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COBALT BLUE HOLDINGS LIMITED

ACN 614 466 607

HALF YEAR

FINANCIAL REPORT

31 DECEMBER 2020

Table of Contents

Directors' Report	3
Auditor's Independence Declaration	6
Consolidated Statement of Profit or Loss And Other Comprehensive Income.....	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows.....	10
Notes to the Financial Statements	11
Directors' Declaration.....	16
Independent Auditor's Review Report	17

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Directors'

Report

The directors present their report together with the financial report of the Consolidated Entity consisting of Cobalt Blue Holdings Limited ('the Company') and the entities it controlled (referred to hereafter as the 'COB Group' or 'Consolidated Entity') for the half-year ended 31 December 2020.

Directors

The following persons were directors of the Company during the whole of the half-year and up to the date of this report, unless otherwise stated:

R Biancardi (Chairman)
H Keller (Independent Non-Executive Director)
R McDonald (Independent Non-Executive Director)
J Kaderavek (Chief Executive Officer & Executive Director)

Review of operations

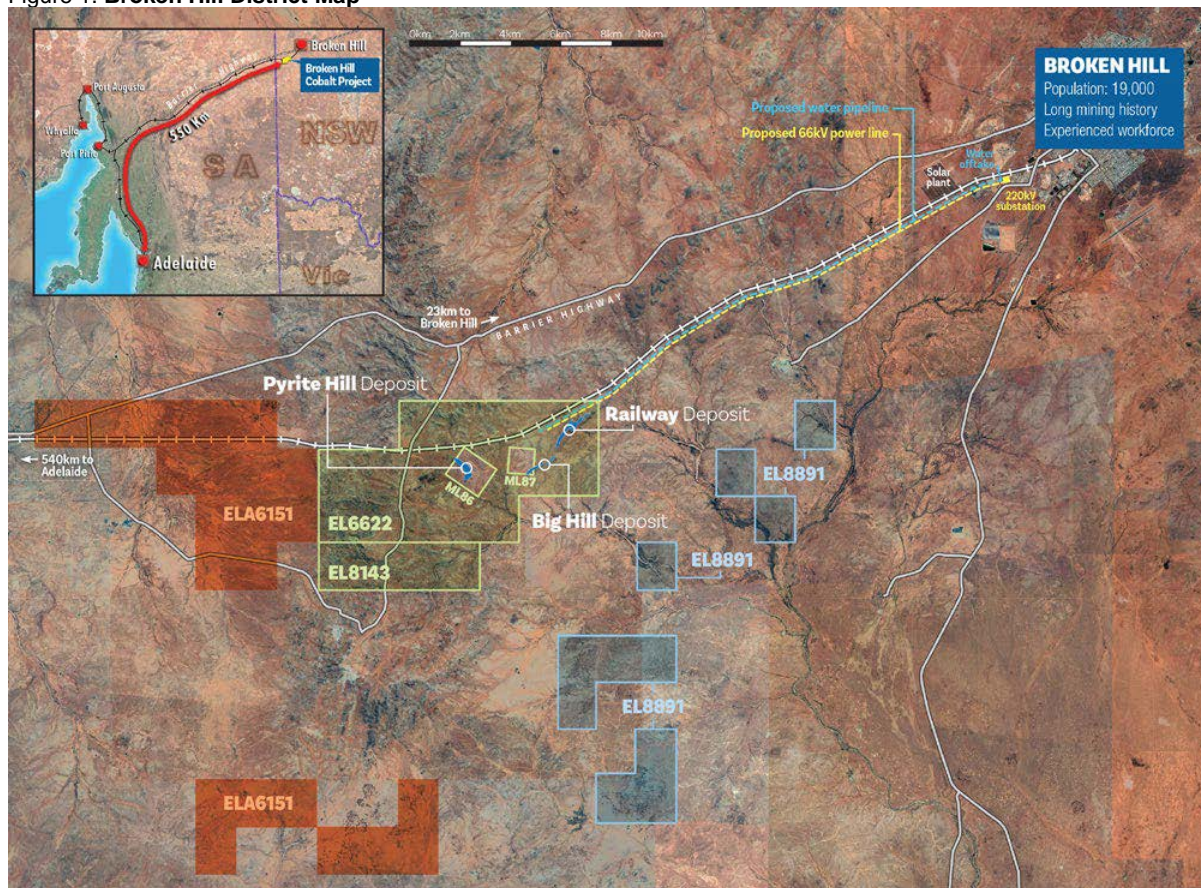
The COB Group's focus during the half-year remained the ongoing development of the Broken Hill Cobalt Project, Broken Hill, NSW.

The Company released a major project update of the Broken Hill Cobalt Project during the half-year. The project update highlights were:

- Ore Reserve (Probable) increased 55% from 46.4 Mt (at 819 ppm cobalt) to 71.8 Mt (at 710 ppm cobalt)¹.
- Ore Reserve contained cobalt increased 34% from 38,000 tonnes to 51,000 tonnes¹.
- Pre-Production capital expenditure lowered by approximately \$70m, inclusive of a 20% increase in front-end mining and concentrate throughput capacity from 5.2 Mtpa to 6.3 Mtpa.
- Capital intensity (US\$ capital/cobalt production) typically 25-30% of required capital for comparable greenfield projects.
- Replacement of standalone process plant Tailings Storage Facility, with an Integrated Waste Landform for co-disposal of mine waste rock and process plant tailings, resulting in a lower environmental footprint.

¹ The updated ore reserve estimates were first announced by the Company on 16 July 2020 in Broken Hill Cobalt Project (BHCP) Project Update 2020. The Company confirms 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.

Figure 1. Broken Hill District Map



Testwork was carried out during the half-year producing high-purity products. Cobalt-sulphate sample purity achieved was greater than 20.8%. The sample compares very favourably to the typical specifications (based on nine leading global suppliers) for cobalt sulphate heptahydrate used in manufacturing battery cathode precursors. In relation to elemental sulphur testwork, a ~150 kg sample of concentrate was processed by Harper International for conversion of pyrite into pyrrhotite and elemental sulphur. The elemental sulphur was condensed from the kiln off-gas and then processed by Enersul into sulphur prills. The sulphur purity was established to be greater than 99.3% purity.

Construction of a pilot plant commenced during the half-year. The Pilot Plant will test the Company's process technology on a continuous basis. The planned throughput rates are nominally 1–2 t per hour for the concentrator circuit and 100 –150 kg per hour for the leaching circuit. The Company aims to process up to 90 t of ore (RC Chips) through the plant, using existing samples collected in previous drilling campaigns. The Pilot Plant will allow the Company to produce varying specifications of cobalt products (including mixed hydroxides and sulphates) and represents a significant milestone for our business. The Company's aim is to make battery ready cobalt sulphate from the pilot plant on a scale sufficient to provide test samples (each of ~10 kgs) for global commercial partners and will be used to define a larger Demonstration Plant, with activity scheduled for 2H 2021. With the view to qualifying COB as a supplier to the global battery industry, the Company is currently working with 15 global groups who have expressed interest in receiving cobalt samples. To date LG International, Mitsubishi Corporation and Sojitz Corporation have become named partners. The battery industry is investing approximately US\$200Bn with 160 global manufacturing facilities ("Giga Factories") identified to date. (source: Benchmark Mineral Intelligence – 2020).

During the half-year the Company completed its testwork program for Oz Minerals (Carrapateena, South Australia). The results confirmed the Company's process was suitable for treating and extracting copper, gold and cobalt from the Carrapateena pyrite concentrate. It is anticipated that there will be further dialogue between the two companies to consider if there is potential for further collaboration.

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Review of results of operations

The net loss of the Consolidated Entity for the half-year was \$1,335,000, in-line with the loss for the corresponding prior half-year (2019: \$1,316,000).

The continuing development of the Broken Hill Cobalt Project resulted in \$1,089,000 of expenditure (before government grants received) being capitalised as an exploration and evaluation asset during the half-year.

During the half-year the Company raised \$3,785,000 from a placement to institutional and professional investors and \$3,578,000 from existing shareholders under a Share Purchase Plan, before costs.

During the half-year, the Company issued a total of 624,999 fully paid ordinary shares to Non-Executive Directors for \$20,000 each of their Directors' Fees for the year ending 30 June 2021. The Company also issued 1,348,039 fully ordinary shares to the CEO and Executive Director in relation to a 'make up' for the reduction in salary during the COVID pandemic period and his short-term incentive bonus for the year ending 30 June 2020. Shareholders approved the proposed issue of these shares at the 2020 Annual General Meeting. The Company also issued 3,808,399 fully paid ordinary shares to staff and contractors in relation to 'make up' amounts owing to them for the reduction in their salaries and fees during this COVID-19 pandemic period and as a short-term incentive bonus.

The Consolidated Entity's net assets increased during the half-year by \$6,372,000, which primarily reflects the share issues noted above and the current half-year loss.

Rounding of amounts

The company is of a kind referred to in instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's Independence Declaration

The Company has received the Auditor's Declaration of Independence as required by section 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.



Robert Biancardi
Chairman
8 March 2021

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 consolidated financial statements of Cobalt Blue Holdings Limited for the half year ended 31 December 2020, 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: 8 March 2021

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020**

	Notes	Consolidated	
		31 December 2020 \$'000	31 December 2019 \$'000
Revenues from ordinary activities			
Revenue	3	57	36
Expenses from ordinary activities			
ASX and registry fees		(68)	(46)
Administrative expenses		(112)	(89)
Corporate costs		(157)	(282)
Depreciation and amortisation expenses		(171)	(128)
Employee benefits expenses		(598)	(547)
Interest expense		(198)	(17)
Legal and professional costs		(88)	(243)
Loss before tax		(1,335)	(1,316)
Income tax expense		-	-
Loss from continuing operations		(1,335)	(1,316)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,335)	(1,316)
		Cents	Cents
Basic and diluted earnings/(loss) per share		(0.5c)	(0.9c)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020**

	Notes	Consolidated 31 December 2020 \$'000	30 June 2020 \$'000
Current Assets			
Cash and cash equivalents		7,060	2,057
Receivables		69	148
Other assets		103	114
Total Current Assets		7,232	2,319
Non-current Assets			
Property, plant and equipment	4	1,556	1,041
Intangibles	5	105	105
Security deposits		157	156
Exploration and evaluation assets	6	20,907	20,172
Total Non-current Assets		22,725	21,474
Total Assets		29,957	23,793
Current Liabilities			
Trade and other payables	7	572	864
Provisions	8	197	163
Lease liabilities		258	246
Borrowings	9	908	849
Total Current Liabilities		1,935	2,122
Non-current Liabilities			
Provisions		24	24
Lease liabilities		410	559
Borrowings	9	1,900	1,772
Total Non-current Liabilities		2,334	2,355
Total Liabilities		4,269	4,477
Net Assets		25,688	19,316
Equity			
Issued capital	10	34,062	26,377
Other Equity		205	205
Reserves		911	889
Accumulated losses		(9,490)	(8,155)
Total Equity		25,688	19,316

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020**

	Ordinary Share Capital	Other Equity	Options Reserve	Accumulated Losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	25,013	-	829	(5,771)	20,071
Total loss for the half-year	-	-	-	(1,316)	(1,316)
Issue of ordinary securities	149	-	-	-	149
Share-based payments	-	-	52	-	52
Cost of issuing ordinary securities	-	-	-	-	-
Balance at 31 December 2019	25,162	-	881	(7,087)	18,956
Balance at 1 July 2020	26,377	205	889	(8,155)	19,316
Total loss for the half-year	-	-	-	(1,335)	(1,335)
Issue of ordinary securities	7,933	-	-	-	7,933
Share-based payments	-	-	22	-	22
Cost of issuing ordinary securities	(248)	-	-	-	(248)
Balance at 31 December 2020	34,062	205	911	(9,490)	25,688

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020**

	Consolidated	
	31 December 2020	31 December 2019
	\$'000	\$'000
Cash flows from operating activities		
Payments to suppliers and employees	(929)	(1,283)
Interest received	3	11
Interest paid on leased assets	(11)	(17)
Other	127	1
Net cash flows (used in) / provided by operating activities	(810)	(1,288)
Cash flows from investing activities		
Payments for exploration expenditure	(1,111)	(915)
Industry Grants	554	-
Payments for plant and equipment	(553)	(2)
Other non-current assets	(17)	-
Net cash flows (used in) / provided by investing activities	(1,127)	(917)
Cash flows from financing activities		
Gross proceeds from issue of shares	7,329	-
Costs related to issue of shares	(214)	-
Payment of lease liabilities	(175)	(96)
Payment for Security Deposit	-	(10)
Net cash flows (used in) / provided by financing activities	6,940	(106)
Net increase/ (decrease) in cash held	5,003	(2,311)
Cash at beginning of financial period	2,057	4,741
Cash at end of financial period	7,060	2,430

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

Notes to the Financial Statements

1 Statement of Significant Accounting Policies

The half-year financial statements cover the Cobalt Blue Holdings Limited group as a Consolidated Entity consisting of Cobalt Blue Holdings Limited (COB or the Company) and its subsidiaries ('the Consolidated Entity').

Basis of preparation

The 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 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 2020 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 Consolidated Entity 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 Consolidated Entity'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 Consolidated Entity's presentation of, or disclosure in, its half-year financial statements.

Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Going Concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. For the half-year ended 31 December 2020, the Consolidated Entity reported a loss of \$1,335,000 (31 December 2019: loss of \$1,316,000); net cash outflow from operating activities of \$810,000 (31 December 2019: outflow \$1,288,000) and net cash outflow from investing activities of \$1,127,000 (31 December 2019: outflow \$917,000). As at 31 December 2020, the Consolidated Entity had a working capital surplus of \$5,297,000 (30 June 2020: surplus \$197,000) and cash of \$7,060,000 (30 June 2020: \$2,057,000).

The Consolidated Entity will require further funding during the next 12 months to materially progress the

Broken Hill Cobalt Project. The Directors are satisfied that at the date of signing the financial report, there are reasonable grounds to believe that the Consolidated Entity 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 plan to raise additional capital during the next 12 months. The Directors believe that future funding will be available to meet the Consolidated Entity's objectives and debts as and when they fall due.

Should the Consolidated Entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Consolidated Entity be unable to continue as a going concern.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Consolidated Entity based on known information. This consideration extends to the nature of the Consolidated Entity's business operations, supply chain and staffing. There does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Consolidated Entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

2 Segment

The Consolidated Entity 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 December 2020 \$'000	31 December 2019 \$'000
Interest received	4	11
Testwork Revenue	51	10
Other Revenue	2	15
Total Revenue	57	36

4 Property, plant and equipment

	Right of use assets	Leasehold Improvements	Furniture & Office Equipment	Plant under construction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Half-year ended 31 December 2020					
Opening Balance	710	37	23	271	1,041
Additions/ (Disposal)	25	-	7	631	663
Depreciation expense	(138)	(10)	-	-	(148)
Closing Balance	597	27	30	902	1,556
At cost	1,102	80	63	902	2,147
Accumulated Depreciation	(505)	(53)	(33)	-	(591)
At 31 December 2020	597	27	30	902	1,556

5 Intangibles

	Software	Patents	Total
	\$'000	\$'000	\$'000
Half-year ended 31 December 2020			
Opening Balance	28	77	105
Additions	-	15	15
Amortisation expense	(13)	(2)	(15)
Closing Balance	15	90	105
At cost	76	94	170
Accumulated Amortisation	(61)	(4)	(65)
At 31 December 2020	15	90	105

6 Exploration and evaluation assets

	31 December 2020	30 June 2020
	\$'000	\$'000
Balance at beginning of the financial year	20,172	15,367
Additions	1,089	6,212
R&D tax incentive on exploration asset off-set	-	(806)
Government Grant off-set	(354)	(601)
	20,907	20,172

Recoverability of the carrying amount of \$20,907,000 of the exploration and evaluation assets is dependent on the successful development of the Broken Hill Cobalt Project.

7 Trade and other payables – current

	31 December 2020 \$'000	30 June 2020 \$'000
Trade payables	378	428
Other creditors and accruals	194	436
	572	864

8 Provisions - current

	31 December 2020 \$'000	30 June 2020 \$'000
Employee benefits	184	150
Provision for rehabilitation	13	13
	197	163

9 Borrowings

These Borrowings reflect the amortised cost of the convertible notes and promissory note issued to American Rare Earths Limited. For further details, see Note 18 on page 53 of the Annual Report 2020. Also see Note 13 on page 15 of this Half Year Report.

10 Issued Capital

Ordinary Shares	Number	\$'000
Fully paid ordinary shares on issue at 30 June 2020	159,941,100	26,377
Share placement at \$0.095 per share	39,840,538	3,785
Share purchase plan issue at \$0.095 per share	37,658,772	3,578
Shares issued to Non-Executive Directors In lieu of Directors' fees at \$0.096 per share (see Note 10)	624,999	60
Shares issued to CEO and Executive Director at \$0.102 per share (see Note 10)	1,348,039	138
Shares issued to staff and contractors at \$0.098 per share	3,808,399	372
Capital raising costs	-	(248)
Fully paid ordinary shares on issue at 31 December 2020	243,221,847	34,062
Options	Number	\$'000
Options issued at 30 June 2020	5,592,500	889
Share based payments	3,180,000	22
Options issued at 31 December 2020	8,772,500	911

11 Related Party Transactions

During the half-year, the Company issued 624,999 fully paid ordinary shares to Non-Executive Directors as part payment of their Directors' Fees for the year ending 30 June 2021. The Company also issued 1,348,039 fully paid ordinary shares to the CEO and Executive Director in relation to a 'make up' for the reduction in salary during the COVID-pandemic period and his short-term incentive bonus for the year ending 30 June 2020. Shareholders approved the proposed issue of these shares at the 2020 Annual General Meeting.

12 Commitments for expenditure

At 31 December 2020 exploration expenditure contracted but not yet provided for or payable amounted to \$2,099,000, of which \$580,000 is payable within 1 year, \$1,443,000 payable within 1-5 years and \$76,000 after 5 years.

13 Subsequent Events

On 19 January 2021 the Company issued 5,000,000 new fully paid ordinary shares to American Rare Earths Limited ('ARR'), formerly known as Broken Hill Prospecting Limited) on the conversion of its \$1 million three-year Convertible Note at a deemed issue price of \$0.20 per share. These shares were issued in accordance with the Convertible Note Deed between the Company, its wholly owned subsidiary, Broken Hill Cobalt Project Pty Ltd and ARR, following receipt of a completed Conversion Notice from ARR on the conversion date, being 18 January 2021.

No other matter or circumstance has arisen since the end of the reporting period which significantly affected or could significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

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Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 7 to 15 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards and the Corporations Regulations 2001; and
 - (ii) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2020 and of its performance for the half-year ended on that date 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.

This declaration is made in accordance with a resolution of the directors.



Robert Biancardi

Chairman

8 March 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Cobalt Blue Holdings Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of *Cobalt Blue Holdings Limited*, which comprises the consolidated Statement of Financial Position as at 31 December 2020, the consolidated Statement of Comprehensive Income, consolidated Statement of Changes in Equity and consolidated 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.

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 does not comply with the *Corporations Act 2001* including:

- i) giving a true and fair view of the Cobalt Blue Holdings Limited's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the interim financial statements, which discloses that during the half-year period ended 31 December 2020 the Consolidated Entity reported a net loss of \$1,335,000 and net cash outflows from operating and investing activities of \$810,000 and \$1,127,000 respectively. As stated in Note 1, the Consolidated Entity will require to raise funds within the next 12 months to materially progress the Broken Hill Cobalt Project. These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our review conclusion is not modified in respect of this matter.

Responsibility of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year 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 2020 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*.

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



Stephen Fisher
Director

Date: 8 March 2021

Sydney