

# QUARTERLY REPORT

THREE MONTHS ENDED  
30 JUNE 2014

Atlantic Ltd (ASX: ATI; **Atlantic** or the **Company**) is pleased to present its report for the quarter ended 30 June 2014.

## OPERATIONS

### Windimurra Operations

Production of vanadium at Windimurra has been suspended since February following a major fire in the beneficiation plant.

The damage to the beneficiation plant was extensive and further detailed structural engineering demonstrated that the most cost and time effective option for the rebuild of the area was to demolish the existing structure and rebuild the plant from its foundations.

Demolition work in the beneficiation area commenced during the quarter and was completed in early July. The photograph below shows the plant site following completion of this demolition work.



Photograph showing beneficiation plant site following completion of demolition

During the quarter, Atlantic completed orders for critical long lead time items for the beneficiation plant rebuild work, including orders for the magnetic separators and screens. Fabrication of these long lead time items is now well advanced (see photograph below).



Photograph showing magnetic separator drum manufactured for Windimurra in Melbourne

During the quarter, Atlantic also completed a successful tender for the front end engineering and design work for the beneficiation plant rebuild project. The contract was awarded to Lycopodium.

Following this award, work on the front end engineering and design is now nearing completion, with the key deliverables including a detailed cost estimate for the rebuild project and comprehensive scopes of work for the construction phase. Preparation of EPC tender documentation for the construction phase has also been completed since period end.

### Insurance

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

The Company's insurers have granted indemnity for the fire and Atlantic received a third progress payment of \$9.5 million in July, bringing the total progress payments received under its material damage and business interruption insurance policy to date to \$35.75 million.

### Business Review

As previously announced, the Company has been conducting a thorough review of its business, encompassing a review of the mine plan, the crushing, milling and beneficiation (**CMB**) circuit and the refinery. This review was based on the Company's commissioning and operating experience over the last two years, with particular emphasis on the CMB circuit.

Shortly after period end, the Company completed the business review, which incorporated independent reviews of the CMB circuit and the downstream refinery.

The primary production bottleneck identified in the reviews relates to the inability of the CMB plant to reliably produce sufficient magnetite concentrate feed to match the capacity of the downstream refinery.

After significant review and input from the Company's technical team, the recommended course of action involves a revision to the Windimurra process flow sheet which includes replacing the existing secondary and tertiary crushers and high pressure grinding rolls (**HPGR**) with a semi-autogenous grinding (**SAG**) mill.

SAG mill technology is used throughout the world to crush a wide variety of ore bodies and was used successfully by the previous operator of the Windimurra project before being removed and replaced with the secondary and tertiary crushers and HPGR.

In addition, the review identified a number of less significant de-bottlenecking projects which the Company intends to complete concurrently with installation of a SAG mill.

A review of the existing mine plan also indicated that it is likely to be more efficient for the Company to adopt a shallow pit mine plan that delivers a reduced waste to ore ratio whilst more closely matching the feed requirements of the processing plant.

The capital cost to implement the new CMB flow sheet design and the other de-bottlenecking projects is approximately A\$130 million (including contingency). This excludes the cost of the beneficiation plant rebuild covered by the material damage component of the Company's insurance claim.

The business review has demonstrated that following implementation of this new process flow sheet and the rebuild of the fire damaged beneficiation plant, the Windimurra project is expected to produce approximately 4,800 – 5,200 tonnes per annum of contained vanadium at steady state.

As part of this review, the Company has also developed a plan to right-size the business to take into account these steady state production levels.

Notwithstanding that the expected steady state production levels are lower than was previously envisaged for the project, the business review demonstrates a long-term sustainable basis for the business going forward.

### **Discussions with Stakeholders**

To fund the proposed capital expenditure and working capital to implement the proposed process improvements, the Company will require additional funding. The Company is seeking such funding from a number of sources, including its existing stakeholders, expected reimbursement payments from the Australian Taxation Office (**ATO**) under the Research & Development Tax Incentive Program in respect of the year ended 30 June 2014 and sales of vanadium inventory and production during the ramp-up phase. Atlantic is currently in discussions with its stakeholders regarding this additional required funding as well as an appropriate longer term capital structure for the business.

Assuming the availability of adequate capital, and the ongoing support of its stakeholders, the Company believes these solutions can be implemented within the next 12 months.

This separate project work will not delay the reconstruction of the beneficiation plant in any way or extend the period of business interruption insurance coverage, with such work continuing uninterrupted in parallel.

### **Safety**

The Company is pleased to report that there were no lost time injuries during the quarter.

## Production

Due to the fire in early February, there was no vanadium production in the June quarter. Sales of ferrovandium 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 March 2014 (tonnes contained V)	3 months to 30 June 2014 (tonnes contained V)
Vanadium production	10	0
Vanadium sales	94	122

## Iron Ore

The Company has suspended exports of iron ore due to the current low market prices for its iron ore products.

During the quarter, there were no sales of iron ore product from Windimurra, however Atlantic continued productive discussions with prospective customers for its iron ore products, with particular emphasis on niche market opportunities for its iron ore fines and lump products.

## Industry Pricing Benchmarks

During the quarter, vanadium prices pulled back in North America and rose slightly in Europe as set out below.

	1 April 2014 (per kilogram contained V)	30 June 2014 (per kilogram contained V)
Mid-point Ryan's Notes price for vanadium in the North American market	US\$29.76	US\$29.10
Mid-point London Metal Bulletin price for vanadium in the European market	US\$25.60	US\$25.68

## Exploration and Resource Development

The Company undertook no exploration activities during the quarter.

### Vietnam Bauxite Project

During the quarter, the Company completed the process of closing its Vietnam operations.

## CORPORATE

### Funding

In April, MVPL concluded all conditions for a new \$29.7 million funding facility with Atlantic's largest shareholder Droxford International Limited (**Droxford**).

This new funding facility is secured pari passu with MVPL's senior secured notes.

In addition to the new funding facility, MVPL also concluded a standstill arrangement – providing forbearance and support – with a majority of the holders of its senior secured notes (**Notes Group**).

Under the standstill arrangement, the Notes Group has agreed to forbear MVPL's default for failure to deposit US\$5 million in its interest reserve account and 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 MVPL's indenture or the new funding facility during the term of the forbearance agreement.

Under the forbearance and support agreement, each holder in the Notes Group also agrees with MVPL to use their good faith efforts to negotiate and execute a definitive agreement among MVPL and the supporting note holders to affect a restructuring during the forbearance period.

### ASX Suspension

Following the fire in the beneficiation plant on 4 February, the Company requested a voluntary suspension in the trading of its securities. Atlantic believes that it is appropriate for the suspension in the trading of the Company's securities to remain in place given that the Company is in discussions regarding a longer term restructure based on the business review findings outlined above.

## CASH FLOW STATEMENT

The Appendix 5B cash flow statement for the quarter ended 30 June 2014 will be released separately.

# BUILDING A WORLD CLASS RESOURCES GROUP

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## ASX CODE

ATI (ordinary shares)

## DIRECTORS

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## ABOUT ATLANTIC LTD

Atlantic subsidiary Midwest Vanadium Pty Ltd owns 100% of the Windimurra vanadium and iron ore operation, located approximately 600 kilometres north of Perth in Western Australia.

Windimurra hosts one of the largest proven vanadium reserves in the world.

Additional information on Atlantic can be found at  
[www.atlanticltd.com.au](http://www.atlanticltd.com.au)