



2022 Letter to Shareholders

March 2023

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It is a pleasure to write to you today as we put a wrap on our 25th year of annual reporting as a public company. It was certainly a good one for your company on several fronts, including achievement of the milestone of reaching C\$100 million in revenue.

Far more important than the revenue milestone this past year however were the unusual number of positive development signals that came in from across our diversified portfolio of long-term assets. Many of these add to our confidence in the embedded growth that will serve to base the next 25 years of Altius's development. We'll add more on these developments later.

As a bit of an anniversary indulgence, we calculated Altius's 25-year share-based returns (equity value growth plus dividends) and are both proud and humbled to report that the equity value has compounded at an average of more than 20% per-year over that time period.

Mind you, this result was very much aided by a starting point of 20 cents per share and a total market value of less than \$1,000,000. We also acknowledge that the path was not always a smooth one for shareholders given the trials and tribulations of investing within such a cyclical

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and sentimental sector, a great many learnings by error, lots of good and bad luck and perhaps even a few pretty good short and long-term calls along the way.

Either way, we'll accept the math result as a continuing long-term challenge and do this with gratitude for the support and encouragement of you our fellow shareholders throughout this first quarter century.

I believe we have one of the most unusually long-term minded and patient shareholder bases that exists within our sector, or any other for that matter, and this has provided amazing mandate advantages for the management team to work with. I would be very remiss to not here personally acknowledge the amazing team of people I work with who are charged with capturing these advantages. They do so with drive and work ethic, intelligence, innovation and, still to this day, a great spirit of camaraderie and fun. Thank you!

To conclude this retrospective section allow me to share some wisdom and perspective from Fairfax founder Mr. Prem Watsa, who once encouraged me to remember that "the first hundred years are the hardest"! On that note, we'll move to our thoughts looking forward.

There was a considerable shifting of the sands concerning some of the major macro-trends that our portfolio has been aligned with during the past year.

The war in Eastern Europe has added to the destabilization of a lot of underlying macro assumptions that the world had let itself perhaps get far too comfortable with. These included well managed cost inflation dynamics, reasonably stable globalized supply chains and fairly broad energy availability and security. The consequences of these shifts are still being digested by the markets and society generally but as they relate to Altius please allow us to offer some observations.

Inflation impacts are largely mitigated by the top line nature of our operating stage royalty exposures, and to the extent that cost inflation drives up marginal prices for our commodity exposures we are in fact an inflation beneficiary. However, on the flip side, as goes capital and operating cost inflation so too does the price-based incentive requirement for expansion and growth investments. The currently widening gap between increasing incentivization levels and stagnant market prices continues to weigh upon the appetite for, and timing of, many global project development opportunities – including some of those within our royalty and exploration portfolios.

We remain steadfast in our belief that the reaching of necessary incentivization conditions remains a when and not an if and we have now come one year closer to critically requiring very substantial levels of production replacement and growth. This growth takes an ever increasing amount of time to deliver in our sector— meaning that the "just in time" window has likely already

passed. This fact will come home to roost eventually and we believe in many cases it will make the lithium sub-sector, one of the few experiencing current incentivization conditions, prove a broader harbinger.

De-globalization trends are also resulting in both less standardized commodity pricing (a widening of premiums and discounts) and more disparate regional costs of capital for mining projects. It also ultimately manifests as less efficient logistic networks that in turn further add to structural inflation - with bulk commodities particularly affected. For reasons described above, this inflation provides both benefits and challenges for our particular business, but the favorable geographic distribution of our exposures causes us to feel it as more of a tailwind on balance.

Our first presumption last year in response to Europe facing an energy cost and supply crisis was that the government policy and social focus on driving down CO2 emissions would recede. In other words, that objectives such as the driving of increased renewable energy build outs, promoting and facilitating the EV transition and building effective carbon costing mechanisms would become de-prioritized as “luxury” goals vs imperatives. Instead, somewhat of a “doubling-down” conviction seems to be resulting. Domestic based energy security has become a further driver for renewables in many countries, global adoption curves for EVs continue to ramp far ahead of the expectations of even only a year or two ago, and bellwether European carbon costs recently hit a new all-time high.

We are perhaps seeing the first cracks emerge in the industry’s multi-year capital allocation focus on dividends and buybacks, as opposed to competing growth investing - at least in the form of a shifting rhetoric if not yet actions. Political and societal vilification risks for not delivering the world its critically needed materials are beginning to match the risk of not meeting the demands of investors to return to them the majority of operating cash flows.

Despite the above comments on the continuing lack of tangible growth investment within the broader sector, there are an increasing number of growth signals emerging from across our specific asset portfolio:

Within our **base and battery metals portfolio**, we see strong growth potential emerging in the form of expansion and new build actions and intentions.

Chapada continues to be evaluated for expansion and this is now being supported by the discovery of the Saúva Deposit on the property. A significant maiden resource has been declared there and the indicated grade is considerably higher than that currently being mined, providing clear positive implications for mine life extension and/or production rate growth.

Lithium stands almost alone as a mined commodity that is experiencing incentivization conditions and this is working to purpose. Our direct and indirect exposure to lithium, through our past

investments in and alongside Lithium Royalty Corporation, is benefiting from the rapid construction advancement and increasing production level objectives of several royalty portfolio projects. We expect to receive first ever lithium royalty revenue this year. LRC is also currently marketing an IPO and this holds the potential to daylight significant value for our equity level holding.

Adventus's Curipamba project continued to knock down major hurdles during the past year. These included project finance arrangements, technical level environmental approval and a government investment protection agreement, all completed in advance of a potential construction decision later this year.

We continue to be very bullish about the prospects for **the high-purity component of the iron ore market** with the earlier comments about lithium as a harbinger perhaps particularly relevant here. In lithium the writing was put on the wall a few years ago when massive amounts of new investment in the transition to EV based manufacturing was collectively committed by global automakers. This was done in the absence of knowing where the necessary raw input materials would come from, and the overall result has been both strong incentivization pricing and more recently direct downstream investments by automakers to secure various supplies.

Today, not tomorrow, large amounts of capital are being committed by global steelmakers to similarly transition their platforms to Electric Arc Furnace based steelmaking - at the logical future expense of Blast Furnace based production market share. An EAF relies exclusively on scrap steel and very high purity iron ore inputs to produce "cleaner" steel – meaning without associated coal inputs. The vast majority of the world's currently established iron ore supply and production base, which has been steadily deteriorating in quality, has no utility in EAF steelmaking. No one really knows how the looming increase in high-purity input demand will be met, explaining why we invoke the forward looking parallel with the lithium market. We feel this represents a very under-appreciated story but one we are very excited by.

One of the very few global iron ore districts that can technically deliver increasing levels of this material, and that has available infrastructure, and that is not party to the war in eastern Europe, is Canada's Labrador Trough region. Here we hold royalty interests in several projects that include: the producing IOC mines, which are seeing resurgent reliability and growth-based investment; Champion's Kami project with updated feasibility results expected later this year; as well as additional resource and earlier study stage projects.

Our majority owned **Altius Renewable Royalties business** experienced a pivotal year in 2022 as it hit several key milestones along its sector level adoption and growth trajectory. It made several new investments in operating projects as well as development project platforms while also seeing strong acceleration of its revenue profile and the achievement of first positive operating level

cash flow. This growth is expected to continue to ramp up as a result of both the maturing and progressing of the investments it has already made, as well as the rapidly expanding pipeline of new investment opportunities it is experiencing. Both equity and debt capital became considerably more expensive for the renewables sector over the past year and this is prompting builders of projects to look for alternative sources of capital - and ARR is certainly feeling the benefits of this. Also of significance, and of gratifying relief to us, is the recognition that ARR's embedded revenue growth profile is matching up nicely to not only replace, but to eclipse, our quickly fading coal revenue.

It was anything but a boring year for boring old **Potash**. 2022 was obviously a bigger than expected revenue year for us in this segment on the strength of the price surge in the immediate aftermath of the Ukraine war and its resulting supply shock. Prices have since corrected to below pre-war levels. We think they have likely over-corrected based on what amounts to absurdly short-term, yet sentiment dominating, demand destruction noise. There is in fact a serious structural supply deficit that has opened, and current prices only incentivize a limited part of the immediate and longer-term replacement and growth requirements.

Global food production yields are intrinsically linked to the replenishment of essential nutrients in proportion to agricultural depletion. This requirement was not met in 2022 and seems like it also won't be in 2023 - while global food stocks have fallen to historic lows. Fertilizer is not a discretionary investment over anything but very short time frames and in the past, periods of under-application have been naturally met with succeeding periods of higher application. To put this in proper context, the alternative amounts to a food availability crisis that will disproportionately impact the world's most vulnerable regions.

Our long-term royalty mines are incredibly well positioned competitively to be the solution for the new supply that is required both today and for a great many tomorrows. Of particular potential relevance in this regard is that, at least until recently, the majority of medium-term new global supply requirements were expected to be met by Russia and Belarussian growth projects. We'll keep our bets on Saskatchewan thank you. Our operators see the challenge too and are meeting it as an opportunity - by investing to accelerate an alternative source of this much needed supply growth from their best-in-class mines and resources.

Anglo Gold Ashanti continues to advance exciting discoveries at the **Silicon Project in Nevada** and recently provided increased and upgraded resource estimates for several deposits. It also noted that it has decided to bypass the concept study stage for the Merlin deposit and to instead integrate it within its ongoing pre-feasibility study for the adjacent Silicon deposit. While a maiden resource for Merlin is still awaited AGA did refer to it as the "gem in the crown" of the district. We love the promise and suspense of discovery!

Before closing, allow us to dip our toes into a bit of a debate that seems to be emerging in our industry. Some of you will be aware that NPV based models in mining have come under prominent attack lately for doing a poor job of approximating “tier-one” asset values. While we don’t believe it’s time to throw out the baby with the bath water, we are landing in the camp that says some of the input conventions used in typical industry NPV models tend to over-value marginal to average type projects while under-valuing those ever so rare, top-tier, long-life, multi-cycle mining assets.

If one wants a clear illustration of this, you can find no better example than our ultra-long-life Saskatchewan potash royalty portfolio. From well before we finally got our chance to acquire these assets, which is now almost 10 years ago, we have believed that these mines, which are truly essential to humanity while possessing moat-like competitive advantages, would continue to incrementally grow out production volumes for generations upon generations. Our expectations have been met so far and in fact been proven conservative - with production growth rates exceeding compounding long-term global potash demand and thereby resulting in market share growth.

We recently built an NPV model that assumed, conservatively we believe, that these assets would at least hold on to their share of global potash market demand growth over time. This contrasts with standard modelling conventions that assume mines maintain current production rates until proven otherwise through committed growth investments, and so in essence lose global share as the broader market expands. The model “tweak” resulted in a more than doubling of the NPV output result since it had the effect of drawing forward “tail” production and preserving more of the future royalty revenue from discounting oblivion.

We also noted that in the fullness of time the cost of extracting potash would inflate and lead to higher resulting prices. Over the past 30 years we estimate that potash prices have increased due to this factor by more than 5% annually, while general inflation increased at around half that amount. As royalty holders we stand to benefit from this price inflation without any corresponding share of the industry specific cost increases. When we ran this historical price-based escalation factor through our hypothetical DCF model the output result became incredible – the power of compounding over long durations really is a thing of magic!

Admittedly, our potash portfolio, with its incredible resource endowment and competitive positioning, is an extreme case around which to base a broader argument in this discussion, but it served its illustrative purpose. If nothing else, it helped us steer our logic analysis away from challenging the innocent mathematical roots of DCF/NPV models and towards the more subjective inputs that they are built upon. It quantified for us what was just intuitive previously – namely that there really is no comparison between long-life expandable mines, that also capture multiple commodity pricing cycles and long-term price inflation trends as they expand

volumes, to those that have “average” lives - that had better get the intra-cyclical timing right. We have been focused on royalties on these types of mines for years now and can guarantee that we would not consider selling them at anywhere near the levels they are currently valued at within standard models. Not even close.

We’d certainly hope that logic of this type being applied by capital market participants might help to break the log jam for growth funding – as the reality of significant looming supply deficits for many critical metals and minerals continues to be met with a “don’t look up” attitude. Otherwise, we expect that more of the world’s potential replacement and growth mines will have to be funded and controlled (mainly out of desperation) by strategic interests such as carmakers, steel makers and even governments. If you think this sector suffers from inflationary inefficiencies today...imagine forward to that day!

Either way, we remain very happy with our positioning. Challenges and opportunities lie ahead to be sure, but, in many ways, we feel that Altius has barely begun its growth journey.

Thank you on behalf of the board and management of Altius for your continued interest and support.

Sincerely,

Brian Dalton

CEO