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COBALT BLUE HOLDINGS LIMITED
ACN 614 466 607

HALF YEAR
FINANCIAL REPORT
31 DECEMBER 2018

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DIRECTORS' REPORT

The directors present their report together with the financial report of Cobalt Blue Holdings Limited ("COB" or "the Company") for the financial half-year ended 31 December 2018 and the auditor's review report thereon.

The names of directors who held office during the financial half year and to the date of this report are:

R Biancardi (Chairman)

H Keller (Independent Non-Executive Director)

R McDonald (appointed as an Independent Non-Executive Director effective 1 January 2019)

J Kaderavek (Chief Executive Officer & Executive Director)

M Hill (resigned as a Director effective 13 December 2018)

Review of operations

The Company's focus is upon the development and commercialisation of the Thackaringa Cobalt Deposit, Broken Hill, NSW.

Preliminary Feasibility Study (PFS)

On 4 July 2018, the Company announced it had delivered a PFS for the Thackaringa Cobalt Project. A maiden Ore Reserve was also declared – Probable Ore Reserve of 46.3 million tonnes @819 ppm¹ cobalt². The PFS clearly demonstrated the Ore Reserve case for Thackaringa was NPV positive and that the project was economic³.

Drilling

During the financial half year, the Company completed 9,651 metres of the drilling campaign originally planned to exceed 15,000 metres. Due to an inability to secure a land access extension, the Company paused drilling operations on 13 January 2019.

The Company announced on 5 February 2019 that the recent drilling campaign:

- has enhanced geological confidence and data density by infill drilling.
- allowed completion of an initial phase of drilling to test a potential down-dip extension of the Pyrite Hill deposit target.

A Mineral Resource update is expected by the end of Q1 2019 and is anticipated to consider a revised cut-off grade potentially incorporating revenue streams from elemental sulphur; an economic by-product of the processing pathway defined in the PFS. Sulphur revenues were not considered when reporting the previous (March 2018) Mineral Resource estimate.

Project Optimisation Studies

The Company is progressing several option studies identified in the Pre-Feasibility Study (PFS). These include:

- **Target Revenue Increases**

Life of Mine: The production target identified in the PFS provided for an initial mine life of 12.8 years at a steady-state throughput of 5.25 million tonnes per annum ore. This mine life is largely limited by current available geological information, rather than economic factors. The Company is working towards issuing a mineral resources update.

¹ parts per million

² These estimates of mineral resources were first announced by Cobalt Blue Holdings Limited in Thackaringa – Significant Mineral Resource upgrade - 19 March 2018. The Company confirms that it is not aware of any new information or data that materially affects the information included in that announcement, and all material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed. Following additional drilling, a resource upgrade is planned for release in late March 2019.

³ These estimates were first announced by the Company in Thackaringa Cobalt Project Pre-Feasibility Study – 4 July 2018.

Cobalt and Sulphur Recoveries: The PFS assumed a conservative 85.5% cobalt recovery (in ground to payable metal), including (negative) allowances for scale-up from the existing laboratory testwork results of 88.5% metal recovery. The Company commenced a bulk testwork program during the period that will enable the Company to undertake more detailed marketing studies and build confidence with potential commercial partners. The Company is working towards providing an update on recoveries by the end of Q2 2019.

- **Target Cost Reductions**

Power: The PFS identified that approximately 22% of operational cash costs were related to grid power consumption. The Company commenced studies during the financial half-year to cover areas such as optimising waste heat capture, distributed energy generation and storage, and optimising the daily load profile of energy usage.

Process Plant Tailings: Tailings and associated handling represented approximately 10% of operational cash costs in the PFS. The Company commenced a tailings study during the financial half-year.

Thackaringa Joint Venture

On 5 September 2018, Broken Hill Prospecting Limited (ASX: BPL) announced that they had assessed the Stage 2 technical and financial milestones of the Exploration Farmin Joint Venture Agreement (JVA) and confirmed that the Company had earned a 70% beneficial interest in the Joint Venture.

On 24 October 2018 the Company announced that it had withdrawn from the Earning Period process of the JVA.

On 29 November 2018 BPL issued an Optional Dilution Notice, advising that it did not wish to contribute to Joint Venture Activities.

On 4 December 2018 the Company advised BPL that its interest had been diluted to a 6.32% interest, with the Company holding the balance of 93.68%.

During the financial half-year, BPL issued a number of dispute notices pursuant to the JVA. The Company remains of the view that it has acted in accordance with the JVA and the issues raised by BPL have no merit. The Company will vigorously defend its position. On 8 February 2019, the Company announced it had elected to finalise those disputes by moving them to Expert Determination.

On 18 February 2019, the Company announced following a recalculation of Joint Venture Interests, BPL had been advised that its Joint Venture Interest was computed at 4.75%. Because BPL's reduced interest is now below the Minimum Interest of 5%, BPL is deemed to have withdrawn from the Joint Venture. Consequently, in accordance with the JVA, the Company had written to BPL requesting it:

- Surrender absolutely to the Company all of its Joint Venture Interest.
- Within thirty (30) days execute and deliver all deeds and documents necessary for, and complete the transfer of its Joint Venture Interest to the Company.
- Pay all stamp duty and other transfer costs which become payable upon BPL transferring its Joint Venture Interest to the Company.

On 26 February 2019 BPL announced it rejected the claims issued by the Company in the preceding paragraph and stated BPL's equitable interest in the joint venture project was 30%, with the Company holding an equitable interest of 70%. The disputes between the Company and BPL are the subject of current dispute resolution processes under the JVA.

Other commercial ventures

The Company is actively working with other parties to explore using COB's proprietary mineral processing technology to unlock the value in cobalt orebodies at other locations.

During the financial period the Company announced it had entered a Memorandum of Understanding (MOU) with CuDeco Limited (ASX: CDU) to allow the Company to undertake due diligence studies to evaluate the applicability of the Company's mineral processing technology to the cobalt-pyrite concentrate produced at CuDeco's Rocklands project. The Company will perform laboratory test-work using proprietary technology it has developed and after testing, the Companies will consider future cooperation involving marketing/processing contracts or joint venture development of cobalt projects both locally and overseas possible.

Review of results of operations

The Company generated revenues of \$54,616 in the 2018 half-year (2017: \$46,128), principally from bank interest.

Expenses for the 2018 half-year increased to \$1,367,408 (2017: \$678,508) reflecting the increased scale of the Company's operations, including an increase in full-time employees (increasing from one to four) and the Company moving from a shared office to its own premises (such cost being reflected largely as amortisation of leased assets and interest expenses under Australian Accounting Standard 16 - Leases).

The Company continued to progress works associated with the Thackaringa Cobalt Project, with \$5,032,732 capitalised on a net basis (2017: \$3,010,697).

The Company raised a net \$1,650,594 in new equity during the financial half year.

The Company's net assets increased during the financial half year by \$440,915, which reflects the current half-year results and the additional equity raising.

Auditor's Independence Declaration

The Company has received the Auditor's Declaration of Independence as required by s 307C of the Corporations Act 2001, and is set out on page 6 of this report.

Signed in accordance with a resolution of the Directors.



Rob Biancardi
Chairman
Dated 14 March 2019

To the Board of Directors of Cobalt Blue Holdings Limited

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

As lead audit director for the review of the financial statements of Cobalt Blue Holdings Limited for the half year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

Yours sincerely

Nexia Sydney Audit Pty Limited



Stephen Fisher
Director

Date: 14 March 2019

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**CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL HALF YEAR ENDED 31 DECEMBER 2018**

	Note	Half-year	
		31 Dec 2018	31 Dec 2017
		\$	\$
Revenues from ordinary activities			
Revenue	3	54,616	46,128
Expenses from ordinary activities			
ASX and Registry Fees		(79,198)	(64,136)
Consultants / Public Relations		(167,222)	(93,140)
Depreciation and amortisation expense		(105,612)	-
Employee expenses		(491,212)	(267,059)
Interest expenses		(21,982)	-
Legal and professional costs		(327,089)	(189,158)
Occupancy expenses		(5,438)	(9,545)
Other expenses from ordinary activities		(169,655)	(55,470)
Loss before tax		(1,312,792)	(632,380)
Income tax expense		-	-
Loss from continuing operations		(1,312,792)	(632,380)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year		(1,312,792)	(632,380)
		Cents	Cents
Basic and diluted loss per share		(1.1)	(0.6)

The condensed statement of profit or loss and other comprehensive income should be read in conjunction with the notes to the financial statements.

**CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

	Notes	31 Dec 2018	30 Jun 2018
		\$	\$
Current Assets			
Cash and cash equivalents		7,231,546	9,799,566
Receivables		156,031	118,714
Other assets		101,271	110,252
Security deposits		255,610	-
Total Current Assets		7,744,458	10,028,532
Non-current Assets			
Property, plant and equipment		610,117	695,064
Intangibles		83,983	32,443
Security deposits		10,000	65,610
Exploration and evaluation assets	4	13,625,972	8,593,240
Total Non-current Assets		14,330,072	9,386,357
Total Assets		22,074,530	19,414,889
Current Liabilities			
Trade and other payables	5	2,835,180	587,425
Provisions	6	100,290	63,659
Lease liabilities		135,419	135,419
Total Current Liabilities		3,070,889	786,503
Non-current Liabilities			
Provisions		24,115	24,115
Lease liabilities		420,108	485,768
Total Non-current Liabilities		444,223	509,883
Total Liabilities		3,515,112	1,296,386
Net Assets		18,559,418	18,118,503
Equity			
Issued capital	7	22,079,203	20,428,609
Reserves		654,783	551,670
Accumulated losses		(4,174,568)	(2,861,776)
Total Equity		18,559,418	18,118,503

The condensed statement of financial position should be read in conjunction with the notes to the financial statements.

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL HALF YEAR ENDED 31 DECEMBER 2018**

	Ordinary Share Capital	Options Reserve	Accumulated Losses	Total
	\$	\$	\$	\$
Balance at 1 July 2017	9,904,975	350,000	(1,227,220)	9,027,755
Total comprehensive loss for the half-year	-	-	(632,380)	(632,380)
Issue of ordinary securities	2,501,233	-	-	2,501,233
Share based payments	-	75,657	-	75,657
Cost of issuing ordinary securities	(89,078)	-	-	(89,078)
Balance at 31 December 2017	12,317,130	425,657	(1,859,600)	10,883,187
Balance at 1 July 2018	20,428,609	551,670	(2,861,776)	18,118,503
Total comprehensive loss for the half-year	-	-	(1,312,792)	(1,312,792)
Issue of ordinary securities	1,712,444	-	-	1,712,444
Share based payments	-	103,113	-	103,113
Cost of issuing ordinary securities	(61,850)	-	-	(61,850)
Balance at 31 December 2018	22,079,203	654,783	(4,174,568)	18,559,418

The condensed statement of changes in equity should be read in conjunction with the notes to the financial statements.

**CONDENSED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL HALF YEAR ENDED 31 DECEMBER 2018**

	Half-year	
	31 Dec 2018	31 Dec 2017
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(1,094,021)	(770,484)
Interest received	62,118	52,562
Interest paid on leased assets	(21,982)	-
Net cash flows used in operating activities	(1,053,885)	(717,922)
Cash flows from investing activities		
Payments for exploration expenditure	(3,031,009)	(2,821,206)
Payments for plant and equipment	(15,510)	(7,206)
Payments for intangible assets	(52,550)	-
Net cash flows used in investing activities	(3,099,069)	(2,828,412)
Cash flows from financing activities		
Gross proceeds from issue of shares	1,712,444	2,517,066
Costs related to issue of shares	(61,850)	(86,540)
Payment of lease liabilities	(65,660)	-
Net cash flows provided by financing activities	1,584,934	2,430,526
Net increase/(decrease) in cash held	(2,568,020)	(1,115,807)
Cash at beginning of financial period	9,799,566	5,719,337
Cash at end of financial period	7,231,546	4,603,530

The statement of cash flows should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL HALF YEAR ENDED 31 DECEMBER 2018

1 Statement of Significant Accounting Policies

The half-year financial statements cover Cobalt Blue Holdings Limited, incorporated and domiciled in Australia (COB or Company). The Company was incorporated on 28 August 2016.

Basis of preparation

The condensed interim financial report is a general purpose financial report, prepared in accordance with AASB 134 "Interim Financial Reporting" and the requirements of the Corporations Act 2001.

The condensed interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the most recent annual financial report for the year ended 30 June 2018 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have been followed in this interim financial report as were used in the most recent annual financial statements.

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the company's accounting policies and has no effect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations have not had a material impact and not resulted in changes to the company's presentation of, or disclosure in, its half-year financial statements.

Going Concern

The financial report has been prepared on the going concern basis, which assumes that the Company will be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report. For the half-year end ended 31 December 2018 the Company incurred a loss of \$1,312,792 (31 December 2017: loss of \$632,380), had a net cash outflow from operating activities of \$1,053,885 (31 December 2017: outflow \$717,922) and a net cash outflow from investing activities of \$3,099,069 (31 December 2017: outflow \$2,828,412). As at 31 December 2018, the Company had a working capital surplus of \$4,673,569 (31 December 2017: surplus \$9,307,639) and cash of \$7,231,546 (30 June 2018: \$9,799,566).

The Company will require further funding during the next 12 months to meet day to day obligations as they fall due and to progress the Thackaringa cobalt exploration project. If the funds are not raised, the Company will defer its exploration work but will have sufficient cash reserves. The Directors are satisfied that at the date of signing the financial report, there are reasonable grounds to believe that the Company will be able to meet its debts as and when they fall due and that it is appropriate for the financial report to be prepared on a going concern basis. The Directors have based this on the following matters:

- The Company has the capacity, if necessary, to reduce its operating cost structure in order to minimise its working capital requirements.
- The Directors plan to raise additional capital during the next 12 months to meet the Company's planned exploration activities.
- The Directors believe that future funding will be available to meet the Company's objectives and debts as and when they fall due.

2 Operating Segment

The Company is organised into one operating segment being the exploration and evaluation of Cobalt resources predominantly in the Broken Hill region of New South Wales, Australia.

3 Revenue from operating activities

	31 Dec 2018	31 Dec 2017
	\$	\$
Interest received	54,366	43,314
Other Revenue	250	-
R&D tax incentive refund*	-	2,814
	54,616	46,128

* In the Company's December 2017 Interim Financial Report, the Company reported an R&D tax incentive refund due of \$281,337 as revenue. In June 2018 the Company re-evaluated its accounting for this amount and considered that the R&D tax incentive refund should be more appropriately accounted under the Company's accounting policy for government grants. That policy provides that Government grants are initially recognised as deferred income at fair value and when there is reasonable assurance that they will be received and that the company will comply with the conditions associated with the grant, they are then recognised in profit or loss as other income on a systematic basis over the life of the asset. Grants that compensate the company for expenditure capitalised are recognised as a reduction in the carrying value of the asset and grants that compensate the company for expenditure recognised in profit or loss is recognised as government grant income.

Applying the Company's Government Grant accounting policy resulted in \$2,814 being treated as government grant income (reported above as R&D tax incentive refund) with the balance of \$278,523 accounted for as a reduction in the carrying value of exploration expenditure. For the purpose of the 31 December 2017 comparatives the error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

	31 Dec 2017	Increase/ (Decrease)	31 Dec 2017
	\$	\$	(Restated) \$
Statement of profit or loss			
Revenue	324,651	(278,523)	46,128
Loss	353,857	278,523	632,380
Balance Sheet			
Exploration and evaluation assets	6,717,762	(278,523)	6,439,239
Net Assets	11,161,710	(278,523)	10,883,187
Accumulated losses	1,581,077	278,523	1,859,600

Basic and diluted loss per share for the prior period have also been restated. The amount of the correction for both basic and diluted loss per share was an increase in the loss per share of 0.2 cents per share.

4 Exploration and evaluation asset

Recoverability of the carrying amount \$13,625,972 of the exploration and evaluation asset is dependent on the successful development of the Thackaringa Cobalt Project. The increase in the carrying amount of \$5,032,732 during the financial half - year reflects continued expenditure on drilling activities and other studies associated with the project.

5 Trade and other payables – current

	31 Dec 2018	30 Jun 2018
	\$	\$
Trade payables	2,625,241	340,391
Other creditors and accruals	209,939	247,034
	2,835,180	587,425

6 Provisions - current

Provisions – current includes a provision for current site rehabilitation costs of \$80,984 arising from the 2018 drilling program (2017: Nil).

7 Issued Capital

During the period the Company raised funds from placements and the exercise of options:

Ordinary Shares	Number	\$
Fully paid ordinary shares on issue at 30 June 2018	116,056,758	20,428,609
Exercise of options - proceeds received at \$0.25 per share	101,776	25,444
Issue of ordinary shares pursuant to placement at \$0.20 per share	8,435,000	1,687,000
Costs associated with issue of ordinary shares	-	(61,850)
Fully paid ordinary shares on issue at 31 December 2018	124,593,534	22,079,203

Options	Number
Options issued at 30 June 2018	24,354,073
Exercised during the financial half-year	(101,776)
Options issued for nil consideration as part of prospectus	25,000
Options issued to CEO and Executive Director (see Note 8)	750,000
Options issued to employees under Employee Share Option Plan	394,250
Options issued at 31 December 2018	25,421,547

8 Related Party Transactions

In December 2018, 750,000 options over ordinary shares were issued to CEO and Executive Director, Joe Kaderavek, following Shareholder approval at the Annual General Meeting. These options were issued for no cash consideration. Each option has an exercise price of \$0.30 and will expire on 10 July 2021. The options will have a fair value of \$0.08 per option.

9 Commitments for expenditure

At 31 December 2018 exploration expenditure contracted but not yet provided for and payable amounted to \$2,181,677, of which \$1,920,011 is payable within 1 year, with the remainder payable within 1-2 years.

10 Subsequent Events

Mr R McDonald was appointed as an Independent, Non-Executive Director effective from 1 January 2019.

On 18 February 2019 the Company announced that following a recalculation of Joint Venture Interests in the Thackaringa Joint Venture, that Broken Hill Prospecting Limited (BPL) had deemed to have withdrawn from the Joint Venture. Consequently, in accordance with the Joint Venture Agreement, the Company has written to BPL requesting it:

- Surrender absolutely to the Company all of its Joint Venture Interest.
- Within thirty (30) days execute and deliver all deeds and documents necessary for, and complete, the transfer of its Joint Venture Interest to the Company.
- Pay all stamp duty and other transfer costs which become payable upon BPL transferring its Joint Venture Interest to COB.

On 26 February 2019 BPL announced it rejected the claims issued by the Company in the preceding paragraph and stated BPL's equitable interest in the joint venture project was 30%, with the Company holding an equitable interest of 70%.

The Directors remain of the view that the Company has acted in accordance with the Joint Venture Agreement and the issues raised by BPL are without merit. The disputes between the Company and BPL are the subject of current dispute resolution processes under the JVA.

No other matters or circumstances have arisen since the end of the reporting period which significantly affected or could significantly affect the operations of the company, the results of the operations, or the state of affairs of the company in future financial years.

DIRECTORS' DECLARATION

In the opinion of the Directors of Cobalt Blue Holdings Limited:

- a) the financial statements and notes set out on pages 7 to 14 are in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the Company's financial position as at 31 December 2018 and of its performance for the six-month period ended on the date; and
 - (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

On behalf of the directors



Rob Biancardi

Chairman

14 March 2019

Independent Auditor's Review Report to the Members of Cobalt Blue Holdings Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Cobalt Blue Holdings Limited (the Company), which comprises the condensed statement of financial position as at 31 December 2018, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001. As the auditor of Cobalt Blue Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Nexia Sydney Audit Pty Ltd

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Independence


In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001 has been given to the directors of Cobalt Blue Holdings Limited.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cobalt Blue Holdings Limited is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

Nexia Sydney Audit Pty Ltd



Stephen Fisher

Director

Sydney, 14 March 2019