HALF YEAR REPORT

For the six months ended
31 December 2013

ATLANTIC LTD

HALF YEAR REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS
Gary Lewis (Chairman)
Phiong Phillipus Darma (Non-Executive Director)
Bradley Ellis (Non-Executive Director)
Dr Mike Daniel (Non-Executive Director)

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ATI

DIRECTORS' REPORT

Your Directors submit the half year report of Atlantic Ltd (**Atlantic** or the **Company**) and its controlled entities (the **Consolidated Entity** or the **Group**) for the half year ended 31 December 2013.

DIRECTORS

The Directors of the Company during the period and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated below.

Mr Michael Minosora – Chairman and Managing Director (resigned on 11 March 2014)

Mr Gary Lewis – Chairman (appointed 12 March 2014)

Mr Tony Veitch – Executive Director (resigned 26 November 2013)

Mr Phiong Phillipus Darma – Non-Executive Director

Mr Bradley Ellis – Non-Executive Director (appointed 16 December 2013)

Dr Mike Daniel – Non-Executive Director (appointed 13 January 2014)

REVIEW AND RESULTS OF OPERATIONS

Highlights

- Increased FeV production for the half year resulting from a step change in throughput and availability;
- Commencement of shipments of iron ore fines with five shipments completed during the period;
- $20.0 million facility secured with Droxford International Limited (**Droxford**);
- $20.0 million unsecured promissory note secured with Droxford;
- Consent obtained from a majority of Midwest Vanadium Pty Ltd's (**MVPL**) senior secured note holders to access US$5.0 million from the interest reserve account;
- $27.3 million research and development tax claim received in relation to the financial year ended 30 June 2013; and
- Completion of major modification works to improve throughput and availability of the Windimurra vanadium project (**Windimurra**) crushing, milling and beneficiation circuit (**CMB**).

Windimurra Operations Update

During the half year, Atlantic's wholly-owned subsidiary MVPL continued to ramp-up production at Windimurra with a focus on the CMB plant.

During the period, the last of the major modification works were completed on the CMB plant. Upon completion, a step change in CMB throughput and availability was achieved, providing an increase in sustainable daily production.

Through the period, the roasting kiln continued to show sound performance in terms of availability and throughput. Recoveries were in line with expectation.

The performance of the refinery, including the ferrovanadium (**FeV**) arc furnace, was robust ensuring that the refinery adequately managed to process all feed presented to the refinery from the upstream plant.

Windimurra achieved FeV production of 390 tonnes of contained vanadium (**V**) for the half year ended 31 December 2013.

DIRECTORS' REPORT

Significant planned maintenance shutdowns were undertaken after period end. These maintenance shutdowns were focussed on the CMB area, the roasting kiln and refinery area. The shutdowns were designed to address key areas in the plant which had been restricting plant availability and production.

Production

The Group produced and received the initial payment under the Group's sales and marketing agreement for the following vanadium volume from Windimurra during the period.

	YTD (tonnes contained V)
Vanadium production	390
Vanadium product financed*/**	198

* *May include production from the previous period held in inventory.*

** *In accordance with the Group's sales and marketing agreement, an initial advance is received based on 85% of the London Metal Bulletin vanadium price following product delivery to the selling agent's warehouse in Perth.*

The Group shipped five cargoes of hematite iron ore fines by-product amounting to 151,758 tonnes from Windimurra to customers during the period.

Safety

The Group continued its excellent safety record during the period. Atlantic is committed to maintaining strong safety practices at Windimurra.

Mining

Mining operations continued to meet the demands of the processing plant during the period.

Vanadium Marketing

The Group continued to make deliveries of Windimurra FeV from site to the warehouse in Perth in accordance with the terms of the sales and marketing agreement with Wengfu (Group) Co Ltd.

Under the terms of the Group's sales and marketing agreement, initial payment for FeV is received at 85% of the London Metal Bulletin price following delivery to the off-taker's warehouse in Perth.

Shortly after the end of the period, the Company announced that it would commence exports of vanadium trioxide (**V_2O_3**). The export of V_2O_3 will enable the Company to sell V_2O_3 into premium price markets such as the titanium alloy market, the vanadium carbonitride market (**VCN**), the vanadium chemical market and vanadium redox flow battery market.

DIRECTORS' REPORT

Iron Ore Marketing

During the period, the Company successfully shipped to China five trial shipments of its high titanium hematite iron ore product. The product has achieved acceptance in the specialised Chinese blast furnace lining protection market and the trials have demonstrated the capability of the Company's logistics supply chain. The Company has a direct shipping ore (DSO) high titanium magnetite iron ore product which the Company proposes to trial in the Chinese blast furnace lining market.

Key Appointments

On 16 December 2013, Mr Bradley Ellis was appointed as a Non-Executive Director of Atlantic. Mr Ellis is a metallurgist with 30 years experience in the mining industry. He has extensive experience across a broad range of technical areas including process plant design, commissioning, debottlenecking, optimization, design management for mineral processing and hydrometallurgical plants, feasibility studies and the identification and assessment of process risk.

Corporate Activity

In July 2013, MVPL secured a new short-term funding facility of $15.3 million with a leading Australian bank. The facility was secured by a priority lien over MVPL's rights to receive reimbursement payments from the Australian Taxation Office under the research and development tax incentive program in respect of the financial year ended 30 June 2013. The interest rate on the facility was fixed at 15% per annum payable monthly in arrears. The facility was set to mature on the earlier of 28 February 2014 and the receipt of the research and development tax incentive program claim for the year ended 30 June 2013. In September 2013, this funding facility was increased to $19.1 million.

In July 2013, MVPL secured approval for the release of its cash-backed environmental performance bonds of $8.5 million.

In August 2013, MVPL paid its August interest payment in relation to its senior secured notes but failed to replenish the interest reserve account (**IRA**) minimum balance of US$5.0 million as required under the senior secured notes indenture. This was a technical breach of the covenant in the indenture that was rectified within the permitted grace period.

In August 2013, Atlantic secured a $20.0 million funding facility that was provided to the Company as Class D bonds from Droxford. The Class D bonds were issued on the same terms as the previously issued convertible bonds with the only difference being a conversion price of $0.2625 per share. The new conversion price resulted in a reset of the conversion price of all previously issued convertible bonds to $0.2625 per share. The ability for the Class D bonds to be convertible was subject to Atlantic shareholder approval.

In October through to December 2013, the Company secured a further $20.0 million funding facility from Droxford that was provided as an unsecured debt facility in the form of a promissory note.

In October 2013, the Group received from the Australian Taxation Office a $27.3 million reimbursement under the research and development tax incentive program in respect of the year ended 30 June 2013. From this reimbursement, $19.1 million was used to repay the fully-drawn short-term loan facility which was secured against the reimbursement.

DIRECTORS' REPORT

In October 2013, the Group reached in-principle agreement with the majority holders of MVPL's senior secured notes to reduce the minimum holding requirement in the IRA (**Indenture Amendments**). The Indenture Amendments became effective on 2 December 2013 upon MVPL receiving a further $20.0 million in new equity. As part of these amendments, the Group agreed to an increase in the senior secured notes interest rate to 12.25% effective February 2014 and to 13.25% effective February 2015.

As at November 2013, MVPL had not received $20.0 million in new equity and as such the Indenture Amendments had not yet come into effect and MVPL was required to hold US$9.6 million in the IRA. MVPL only held US$5.0 million in the IRA at that date and as a result was in technical breach of a covenant in the indenture. The technical breach of the covenant in the indenture was rectified within the permitted period by concluding the Indenture Amendments in December 2013.

Atlantic was required to obtain shareholder approval for the conversion of the Class C and Class D bonds by 30 November 2013. Failure to secure such approval resulted in the holder's ability to convert the bonds into Atlantic shares being extinguished. Atlantic did not obtain shareholder approval and as such the Class C and Class D bonds can be redeemed at a 35% premium to their face value from 31 May 2014. Due to the failure to obtain shareholder approval by 30 November 2013, the Class C and Class D bonds have been remeasured to include the 35% redemption premium and, being repayable from 31 May 2014, have been classified as current liabilities as at 31 December 2013.

EVENTS AFTER THE REPORTING PERIOD

On 13 January 2014, Atlantic announced the appointment of Dr Mike Daniel as a Non-Executive Director of the Company. Dr Daniel is a respected independent mineral processing consultant specialising in comminution (crushing and grinding) with over 25 years industry experience.

On 24 January 2014, Atlantic drew down a $2.5 million promissory note at an interest rate of 22.5%.

On 3 February 2014, MVPL failed to deposit US$5.0 million into its IRA and as a result was in technical breach of the senior secured notes indenture.

On 4 February 2014, a major fire occurred in the beneficiation plant at Windimurra. The fire caused extensive damage to the beneficiation plant which resulted in the suspension of vanadium production. Following the fire, Atlantic requested a voluntary suspension in the trading of its securities.

On 15 February 2014, MVPL failed to pay the half yearly interest payment on its senior secured notes.

On 17 February 2014, it was announced that Atlantic had received notification from an ad hoc group of the majority of holders of MVPL's senior secured notes that it would not take any action prior to 25 February 2014 as a result of MVPL's failure to deposit US$5.0 million into its IRA and failure to pay the interest payment due on 15 February 2014.

On 21 February 2014, Atlantic received a grant of indemnity from its insurers in respect of the major fire in the beneficiation plant at Windimurra, subject to policy terms and conditions.

On 4 March 2014, it was announced that the Group's insurers had agreed a first progress payment under the insurance policy.

DIRECTORS' REPORT

On 10 March 2014, it was announced that MVPL had signed a new funding facility of $29.7 million with Droxford (**Droxford Loan Facility Agreement**). The Droxford Loan Facility Agreement 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 Loan Facility Agreement 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 previously issued bond deeds.

In addition to the new funding facility, MVPL 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 agreed to forbear MVPL's default for failure to deposit US$5.0 million in the IRA. The senior secured note holders also agreed to forbear MVPL's failure to pay the February 2014 interest payment on its senior secured notes. The forbearance applied until 15 August 2014 subject to there being no further events of default under the indenture or the Droxford Loan Facility Agreement outlined above during the term of the agreement.

On 12 March 2014, Mr Michael Minosora resigned as Chairman and Managing Director of Atlantic and Mr Gary Lewis was appointed Non-Executive Chairman of Atlantic. Mr Lewis has more than 25 years experience in capital markets and business strategy development in Australia and Asia. In addition, Mr Daniel Harris, Chief Operating Officer of Atlantic since October 2012, was appointed Chief Executive Officer of the Company.

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 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, Atlantic announced a further $7.8 million was received as a second progress insurance payment.

In July 2014, a further $9.5 million was received as a third progress insurance payment.

In July 2014, Atlantic announced the findings of a comprehensive plant technical review. This review identified certain production bottlenecks in the plant and solutions to the bottlenecks with a capital cost estimate of approximately $130.0 million. Once implemented, these solutions will target a long-term indicative steady state production of 4,800 to 5,200 tpa contained vanadium. Atlantic also announced that it was in discussions with its stakeholders to secure this additional required funding as well as an appropriate longer term capital structure for the business.

On 19 August 2014, the Company announced that it had signed an extension to the standstill arrangement expiring on 15 August until 14 November 2014. This was required as MVPL was not in a position to maintain the IRA, pay the February 2014 interest payment or pay the August 2014 interest payment on its senior secured notes. In parallel with the extension to the standstill arrangement, MVPL also agreed with Droxford to extend the maturity date of the Droxford Loan Facility Agreement until 14 November 2014. These arrangements are designed to provide the Company time to complete discussions with its stakeholders regarding a longer term restructure of the business.

DIRECTORS' REPORT

ROUNDING

The amounts contained in the financial report have been rounded to the nearest A$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.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 10.

Signed in accordance with a resolution of the Board of Directors.

GARY LEWIS
Chairman
Perth, Western Australia

Dated this 20th day of August 2014

AUDITOR'S INDEPENDENCE DECLARATION

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Auditor's Independence Declaration to the Directors of Atlantic Ltd

In relation to our review of the financial report of Atlantic Ltd for the half year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
20 August 2014

GB:EH:ATI:043

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	31 Dec 2013 $'000	31 Dec 2012 $'000
Revenue	3	6,836	-
Cost of sales	3	(69,940)	(2,251)
Gross profit/(loss)		(63,104)	(2,251)
Selling and distribution expenses	3	(177)	(100)
Administrative expenses	3	(1,239)	(783)
Other net operating income/(expenses)	3	16,233	(1,171)
Corporate expenses	3	(4,888)	(2,056)
Impairment	7	(428,860)	-
Loss before interest and tax		(482,035)	(6,361)
Finance expenses	3	(70,121)	(683)
Loss before tax		(552,156)	(7,044)
Tax expense		-	-
Loss after tax		(552,156)	(7,044)
Other comprehensive income		-	-
Total comprehensive loss for the period		(552,156)	(7,044)
		Cents	Cents
Basic loss per share		(356)	(4.6)
Diluted loss per share		(356)	(4.6)

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	Note	31 Dec 2013 $'000	30 Jun 2013 $'000
Assets			
Current assets			
Cash and cash equivalents	5	607	75
Trade and other receivables	6	3,262	37,586
Inventory		17,410	14,052
Other current assets		2,727	3,483
Total current assets		24,006	55,196
Non-current assets			
Trade and other receivables		375	1,132
Property, plant and equipment	7	46,956	480,338
Financial derivative asset		392	743
Total non-current assets		47,723	482,213
Total assets		71,729	537,409
Liabilities			
Current liabilities			
Trade and other payables		62,926	46,545
Loans and borrowings	8	77,963	32,058
Financial derivative liability	9	17,841	42,742
Provisions		5,922	4,764
Total current liabilities		164,652	126,109
Non-current liabilities			
Loans and borrowings	8	465,492	415,151
Provisions		21,700	24,303
Total non-current liabilities		487,192	439,454
Total liabilities		651,844	565,563
Net liabilities		(580,115)	(28,154)
Shareholder's deficit			
Contributed equity	11	129,814	129,814
Reserves		(3,904)	(4,099)
Accumulated losses		(706,025)	(153,869)
Total share holder's deficit		(580,115)	(28,154)

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Ordinary shares $'000	Option reserve $'000	Shares reserved for Share Incentive Plans $'000	Accumulated losses $'000	Total $'000
Balance at 1 Jul 2013	129,814	-	(4,099)	(153,869)	(28,154)
Loss for the period	-	-	-	(552,156)	(552,156)
Total comprehensive loss for the period	-	-	-	(552,156)	(552,156)
Transactions with owners in their capacity as owners:					
Share based payments to employees	-	-	195	-	195
Balance at 31 Dec 2013	129,814	-	(3,904)	(706,025)	(580,115)

	Ordinary shares $'000	Option reserve $'000	Shares reserved for Share Incentive Plans $'000	Accumulated losses $'000	Total $'000
Balance at 1 Jul 2012	119,738	204	(4,293)	(28,680)	86,969
Loss for the period	-	-	-	(7,044)	(7,044)
Total comprehensive loss for the period	-	-	-	(7,044)	(7,044)
Transactions with owners in their capacity as owners:					
Shares issued	10,000	-	-	-	10,000
Reversal of transaction costs on share issues	76	-	-	-	76
Share based payments expense	-	(204)	-	-	(204)
Share based payments to employees	-	-	406	-	406
Balance at 31 Dec 2012	129,814	-	(3,887)	(35,724)	90,203

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	31 Dec 2013 $'000	31 Dec 2012 $'000
Cash flows from operating activities			
Cash receipts from customers		12,868	-
Payments to suppliers and employees		(68,539)	(6,404)
Interest paid		(21,903)	(18,290)
Net cash flows used in operating activities		(77,574)	(24,694)
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,666)	(50,235)
Research and development incentive refund		29,546	22,632
Release of restricted cash		8,495	-
Interest received		61	513
Net cash flows (used in)/from investing activities		34,436	(27,090)
Cash flows from financing activities			
Proceeds from issue of shares		-	10,000
Proceeds from issue of convertible bond and promissory notes		40,000	50,000
Proceeds from borrowings		19,100	-
Advances for product financing		4,023	1,003
Repayment of borrowings		(19,809)	(1,128)
Transaction costs incurred		-	(206)
Net cash flows from financing activities		43,314	59,669
Net increase in cash and cash equivalents		176	7,885
Cash and cash equivalents at beginning of the period		75	24,084
Net foreign exchange differences		356	(646)
Cash and cash equivalents at end of the period	5	607	31,323

The above Interim 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 HALF YEAR ENDED 31 DECEMBER 2013

1 CORPORATE INFORMATION

The interim consolidated financial report of Atlantic Ltd for the half year ended 31 December 2013 was authorised for issue in accordance with a resolution of the Directors on 6 August 2014.

Atlantic Ltd (**Atlantic** or the **Company**) is a company limited by shares incorporated in Australia whose shares are publicly traded 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 interim consolidated financial report of the Company for the half year ended 31 December 2013 comprises the Company and its subsidiaries (together referred to as the **Consolidated Entity** or **Group**).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Basis of Preparation

This interim consolidated financial report for the half year reporting period ended 31 December 2013 is a general purpose condensed financial report prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim consolidated financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Atlantic during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Except as disclosed, below the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

B Going Concern

As at 31 December 2013, the Group has the following going concern indicators:

- A working capital deficiency of $140.646 million with cash on-hand of $0.607 million;
- A net asset deficiency of $580.115 million;
- The Group incurred an interim loss after impairment of $552.156 million for the half year ended 31 December 2013 and had cash out-flows from operating and investing activities of $43.138 million; and
- The Windimurra vanadium plant is still in its early production phase and is forecast to ramp-up production of vanadium in the short to medium-term.

In addition, subsequent to period end, the following events 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, by failing to pay the US$19.263 million interest payment due on 15 February 2014 and by failing to pay interest on the senior secured notes or Droxford bond deeds payable in August 2014;
- There was a significant fire in the beneficiation plant at Windimurra on 4 February 2014 which has suspended vanadium production for an extended period; and
- The breach of covenants under the senior secured notes indenture and the fire in the beneficiation plant has in turn resulted in a breach of all of the Droxford bond deeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B Going Concern (Continued)

The impact of the above events is that all of the Group's loan facilities as at 31 December 2013 became due and payable during the month of February 2014.

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 Midwest Vanadium Pty Ltd's (**MVPL**) senior secured note holders to forbear the interest reserve account replenishment, February 2014 interest payment and August 2014 interest payment defaults until 14 November 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 $29.700 million in short term secured funding in April 2014; and
- During the March quarter, the Group's insurers agreed a first progress payment under the insurance policy of $18.450 million. In June 2014, a further $7.800 million was received as a progress payment and in July 2014 a third progress payment of $9.500 million was received. 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.

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 Droxford and the senior secured note holders being successfully concluded within the forbearance period that ends on 14 November 2014;
- Successfully managing the insurance claim and continued timely payments under the claim;
- Managing the Group's working capital requirements;
- The beneficiation plant rebuild project being completed on a timely basis within the capital budget;
- Further debottlenecking activities within the Windimurra plant being identified, funded and implemented on a timely basis within the capital budget; and
- Raising of further capital to execute the Company's 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

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C New Accounting Standards and Interpretations

In the period ended 31 December 2013, 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. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. The fair value hierarchy is provided in Note 10.

- **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 stripping costs as part of Mine Properties & Development. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

3 REVENUE AND EXPENSES

REVENUE AND EXPENSES

	31 Dec 2013 $'000	31 Dec 2012 $'000
Revenue		
Ferrovanadium	739	-
Iron ore	6,097	-
	6,836	-
Cost of sales		
Ferrovanadium	54,368	2,251
Iron ore	10,440	-
Depreciation	5,132	-
	69,940	2,251
Selling and distribution expenses		
Selling and distribution costs	177	100
	177	100
Administrative expenses		
Vietnam bauxite project administration costs	-	378
Government royalties	396	29
Carbon tax	843	376
	1,239	783
Other net operating income/(expenses)		
Foreign exchange gains/(loss)	(14,534)	(613)
Fair value of derivatives gain/(loss)	30,704	(905)
Interest	53	347
Other revenue	10	-
	16,233	(1,171)
Corporate expenses		
Non mine site depreciation	254	71
Business development expenses	-	17
Employee benefits expense	446	945
Other corporate costs	4,188	1,023
	4,888	2,056
Finance expenses		
Interest expense – senior secured notes	21,919	-
Interest expense – convertible bonds	19,866	-
Loss on remeasure of liability (Note C&D)	27,029	-
Interest expense – other loans and borrowings	730	32
Unwinding of the discount of the rehabilitation provision	577	651
	70,121	683

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

4 DIVIDENDS

There were no dividends paid or provided for during the half year and up to the date of this report.

5 CASH AND CASH EQUIVALENTS

For the purpose of the Interim Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following:

	31 Dec 2013 $'000	30 Jun 2013 $'000
Current cash and cash equivalents		
Cash at bank and on hand	607	75

6 TRADE AND OTHER RECEIVABLES

	31 Dec 2013 $'000	30 Jun 2013 $'000
Current trade and other receivables		
Goods and Services Tax (GST) receivable	1,313	1,095
Restricted cash on deposits	400	8,495
Sundry receivables (i)	1,549	27,996
	3,262	37,586
Non-current trade and other receivables		
Restricted cash on deposit	-	761
Term deposit – building lease guarantee	375	371
	375	1,132

(i) **Sundry receivables**

Sundry receivables as at 30 June 2013 includes a research and development incentive refund of $27.300 million receivable from the Australian Tax Office as part of the annual lodgement of MVPL's 30 June 2013 Income Tax Return. The research and development incentive refund was received during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

7 PROPERTY, PLANT AND EQUIPMENT

	Site plant & equipment $'000	Office equipment $'000	Assets under construction $'000	Mine properties & development $'000	Total $'000
At 1 Jul 2013 net of accumulated depreciation	109,033	270	341,317	29,718	480,338
Borrowing costs capitalised					
Additions	-	-	-	4,042	4,042
Transfers	336,012	-	(336,012)	-	-
Impairment	(394,029)	(16)	(4,728)	(30,087)	(428,860)
Change in rehabilitation provision	(3,178)	-	-	-	(3,178)
Depreciation charge for the period	(5,132)	(254)	-	-	(5,386)
At 31 Dec 2013 net of accumulated depreciation	42,706	-	577	3,673	46,956
At 31 Dec 2013					
Cost	441,867	270	5,305	33,760	481,202
Accumulated depreciation and impairment	(399,161)	(270)	(4,728)	(30,087)	(434,246)
Net carrying amount	42,706	-	577	3,673	46,956

Pre-Production Accounting

During the period, the Group decided that commercial production commenced as at 1 July 2013 due to the following factors:

- Completion of a reasonable period of testing of the mine plant and equipment;
- The ability to produce ferrovanadium in a saleable form; and
- The achievement of continuous production.

The combination of the above factors resulted in the mine plant and equipment being in a condition necessary to operate as intended and therefore the operating costs, interest costs and revenues were no longer capitalised for accounting purposes from that date. The Group's mine assets began being depreciated and amortised as at 1 July 2013.

Impairment

As at 31 December 2013, the Company had not been able to achieve nameplate production capacity at the Windimurra project. In addition, independent consultants SRK completed a review of the Windimurra plant subsequent to period end, which identified a number of bottlenecks that were expected to limit vanadium production to levels below previously expected nameplate capacity and that had to be addressed to reach sustainable levels of production. These factors indicated a potential trigger for impairment and as a result a full assessment of the recoverable value of the related assets has been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The carrying value of the Windimurra project property, plant and equipment has been determined based on the higher of fair value less costs to sell and value in use. Fair value less costs to sell resulted in a higher valuation as under the value in use methodology, any cash inflows and outflows from improving or enhancing the assets performance after balance date had to be excluded.

Management's assessment of fair value less costs to sell considered each individual asset and in particular:

- Recent transactions for similar assets within the same industry;
- The age and use of the individual asset;
- Selling costs, including freight, to dispose of each individual asset;
- Condition of the assets; and
- Location and replacement value of assets.

Based on the above assumptions, the Group has recognised an impairment charge of $428,860 million for the period on mine property, plant and equipment.

	Site plant & equipment $'000	Office equipment $'000	Assets under construction $'000	Mine properties & development $'000	Total $'000
At 1 Jul 2012 net of accumulated depreciation	125,194	451	299,986	33,868	459,499
Borrowing costs capitalised	-	-	22,684	-	22,684
Additions	-	-	38,922	89	39,011
Research and development claim	-	-	(22,632)	-	(22,632)
Change in rehabilitation provision	-	-	-	(4,799)	(4,799)
Depreciation charge for the period	(164)	(92)	185	-	(71)
At 31 Dec 2012 net of accumulated depreciation	125,030	359	339,145	29,158	493,692
At 31 Dec 2012					
Cost	125,766	785	339,145	29,158	494,854
Accumulated depreciation	(736)	(426)	-	-	(1,162)
Net carrying amount	125,030	359	339,145	29,158	493,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

8 INTEREST BEARING LIABILITIES

	31 Dec 2013 $'000	30 Jun 2013 $'000
Current loans and borrowings		
Obligations under insurance funding	-	516
Unsecured debt facility (i)	-	30,450
Advance from sales agent	3,999	1,092
Class C and D bond liability (ii)	73,964	-
	77,963	32,058
Non-current loans and borrowings		
Senior secured notes (iii)	364,718	349,044
Class A and B convertible bond liability (iv)	78,810	66,107
Unsecured debt facility (v)	20,000	-
Insurance premium funding	1,964	-
	465,492	415,151

(i) Unsecured debt facility

In August 2013, Droxford took up its option to exchange the promissory notes issued in March and April 2013 into a $35.368 million Class C bond.

(ii) Class C and D bond liability

The Class C and Class D bonds were convertible at $0.2625 per share, which was a 5% premium to the Company's 10 day VWAP immediately prior to 6 August 2013. Atlantic was required to obtain shareholder approval for the conversion of the Class C and Class D bonds by 30 November 2013. Failure to obtain such approval by 31 May 2014 has resulted in the holder's ability to convert the bonds into Atlantic shares being extinguished. As such the Class C and Class D bonds can be redeemed by Droxford at a 35% premium to their face value from 31 May 2014. Due to the failure to obtain shareholder approval by 30 November 2013, the Class C and Class D bonds have been remeasured to include the 35% redemption premium and, being repayable from 31 May 2014, have been classified as current liabilities as at 31 December 2013.

Interest on the Class C and Class D bonds is calculated at 22.5% per annum, payable semi-annually in arrears and is payable on 8 February and 8 August each year. Payment can be in kind or cash at Droxford's election. Payment in kind is defined as 100% payable as new bonds at the issue price, which will be entitled to future coupons.

(iii) Senior secured notes

The senior secured notes issued by the Company's subsidiary MVPL have a carrying value calculated by using the amortised cost method. The senior secured notes initial proceeds of US$335.000 million were received on 17 February 2011 and converted to $333.832 million at $1:US$1.0035. At 31 December 2013, the A$:US$ exchange rate was $1:US$0.8948, resulting in the carrying value of the senior secured notes of $364.718 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

8 INTEREST BEARING LIABILITIES (CONTINUED)

(iv) Class A and B convertible bond liability

As a result of execution of the Class C bond deed, the existing Class A and Class B convertible bond conversion price was reset to $0.2625 per share.

(v) Unsecured debt facility

In August 2013, Atlantic entered into a new deed for the issue of a $20.000 million promissory note at an interest rate of 22.5% with Droxford maturing 6 March 2015.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

9 FINANCIAL DERIVATIVE LIABILITY

	31 Dec 2013 $'000	30 Jun 2013 $'000
Embedded derivative associated with Class A and B convertible bonds	17,841	42,742
	17,841	42,742

Included within the Class A and Class B bond deeds is a price reset mechanism, where if the Company issues any equity (other than by way of rights) at a price lower than the previously issued convertible bonds conversion price, the previously issued convertible bonds conversion price is reset to the lower price.

The fair value of the embedded derivatives associated with the convertible bonds is valued using a Black-Scholes option pricing model that takes into account the expected conversion price, term of the convertible bonds, non-tradeable nature of the convertible bonds, the share price at valuation date and expected share price volatility of the underlying share, the expected dividend yield, and the risk-free rate for the term of the convertible bonds. This is then multiplied against the number of securities that the Company would be required to issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

9 FINANCIAL DERIVATIVE LIABILITY (CONTINUED)

The table below summarises the model inputs for the embedded derivative associated with the Class A and Class B convertible bonds at 31 December 2013:

Conversion price per share ($)	0.2625
Valuation date	31 December 2013
Loan expiry date	6 March 2015
Underlying security spot price at valuation date ($)	0.18
Expected price volatility of the Company's shares	100%
Expected dividend yield	0%
Risk-free interest rate	2.508%
Black-Scholes valuation per right ($)	0.0472

10 FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 31 December 2013:

	Loans and receivables $'000	Fair value through profit and loss $'000	Fair value through other comprehensive income $'000
Financial assets:			
Receivables	3,262	-	-
Total current	3,262	-	-
Financial derivative asset	392	351	-
Total non-current	392	351	-
Total	3,654	351	-
Financial liabilities:			
Payables	62,926	-	-
Loans and borrowings	77,963	-	-
Financial derivative liability	-	17,841	-
Total current	140,889	17,841	-
Loans and borrowings	465,492	-	-
Total non-current	465,492	-	-
Total	606,381	17,841	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

10 FINANCIAL INSTRUMENTS (CONTINUED)

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2013:

	Carrying amount $'000	Fair value $'000
Financial assets:		
Receivables	3,262	3,262
Total current		
Financial derivative asset	392	392
Total non-current	392	392
Total	3,654	3,654
Financial liabilities:		
Payables	62,926	62,926
Loans and borrowings	77,963	77,963
Financial derivative liability	17,841	17,841
Total current	158,730	158,730
Loans and borrowings	465,492	381,132
Total non-current	465,492	381,132
Total	624,222	539,862

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between categories during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

10 FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2013, the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets:				
Financial derivative asset	-	392	-	392
Total	-	392	-	392
Financial liabilities:				
Financial derivative liability	-	17,841	-	17,841
Total	-	17,841	-	17,841

Valuation Techniques

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

As at 31 December 2013, the value of the embedded derivative associated with the Class A and Class B convertible bonds is $17.841 million. The fair value of the embedded derivative associated with the convertible bonds is valued using a Black-Scholes option pricing model that takes into account the expected exercise price, term of the convertible bonds, non-tradeable nature of the convertible bonds, the share price at issue date and expected price volatility of the underlying share, the expected dividend yield and the risk-free rate for the term of the convertible bonds (refer Note 9). This is then multiplied against the amount of securities that the Company would be required to issue.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

11 EQUITY

	31 December 2013	31 December 2013
	No. shares	$'000
Ordinary shares		
Movements in ordinary shares on issue		
Opening balance at 1 Jul 2013	154,757,339	129,814
Issue of shares	-	-
Reversal of transaction costs on share issues	-	-
At 31 Dec 2013	154,757,339	129,814

	31 December 2012	31 December 2012
	No. shares	$'000
Ordinary shares		
Movements in ordinary shares on issue		
Opening balance at 1 Jul 2012	154,757,339	129,814
Issue of shares	-	-
Reversal of transaction costs on share issues	-	-
At 31 Dec 2012	154,757,339	129,814

12 SEGMENT INFORMATION

The Group has assessed its operating segments for the period ended 31 December 2013 and has identified one operating segment being the Windimurra vanadium project.

The operating segments are identified by management based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining allocation of resources.

The Vietnam operating segment reported for the year ended 30 June 2013 has not been identified as an operating segment for this period end due to reduced activity in Vietnam during the period and cessation of activities subsequent to period end.

13 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities or contingent assets as at 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

14 EVENTS AFTER THE REPORTING PERIOD

On 13 January 2014, Atlantic announced the appointment of Dr Mike Daniel as a Non-Executive Director of the Company. Dr Daniel is a respected independent mineral processing consultant specialising in comminution (crushing and grinding) with over 25 years industry experience.

On 24 January 2014, Atlantic drew down a $2.5 million promissory note at an interest rate of 22.5%.

On 3 February 2014, MVPL failed to deposit US$5.0 million into its IRA and as a result was in technical breach of the senior secured notes indenture.

On 4 February 2014, a major fire occurred in the beneficiation plant at Windimurra. The fire caused extensive damage to the beneficiation plant which resulted in the suspension of vanadium production. Following the fire, Atlantic requested a voluntary suspension in the trading of its securities.

On 15 February 2014, MVPL failed to pay the half yearly interest payment on its senior secured notes.

On 17 February 2014, it was announced that Atlantic had received notification from an ad hoc group of the majority of holders of MVPL's senior secured notes that it would not take any action prior to 25 February 2014 as a result of MVPL's failure to deposit US$5.0 million into its IRA and failure to pay the interest payment due on 15 February 2014.

On 21 February 2014, Atlantic received a grant of indemnity from its insurers in respect of the major fire in the beneficiation plant at Windimurra, subject to policy terms and conditions.

On 4 March 2014, it was announced that the Group's insurers had agreed a first progress payment under the insurance policy.

On 10 March 2014, it was announced that MVPL had signed a new funding facility of $29.7 million with Droxford (**Droxford Loan Facility Agreement**). The Droxford Loan Facility Agreement 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 Loan Facility Agreement 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 previously issued bond deeds.

In addition to the new funding facility, MVPL 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 agreed to forbear MVPL's default for failure to deposit US$5.0 million in the IRA. The senior secured note holders also agreed to forbear MVPL's failure to pay the February 2014 interest payment on its senior secured notes. The forbearance applied until 15 August 2014 subject to there being no further events of default under the indenture or the Droxford Loan Facility Agreement outlined above during the term of the agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

14 EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

On 12 March 2014, Mr Michael Minosora resigned as Chairman and Managing Director of Atlantic and Mr Gary Lewis was appointed Non-Executive Chairman of Atlantic. Mr Lewis has more than 25 years experience in capital markets and business strategy development in Australia and Asia. In addition, Mr Daniel Harris, Chief Operating Officer of Atlantic since October 2012, was appointed Chief Executive Officer of the Company.

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 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, Atlantic announced a further $7.8 million was received as a second progress insurance payment.

In July 2014, a further $9.5 million was received as a third progress insurance payment.

In July 2014, Atlantic announced the findings of a comprehensive plant technical review. This review identified certain production bottlenecks in the plant and solutions to the bottlenecks with a capital cost estimate of approximately $130.0 million. Once implemented, these solutions will target a long-term indicative steady state production of 4,800 to 5,200 tpa contained vanadium. Atlantic also announced that it was in discussions with its stakeholders to secure this additional required funding as well as an appropriate longer term capital structure for the business.

On 19 August 2014, the Company announced that it had signed an extension to the standstill arrangement expiring on 15 August until 14 November 2014. This was required as MVPL was not in a position to maintain the IRA, pay the February 2014 interest payment or pay the August 2014 interest payment on its senior secured notes. In parallel with the extension to the standstill arrangement, MVPL also agreed with Droxford to extend the maturity date of the Droxford Loan Facility Agreement until 14 November 2014. These arrangements are designed to provide the Company time to complete discussions with its stakeholders regarding a longer term restructure of the business.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Atlantic Ltd, I state that:

In the opinion of the Directors:

1. The financial statements and notes of the Consolidated Entity for the half year ended 31 December 2013 are in accordance with the Corporations Act 2001, including:

   a) Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and

   b) Complying with Australian Accounting Standard AASB 134 Interim Financial Reporting, International Financial Reporting Standard, IAS 34 Interim Financial Reporting and the Corporations Regulations 2001.

2. Subject to the matters discussed in Note 2B, 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
Chairman
Perth, Western Australia

Dated this 20th day of August 2014

INDEPENDENT AUDITOR'S REPORT

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Independent review report to the members of Atlantic Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Atlantic Ltd, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a review conclusion on the financial report based on conducting the review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Because of the matters described in the Basis for Disclaimer of Review Conclusion paragraphs below, however, we were not able to obtain sufficient appropriate evidence to provide a basis for a review conclusion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Basis for Disclaimer of Review Conclusion

As set out in Note 2B to the financial report, the group's ability to continue to meet its debts as and when they fall due is reliant on the group being able to successfully negotiate a solvent restructuring with the secured note holders and Droxford prior to 14 November 2014; the ongoing support of both the secured note holders and Droxford during the negotiation period, ongoing progress payments from the group's insurers in connection with the fire at the beneficiation plant, the successful rebuilding of the beneficiation plant and commissioning of the Windimurra project to achieve levels of production that enables the project to operate on a going concern basis.

We have been unable to obtain sufficient appropriate evidence as to whether it is reasonable to assume that the consolidated entity can achieve the matters set out in Note 2B to the financial report, and we are therefore unable to determine whether it is appropriate to prepare the financial statements on a going concern basis.

GB:EH:ATI:042

INDEPENDENT AUDITOR'S REPORT

EY
Building a better working world

The consolidated entity has impaired its non current assets relating to its Windimurra project at 31 December 2013, resulting in an impairment charge of $428.860 million being recognised as an expense in the consolidated statement of comprehensive income for the half year ended 31 December 2013, and the groups non current assets relating to its Windimurra project being carried at $46.956 million in the consolidated statement of financial position at 31 December 2013.

The directors have estimated the recoverable amount of the Vanadium project having regard to the fair value less cost of disposal of the component assets comprising the vanadium project as it is their opinion, based on the operational state of the plant at 31 December 2013, that this approach best reflects the recoverable amount of the group's Windimurra assets. We are unable to obtain sufficient appropriate evidence to assess the reasonableness of the directors' fair value less cost of disposal assumptions for the majority of the component assets. Consequently, we are unable to determine whether the impairment adjustment recognised by the group is reasonable and thus whether the carrying value of the group's non current assets relating to its Windimurra project as at 31 December 2013 is appropriate.

Disclaimer of Review Conclusion

Because of the significance of the matters described in the Basis for Disclaimer of Review Conclusion paragraphs, we have not been able to obtain sufficient appropriate evidence to provide a basis for a review conclusion. Accordingly, we do not express a review conclusion on the financial report.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
20 August 2014

GB:EH:ATI:042