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13 October 2014

The Directors  
Phosphate Resources Limited  
6 Thorogood Street  
BURSWOOD WA 6100

Dear Directors

**Off-market Takeover of Phosphate Resources Ltd By CI Resources Ltd**

We are pleased to provide you with our comments in respect of the taxation consequences for shareholders in Phosphate Resources Ltd ("PRL") that accept CI Resources Ltd's ("CI") off-market takeover offer ("the Offer"). We have relied upon the terms and conditions summarised in the Independent Expert's Report and understand that this letter will be included in the Target's Statement.

**Disclaimer**

The information contained in this letter is general in nature and is not intended to be an authoritative or complete statement of the taxation laws applicable to the particular circumstances of every shareholder in PRL. This letter does not constitute taxation advice and should not be relied upon by PRL shareholders as such. We recommend PRL shareholders seek their own professional advice in respect of the disposal of their PRL shares under the Offer.

This letter does not consider the Australian income tax consequences for PRL shareholders who:

- hold their PRL shares as trading stock or as revenue assets; or
- hold their PRL shares as part of a profit making undertaking or plan.

This advice reflects the taxation laws in effect in Australia as at the date of this letter. It does not take into account any changes in taxation law, pending or anticipated, nor does it consider the taxation laws in any other country except Australia.

This letter is confined to income tax issues which are only one of the many matters that investors need to consider when making a decision about their investments. PRL shareholders should consider obtaining advice from an Australian Financial Services Licence ("AFSL") advisor before making a decision about their investments.

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## **Income Tax Considerations – Australian Resident Taxpayers**

Acceptance of the Offer will result in the disposal by PRL shareholders of their PRL shares to CII. This disposal will give rise to an Australian Capital Gains Tax (“CGT”) event for PRL shareholders that are Australian residents for income tax purposes. The CGT event will generally occur at the time PRL shareholders accept the Offer to transfer their PRL shares to CII.

Australian PRL shareholders will make a capital gain if the capital proceeds received are greater than the cost base or indexed cost base of their PRL shares. A capital loss will be made if the reduced cost base of the PRL shares exceeds the capital proceeds received.

The capital proceeds received by each PRL shareholder on the disposal of their PRL shares will be the value of CII shares issued to the PRL shareholder as at the date the Offer is accepted.

The cost base of the PRL shares in the hands of each PRL shareholder will generally be the original amount paid to acquire those PRL shares, plus any incidental costs incurred in respect of acquiring or disposing of the shares.

The reduced cost base of the PRL shares is the cost base exclusive of any indexation and exclusive of any non-deductible costs relating to ownership of the asset.

Cost base indexation is discussed in more detail below.

### *Indexation Method*

PRL shareholders who acquired (or are deemed to have acquired) their PRL shares on or after 20 September 1985 and before 21 September 1999, can index the cost base of their PRL shares based on the CPI movement from the date of acquisition to 30 September 1999. The capital gain is then calculated as the difference between the capital proceeds received and the indexed cost base of the PRL shares.

Where PRL shareholders acquired (or are deemed to have acquired) their PRL shares on or after 21 September 1999, they are unable to apply indexation to the cost base of their PRL shares. Furthermore, PRL shareholders who elect to use the General CGT Discount method to calculate their capital gain are not able to also apply indexation to the cost base of their shares.

Shareholders are generally required to have held their shares for 12 months or more in order to be eligible to utilise the indexation method to determine their capital gain or loss.

### *General CGT Discount Method*

The General CGT Discount will be available to PRL shareholders who are individuals, trusts or complying superannuation funds, and have held their PRL shares for more than 12 months prior to accepting the Offer.

Eligible individuals and trusts are able to reduce their capital gain (after application of any current year or prior year capital losses) by 50%. Complying superannuation funds are able to reduce their capital gain (after application of any current year or prior year capital losses) by 33 and 1/3<sup>rd</sup>%.

PRL shareholders that are companies are not entitled to access the General CGT discount.

### *Capital Losses*

Should the reduced cost base of a PRL shareholder's PRL shares exceed the capital proceeds received as a result of accepting the Offer, they will make a capital loss. The capital loss can only be used by the PRL shareholder against current year or future year capital gains.

Specific loss recoupment rules apply to trusts and companies and PRL shareholders that are trusts or companies that realise a capital loss on sale of their PRL shares should seek specific taxation advice when they seek to recoup the loss.

### *Scrip-for-Scrip Rollover*

If the Offer is accepted, PRL shareholders will be receiving CII shares in exchange for their PRL shares, and deferral of an otherwise taxable capital gain may be available under the scrip-for-scrip rollover provisions in Subdivision 124-M of the *Income Tax Assessment Act 1997*.

The basic requirements for rollover relief to be available for PRL shareholders are as follows:

- PRL shareholders exchange their PRL shares for CII shares under a single arrangement (being the off-market takeover by CII);
- The PRL shareholder would realise a capital gain if they do not elect for rollover relief to apply;
- The PRL shareholder elects to apply rollover relief to the capital gain;
- CII ultimately acquires at least 80% of the issued capital of PRL.

CII's existing shareholding in PRL will be taken into account in determining whether the 80% condition is satisfied. If CII does not ultimately acquire 80% of PRL, rollover relief will not be available for PRL shareholders who do accept the Offer.

Subject to satisfying the requirements of Subdivision 124-M, Australian resident PRL shareholders that make a capital gain on accepting the offer may elect for the gain to be rolled over. Election to use rollover relief can be made by the PRL shareholder at the time they lodge their return. A written election is not required, the election to use rollover relief will be evidenced by the way in which the PRL shareholder completes their income tax return.

Where rollover relief is chosen by a PRL shareholder, their cost base for the CII shares received under the Offer will be the same as the cost base of the PRL shares they have disposed of under the Offer.

As PRL shareholders will be receiving 40.3 CII shares for each PRL share under the Offer, PRL shareholders that elect for rollover relief to apply will have to apportion the cost base of each PRL share across the greater number of CII shares received.

If a PRL shareholder makes a capital gain on sale of their PRL shares, and they do not elect for rollover relief to apply to the gain, they will be required to calculate their capital gain in the manner outlined above, and will need to include the net capital gain in their assessable income for the year.

### **Income Tax Consequences – Non-resident PRL Shareholders**

Any capital gain or loss made as a result of accepting the Offer by PRL shareholders who are not Australian residents for income tax purposes and hold less than a 10% interest in PRL will be disregarded for Australian income tax purposes.

Should any single PRL shareholder that is not an Australian resident hold more than 10% of the issued capital of PRL, we recommend that they obtain specialist taxation advice in respect of the Australian tax consequences of accepting the Offer.

### **Transfer Duty and Landholder Duty**

No transfer duty or landholder duty should be payable by PRL shareholders on the disposal of their PRL shares or acquisition of CII shares pursuant to the Offer.

### **Goods & Services Tax (“GST”)**

PRL shareholders that are not registered, and are not required to be registered for GST will not have to pay GST on the disposal of their shares pursuant to the Offer.

PRL shareholders that are registered for GST are also not required to pay GST on the disposal of their shares pursuant to the Offer on the basis that shares are an input taxed financial supply for GST purposes.

PRL shareholders may be required to pay GST in respect of costs that relate to their participation in the Offer, including but not limited to advisor fees and legal fees. Generally GST input tax credits cannot be claimed on acquisitions relating to the making of financial supplies, however some GST registered PRL shareholders may still be entitled to claim a full or partial input tax credit on these costs depending on the PRL shareholders individual circumstances.

We recommend affected PRL shareholders seek independent GST advice in this regard.

Please do not hesitate to contact me if you have any queries in respect of the above.

Yours sincerely



**RAMI BRASS**  
Director