

Lithium Royalty Corp

First Quarter 2019 Letter to Investors

Dear LRC Investor

As previously communicated, Lithium Royalty Corp (“LRC”) is off to a better start than we expected due to the valuations we have been paying to acquire royalties on best in class Lithium projects. In addition to the two royalty acquisitions detailed in the recently distributed financial statements, we closed our third royalty acquisition early in 2019. Highlights of each can be found in the LRC Overview Brief attached to this email. We are actively working on several additional royalty opportunities which represent attractive low risk, high return opportunities that will both further diversify and complement our existing portfolio.

So what has changed since the launch of this initiative nine months ago?

As expected the **supply response** in the form of new lithium projects and expansions has been less than forecasted and capital budgets associated with new supply projects have been revised up (see - *Bloomberg New Energy Finance Metals Monthly: 210,000 Metric Tons of Lithium Delayed, March 2019*).

The contract **price** of Lithium Carbonate Equivalent (“LCE”), which is the reference price for over 80% of lithium produced, was \$12,000 to \$14,000 per tonne, which is largely unchanged (see *SQM Q4 2019 average price of \$15,900*) while spot prices have declined from \$26,000 to \$12,000. We continue to use \$10,000 combined with conservative assumptions for specific project volumes and development timelines to support our targeted internal rates of return of 15% to 20%.

Regulatory pressures are nearing. As of 2021 Auto OEMS in Europe will need to meet strict emission targets in order to avoid onerous fines. VW has already stated that in order to meet regulatory standards they will produce 25% of total units as EVs by 2025 and 40% by 2030, which equates to 3 million and 4.5 million units respectively. Daimler recently revised their EV ratio to 25% by 2022. Goldman Sachs revised up their EV penetration estimates from 31% to 35% by 2030 and to 57% by 2040.

We are one year closer to the 2022 **inflection point** or what VW recently predicted as “the year EVs go mainstream”. We expect to see an acceleration in Electric Vehicle penetration rates based on OEM offerings and price parity to internal combustion engines starting next year (see - *Bloomberg New Energy Finance Lithium Ion Batteries: Further, Faster, Cheaper February 2019*).

Volatile equity markets for material stocks and a shift in risk capital from mining toward cannabis companies has led to more opportunities for LRC at better valuations.

The **Chinese economy** has cooled. China represents 30% of the overall global auto market and 80% of most manufacturer’s year-over-year growth. A slowing economy has impacted automotive sales in China. Internal combustion engines saw a 15% annual decline in 2018. That said, EV sales in China grew by over 100% in 2018 to reach 1.1 million units or almost 4% of total sales and are expected to surpass 1.7 million units in 2019, even with the recent rollback in subsidies for lower range EVs (European EV sales were up 34% in 2018, with demand outstripping supply and US EVs were up 79%). Combine China’s expected EV sales with the announced plans of just the three German OEMs regarding EVs and

the numbers get large very quickly (see Economist: Great Wheels of China, April 6th 2019 graphic below). VW expects EVs to account for 85% of all new car sales in China by 2040 and 60% in the US, and 70% in Europe.



The Economist

Lastly, in addition to increasing the number of all-electric models from 50 to 70 by 2025 and selling 22 million EVs over the next ten years, VW recently published a paper titled “Lithium: The Irreplaceable Element of the Electric Era”, of which the highlights are:

1. Lithium is the most important raw material
2. Lithium will soon be the most sought after raw material on earth
3. No other element contains comparable properties for automotive battery applications
4. Lithium is an “unrivalled charge carrier”
5. VW is working on Cobalt free batteries

<https://www.volkswagen-newsroom.com/en/lithium-the-irreplaceable-element-of-the-electric-era-4806>

We are as convicted as ever and look forward to announcing several new royalty acquisitions in the near future.

Regards

Lithium Royalty Corp