

# Cobalt 27 Shareholder Letter

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TSX Venture: KBLT  
OTCQX: CBLLF  
FRA: 27O

TORONTO, Jan. 11, 2019 /CNW/ - Cobalt 27 Capital Corp. ("Cobalt 27" or the "Company") (TSXV: KBLT)(OTCQX: CBLLF)(FRA: 27O), a battery metals streaming and royalty company offering direct exposure to cobalt, nickel and lithium, integral elements of key technologies of electric vehicles and energy storage systems, provides the following update to shareholders from its Chairman and CEO, Mr. Anthony Milewski.

As 2018 is now behind us, I would like to take this time to review and reflect on Cobalt 27's achievements during our first year of operations and provide some brief comments on the key physical markets that drive our business. While we are unable to ignore equity market volatility and broader market sentiment, we remain steadfast in our commitment to building a cash flowing electric vehicle and battery storage proxy.

A little over a year and a half ago, Cobalt 27 came to the market with an idea, we wanted to build a battery metals streaming and royalty company. Seismic changes are underway in the energy and automotive industries, electrification in the form of electric vehicles and battery storage systems are transforming our world. The changes we witnessed from the day we went public have been rapid and if anything they are showing signs of acceleration to the point where the market is starting to tip past the point of no return. Globally tens of billions of dollars is being spent by investors, countries, and some of the world's most important companies. We don't know which automobile or energy company(s) will succeed in dominating the market, but we stand at the cusp of a new era of electrification adoption and it is our view that battery metals, including nickel, cobalt, and lithium, will act as proxies for the success of these new technologies.

The past year has been a time of tremendous growth and transition for Cobalt 27 as we achieved our IPO objective of becoming a leading battery metals streaming and royalty company, giving investors exposure to both cobalt and nickel, as well as royalty on our first lithium royalty. The pace of change since the IPO has been breathtaking, and I wanted to take a moment to thank our shareholders through our achievements in 2018 and thank-you for your continued support.

First and foremost, we delivered on our IPO promise to create a battery metals streaming and royalty company. In June 2018, Cobalt 27 acquired a US\$300 million cobalt stream on Vale's world-class Voisey's Bay mine in Canada. Cobalt 27's acquisition of the world's first cobalt stream will result in Cobalt 27 receiving 32.6% of Voisey's Bay's cobalt production starting on January 1, 2021, expected to result in deliveries of approximately 1.9 million pounds of high grade cobalt metal per year to Cobalt 27, settled in physical delivery for the life of the mine.

Cobalt 27 also announced that the Company is working on a friendly deal to acquire Highlands Pacific and its low-cost, Ramu Nickel-Cobalt Mine, located in Papua New Guinea ("PNG"). The Ramu Nickel-Cobalt Mine is majority owned and operated by Metallurgical Corporation of China Ltd. ("MCC"), which has a market capitalization of approximately US\$9 billion. The Ramu Nickel-Cobalt Mine was financed, constructed and commissioned by MCC in 2012 at a cost of US\$2.1 billion which, at the time, was the largest overseas mining investment. The Ramu Nickel-Cobalt Mine is one of few vertically integrated operations that produce a high grade nickel-cobalt hydroxide product which is prized as a raw material for the manufacture of lithium ion batteries.

As we look to 2019, we believe multiple value drivers exist for shareholders as investors recognize the strategic value of our portfolio that we have built. All of Cobalt 27's core streams and royalties are on tier one assets with exceptional exploration upside and located outside of Africa. In addition, our physical cobalt position of over 2,900 mt is comprised of high grade sourced metal stored in warehouses in North America and Europe. At some point there will be value in owning cobalt independent of the perceived and or real issues associated with cobalt of DRC origin.

Royalties:

In 2018 we acquired four royalties, including several over some of the largest development projects in the world. Our 2018

acquisitions include:

- a nickel-cobalt royalty over the Canadian based Dumont project,
- a nickel-cobalt royalty over the Canadian based Turnagain project,
- a nickel-cobalt-scandium royalty over the Australian based Flemington project; and
- a scandium royalty over the Australian based Nyngan project.

Equity / Debt Financings:

In 2018 we were fortunate to have both the equity and debt capital markets open to Cobalt 27. We closed two large equity financings in the form of a C\$200 million private placement and a C\$300 million public offering. We also accessed the debt markets with an initial US\$85 million revolver that was then later upsized to US\$200 million.

- C\$200 million private placement led by Credit Suisse and TD
- C\$300 million public offering led by BMO, Credit Suisse, Scotia, and TD
- US\$85 million revolver led by NBF
- US\$200 million revolver led by NBF as well as BMO and Scotia

Management Team Enhancements:

At the time of the IPO, Cobalt 27 was run by Justin Cochrane and myself. Over the past year we have been fortunate to bring on a world renowned nickel-cobalt expert, Martin Vydra, as Head of Strategy. We have also hired Conor Kearns as President of Finance and Betty Joy LeBlanc as our Head of Corporate Communications.

Analyst Coverage:

In particular we would like to thank the many banks that provide a variety of advisory, corporate and other services. We are grateful for the support of the top banks and boutiques in Canada and Europe. Cobalt 27 is covered by 10 analysts.

- Andrew Mikitchook at BMO,
- Eric Zaunscherb at Canaccord,
- MacMurray Whale at Cormark,
- David Talbot at Eight Capital,
- Anoop Prihar at GMP Securities,
- Colin Healey at Haywood Securities,
- Rupert Merer at National Bank of Canada,
- Jonathan Guy at Numis Securities Ltd,
- David Davidson at Paradigm Capital,
- Michael Doumet at Scotiabank, and
- Craig Hutchinson at TD Securities Inc.

Other

In addition to Cobalt 27's acquisitions and financings, we listed the company on the OTXQX and initiated a share buyback program which allows us to buy up to 9.9% of the Company's outstanding shares in the open market.

Finally, a comment on the two primary drivers of our NAV – nickel and cobalt. Over the course of 2018, cobalt prices rose to over US\$44/lb. which has not been seen since 2008, and a nickel price that showed solid strength peaking at US\$7. Although cobalt prices retreated later in 2018, they remain above the long term average and, in our view of supply and demand fundamentals for cobalt and our business, remain strong.

The cobalt market remained energized in 2018 with strong demand for metal from the aerospace and alloy sectors coupled with continued demand growth from chemicals, primarily driven by batteries and electrical storage systems. However in 2018 we witnessed the development of a bifurcated market as cobalt metal supply remained relatively flat in a growing market for cobalt products while cobalt intermediate supply, typically utilized for chemicals and batteries, saw an increase in output from the Democratic Republic of Congo (DRC) driven by artisanal production and the anticipated ramp up of Glencore's Katanga. The Congolese artisanal production is the swing supply that has resulted in a greater price differentiation between metal and intermediate products as cobalt metal prices remain at historically higher levels and cobalt intermediates, which are priced

metal, are seeing increased price pressure with surplus material available in the short term. Additionally, at certain points we saw selling pressure on cobalt with the re-tightening of credit among Chinese consumers impacting inventory management strategies. The significant majority of Cobalt 27's value is derived from cobalt metal prices and therefore, we are somewhat insulated from the price differentiation between metal and intermediates, though not immune.

In addition, our research indicates that as auto manufacturers ramp up deliveries and production of EVs, the demand for batteries will close the current gap that exists between the availability of intermediates and the demand for them, which is still playing catch up. However what the supply response from the DRC has highlighted is the precarious nature of the supply chain with roughly 70% of cobalt now coming from the DRC and numerous reports calling into question both the environmental impact of the non-mechanized mining and whether the material has been ethically sourced. Our view is that in the near future a "Kimberly Style" process for certifying cobalt origins will be necessary if battery makers are to be able to sustain assertions that their cobalt has been ethically sourced. This is evidenced by the indications from both the Cobalt Institute and the London Metals Exchange (LME) that ethical and responsible sourcing is no longer something that will be left to unofficial "self-certification" and more transparent and standardized certification systems are being contemplated. In 2018, we also got a glimpse of the issues associated with such a concentrated cobalt supply chain when a major mining company with operations in the DRC announced it had to halt sales of cobalt due to uranium in the product. While it would appear the issue will be resolved in the second half of 2019, we are reminded that should any unexpected events take place in the DRC it could have a material impact on the market. Meanwhile, fears persist around what election results and a transition of power may mean for the DRC in 2020.

Like the cobalt market, the nickel market too has seen big price swings in 2018. Demand growth in both its primary markets for stainless steel and secondary uses remained strong, while inventory levels on the LME and SHFE continue to drop, by 46% y/y in October. Nickel has appreciated from historical lows when it averaged less than \$4/lb. and reached a peak of US\$7.14/lb. in June 2018, only to fall again to its current price of approximately US\$ 5.00/lb.

Nickel remains a critical component in the manufacture of stainless and alloy steels as its importance in the battery sector shows signs of rapid growth. While we see the ability of the nickel market to respond to improved demand from the stainless steel and alloy sectors in the form of NPI production, projections of supply response from Class I supply required for applications in batteries remain optimistic in our view. Unlike the stainless steel or alloy sector, batteries require pure nickel (currently nickel sulphate) which is only available from a handful of global refineries. The ability of nickel producers to bring this production on stream at costs and schedules initially indicated has historically not been achieved. Our own research in new announced projects targeting significant increases in supply of Class I or chemical grade nickel by 2021 remain extremely optimistic. Despite challenging market conditions during the last half of the year for all commodities including battery metals we remain excited and confident in the changes underway and our ability to capitalize on these opportunities. We are astounded by the breathtaking speed in the uptake of electric vehicles with recent reports indicating nearly 10% of new car sales in China as EVs and 8% of new car sales in Canada as EVs. As I think about nickel and cobalt this year, I am reminded of a famous quote by Sir Winston Churchill: "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning." And so it is for nickel and cobalt whose markets, by all indications, are set to be transformed in the coming years.

To our shareholders, once again, on behalf of myself, Justin, and the rest of the Cobalt 27 team, we thank you for your support. We continue to strive to create shareholder value as we build and develop the market's only battery metals streaming company.

Sincerely,  
Anthony Milewski & the Cobalt 27 Team

#### Corporate Update:

The Company has granted an aggregate of 1,673,000 incentive stock options and restricted share units ("RSUs") to certain directors, officers, advisers and consultants. The incentive stock options granted are exercisable at \$4.44 per share for five years expiring January 11, 2024. Following the award of stock options and RSUs, the company currently has an aggregate of 3,160,392 options and RSUs issued and outstanding, representing approximately 3.7 per cent of its issued and outstanding capital.

#### About Cobalt 27 Capital Corp.

[Cobalt 27 Capital Corp.](#) is a leading battery metals streaming company offering exposure to metals integral to key technologies in the electric vehicle and energy storage markets. The Company owns 2,905.7 Mt of physical cobalt and a 32.6% stake in Vale's world-class Voisey's Bay mine, beginning in 2021. Cobalt 27 is undertaking a friendly acquisition of Highlands Nickel which is expected to add increased attributable nickel and cobalt production from the long-life, world-class Ramu Mine. The Company also manages a portfolio of nine royalties and intends to continue to invest in a cobalt-nickel-lithium-focused

streams, royalties and direct interests in mineral properties containing battery metals.

For further information please visit the Company website at [www.cobalt27.com](http://www.cobalt27.com) or contact:

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