Building a world class resources group

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14 July 2014

INTERIM FINANCIAL REPORT – ATLANTIC VANADIUM HOLDINGS PTY LTD

Please find attached the unaudited consolidated interim financial report of Atlantic Vanadium Holdings Pty Ltd (**AVHPL**) for the period ended 31 March 2014.

AVHPL is a wholly-owned subsidiary of Atlantic Ltd (**Atlantic**) and owns 100% of the issued capital of Midwest Vanadium Pty Ltd (**MVPL**). MVPL owns the Windimurra vanadium project.

These accounts have been released to the Security Trustee for MVPL's senior secured notes to comply with the ongoing reporting requirements under the senior secured notes indenture.

- ends -

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ATLANTIC VANADIUM HOLDINGS PTY LTD

A.C.N. 143 559 880

INTERIM UNAUDITED FINANCIAL REPORT

For the quarter ended 31 March 2014

SPECIAL PURPOSE FINANCIAL REPORT

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MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis for Atlantic Vanadium Holdings Pty Ltd (**AVHPL** or the **Company**) and its controlled entity Midwest Vanadium Pty Ltd (**MVPL**) (collectively the **Group** or the **Consolidated Entity**) should be read in conjunction with the Consolidated Financial Statements for the period ended 31 March 2014. The effective date of this report is 14 July 2014.

The financial information presented in this management discussion and analysis has been extracted from the attached financial statements.

FORWARD LOOKING STATEMENTS

Some of the statements contained in this management discussion and analysis, including those relating to strategies and other statements, are predictive in nature, and depend upon or refer to future events or conditions, or include such words as "expects", "intends", "plans", "anticipates", "believes", "estimates", "forecasts" or similar expressions that are forward looking statements. Forward looking statements include, without limitation, the information concerning possible or assumed further results of operations as set forth herein. These statements are not historical facts but instead represent only expectations, estimates and projections regarding future events and are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations generally.

The forward looking statements contained in this management discussion and analysis is not guarantees of future performance and involves certain risks and uncertainties that are difficult to predict. The future results of the Group may differ materially from those expressed in the forward looking statements contained in this management discussion and analysis due to, among other factors, the risks and uncertainties inherent in the business of the Group. The Group does not undertake any obligation to update or release any revisions to these forward looking statements to reflect events or circumstances after the date of this management discussion and analysis or to reflect occurrence of anticipated events.

DOLLAR AMOUNTS

All dollar amounts shown in this Special Purpose Financial Report are in Australian dollars unless otherwise stated.

OPERATIONS

Windimurra Operations

On 4 February 2014, there was a substantial fire in the beneficiation plant at Windimurra. The beneficiation plant was not operating at the time of the fire as it was undergoing planned maintenance works. There were no injuries sustained as a result of the fire.

Following investigations of the fire, it was confirmed that the fire started during maintenance works on screen 3.

The damage to the beneficiation plant was extensive and further detailed structural engineering was required immediately after the fire to ensure safe access to the area.

Production of vanadium has been suspended since the date of the fire.

Insurance

The Group holds comprehensive industrial special risks insurance that covers both the material damage to the beneficiation plant and business interruption.

During the March quarter, the Group's insurers responded under the insurance policy, subject to policy terms and conditions, and Atlantic Ltd (**Atlantic**) received the first progress payments under its insurance policy for the amount of $18.5 million. In June 2014 a further $7.8 million was received as a second progress insurance payment and in July 2014 the insurance market has undertaken to make a third progress insurance payment of up to $9.5 million.

The total amount of the insurance claim will be determined by the final cost of the beneficiation plant rebuild (subject to declared value limits) and the fixed costs incurred during, and the ultimate length of, the period of business interruption as a result of the fire.

Beneficiation Plant Rebuild

Immediately after the fire, the Group appointed a project team comprising staff from the Group's engineering group and external engineering advisors to manage the beneficiation plant rebuild.

The project team has now completed a structural analysis of the beneficiation plant following the fire. The review demonstrated that the most cost and time effective option is to demolish the existing structure and rebuild the plant from the foundations. Demolition work has now commenced and is scheduled to complete in July 2014.

The beneficiation plant rebuilds scope of work, detailed schedule and execution cost is being prepared in parallel with this demolition work.

Plant Technical Review

During February, independent consultants SRK completed a review of the Windimurra plant. Based on the operating experience of the plant during the immediately preceding months, this review identified a number of bottlenecks in the plant that had limited vanadium production and that are required to be addressed to enable the plant to reach sustainable levels of production.

As a result of SRK's findings, in addition to the beneficiation plant rebuild project, the Group has also established a project team comprising staff from the Group's engineering and technical teams and separate external engineering advisors to complete a technical review of all other components of the Windimurra plant.

The team is scoped with analysing the issues to be addressed and identifying the options for rectification of those issues, with any necessary plant redesign and construction to target implementation in parallel with the beneficiation plant rebuild project.

This separate project will not delay or impact the reconstruction of the beneficiation plant outlined above.

This project work is important to ensure the plant is capable of meeting production levels that provide a long-term sustainable basis for the business going forward.

Safety

The Group is pleased to report that there were no injuries as a result of the fire at Windimurra. There were four lost time injuries during the quarter, all minor in nature. The Board and management are committed to ensuring a safe working environment at all times.

Costs

During the quarter, the Group took immediate steps following the fire to reduce its expenditure. These steps included invoking force majeure clauses in contracts and the standing down of contractors involved in mining, reagent deliveries and vanadium production activities.

In addition, the Group made approximately 90 employees redundant in view of the time expected before the rebuild of the beneficiation plant will be complete and normal production can resume. This decisive action was considered appropriate in the circumstances.

Production

Due to the planned maintenance shut down in January and the fire in early February, there was lower than expected vanadium production in the March quarter.

The Group has 27,851 tonnes of magnetite concentrate in inventory that can be processed through the kiln and vanadium refinery during the rebuild of the beneficiation plant. The Group intends to process this material once a refractory reline of part of the kiln is complete.

Sales of ferrovanadium in inventory from production prior to the fire continued during the period.

Production and sales for the quarter are summarised in the table below.

	3 months to 31 December 2013 (tonnes contained V)	3 months to 31 March 2014 (tonnes contained V)
Vanadium production	298	10
Vanadium sales	142	94

Iron Ore

During the quarter, the Group ceased crushing, screening and haulage of its DSO high titanium iron ore lump product from Windimurra due to the unexpectedly low lump to fines ratio experienced.

At the time of cessation of crushing, screening and haulage of the DSO high titanium iron ore lump, Atlantic held approximately 10,000 tonnes of lump in its storage warehouse at Geraldton Port. The Group has now concluded settlement discussions with the customer for this high titanium lump shipment.

Atlantic has ceased all iron ore related activities as it assesses the market conditions for its products and the latest cost estimates to deliver products to those markets.

	3 months to 31 December 2013 (tonnes)	3 months to 31 March 2014 (tonnes)
Iron ore exports	63,321	0

Industry Pricing Benchmarks

Vanadium prices firmed in North America and were marginally higher in Europe during the quarter.

	1 January 2014 (per kilogram contained V)	31 March 2014 (per kilogram contained V)
Mid-point Ryan's Notes price for vanadium in the North American market	US$27.43	US$29.76
Mid-point London Metal Bulletin price for vanadium in the European market	US$25.50	US$25.60

Earlier in the quarter, the Group received approval for the export of vanadium trioxide (V_2O_3) which is produced as an intermediary product within the existing flow sheet of the Windimurra plant. The Group has received many requests for the supply of V_2O_3 from customers and is now examining ways to incorporate this value added product into its sales mix.

Exploration and Resource Development

The Group undertook no exploration activities during the quarter.

CORPORATE

Funding

On 3 February 2014, pursuant to its senior secured notes indenture, the Company's wholly-owned subsidiary Midwest Vanadium Pty Ltd (**MVPL**) was required to deposit US$5.0 million into its interest reserve account (**IRA**) and pay the half yearly interest payment on its senior secured notes on 15 February 2014.

On 17 February 2014, notification was received from an ad hoc group of the majority of holders of MVPL senior secured notes that no action would be taken prior to 25 February 2014 as a result of MVPL's failure to deposit US$5.0 million into its IRA by 3 February 2014 and the failure to pay the February interest payment due on 15 February 2014.

On 10 March 2014, MVPL signed a new funding facility of $29.7 million with Droxford (**Droxford Funding Facility**). The Droxford Funding Facility is a new secured debt facility with a coupon of 17% per annum, maturing on 15 August 2014. A successful consent solicitation process with MVPL's senior secured note holders was subsequently concluded on 31 March 2014 to allow the Droxford Funding Facility to be secured pari passu with MVPL's senior secured notes. The breach of covenants under the senior secured notes and the fire at the beneficiation plant has in turn resulted in a breach of all of the Droxford facilities.

In addition to the new funding facility, MVPL has agreed a standstill arrangement – providing forbearance and support – with a majority of the holders of MVPL's senior secured notes. Under the standstill arrangement, the senior secured note holders have agreed to forbear MVPL's default for failure to deposit US$5.0 million in the IRA. The senior secured note holders have also agreed to forbear MVPL's failure to pay the February interest payment on its senior secured notes. The forbearance applies until 15 August 2014 and is subject to there being no further events of default under the indenture or the Droxford Funding Facility outlined above during the term of the forbearance agreement.

Board and Management Changes

During the quarter, Atlantic announced that Mr Gary Lewis had been appointed Non-Executive Chairman of Atlantic and Dr Michael Daniel had been appointed Non-Executive Director of Atlantic. Mr Michael Minosora resigned as Chairman and Managing Director of Atlantic.

Mr Daniel Harris, the Chief Operating Officer of Atlantic since October 2012, was appointed Chief Executive Officer to lead the Windimurra beneficiation plant rebuild and evolution of Atlantic's management team.

ASX Suspension

Following the fire in the beneficiation plant on 4 February, Atlantic requested a voluntary suspension in the trading of its securities. Atlantic believes that it is appropriate for the suspension in the trading of the its securities to remain in place until the Company is in a position to make a more detailed announcement of the impact of the fire, particularly given that MVPL and the Notes Group are entering into negotiations for the longer term restructure of the Group during the standstill period

STATEMENT OF COMPREHENSIVE INCOME

	Quarter ended 31 March 2014 $'000	Quarter ended 31 March 2013 $'000	9 Months ended 31 March 2014 $'000	9 Months ended 31 March 2013 $'000
Revenue from sales	8,441	-	15,278	-
Costs of production	(21,664)	-	(86,472)	-
Other net income (expenses) and Fx	20,693	(2,392)	6,315	(2,991)
Administrative expenses	(687)	(1,471)	(3,308)	(4,227)
Finance expenses	(12,414)	(455)	(35,881)	(1,280)
Impairment, depreciation & amortisation	(2,431)		(424,550)	
Tax expenses	-	-	-	-
Net results	(8,062)	(4,318)	(528,618)	(8,498)

Quarter Ended 31 March 2014

Production and Sales

Production and sales for the period ended 31 March 2014 are summarised in the table below.

	Quarter ended 30 September 2013	Quarter ended 31 December 2013	Quarter ended 31 March 2013	9 Months ended 31 March 2014
Vanadium production (tonnes contained V)	92	298	10	400
Vanadium product financed (tonnes contained V)	32	142.5	94.9	269.4
Iron ore export sales (tonnes)	$88,437	$63,321	0	$151,758

Note - this table refers to contained vanadium within the ferrovanadium produced/sold by MVPL.

“Revenue from sales” includes $4.2 million revenue from ferrovanadium final sales and $4.2 million sale of two shipments of iron ore.

“Cost of production” relates to expenses incurred in producing and selling vanadium and iron ore produced at the Group’s Windimurra vanadium project. The material components of cost of goods sold include $1.3 million for iron ore and $20.4 million for ferrovanadium.

“Other net income (expenses) and Fx” consists of net realised and unrealised foreign exchange gains of $10.1 million and $10.6 million of business interruption insurance proceeds.

“Administrative expenses” consists of royalty expense of $0.1 million, selling and distribution costs of $0.3 million, carbon tax expense of $0.1 million, and other corporate expenses of $0.1 million.

“Impairment, depreciation & amortisation” cost relates to property, plant and equipment depreciation charge of $2.4 million.

“Finance expenses” consists of $12.0 million of accrued interest on MVPL’s senior secured notes it also includes the unwinding of the rehabilitation provision of $0.3 million, interest associated with insurance premium funding of $0.1 million and accrued interest on intercompany trade creditors with Atlantic of $0.1 million.

Nine Months Ended 31 March 2014

“Revenue from sales” includes $5.0 million revenue from ferrovanadium final sales and $10.3 million sale of five shipments of iron ore.

“Cost of production” relates to expenses incurred in producing and selling vanadium and iron ore produced at the Group’s Windimurra vanadium project. The material components of cost of goods sold include $11.7 million for iron ore and $74.8 million for ferrovanadium.

“Other net income (expenses) and Fx” consists of net realised and unrealised foreign exchange losses of $4.0 million, fair value of the gas transportation derivates of $0.4 million, $10.6 business interruption insurance proceeds and $0.1 million of other income.

“Administrative expenses” consists of royalty expense of $0.5 million, selling and distribution costs of $0.5 million, carbon tax expense of $1.0 million, and other corporate expenses of $1.3 million.

“Impairment, depreciation & amortisation” cost relates to property, plant and equipment depreciation charge of $7.6 million and $417.0 million impairment charge against carrying value of Windimurra plant assets.

“Finance expenses” consist of $33.9 million of accrued interest on MVPL’s senior secured notes it also includes the unwinding of the rehabilitation provision of $0.8 million, interest associated with insurance premium funding of $0.8 million, accrued interest on intercompany trade creditors with Atlantic of $0.4 million.

STATEMENT OF FINANCIAL POSITION

	31 March 2014 $'000	30 June 2013 $'000
Cash and cash equivalents	699	112
Trade and other receivables	1,670	38,291
Inventory	17,510	14,052
Other current assets	2,047	3,407
Property, plant and equipment	43,900	469,113
Deferred waste	2,066	-
Financial derivative asset	392	743
Trade and other payables	(77,067)	(52,150)
Loans and borrowings	(357,562)	(350,652)
Provisions	(26,942)	(28,550)
Net assets	**(393,287)**	**94,366**

As at 31 March 2014

"Cash and cash equivalents" at 31 March 2014 represents cash at bank.

"Trade and other receivables" are primarily made up of GST receivables of $0.3 million, $0.4 million bank guarantee, ferrovanadium sales receivables of $0.7 million and sundry receivables of $0.3 million.

"Inventory" consists of reagent inventory of $2.4 million, warehouse inventory of $8.7 million, stockpile valuation of $2.1 million and ferrovanadium inventory on consignment of $4.3 million**.**

"Other current assets" consist of general prepayments of $0.5 million and insurance prepayments of $1.5 million.

"Property, plant and equipment" consists of the carry forward value of assets at 30 June 2013 of $469.1 million plus additions of $3.2 million to mine properties and development and $3.8 million decrease in rehabilitation provision during the nine months ended 31 March 2014. There was impairment to property, plant and equipment of $417.0 million and depreciation of $7.6 million during the period.

"Financial derivative asset" is the fair value as at 31 March 2014 of the embedded derivative within the gas transportation contract that MVPL has with a third party for the use of the Midwest Gas Pipeline for the transportation of gas to Windimurra.

"Trade and other payables" primarily relate to liabilities incurred and accrued in relation to the operation of the Windimurra vanadium project of $48.3 million, revenue received in advance of $3.7 million and interest accruals for the senior secured notes of $25.0 million.

"Loans and borrowings" primarily consist of the $353.0 million carrying value of MVPL's senior secured notes, insurance premium funding of $1.3 million, and also included is an advance from a sales agent of $3.4 million.

"Provisions" consist of a rehabilitation provision of $21.3 million which represents the present value estimate of the costs required to rehabilitate the Windimurra vanadium project, an acquisition levy related to the acquisition of MVPL of $2.3 million, provision for carbon tax of $1.8 million and annual leave provision for $1.5 million.

STATEMENT OF CHANGES IN EQUITY

	Ordinary shares $'000	Equity contribution reserve $'000	Retained earnings $'000	Total $'000
Balance as at 31 March 2014	167,199	55,419	(615,905)	(393,287)
Balance as at 30 June 2013	126,730	55,316	(87,680)	94,366

"Ordinary shares" consists of 175,861,500 fully paid ordinary shares of $1.0 each less transaction costs.

"Equity contribution reserve" consists of a carried forward balance of $55.3 million from the prior period and a $0.1 million payment contribution from Atlantic.

STATEMENT OF CASH FLOWS

	3 Months ended 31 March 2014 $'000	3 Months ended 31 March 2013 $'000	9 Months ended 31 March 2014 $'000	9 Months ended 31 March 2013 $'000
Operating cash flows	(5,414)	(1,087)	(84,070)	(2,975)
Investing cash flows	939	(34,401)	35,314	(80,236)
Financing cash flows	4,598	4,610	49,011	59,769
Opening cash	601	30,870	112	24,080
Exchange rate adjustment	(26)	27	332	(619)
Closing cash	**698**	**19**	**699**	**19**

Quarter Ended 31 March 2014

"Operating cash flows" are primarily made up of payments to suppliers and employees of $18.6 million, receipts from customers of $2.9 million, royalty payments of $0.3 million and $10.6 million of insurance proceeds.

"Investing cash flows" relate to $0.9 million of insurance proceeds received for material damage.

"Financing cash flows" consist of proceeds from product financing of $2.9 million, $2.4 million funds received from Atlantic parent company and insurance premium funding repayment of $0.8 million.

"Exchange rate adjustments" refer to the revaluation of the US$ cash balances into A$ and reflects the weakening of the A$:US$ exchange rate during the period.

Nine Months Ended 31 March 2014

"Operating cash flows" are primarily made up of payments to suppliers and employees of $85.6 million, receipts from customers of $13.2 million, royalty payments of $0.4 million, net interest payments of $21.8 million and $10.6 million of insurance proceeds.

"Investing cash flows" relate to $0.9 million of insurance proceeds received for material damage, payment for exploration activities $0.9 million, payments for property, plant and equipment $2.8 million, proceeds from Research and Development grant $29.5 million, and release of restricted cash $8.5 million.

"Financing cash flows" includes Macquarie Loan Facility proceeds of $19.1 million, proceeds from ordinary share issues $42.5 million, proceeds from product financing $8.0 million, repayment of Macquarie Loan Facility of $19.3 million and insurance premium funding repayment of $1.3 million.

"Exchange rate adjustments" refer to the revaluation of the US$ cash balances into A$ and reflects the strengthening of the A$:US$ exchange rate during the period.

FINANCIAL INSTRUMENTS

Cash and cash equivalents are held in short-term interest bearing cash accounts with Australian banks.

Trade and other receivables are all short-term and non-interest bearing.

Trade and other payables are all short-term in nature.

Loans and borrowings consist of short-term insurance premium funding and the US$335.0 million senior secured notes. The senior secured notes have a fixed interest rate of 11.5% per annum payable semi-annually in arrears on 15 February and 15 August of each year. The interest rate increases to 12.25% per annum from 16 February 2014 until 15 February 2015 and to 13.25% per annum from 16 February 2015. The senior secured notes have a fixed maturity of 16 February 2018, however, given the breach of covenants all of the Groups loan facilities became due and payable during the month of February 2014 and are classified as current liabilities.

Interest rate risk arises from cash and cash equivalents and loans and borrowings. The Group regularly analyses its interest rate exposure. Within this analysis, consideration is given to the potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates. Interest rate risk is mitigated through the use of fixed interest loans and borrowings and cash investment strategies with both short and long-term maturities.

Foreign currency risk refers to the risk that the fair value of future cash flows will fluctuate due to changes in foreign exchange rates. The Group's primary exposure is to the A$:US$ exchange rate as revenues from the Windimurra vanadium project are received in US dollars and expenses incurred are mainly in Australian dollars. Foreign exchange risk is mitigated through US dollar outflows in the form of interest payments and some Windimurra vanadium project expenses (for example soda ash reagent) as well as holding US$ cash balances where possible.

The Group does not engage in any hedging or derivative transactions to manage interest rate or foreign exchange risks.

The Group's exposure to credit risk arises from potential default of counterparty, with a maximum exposure equal to the carrying amount of the financial assets. Credit risk predominately arises from cash deposits with banks and financial institutions and receivables.

Please refer to Note 2B of the Consolidated Financial Statements in respect of going concern risk, with the Group having identified a number of gong concern indicators, which emphasis this risk.

SUBSEQUENT REPORTING TO BALANCE DATE

Consistent with the reporting obligations of Atlantic, the following disclosures have been made by Atlantic to the Australian Securities Exchange subsequent to 31 March 2014 which should be read in conjunction with this report:

- Atlantic Ltd – Completion of Funding Facility and Forbearance Agreement, reported on 14 April 2014.
- Atlantic Ltd – Appendix 3B, reported on 17 April 2014.
- Atlantic Ltd – Quarterly Activities Report, reported on 29 April 2014.
- Atlantic Ltd – Quarterly Cashflow Report, reported on 30 April 2014.
- Atlantic Ltd – Monthly Production and Sales Report, reported 30 May 2014.
- Atlantic Ltd – Monthly Production and Sales Report, reported 30 June 2014.

EVENTS SUBSEQUENT TO BALANCE DATE

In April 2014, Atlantic announced the suspension of all iron ore related activities due to the current market conditions for its products.

In April 2014, Atlantic also announced the cessation of further activities in Vietnam in relation to the development study for an integrated mine-rail-port bauxite project in the Central Highlands of Vietnam.

In June 2014, a further $7.8 million was received as a second progress insurance payment.

In July 2014, the insurance market has undertaken to make a third progress insurance payment of up to $9.5 million

In July 2014, Atlantic announced the findings of its plant technical review, with a capital cost estimate of $130.0 million to target a long-term indicative steady state production of 4,800 to 5,2000 tpa V.

ROUNDING

The amounts contained in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) pursuant to the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 MARCH 2014

	Note	Quarter ended 31 March 2014 $'000	Quarter ended 31 March 2013 $'000	9 Months ended 31 March 2014 $'000	9 Months ended 31 March 2013 $'000
Revenue from sales	3	8,441	-	15,278	-
Costs of production	3	(21,664)	-	(86,472)	-
		(13,223)	-	(71,194)	-
Other net income (expense)	3	10,559	(2,392)	(4,300)	(2,991)
Administrative expenses	3	(687)	(1,471)	(3,308)	(4,227)
Finance expenses	3	(12,414)	(455)	(35,881)	(1,280)
Impairment/depreciation amortisation	3	(2,431)	-	(424,550)	-
Loss before income tax		(18,196)	(4,318)	(539,233)	(8,498)
Income tax benefit		-	-	-	-
Loss after income tax		(18,196)	(4,318)	(539,233)	(8,498)
Unrealised Foreign Exchange loss (gain)		10,134	-	10,615	-
Total comprehensive loss for the period		(8,062)	(4,318)	(528,618)	(8,498)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2014

	Note	31 March 2014 $'000	30 June 2013 $'000
Assets			
Current assets			
Cash and cash equivalents	5	699	112
Trade and other receivables		1,670	37,530
Inventory		17,510	14,052
Other current assets		2,047	3,407
Total current assets		21,926	55,101
Non-current assets			
Trade and other receivables		-	761
Property, plant and equipment	6	43,900	469,113
Deferred waste		2,066	-
Financial derivative asset		392	743
Total non-current assets		46,358	470,617
Total assets		68,284	525,718
Liabilities			
Current liabilities			
Trade and other payables		77,067	52,150
Loans and borrowings		357,562	350,652
Provisions		26,942	28,550
Total current liabilities		461,571	431,352
Total liabilities		461,571	431,352
Net liabilities		(393,287)	94,366
Equity			
Contributed equity		167,199	126,730
Reserves		55,419	55,316
Retained earnings		(615,905)	(87,680)
Total equity		(393,287)	94,366

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 MARCH 2014

	Note	Ordinary shares $'000	Equity contribution reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2013		126,730	55,316	(87,680)	94,366
Other adjustments				393	393
Loss for the period		-	-	(528,618)	(528,618)
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		126,730	55,316	(615,905)	(433,859)
Transactions with owners in their capacity as owners:					
Shares issued		40,469	-	-	40,469
Transaction costs on shares issued		-	-	-	-
Contribution from holding company (net of tax)		-	103	-	103
Balance at 31 March 2014		167,199	55,419	(615,905)	(393,287)

	Ordinary shares $'000	Equity contribution reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2012	49,791	55,183	7,404	112,378
Loss for the period	-	-	(95,084)	(95,084)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(95,084)	(95,084)
Transactions with owners in their capacity as owners:				
Shares issued	80,989	-	-	80,989
Transaction costs on shares issues	(4,050)	-	-	(4,050)
Contribution from holding company (net of tax)	-	133	-	133
Balance as at 30 June 2013	126,730	55,316	(87,680)	94,366

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 MARCH 2014

	Note	9 Months ended 31 March 2014 $'000	9 Months ended 31 March 2013 $'000
Cash flows from operating activities			
Receipts from customers		13,193	-
Payments to suppliers and employees		(85,558)	(3,565)
Royalties paid		(420)	-
Interest received		65	590
Interest paid		(21,903)	-
Insurance Funds		10,553	-
Net cash flows used in operating activities		(84,070)	(2,975)
Cash flows from investing activities			
Payments for exploration activities		(861)	-
Purchase of property, plant and equipment		(2,805)	(66,626)
Interest paid		-	(36,946)
Sales proceeds capitalised			704
Research and Development Taxation Incentive Program refund		29,546	22,632
Release of restricted cash		8,495	
Insurance funds		939	
Net cash flows used in investing activities		35,314	(80,236)
Cash flows from financing activities			
Proceeds from issue of shares		-	58,774
Advances for product financing		-	617
Proceeds from borrowings		69,586	3,049
Repayment of borrowings		(20,575)	(2,671)
Net cash flows from financing activities		49,011	59,769
Net increase/(decrease) in cash and cash equivalents		255	(23,442)
Cash and cash equivalents at beginning of the period		112	24,080
Net foreign exchange differences		332	(619)
Cash and cash equivalents at end of the period		699	19

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2014

1 CORPORATE INFORMATION

The nature of operations and principal activities of the Group are described in the Corporate Information and Management Discussion and Analysis on pages 3 to14 which does not form part of these financial statements.

The consolidated financial report of Atlantic Vanadium Holdings Pty Ltd (**AVHPL** or the **Company**) and its controlled entity Midwest Vanadium Pty Ltd (**the Group** or the **Consolidated Entity**) for the period ended 31 March 2014 was authorised for issue in accordance with a resolution of the Directors on 14 July 2014.

The ultimate parent entity of the Company is Atlantic Ltd (**Atlantic**), is a company limited by shares incorporated in Australia whose shares are publicly traded, although currently suspended from trading, on the Australian Securities Exchange. The registered office and principal place of business of the Company is Level 29, 108 St Georges Terrace, Perth WA 6000.

The financial report of the Group has been drawn up as a special purpose financial report and contains only those disclosures considered necessary by the Board of the Company to meet the financial reporting requirements specified by the Group in connection with the senior secured notes indenture.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Basis of Preparation

The special purpose financial report has been prepared on a going concern basis in accordance with the requirements of the Corporations Act 2001, the recognition and measurement aspects of all applicable Australian Accounting Standards (**AASBs**) and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 "Presentation of Financial Statements", AASB 107 "Cash Flow Statements" and AASB 108 "Accounting Policies, Changes in Accounting Estimates and Errors". The financial report has been prepared on a historical cost basis, except for items which have been measured at fair value as disclosed below in the accounting policies and notes to the financial statements.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (A$'000) unless otherwise stated pursuant to the option available to the Company under ASIC Class Order 98/100.

Apart from the changes in accounting policy noted below (Note 2C), the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report

B Going Concern

As at 31 March 2014, the Group has the following going concern indicators:

- A current asset deficiency of $439.6 million with cash on-hand of $0.7 million;
- A net asset deficiency of $393.3 million;
- The Group incurred an interim loss after impairment of $528.6 million for the half-year ended 31 December 2013 and had cash out-flows from operating of $84.1 million; and
- There was a significant fire in the beneficiation plant at Windimurra on 4 February 2014 which has suspended vanadium production for an extended period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 MARCH 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B Going Concern (Continued)

In addition, subsequent to period end, the following events have occurred;

- The Group breached covenants in the senior secured notes indenture relating to the minimum funds required to be held in the interest reserve account on 3 February 2014 and by failing to pay the US$19.3 million interest payment due on 15 February 2014;
- The breach of covenants under the senior secured notes and the fire at the beneficiation plant has in turn resulted in a breach of all of the Droxford facilities.

The impact of the above events is that all of the Groups loan facilities became due and payable during the month of February 2014 and are classified as current liabilities.

Notwithstanding the above, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis having regard to the following factors:

- The Group has entered into a standstill arrangement with a majority of MVPL's senior secured note holders to forbear the interest reserve account replenishment and February interest payment default until 15 August 2014. Under the standstill arrangement the senior secured note holders also agree to use their good faith efforts to negotiate and execute a definitive agreement with MVPL to effect a solvent restructuring during the forbearance period.
- The directors believe that Droxford will continue to support the group whilst management work with both Droxford and the senior secured note holders to affect a solvent restructure during the forbearance period. This is supported by Droxford providing the group with a further $29.7 million in short-term secured funding in April 2014.
- The Group has material damage and business interruption insurance in place to cover the fire event. During the March quarter, the Group's insurers responded under the insurance policy, subject to policy terms and conditions, and Atlantic received the first progress payments under its insurance policy for the amount of $18.5 million. In June 2014 a further $7.8 million was received as a second progress insurance payment and in July 2014 the insurance market has undertaken to make a third progress insurance payment of up to $9.5 million.

There are a number of inherent uncertainties about the achievement of the Group's future plans including but not limited to:

- The restructure and ongoing funding discussions with both Droxford and the senior secured note holders being successfully concluded within the forbearance period that ends on 15 August 2014;
- Managing the Group's working capital requirements including the ongoing funding from the insurance claim;
- The beneficiation plant rebuild project being completed on a timely basis within the to be determined capital budget;
- Further debottlenecking activities within the Windimurra plant being identified, resolved and funded; and
- Raising of further capital to execute business plan.

Should the Group not be able to manage the inherent uncertainties referred to above, there would be significant uncertainty as to whether the Group would be able to meet its debts as and when they fall due and thus continue as a going concern.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 MARCH 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Accounting Standards and Interpretations

In the period ended 31 March 2014, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or before 1 July 2013 including:

- **AASB 13 Fair Value Measurement**

  AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

  The Group has reassessed its policies for measuring fair values, in particular, its valuation inputs in relation to the financial derivative liability. The application of AASB 13 has not materially impacted the fair value measurements of the Group.

- **Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine**

  This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset".

  The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

  Consequential amendments were also made to other standards via AASB 2011-12.

  Prior to the implementation of Interpretation 20 the Group was considered to be still in development and therefore was capitalising all pre-production costs including mining. The implementation of Interpretation 20 therefore has had no impact on prior periods as the Group begun commercial production on 1 July 2013 consistent with the timing of the implementation of Interpretation 20.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 MARCH 2014

3 REVENUE AND EXPENSES

	Quarter ended 31 March 2014 $'000	Quarter ended 31 March 2013 $'000	9 Months ended 31 March 2014 $'000	9 Months ended 31 March 2013 $'000
Revenue				
Ferrovanadium revenue	4,245	-	4,984	-
Iron ore revenue	4,196	-	10,294	-
	8,441	-	15,278	-
Costs of production				
Iron ore	1,279	-	11,719	-
Ferrovanadium	20,385	-	74,753	-
	21,664	-	86,472	-
Other net income/(expense)				
Interest	4	157	-	478
Other revenue	10,555	-	-	-
Fair value of derivatives	-	-	(351)	-
Fair value through profit and loss	-	(2,469)	-	(2,772)
Net foreign exchange gains/(losses)	-	(80)	(3,949)	(697)
	10,559	(2,392)	(4,300)	(2,991)
Other operating costs				
Carbon tax	135	223	978	599
Selling and distribution costs	290	128	467	228
Royalty costs	130	5	526	34
Employee benefits expense	-	-	-	-
Other administration expenses	132	1,115	1,337	3,366
	687	1,471	3,308	4,227
Finance expenses				
Interest expense - finance leases and other borrowings	*52*	65	781	80
Interest expense - senior secured notes	11,960	-	33,880	-
Interest expense - related party	132	82	373	242
Interest expense - unwinding of the discount of the rehabilitation provision	270	308	847	958
	12,414	455	35,881	1,280
Impairment/depreciation				
Impairment	-	-	416,987	-
Depreciation	2,431	-	7,563	-
	-	-	424,550	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 MARCH 2014

4 DIVIDENDS

No dividends have been paid during the period. There is no dividend proposed.

5 CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	31 March 2014 $'000	30 June 2013 $'000
Cash and cash equivalents		
Cash at bank and on hand	699	112

6 PROPERTY, PLANT AND EQUIPMENT

	Site plant & equipment $'000	Office equipment $'000	Assets under construction $'000	Mine properties & development $'000	Total $'000
At 1 July 2013 net of accumulated depreciation	112,326	55	326,117	30,615	469,113
Additions	-	-	-	3,163	3,163
Transfers	324,793	1,324	(326,117)	-	-
Disposals	-	-	-	-	-
Impairment	(385,692)	(1,227)	-	(30,067)	(416,986)
Change in rehabilitation provision	(3,827)	-	-	-	(3,827)
Depreciation charge for the period	(7,494)	(69)	-	-	(7,563)
At 31 December 2013 net of accumulated depreciation	40,106	83	-	3,711	43,900
At 31 March 2014					
Cost	433,292	1,379	-	33,778	468,449
Accumulated depreciation and impairment	(393,186)	(1,296)	-	(30,067)	(424,549)
Net carrying amount	40,106	83	-	3,711	43,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 MARCH 2014

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Site plant & equipment $'000	Office equipment $'000	Assets under construction $'000	Mine properties & development $'000	Total $'000
For the year ended 30 June 2013					
At 1 July 2012 net of accumulated depreciation	125,194	97	297,563	33,868	456,722
Borrowing costs capitalised	-	-	36,589	-	36,589
Additions	-	-	86,488	167	86,655
Research and Development Incentive Program refund	-	-	(49,548)	-	(49,548)
Impairment	(12,546)	-	(36,426)	(3,420)	(52,392)
Change in rehabilitation provision	-	-	(8,549)	-	(8,549)
Depreciation charge for the year	(322)	(42)		-	(364)
At 30 June 2013 net of accumulated depreciation	112,326	55	326,117	30,615	469,113
At 30 June 2013					
Cost	125,766	179	362,542	34,035	522,522
Accumulated depreciation and impairment	(13,440)	(124)	(36,426)	(3,419)	(53,409)
Net carrying amount	112,326	55	326,116	30,616	469,113

7 EVENTS AFTER THE REPORTING PERIOD

In April 2014, Atlantic announced the suspension of all iron ore related activities due to the current market conditions for its products.

In April 2014, Atlantic also announced the cessation of further activities in Vietnam in relation to the development study for an integrated mine-rail-port bauxite project in the Central Highlands of Vietnam.

In June 2014, a further $7.8 million was received as a second progress insurance payment.

In July 2014, the insurance market has undertaken to make a third progress insurance payment of up to $9.5 million.

In July 2014, Atlantic announced the findings of its plant technical review, with a capital cost estimate of $130.0 million to target a long-term indicative steady state production of 4,800 to 5,2000 tpa V.

DIRECTORS' DECLARATION

In the opinion of the Directors:

1. The financial statements and notes of the Consolidated Entity for the period ended 31 March 2014 are in accordance with the Corporations Act 2001, including:

   a) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

   b) giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2014 and of its performance for the period ended on that date.

2. Subject to the matters described in Note 2(B), there are reasonable grounds to believe that the Consolidated Entity 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 Directors.

GARY LEWIS
Director

Dated this 14th day of July 2014