely bankruptcy filing?
31-Jul-14	\$ (2,432,279)	\$ 15,813,076	\$ 267,721	\$ 18,513,076	
15-Aug-14	\$ (3,932,279)	\$ 15,813,076	\$ (1,232,279)	\$ 18,513,076	Best case?