

The LME's New Cobalt Contract: A History of Cobalt on the London Metal Exchange

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TORONTO, April 10, 2019 - Anthony Milewski, Chairman and CEO, [Cobalt 27 Capital Corp.](#) (TSX-V: KBLT) (OTCQX: CBLLF) (FRA: 270), met with the London Metal Exchange's Product Development department to discuss their electric vehicle battery materials initiatives. The London Metal Exchange (LME) is the world centre for industrial metals trading. With the launch of its new cobalt contract, we reached out the LME with some questions that we felt investors and Cobalt 27 shareholders would find interesting.

What is the London Metal Exchange and what does it offer as a platform?

The London Metal Exchange (LME) is the world centre for industrial metals trading. The prices discovered across the LME's three trading platforms - the Ring, the inter-office 'telephone' market and *LMEselect*, our electronic trading platform - are used as the global reference price and, both the metal and investment communities use the LME to transfer or take on risk, 24 hours a day.

The LME has had a cobalt contract since 2010. Why is the Exchange launching a new cobalt contract now?

The LME launched its physically-settled LME Cobalt contract in 2010, which has been a steady performer amongst a core group of supporters for a physically settled contract. That said, the LME has also seen growing appetite for a cash-settled contract over recent years with the rise in demand for Electric Vehicles (EVs) and battery metals. Last year, we consulted the market in order to identify the best risk management solutions. Following extensive engagement with the market, on 11 March 2019, we launched a cash-settled LME Cobalt (Fastmarkets MB) contract, to complement our existing physically-settled offering. This new cash-settled contract is settled against the Fastmarkets MB Standard Grade index, allowing market participants who have exposure to the aforementioned price in their physical contracts, to hedge across the cobalt value chain with no basis risk.

What are the differences between the new cash-settled LME Cobalt (Fastmarkets MB) contract and the existing physically-settled LME Cobalt contract?

There are several differences between the two contracts, but the most relevant are the settlement structure, settlement price and prompt date structure.

Designed to mirror physical trading, daily prompts enable users of the physically-settled LME Cobalt contract to accurately hedge their physical transactions down to the day.

The LME Cobalt (Fastmarkets MB) contract settles on the last business day of each month in accordance with the LME trading calendar, out to 15 months, to the price of the Fastmarkets MB Index. In contrast, the physically-settled LME Cobalt contract offers daily prompt dates out to three months, weekly prompt dates between three and six months, and monthly prompt dates from the sixth month onward out to 15 months.

Cash settlement is a method used in certain futures and options contracts where, upon expiration or exercise, the seller of the financial instrument does not deliver the actual physical underlying asset but instead transfers the associated cash position. For sellers who do not wish to take actual possession of the underlying cash commodity, cash settlement is a more convenient method of transacting futures and options contracts. Cash settlement is also preferred by financial investors who bring additional liquidity reducing the bid-offer spread, and thus lowering the cost of trading.

And what about the physical delivered contract? What will happen to that now?

The LME recognises the ongoing market support for its physically-settled cobalt contract which has seen a steady uptake in recent months, with an increase in both trading volumes and stocks, and as such it will continue to offer a physically-settled option alongside the new cash-settled LME Cobalt (Fastmarkets MB) contract.

Physical settlement enables short position holders to deliver warrants - a warehouse warrant for the storage of metal, issued by a LME-listed warehouse and in a form approved by the Exchange - against their positions, whilst long position holders will receive warrants, and ultimately, take physical delivery of the metal or close out their position.

Physical settlement is preferred by a number of market participants such as cobalt producers who prefer the option of physical delivery, and the steady growth of the battery metals market in recent years has opened up the cobalt market to a number of new market participants wanting to gain exposure to the cobalt price and have the tools available to manage their price risk. In recent months we have heard of a number of cobalt producers who are interested in listing their brands on the LME and as part of our ongoing commitment to lowering barriers to market entry and serving the physical market, the LME has recently waived all brand listing fees for cobalt producers wanting to enter the market and list their brands on the LME. This waiver will last for 6 months, until October 2019, and any producers interested in listing on the LME should reach out to the team who will be happy to discuss this in more detail.

Who is the new cash-settled contract for?

Over the past few years, we have seen extreme volatility in the cobalt market which has a knock-on effect on the entire value chain, causing operational concerns - increasing financing costs, increasing counterparty risk and, ultimately, increasing the price of goods for consumers.

Furthermore, the significant growth in EVs in recent years has brought new players to the metals market, with considerable capital to invest in this space. Up until now, these new market participants have struggled to manage their exposure to the cobalt price, especially along the forward curve, as they have not had the tools available to them. The new cash-settled LME Cobalt (Fastmarkets MB) contract provides exposure to the Fastmarkets MB Cobalt Standard Grade price, helping market participants to manage risk along the entire cobalt value chain. A few examples of market participants who can benefit from these hedging tools include:

- Miners, traders and hydroxide producers, as well as traditional consumers like the super alloy industry, whose procurement contracts are linked to the Fastmarkets MB Cobalt Standard Grade index
- Cobalt sulphate producers and consumers whose procurement contracts are linked to the Fastmarkets MB Standard Grade price, including the EVs and Lithium-ION batteries industry

As liquidity grows, we expect a number of financial participants including funds and money managers to take an interest in the contract.

The LME Cobalt (Fastmarkets MB) contract will be available to trade 24 hours a day across the LME's telephone market and from 01:00-19:00 London time on *LMEselect*, the LME's electronic market.

What liquidity can we expect?

Building liquidity is always the biggest challenge for new exchange-traded products generally, and especially for small markets like cobalt, but we expect liquidity to grow progressively as our members deploy the infrastructure upgrades that allow them to access this market.

As observed in similar markets, we expect to see the majority of initial liquidity on the telephone market. However, over time we hope to see an increase in the amount of physical players benefiting from the contract and contributing towards an increase in on-screen liquidity and deep order book - providing the transparency and exposure that market participants require.

We have also introduced a new membership category of Registered Intermediating Brokers (RIBs). These are brokers who facilitate trades between two parties - either LME members or clients - helping to grow

liquidity in smaller niche markets such as the cobalt market. We have seen in the past how RIBs have greatly supported the initial liquidity in other new markets such as LME Steel Scrap and LME Steel Rebar, playing an integral role in helping these markets to grow.

For more information about the LME's cobalt offering, please contact one of the team at product.development@lme.com

I welcome shareholders to get in touch with any comments.

Anthony Milewski,

Chairman and CEO

[Cobalt 27 Capital Corp.](#)

About Cobalt 27 Capital Corp.

[Cobalt 27 Capital Corp.](#) is a leading battery metals streaming company offering exposure to metals integral to key technologies of the electric vehicle and energy storage markets. The Company owns physical cobalt and a 32.6% Cobalt Stream on Vale's world-class Voisey's Bay mine, beginning in 2021. Cobalt 27 is undertaking a friendly acquisition of Highlands Pacific 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 11 royalties and intends to continue to invest in a cobalt and nickel focused portfolio of streams, royalties and direct interests in mineral properties containing battery metals.

For further information please visit the Company website at www.cobalt27.com

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In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "projects", "plans", "anticipates" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operations and various components thereof affecting the economic performance of Cobalt 27. Undue reliance should not be placed on these forward-looking statements which are based upon management's assumptions and are subject to known and unknown risks and uncertainties, including the business risks discussed above, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

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