

ASX ANNOUNCEMENT

30 September 2021

RR1779D

Demerger of Cannon Resources Limited - ATO Class Ruling

ROX RESOURCES LIMITED

ASX: RXL

Rox Resources Limited (ASX: RXL) is an Australian listed company with advanced gold projects in Western Australia: the Youanmi Gold Project and the Mt Fisher Gold project

DIRECTORS

Mr Stephen Dennis
Chairman

Mr Alex Passmore
Managing Director

Dr John Mair
Non-Executive Director

Shares on Issue	157.6m
Share Price	\$0.36
Market Cap.	\$56.7m
Cash & Receivables	\$15.0m

(incl \$3.1m receivable, cash as at 30 June 2021)

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Highlights:

- **Class Ruling confirms that demerger tax relief is available for Australian tax resident Rox shareholders who hold their Rox shares on capital account**
- **Receipt of Cannon Resources shares is not an assessable dividend**
- **Exercise price of options adjusted for in-specie distribution**

West Australian focused gold exploration and development company, Rox Resources Limited ("Rox" or "the Company") (**ASX: RXL**) is pleased to confirm that the Australian Taxation Office ("ATO") issued Class Ruling 2021/63 ("Class Ruling") in respect of the Australian income tax implications of the demerger of Cannon Resources Limited (**ASX: CNR**) ("Demerger") for shareholders of Rox.

ATO Class Ruling

In summary, the effect of the Class Ruling is that, in respect of an Australian tax resident Rox shareholder (who holds their Rox shares on capital account) who is eligible for, and chooses, demerger tax relief:

- that Rox shareholder will be able to disregard any capital gain that arises from the capital reduction that occurred in connection with the Demerger; and
- the receipt of Cannon Resources Limited ("Cannon") shares under the Demerger is not an assessable dividend.

Rox has prepared a tax information guide to assist Australian resident shareholders of Rox in the calculation of the cost base allocation of their Rox and Cannon shares and is attached to this announcement

The Class Ruling is available on the ATO website at <https://www.ato.gov.au> and is also attached to this announcement.

Adjustment to Exercise Price of Options for In-Specie Distribution

Rox advises that, as a result of the in-specie distribution of Cannon shares to Rox shareholders and in accordance with Listing Rule 7.22.3, the exercise price of options on issue has been reduced by \$0.0619 per option.

After adjustment of the exercise prices the Company has on issue the following unlisted options:

No. of Options	Exercise Price	Expiry
1,333,333	\$0.163	31 January 2022
4,466,668	\$0.433	30 November 2022
1,333,333	\$1.438	31 December 2023
1,333,333	\$1.813	31 December 2023
1,333,333	\$2.188	31 December 2023
660,000	\$0.763	25 May 2024
10,476,190	\$0.988	26 March 2025

An updated Appendix 3A.5 has been lodged with the ASX.

Authorised for release to the ASX by the Board of Rox Resources Limited.

*****ENDS*****

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About Rox Resources

Rox Resources (ASX:RXL) is a West Australian focused gold exploration and development company. It is 70 per cent owner and operator of the historic Youanmi Gold Project near Mt Magnet, approximately 480 kilometres northeast of Perth, and wholly-owns the Mt Fisher Gold project approximately 140 kilometres southeast of Wiluna. Youanmi has a Total Mineral Resource of 1,656 koz of contained gold, with potential for further expansion with the integration of existing prospects into the Resource and further drilling. Youanmi was a high-grade gold mine and produced 667,000 oz of gold (at 5.47 g/t Au) before it closed in 1997. Youanmi is classified as a disturbed site and is on existing mining leases which has significant existing infrastructure to support a return to mining operations.

Demerger of Cannon Resources Limited

Tax Information Guide for Australian Resident Rox Shareholders

Rox Resources Limited (**ASX:RXL**) (**Rox**) completed the demerger of Cannon Resources Limited (**ASX:CNR**) (**Cannon**) on Wednesday, 28 July 2021.

A general guide to the Australian tax implications of the demerger is contained within the Notice of Meeting held on 28th June 2021, section 8.7. The Notice of Meeting was previously sent to shareholders on 26 May 2021 and is available on the Rox website at www.roxresources.com.au. As indicated in the Notice of Meeting, it is recommended that all Rox shareholders consult with a professional tax advisor regarding the taxation implications of participating in the demerger given the particular circumstances that apply to them.

The purpose of this tax information guide is to set out how an Australian resident shareholder of Rox (**Rox shareholders**) should allocate the capital gains tax (CGT) cost base of their Rox shares between their Rox and Cannon shares.

As part of the demerger, Rox applied to the Australian Commissioner of Taxation (**Commissioner**) for a class ruling confirming certain income tax implications of the demerger for certain Rox shareholders. The Commissioner issued Class Ruling CR 2021/63 (Class Ruling), in accordance with the application made by Rox.

CGT cost base allocation calculation

Rox shareholders will be required to apportion the total of the cost bases of their Rox shares held just before the demerger between:

- the Rox shares held by the shareholder just after the demerger; and
- the Cannon shares distributed to that shareholder.

The apportionment must be done on a reasonable basis having regard to the market values of the Rox shares and the Cannon shares just after the demerger and must be undertaken irrespective of whether a Rox shareholder chooses to apply demerger tax relief.

In the Class Ruling, the Commissioner confirmed that the cost base apportionment should be based on the volume weighted average prices (**VWAP**) of the Rox shares and the Cannon shares, as traded on the Australian Securities Exchange over the first five (5) trading days (i.e. Wednesday, 28 July 2021 to Tuesday, 3 August 2021 inclusive for Rox and Thursday, 12 August 2021 to Wednesday, 18 August 2021 inclusive for Cannon). In paragraph 40 of the Class Ruling, the Commissioner accepted the VWAP of the Rox and Cannon shares to be as follows:

	VWAP \$	Relative Market Value (%)
Rox ordinary shares	\$0.4166	86.1797%
Cannon ordinary shares	\$0.2889	13.8203%
Total	\$0.7055	100.00%

The cost base of a Rox shareholder's shares just before the demerger should therefore be allocated (as per paragraph 16 of the Class Ruling):

- 86.1797% to Rox shares; and
- 13.8203% to the corresponding Cannon shares.

Rox shareholders that apportion the cost base of their shares on this basis should adopt the methodology consistent with the approach accepted by the Commissioner.

For the purposes of applying the CGT discount on a subsequent disposal of Cannon shares, the Cannon shares received will be taken to have been acquired on the same date as the original Rox shares.

Example:

Under the Rox demerger of Cannon, Rox shareholders received one Cannon share for every 4.324 Rox shares they were registered as holding on 22nd July 2021 (**the Record Date**).

Hypothetical shareholder "Peter" held 5,000 Rox shares on the Record Date. Peter noted he had paid \$2,500 for these 5,000 RXL shares. Therefore, the aggregated cost base of his Rox shares immediately before the demerger was \$2,500 or \$0.50 per share ($\$2,500 / 5,000$ shares). The adjusted cost base of Peter's 5,000 Rox shares after the demerger would be \$2,154.49 (86.1797% of \$2,500) or \$0.430898 per share ($\$2,154.49 / 5,000$ shares), and the cost base of Peter's 1,156 Cannon shares ($5,000 / 4.324$) would be \$345.51 (13.8203% of \$2,500) or \$0.298884 per share ($\$345.51 / 1,156$ shares).

The adjusted cost bases will be relevant for determining the capital gain or capital loss arising from a future disposal of Peter's Rox and Cannon shares.

Rox shareholders who have any further questions regarding the tax implications of the demerger should consult their professional tax advisor.

*****ENDS*****



Class Ruling

Rox Resources Limited – demerger of Cannon Resources Limited

❶ Relying on this Ruling

This publication (excluding appendix) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

If this Ruling applies to you, and you correctly rely on it, we will apply the law to you in the way set out in this Ruling. That is, you will not pay any more tax or penalties or interest in respect of the matters covered by this Ruling.

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What this Ruling is about

1. This Ruling sets out the income tax consequences of the demerger of Cannon Resources Limited (Cannon) by Rox Resources Limited (Rox) which was implemented on 28 July 2021 (Implementation Date).
2. Full details of this demerger are set out in paragraphs 22 to 40 of this Ruling.
3. All legislative references in this Ruling are to provisions of the *Income Tax Assessment Act 1936* or the *Income Tax Assessment Act 1997* (as detailed in the table in the Appendix of this Ruling), unless otherwise indicated.

Who this Ruling applies to

4. This Ruling applies to you if you held shares in Rox and you:
 - were registered on the Rox share register on 22 July 2021 (Record Date)
 - held your Rox shares on capital account; that is, you did not hold your shares in Rox as revenue assets (as defined in section 977-50) or as trading stock (as defined in subsection 995-1(1)) on the Record Date, and
 - were a resident of Australia, as defined in subsection 6(1), on the Implementation Date.
5. This Ruling does not apply to anyone who is subject to the taxation of financial arrangements rules in Division 230 in relation to the scheme outlined in paragraphs 22 to 40 of this Ruling.

Note: Division 230 will not apply to individuals, unless they have made an election for it to apply.

When this Ruling applies

6. This Ruling applies from 1 July 2021 to 30 June 2022.

Ruling**Demerger**

7. A demerger, as defined in section 125-70, happened to the Rox demerger group, which included Rox and Cannon.

Capital gains tax consequences**CGT event G1**

8. CGT event G1 happened when you received, or were taken to have received, the Cannon shares (section 104-135).

9. You will make a capital gain from CGT event G1 happening if the cost base of your Rox share is less than the amount you received for your Cannon share of 6.19 cents. If so, the capital gain is equal to the amount of the difference (subsection 104-135(3)).

10. No capital loss can be made from CGT event G1 (Note 1 to subsection 104-135(3)).

Demerger roll-over

11. You can choose to obtain demerger roll-over for your Rox shares (subsection 125-55(1)).

Consequences of choosing demerger roll-over

12. If you choose demerger roll-over for your Rox shares:

- any capital gain you made when CGT event G1 happened is disregarded (subsection 125-80(1)), and
- you must recalculate the first element of the cost base and reduced cost base of your Rox shares, and calculate the first element of the cost base and reduced cost base of the corresponding Cannon shares you acquired under the demerger (subsection 125-80(2)).

Consequences of not choosing demerger roll-over

13. If you did not choose demerger roll-over for your Rox shares:

- you cannot disregard a capital gain you made when CGT event G1 happened, and
- you must recalculate the first element of the cost base and reduced cost base of your Rox shares, and calculate the first element of the cost base

and reduced cost base of the corresponding Cannon shares you acquired under the demerger (section 125-85).

Apportioning the cost base of your Rox Resources Limited and Cannon Resources Limited shares

14. The first element of the cost base and reduced cost base of each Rox share and corresponding Cannon share is worked out by:

- taking the total of the cost bases of your Rox shares just before the demerger, and
- apportioning that total between your Rox shares and your Cannon shares acquired under the demerger.

15. The apportionment is done on a reasonable basis having regard to the market values of your Rox shares and Cannon shares just after the demerger, or an anticipated reasonable approximation of those market values (subsections 125-80(2) and (3)).

16. The Commissioner accepts that a reasonable apportionment is to attribute:

- 86.18% of the total of the cost bases of your Rox shares just before the demerger to the Rox shares, and
- 13.82% of the total of the cost bases of your Rox shares just before the demerger to the corresponding Cannon shares.

Example – cost base apportionment of Rox and Cannon shares

17. *Peter held 5,000 Rox shares that had an aggregate cost base of \$2,500, just before the demerger. He received 1,156 Cannon shares under the demerger (one Cannon share for every 4.324 Rox shares).*

18. *Peter works out the first element of the cost bases of his Rox shares and Cannon shares just after the demerger as follows:*

Step 1: Peter adds up the cost bases of his Rox shares as they were just before the demerger: Aggregate cost base = \$2,500

Step 2: Peter attributes $86.1797\% \times \$2,500 = \$2,154.49$ to his Rox shares

Step 3: Peter attributes $13.8203\% \times \$2,500 = \345.51 to his Cannon shares

Step 4: The first element of the cost base and reduced cost base of Peter's Rox shares just after the demerger is $\$2,154.49 \div 5,000 = 43.0898$ cents

Step 5: The first element of the cost base and reduced cost base of Peter's Cannon shares just after the demerger is $\$345.51 \div 1,156 = 29.8884$ cents

(This shows that the total of the cost bases of the Rox shares originally acquired is spread across the cost bases of the Rox and Cannon shares.)

Acquisition date of Cannon Resources Limited shares for discount capital gain purposes

19. For the purpose of determining whether you can make a discount capital gain from a future CGT event that happens to a Cannon share you acquired under the demerger,

you will be taken to have acquired the Cannon share on the date you acquired, for capital gains tax (CGT) purposes, the corresponding Rox share (table item 2 in subsection 115-30(1)). This will be the case whether or not you choose demerger roll-over.

Cannon Resources Limited shares not included in assessable income

20. The value of the Cannon shares you received, or were taken to have received, under the demerger is not included in your assessable income under subsection 44(1). Although the part of the value of a Cannon share that is not debited to the share capital account of Rox is a dividend under subsection 6(1), it will be a demerger dividend under subsections 44(3) to (5). A demerger dividend is non-assessable non-exempt income for you.

Anti-avoidance provisions do not apply

21. As the purpose test in paragraph 45B(2)(c) is not satisfied, the Commissioner will not make a determination under either:

- paragraph 45B(3)(a) that section 45BA applies to the whole, or any part, of the demerger benefit provided to you under the demerger, or
- paragraph 45B(3)(b) that section 45C applies to the whole, or any part, of the capital benefit provided to you under the demerger.

Scheme

22. The following description of the scheme is based on information provided by the applicant. If the scheme is not carried out as described, this Ruling cannot be relied upon.

Rox Resources Limited

23. Rox is an Australian-resident public company which is listed on the Australian Securities Exchange (ASX). It undertakes mineral exploration and holds assets at various levels of development that includes both gold and nickel projects that are all located in Western Australia.

24. As at 30 June 2021, Rox had:

- \$70,595,754 contributed equity
- \$4,827,536 reserves, and
- \$50,614,755 accumulated losses.

25. As at the Record Date, Rox had 157,607,614 shares on issue including an additional 21,136,190 unquoted options which give the holder the right to acquire shares in Rox.

26. Approximately 3.85% of Rox shares are held by foreign-resident shareholders.

27. Rox's share capital account is not tainted within the meaning of Division 197.

28. Rox has not paid any dividends to its shareholders since its date of incorporation.

Cannon Resources Limited

29. Cannon was incorporated in Australia on 25 November 2010 as a mineral exploration company. Prior to the demerger, Rox held 100% of the Cannon shares (or one Cannon share) on issue.

30. Rox transferred all of its nickel assets (the Fisher East Nickel Project and the Collurabbie Nickel Project) to Cannon prior to the demerger.

The in specie distribution

31. On 28 June 2021, Rox shareholders approved a reduction of Rox's share capital under sections 256B and 256C of the *Corporations Act 2001*. The share capital reduction was effected by way of an in specie distribution of Cannon shares to Rox shareholders.

32. On the Implementation Date, each Rox shareholder (other than Ineligible Rox shareholders noted in paragraph 34 of this Ruling) received one Cannon share for every 4.324 Rox shares held on the Record Date.

33. Rox accounted for the demerger by debiting its:

- share capital account by \$9,756,156, and
- retained earnings by \$773,345.

Sale facility for Ineligible Rox shareholders

34. Ineligible Rox shareholders on the Record Date had their Cannon shares sold and the net proceeds paid to them, with the timing of the sale to coincide with Cannon being admitted to ASX and a market for Cannon shares being established on ASX.

Reasons for demerger

35. The directors of Rox formed the view that the demerger would achieve the following objectives:

- secure sufficient funding to allow the exploration warranted by the high prospectivity of Cannon's nickel assets
- allow Rox to dedicate its efforts to its Youanmi and Mt Fisher Gold Projects, and in doing so will remove the internal competition for valuable capital
- provide Rox shareholders with the opportunity to participate in the exploration and possible development of the nickel assets, while maintaining their investment exposure to the Youanmi and Mt Fisher Gold Projects
- drive superior value for shareholders in both entities
- enable both Cannon and Rox to undertake more targeted marketing to investors as both companies have a clear and more easily understood investment proposition, and
- allow for Rox and Cannon to have independent management.

Other information

36. Rox did not elect under subsection 44(2) that subsections 44(3) and (4) will not apply to the demerger dividend for all Rox shareholders.

37. Cannon was listed on the ASX on 10 August 2021 and raised share capital of \$6 million (before costs) through a pro rata priority offer of 30 million Cannon shares at an issue price of 20 cents per Cannon share, together with one Attaching Option for every three Cannon shares issued.

38. Just after the demerger, CGT assets owned by Cannon representing at least 50% by market value of all the CGT assets owned by Cannon were used in carrying on a business by Cannon (subsection 44(5)).

39. All shares in Rox and Cannon were issued after 20 September 1985.

40. For the purposes of the cost base and reduced cost base apportionment under subsections 125-80(2) and (3), a reasonable approximation of the market values of a Rox share and a Cannon share just after the demerger was calculated as follows:

- 41.66 cents for each Rox share, being the volume weighted average price of Rox shares as traded on the ASX over the first five trading days from (and including) 28 July 2021, and
- 28.89 cents for each Cannon share, being the volume-weighted average price for Cannon shares as traded on the ASX over the five trading days from (and including) 12 August 2021.

Commissioner of Taxation

29 September 2021

Appendix – Legislative provisions

41. This paragraph sets out the details of the provisions ruled upon or referenced in this Ruling.

<i>Income Tax Assessment Act 1936</i>	subsection 6(1)
<i>Income Tax Assessment Act 1936</i>	subsection 44(1)
<i>Income Tax Assessment Act 1936</i>	subsection 44(2)
<i>Income Tax Assessment Act 1936</i>	subsection 44(3)
<i>Income Tax Assessment Act 1936</i>	subsection 44(4)
<i>Income Tax Assessment Act 1936</i>	subsection 44(5)
<i>Income Tax Assessment Act 1936</i>	paragraph 45B(2)(c)
<i>Income Tax Assessment Act 1936</i>	paragraph 45B(3)(a)
<i>Income Tax Assessment Act 1936</i>	paragraph 45B(3)(b)
<i>Income Tax Assessment Act 1936</i>	section 45BA
<i>Income Tax Assessment Act 1936</i>	section 45C
<i>Income Tax Assessment Act 1997</i>	section 104-135
<i>Income Tax Assessment Act 1997</i>	subsection 104-135(3)
<i>Income Tax Assessment Act 1997</i>	subsection 115-30(1)
<i>Income Tax Assessment Act 1997</i>	subsection 125-55(1)
<i>Income Tax Assessment Act 1997</i>	section 125-70
<i>Income Tax Assessment Act 1997</i>	subsection 125-80(1)
<i>Income Tax Assessment Act 1997</i>	subsection 125-80(2)
<i>Income Tax Assessment Act 1997</i>	subsection 125-80(3)
<i>Income Tax Assessment Act 1997</i>	section 125-85
<i>Income Tax Assessment Act 1997</i>	Division 197
<i>Income Tax Assessment Act 1997</i>	Division 230
<i>Income Tax Assessment Act 1997</i>	section 977-50
<i>Income Tax Assessment Act 1997</i>	subsection 995-1(1)

References*Previous draft:*

Not previously issued as a draft

- Corporations Act 2001 256B

- Corporations Act 2001 256C

Legislative references:

- TAA 1953

ATO references

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ATOlaw topic: Income tax ~~ Assessable income ~~ Dividend income ~~ Dividend income
Income tax ~~ Capital gains tax ~~ CGT events ~~ CGT events C1 to C3 –
end of a CGT assetIncome tax ~~ Capital gains tax ~~ CGT events ~~ CGT events G1 to G3 –
shares

Income tax ~~ Capital gains tax ~~ Cost base and reduced cost base

Income tax ~~ Capital gains tax ~~ Discount capital gains

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Subdivision 125-C

Income tax ~~ Capital management ~~ Anti avoidance rules ~~ Section 45B

Income tax ~~ Capital management ~~ Anti avoidance rules ~~ Section 45C

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