



Stockholm, Sweden, June 2020

CEO'S LETTER TO THE SHAREHOLDERS

Dear Shareholders and Stakeholders,

It is now a little more than a month ago since I was appointed CEO of Leading Edge Materials and I am honored to write this letter to our shareholders, which I hope will be the first of many more over the coming years. I would like to take the opportunity to thank all our shareholders and other stakeholders for their long-term support. The Company is now under new leadership and I am pleased to welcome the recently appointed Board of Directors. It is a rare opportunity for me and the Company to have the support of such an experienced and well-renowned group of professionals.

Leading Edge Materials' strategy is to acquire and develop a portfolio of critical raw material projects in Europe to provide European industry with a long term secure and sustainable supply. The European Union ("EU") defines the criticality based on the economic importance and supply risk for certain raw materials¹. These raw materials are directly linked to disruptive high growth industrial applications such as electromobility, renewable energy and energy storage that underpin the transition to a sustainable society. The EU is currently almost entirely dependent on third countries such as China for supply of the required raw materials. Leading Edge Materials' project portfolio offers a unique proposition within this context. The project portfolio offers exposure to graphite, lithium and cobalt which are critical for electromobility and energy storage, and to rare earth elements ("REE") which are critical for electromobility and renewable energy. The Company owns one of few fully built and permitted graphite mines in the western world and one of the world's most significant heavy rare earth element projects, both located in Sweden.

There are five distinctive but interlinked fundamental macro drivers underpinning the business case for the Company in specific, and critical raw materials in general. Global warming pushes an increased urgency to act to save the **climate** on our planet by lowering greenhouse gas emissions. Countries across the world increasingly adopt **policy** frameworks to incentivize a rapid transition to carbon neutrality. **Innovation** drives technology leaps such as electromobility, energy storage and renewable energy that become solutions enabling the transition to a sustainable society. Industries vital for the **economy** facing a new future are committing significant investments to readjust their business models to stay competitive and safeguard the future for their workers. Many of the new technologies at the center of this transition are made possible using new raw materials and having a secure and sustainable supply of these materials becomes key to achieve **resilience** in the supply chains of our future.

During 2019 the market for battery materials continued to face significant headwinds. Prices for main lithium-ion battery electrode materials, lithium, cobalt and graphite, continued trending downward. Aggressive capacity expansions by dominating Chinese suppliers in combination with new projects coming into production in Australia and Africa weighed on pricing causing a challenging trading environment for listed companies focused on these raw materials. It may feel counterintuitive with these headwinds for the sector considering the constant stream of bullish forecasts being announced for the growth of the lithium-ion battery industry. However, these two market observations are not mutually exclusive and is merely a timing disconnect where the suppliers choose to be early rather than late when they build out capacity in expectation of a significant growth in demand in the future. Nowhere is this situation, like a runner at the starting blocks, better represented than in Europe where in 2019 there was an operational annual lithium-ion battery production capacity of roughly 18 GWh which is expected to rise to 198 GWh by 2023². Total announced not yet built production capacity for Europe is now running at over 500 GWh³, but the EU has currently limited or no domestic supply of the critical raw materials to meet this demand.

The fundamental drivers as described above were already in motion but are now being accelerated as countries are trying to emerge from the economic crisis caused by the COVID-19 pandemic. The European Green Deal announced late last year⁴ subsequently led to the announcement of a new industrial strategy earlier this year "to drive Europe's competitiveness and its strategic autonomy at a time of moving geopolitical plates and increasing global competition"⁵.

¹ https://ec.europa.eu/growth/sectors/raw-materials/specific-interest/critical_en

² <https://ieefa.org/analysts-see-europe-passing-u-s-in-battery-storage-installation-by-2023/>

³ <https://www.linkedin.com/feed/update/urn:li:activity:6673867930679218176/>

⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1588580774040&uri=CELEX:52019DC0640>

⁵ https://ec.europa.eu/commission/presscorner/detail/en/ip_20_416

As stimulus packages are launched to support the European economies there are increasing calls for a #GreenRecovery and alignment with the Green Deal and the new industrial strategy. For raw materials in specific there is an announcement pending for an Action Plan on Critical Raw Materials to enhance “Europe’s industrial and strategic autonomy by securing the supply of critical raw materials”⁶. At the same time, the US is also looking to become less reliant on China for critical raw materials. Legislators have introduced several proposed measures recently to support that development; the *American Mineral Security Act*⁷, the *ORE Act*⁸ and the *American Critical Mineral Exploration and Innovation Act of 2020*⁹. Similarly, the Pentagon has proposed legislation to amend the Defense Production Act to support and finance the creation of a US based supply chain for rare earth elements¹⁰. Seldom do you get the opportunity to have such level of political will and commitment that aligns with our corporate strategy and goals.

Supported by strengthened underlying fundamental drivers the Company’s strategy to acquire and develop a portfolio of critical raw material projects in Europe to provide European industry with a secure and sustainable supply of such materials in the future is more relevant than ever. The current portfolio of projects consists of; the Woxna Graphite mine, the Norra Kärr heavy rare earth elements project, the Bergby lithium exploration project and the Bihor-Sud nickel-cobalt exploration alliance.

Woxna is a fully built graphite mine with significant capital already invested in the past. Recent extensive test work has been done to verify the potential for the development of value added graphite products from the mine’s future production, centered around thermal purification using Swedish zero carbon footprint hydropower, to suit high-growth high-value markets such as the lithium-ion battery industry.

Norra Kärr is the largest defined resource of heavy rare earth elements in the European Union¹¹ and was moved quickly to Prefeasibility in 2015¹² but has since been stuck in a lengthy mining lease application process. Several possible improvements to the project have been identified in the past without being implemented further. One such example is the potential for a by-product of nepheline-syenite which in the current design is the majority of the process waste stream that goes to tailings. Incorporating the nepheline-syenite as a by-product for the project could improve project economics and reduce the tailings environmental footprint of the project. The Company is working to identify near term measures that can **unlock** these potential benefits and subsequently **progress** development of the projects at an accelerated pace as found appropriate.

The new board composition is heavily skewed towards project development and capital markets experience providing a good fit for the work ahead of us. Finally, all directors and myself are based in Europe, with three of us being Swedish, providing a local stewardship as we work on the projects and interact with local and European partners towards delivering on our goals for the benefit of all our shareholders and stakeholders, wherever in the world they live.

Yours Sincerely,

/s/ “Filip Kozlowski”

Filip Kozlowski
CEO

⁶ ibid.

⁷ <https://www.energy.senate.gov/public/index.cfm/republican-news?ID=CFA522AC-3FC8-4E8B-B4CD-F8FD4B50351F>

⁸ https://www.cruz.senate.gov/?p=press_release&id=5106

⁹ <https://waltz.house.gov/news/documentsingle.aspx?DocumentID=371>

¹⁰ <https://www.defensenews.com/congress/2020/05/18/pentagon-legislation-aims-to-end-dependence-on-china-for-rare-earth-minerals/>

¹¹ https://ec.europa.eu/growth/sectors/raw-materials/specific-interest/erecon_en

¹² “Prefeasibility Study – NI 43-101 – Technical report for the Norra Kärr Rare Earth Element Deposit” dated 13th January 2015 available at www.sedar.ca

Forward-Looking Information

This report may contain forward-looking statements and information based on current expectations. These statements should not be read as guarantees of future performance or results. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance, or achievements to be materially different from those implied by such statements. Such statements include but are not limited to, the Company's expectations regarding graphite production at Woxna, the Company's preliminary economic assessment on Woxna is no longer current or valid as a result of the filing of a new NI 43-101 Technical Report effective March 24, 2015, and the Company has no plans to complete a new preliminary economic assessment, a pre-feasibility or feasibility study on the project, as such there is an increased risk of technical and economic failure for the Woxna graphite project; timing of commencement of additional drilling at the Bergby lithium project, unexpected geological conditions; exploration activities to advance other critical material projects of the Company for energy storage markets, delays in obtaining or failure to obtain necessary permits and approvals from government authorities. Although such statements are based on management's reasonable assumptions, there are risk factors which could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information contained herein. All forward-looking information herein is qualified in its entirety by this cautionary statement, and the Company disclaims any obligation to revise or update any such forward-looking information or to publicly announce the result of any revisions to any of the forward-looking information contained herein to reflect future results, events or developments, except as required by law.