

## Cobalt Blue Holdings Limited

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# CEO's Letter to Shareholders

Following the release of our Preliminary Feasibility Study (PFS) in early July, I am writing to update shareholders on our plans as Cobalt Blue progresses to a Bankable Feasibility Study (BFS) for the Thackaringa Cobalt Project. The PFS represents a strong technical baseline for the project, with the primary objective being to confirm project viability. In accordance with the JORC 2012 Code, the PFS provides a technically and economically feasible method for extracting and treating the ore, and hence COB was able to declare a maiden Ore Reserve Statement. The PFS has also provided a strong framework for investors to analyse the project and look through the current market noise.

In mid-July, I travelled to Korea and Japan with our Feasibility Studies Manager, Dr Andrew Tong, during which we met with representatives of our First Mover partner, LGI and their sister company, LG Chem. Investors should be aware that LG Chem is a significant lithium ion battery manufacturer globally, and its recent announcement that it is doubling its capacity to manufacture Lithium-ion (Li-ion) batteries is a signpost both for the market and for COB. We learned the timing of this new facility generally aligns with our overall timeline.

This trip provided confirmation that battery driven demand continues to substantially outpace metallurgical cobalt demand and that there is a strong appetite for stable, long term supply; a topic that dominated our discussions. It was clear to us that battery industry participants want to understand how cobalt supply will evolve and that Thackaringa is an important factor for their planning processes. Trips like this are extremely useful as they assist in developing strong relationships with large traders/end users and provide COB with commercial insights concerning long-term plans in this sector.

On a more global note, the cobalt spot market continues to evolve as recent supply growth from the Democratic Republic of Congo suppresses pricing, however long-term metal price forecasts remain unchanged and very positive. The Li-ion battery revolution is still in its infancy and COB believes that long-term cobalt pricing will continue to be driven by tight market balances.

COB is now progressing several option studies identified by the PFS. These opportunities are explained below:

### Target Revenue Increases:

- **Life of Mine:** The production target identified in the PFS provided an initial mine life of 12.8 years at a steady-state throughput of 5.25 million tonnes p.a. ore. This mine life is limited largely by current available geological information, rather than economic factors. In other words, the mineral resource of 72 million tonnes limited the production target and remains the most significant upside factor in our focus. Given that the development capital is largely expended in the early years of the project, increasing mine life will drive significant free cash flow generation for the project. Our aspirational target is a 20+ year project and for shareholders this is a substantially different investment. To support this target, COB will undertake a sizeable drilling campaign planned to begin in September 2018. The market can expect a mineral resource update by the end of Q1 2019.
- **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. Our long-term target is to achieve a 90% recovery for cobalt. Sensitivity analysis in the PFS shows for a 1% increase in cobalt recovery, post-tax NPV (7.5% discount rate) increases by 3.3%. We expect to report on recoveries around mid-2019 after completing a significant bulk test work program. Further, this bulk test work program will enable COB to undertake more detailed marketing studies and build confidence with potential commercial partners.

## Possible Cost Reductions:

- **Power:** The PFS identified that approximately 22% of operational cash costs were related to grid power consumption. Over the next 12 months, COB expects to perform the following power related studies:
  - Optimising waste heat capture and re-use – how much energy can be recycled?
  - Optimising the daily load profile – how much peak energy can be avoided?
  - Distributed energy generation and storage – how much energy can be generated on-site? Can energy storage (e.g.: Li-ion batteries) be used effectively to shift demand away from peak time-of-day prices?
- **Process Plant Tailings:** Tailings and associated handling represented approximately 10% of operational cash costs in the PFS. COB is undertaking optimisation studies which are expected to be completed by early Q4 2018.

In parallel with the above studies, Wood PLC (formerly AMEC Foster Wheeler), a leading global engineering firm, has been engaged to provide a gap analysis review of the PFS. This review, expected by late August, will help shape the BFS scope and ensure that critical study areas are being addressed with appropriate resources.

As you can see, we have significant upside catalysts for investors over the next 12 months, in parallel with our ongoing BFS. We look forward to keeping investors updated over this time.

Regards

A handwritten signature in black ink, appearing to read 'Joe Kaderavek'.

**Joe Kaderavek**  
Chief Executive Officer

**Cobalt Blue Holdings Limited**