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COBALT BLUE HOLDINGS LIMITED DEMERGER FROM BROKEN HILL PROSPECTING LIMITED
AUSTRALIAN TAXATION INFORMATION

Cobalt Blue Holdings Limited (**ASX: COB**) recently completed its demerger from Broken Hill Prospecting Limited (**ASX: BPL**).

A general outline of the Australian taxation implications of the demerger for Australian shareholders participating in the demerger is set out in page 200 of the replacement prospectus dated 3 January 2017 (**Replacement Prospectus**), supplemented by the supplementary prospectus dated 10 January 2017 (**Supplementary Prospectus**) and is available on COB's website.

Observations on CGT Cost Base

1. The following information is not relevant to non-residents of Australia outside of the Australian CGT net.
2. Shareholders in BPL that held their shares in that company and after 2 February 2017 in COB as part of their trading stock or as part of a profit making scheme are not subject to the CGT rules on their COB shares.
3. The COB shareholders that are subject to CGT exposures over their COB shares will almost certainly elect to apply the rollover provisions in Division 125-80 of the ITAA 1997 (as amended); meaning apply the demerger rules to those shares and defer any potential gains under G1
4. Each BPL shareholder (excluding those in 1 and 2 above) on 2 February 2017 will have received shares in COB from the demerger package of 35,000,000 COB shares and will now need to split their historic CGT cost base (or reduced costs base) of their shares in BPL between their shares in BPL and their entitlements within that 35,000,000 shares in COB.
5. Division 125-80 requires taxpayers that elect as in 3 above to adopt a reasonable allocation of their historic cost base over their shares in BPL, based on certain matters in part 3 of that Division.

ATO Policy on Reasonable Splits for Division 125-80.

The ATO has issued Taxation Determination TD 2006/73 to assist taxpayers such as those shareholders in BPL and COB in 3 above to carry out the split of the historic cost/reduced cost base. In effect the suggestions are quite fair and in most circumstances should represent what taxpayers would adopt and have the ATO accept in their CGT cost base records.

There are two accepted methods:

1. the relative market value method; and
2. the parcel by parcel method.

The best way to explain how each works is via an example with common facts and then overlay that with relevant facts for BPL and COB.

The share price and relative market values of COB and BPL shares were as follows:

	Opening Share Price at 2 February 2017	Shares on issue	Market value	Relative market value
	Cents		$	%
BPL fully paid shares	5.3	147,773,401	7,831,990	26.39
COB fully paid shares	23.0	95,000,000	21,850,000	73.61
TOTAL			29,681,990	100.00

Illustrative Example

Following is an illustrative example of how to calculate your cost bases.

Helen had 750,000 shares in BPL as at close of business on 1 February 2017 that had an aggregate cost base of $22,500.

She received 177,637 COB shares[1] under the demerger.

Relative Market Value Method

Under the relative market value method, the cost bases of the shares held by Helen would be calculated as follows:

<u>BPL</u>

$22,500 X 26.39% = $5,937.75

$5,937.75 / 750,000 shares = $0.0079 per share

<u>COB</u>

$22,500 X 73.61% = $16,562.25

$16,562.25 / 177,637 shares = $0.0932 per share

Parcel by Parcel Method

The parcel by parcel method permits applying the same relative market values to apportion the cost bases of two different parcels.

For example, Helen's assumed $22,500 aggregate cost base may consist of BPL shares costing $17,500 acquired 1 January 2015 and BPL shares costing $5,000 acquired 1 January 2016.

COB share cost base would be $12,881.75[2] at 1 January 2015 (BPL $4,618.25) and $3,680.50 at 1 January 2016 (BPL $1,319.50).

The parcel by parcel calculations revolve around how many parcels of shares each shareholder acquired and at what cost.

The cost base of the bonus options issued when vested to the new shareholders of COB will be $Nil.

On the basis that all shares must have been acquired post 19 September 1985, then the CGT rules are there for investors.

The 50% discount rule still requires investor shareholders (not companies) to continue to hold their parcels of shares for longer than twelve months, hence the logic for the parcel by parcel rule if the twelve month holding does not apply to each parcel.

As every shareholder will have different historic costs bases in their shares and acquisition dates compared to other shareholders and their background circumstances will also be different, each shareholder will need to use the formula and examples above to calculate what is in their particular case their cost bases on 2 February 2017 of their shares in BPL and for COB.

This document provides assistance and is supplementary to the information contained in page 200 of the Replacement Prospectus, supplemented by the Supplementary Prospectus.

As indicated in the Replacement Prospectus supplemented by the Supplementary Prospectus, all Cobalt Blue shareholders should seek specific advice applicable to their own particular circumstances from their own tax advisers.

Ian Morgan

Ian Morgan
Company Secretary

[1] 147,773,401 BPL shares / 35,000,000 COB shares held by BPL = 4.2221 rounded. 750,000 BPL shares / 4.2221 = 177,637 COB shares.

[2] $17,500.00 X 73.61% = $12,881.75.